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IIIEE DISSERTATIONS 2009:2

Responsibility in the Supply Chain

Interorganisational management of environmental and social aspects in the supply chain

Case studies from the textile sector

Beatrice
KOGG

Doctoral Dissertation
May 2009

The International Institute for Industrial Environmental Economics
Internationella miljöinstitutet

The picture on the front cover is painted by Rufus Kogg Röjder, aged 3 ½.

Doctoral thesis in industrial environmental economics
at the International Institute for Industrial Environmental Economics
at Lund University
under the academic supervision of
Associate Professor Thomas Lindhqvist
and
Associate Professor Håkan Rodhe

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They say that the process of completing a PhD is a journey. For me it has been a long and trice interrupted journey, and I would be lying if I said that I wasn't happy that it is finally coming towards its end. Still, I have always felt incredibly privileged to be able to travel this road and I'm deeply grateful towards all the people who have contributed to make it possible.

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Two other organisations have been instrumental for this research not by committing financial support but by opening their doors and allowing me to study and learn from their experiences of assuming responsibility in the supply chain. Considering the challenges that are involved with responsibility in the supply chain, it is not surprising that several companies

are restrictive with letting external researchers come in and study what they do. However, if we do not study and understand the challenges, we cannot have realistic expectations regarding what companies will be able to achieve, and more importantly we can not develop appropriate means of policy support. I am therefore tremendously grateful to Verner Frang and H&M, two organisations that had the generosity and the courage to share their experiences with an external researcher and allow me access to the actors in their respective supply chains.

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A very special thank you goes to Harshavardan Bahamanhalli whose master's thesis on H&M's ENFAP project has been a valuable source of information for my own research.

---

1 A few years after I completed my case study the company Verner Frang merged with another company and is now called Bergman Rivera SAC.

A special thank you also goes to three of my favourite people, Murat Mirata, Oksana Mont and Charlotte Leire, who read earlier drafts of this thesis and all provided me with insightful and greatly appreciated feedback.

Ever since the first time I entered that heavy door into the institute on my first day of as a student in the IIIEE's masters programme I knew that I had gained access to a very special place. The IIIEE is situated in a beautiful building, but what make this place truly magical for me is the people that I have met here. While they are too many to mention all by name I'd like to thank all the teachers, researchers and administrative staff who work, or has worked, here at the IIIEE for contributing to making this organisation such an excellent place to work and study. In particular I would like to thank all the people, not previously mentioned in these acknowledgements, that I have had the pleasure of collaborating with and/or learning from during my time as a M.Sc. student and a researcher here at the IIIEE including Peter A, Jaakko, Tareq, Adriana, Zina, Chris R, Don, Allan, Carl L, Nicholas, Naoko, Andrius, Michael, Hanna, Peter K, Mårten, Lena, Philip, Dagmara, Thomas, Vladimir and Helen. I would also like to send a particular thank you to Gerd, Karin, and Kristina, past and present members of the administrative staff here at the institute who have facilitated and supported my research journey.

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Last but, but most importantly I want to thank Håkan. Thank you for your support, your encouragement, and all that you have done to keep our family going during this last crazy year. I love you and I solemnly promise you that I will never, ever, write a PhD thesis again.

This book is dedicated to my beloved sons Rufus & Sam, both born during the course of my PhD. If it had not been for you, well lets face it I would have finished this thing a lot sooner, but you fill my heart with laughter and my days with love and I am grateful for every moment.

Beatrice Kogg

Lund, January 2009

Executive summary

Background and purpose of the thesis

The issues that stakeholders today are bringing to the corporate agenda are diverse indeed, ranging from issues pertaining to environmental sustainability, human rights, workers' health and safety, community welfare and the spread of HIV/AIDS. From a corporate perspective this brings challenges that reach far beyond the traditional shareholder focus on financial returns and, as a direct consequence of this, an increasing number of companies are now finding themselves in a position where they are compelled to address environmental and social problems even though these problems arise beyond their scope of direct hierarchical control and influence.

This thesis is about the intersection between Corporate Social Responsibility (CSR) and Supply Chain Management. That is, the point when an issue on a focal company's CSR agenda becomes an issue for its sourcing, purchasing and supply management operations. I use the term *upstream CSR* when I refer to this phenomenon.

I define upstream CSR as *the management of environmental and social aspects that are determined, or occur, upstream within the supply chain beyond the focal company's span of direct hierarchical control.* By such a definition the phenomenon can be very heterogeneous indeed, but the common denominator is the overall purpose of these actions. That is, to prevent, reduce or avoid negative environmental or social problems that arise in the supply chain, and/or to verify performance with regard to specific environmental and/or social aspects in the supply chain.

This thesis is the result of one of several projects undertaken within the FLIPP research programme (funded by the Swedish Environmental Protection Agency), which has had as an overarching purpose to explore ways of how to further life cycle thinking in business and policy.

Life cycle thinking has evolved over many years now and definitions and applications of the concept may vary, but there are a few fundamental ideas that make this logic compelling.

First, we have the idea that virtually all environmental impacts can be linked to the production, use and end-of-life management of products and services.

Second, there is the idea that it is only possible to make a fair comparison between two products from an environmental perspective, if all impacts throughout the products' life cycles are included. Third, there is the understanding that decisions made in one phase of the life cycle can have considerable, negative or positive, environmental impacts in previous and/or subsequent stages of the life cycle. Finally, and perhaps most compelling, is the idea that we can influence the nature and extent of environmental impacts associated with production and consumption, regardless of where such impacts originate geographically, by making informed decisions about products and services.

In a way we can say that the logic of life cycle thinking empowers all types of actors, private consumers, companies and policy makers, to reach beyond their respective scope of direct control and have a positive influence on environmental aspects that cause problems in other areas of the world, as well as aspects that originate in other areas of the world, but cause environmental harm on a global scale, and/or locally at the point of consumption or disposal.

However, as a consumer wanting to take life cycle considerations into account, I am clearly dependent on companies' willingness, and ability, to provide me with appropriate information, and on companies' ability to ensure a certain level of environmental and social performance in their supply chain. In fact this is often true also for the policy maker who is working with product-oriented environmental policy. This has been the fundamental justification for this project, which has as its overarching objective to *contribute to enhance our understanding of the phenomenon of upstream CSR*. I seek to achieve this purpose by making two distinct contributions.

Through the means of two in-depth case studies, each covering several tiers of a specific supply chain in the textile/fashion industry, I have sought to *provide a deeper understanding of how companies in the textile sector address the task of verifying and influencing environmental and social aspects that occur, one or several tiers upstream in the supply chain.*

By combining the findings from my own empirical research with an in-depth analysis of pertinent literature I have also sought to *provide an overview of the current body of academic knowledge related to upstream CSR and a framework through which this complex phenomenon can be understood and further explored.*

Research design

This thesis is divided into different sections reflecting the design of the research. In the first section, Chapters 1-2, you will find the introduction to the topic and the research that will be presented in this book. In the second section, Chapters 3-9, the results from a desktop study based on an in-depth review of academic articles relevant to upstream CSR is presented. The ambition here is to provide the reader with a comprehensive and structured overview of the existing body of accumulated academic knowledge within this field.

The third section, Chapters 10-11, reports on the findings from my field research. Here two case studies of upstream CSR in the textile industry are presented. In Chapter 10 you will find a case study of a comprehensive upstream CSR initiative where the focal company is a very small trading company. In Chapter 11 this case is contrasted with a case study of four different upstream CSR initiatives all implemented by the same focal company, a very large multinational fashion retailer.

The final section, Chapters 12-13, presents the overarching analysis and a suggested framework for upstream CSR.

Key findings

Perhaps the most basic, but also absolutely fundamental insight that can be drawn from this research project is to note that the management of environmental and social aspects within the supply chain is a vastly heterogeneous phenomenon. The common denominator is the intention to address an environmental or social aspect that arises upstream within the supply chain, outside the boundary of the company's hierarchical span of influence and control. Apart from this commonality we find variations on multiple levels, in terms of the issues addressed, in terms of the approaches used to address them, in terms of the drivers behind corporate action and in terms of the context in which companies are operating.

Apart from these tangible variations, I have also encountered significant heterogeneity in the way people conceptualise this phenomenon in research, writing and discussions. Because of this lack of common frameworks, I started to look for patterns that would allow me to create a typology or framework for upstream CSR, which would in turn allow me and other researchers in the same field, to fit my own research into a broad context of upstream CSR.

Before introducing this framework, in figure 0-1 below, I want to emphasise that I here seek to describe the phenomenon from the perspective of the practitioner within the focal company. This does not mean that the framework is not useful for external stakeholders such as policy makers. On the contrary, I strongly believe that it is very useful for those who seek to encourage upstream CSR to understand what it entails from the perspective of those who are charged with implementing it.

To fit my own research into a larger context of upstream CSR, I started by defining four general tasks associated with upstream CSR. None of these tasks are exclusive to upstream CSR, but rather must fit into an overarching CSR conceptualisation. However, many of the tasks take on an additional dimension when the issues of relevance arise in the upstream supply chain. It should be noted that I do not want to suggest that these tasks are part of a linear stepwise approach, nor that all companies will address all four tasks. From the perspective of the corporate practitioner, they are, however, all common challenges associated with upstream CSR and while distinct in their nature they clearly influence each other.

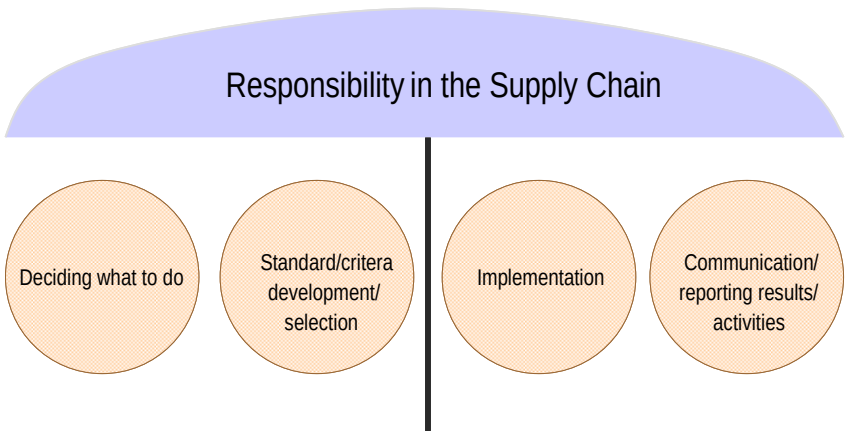

Figure 0-1: Four generic challenges associated with upstream CSR (a)

Considering that many companies have limited resources to devote to upstream CSR it is interesting to note that the tasks involved are really quite different in their nature, which means that the skills needed to address them will also differ. Figure 0-2 below, illustrates the extent to which these challenges differ by adding an extra dimension to the framework.

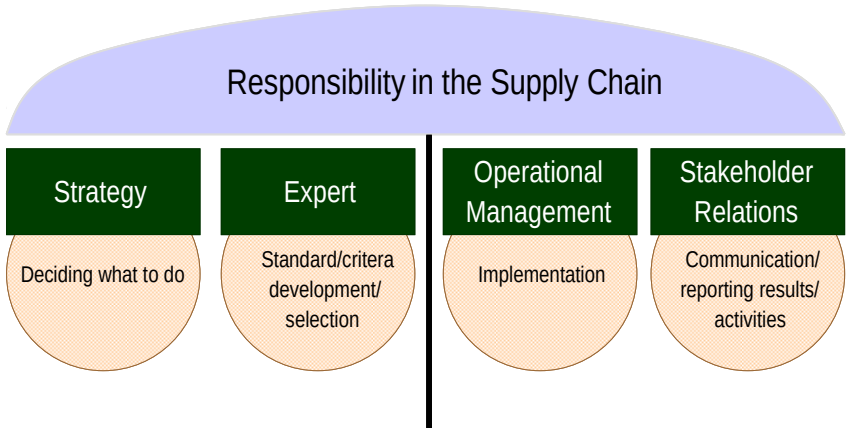

Figure 0-2: Four generic challenges associated with upstream CSR (b)

While the figure above helps us to sort our thinking and structure our discussion it does not tell us anything about how each of these challenges can be addressed.

Through my case studies, I have looked at how companies have addressed the challenges associated with *implementation* of upstream CSR. A general finding is that this challenge can be addressed in a multitude of different ways. However, it is still possible to see some general patterns.

It has previously been suggested that a key determinant for upstream CSR strategies is whether the initiative is focused on ensuring acceptable levels of supplier performance/processes, or if it is rooted in the focal company's ambition to deliver environmentally friendly, or sustainable, products. My research also indicates that the product versus process dimension is relevant when it comes to methods of interorganisational verification. However, this only applies when the product-related criteria can be verified by inspecting the delivered product, and this is often not the case. Since environmental product criteria often involves process-related requirements, verification of these criteria still has to be made on-site, by the focal company and/or by a third party service provider. Therefore I cannot say that I have found significant support for the process/product focus as a distinctive factor determining the approach to upstream CSR in my case studies.

What did appear to make an important difference though is whether suppliers or products meeting desired environmental or social standards are

readily available on the market or *not readily available* to the focal company. It also matters whether *relevant aspects are easily verifiable* or *not easily verifiable* from the perspective of the focal company. This contextual factor makes a big difference, as it is the decisive factor for whether or not the focal company will need to engage in activities designed to exercise influence over other actors in its supply chain and/or to establish systems for the verification of relevant aspects. Essentially this factor makes the difference between a situation where the focal company needs to engage in interorganisational management of environmental or social aspects, and a situation where the focal company can address an impact that arises upstream by simply including compliance with environmental and/or social criteria as a qualifying criterion in their sourcing/purchasing decisions.

When products or suppliers in compliance with desired criteria are easily verifiable, and readily available, implementation of upstream CSR will revolve around product or supplier selection and will not need to influence the focal company's sourcing process to any larger extent. When this is not the case, the focal company will need to find methods to exercise influence and verify compliance. This may entail finding ways to motivate and enable relevant parties to change according to the desire of the focal company and it may entail establishing procedures for monitoring and inspections.

However, we must also recognise that companies can choose a completely different approach to address negative environmental or social aspects that arise upstream in its supply chain. Companies that recognise some form of responsibility for an aspect upstream may choose to address this aspect through measures that do not involve the specific actors in its own supply chain.

Finally, another important distinction to make is to note that the focal company may choose to address the challenge of interorganisational management of environmental and social aspects independently or in collaboration with competitors. Here it should be noted that collaborative approaches are generally set up to develop common standards and systems for verification and that an underlying purpose for such initiatives is generally to create a situation where the products/suppliers meeting criteria are easily verifiable for the focal company and readily available on the market.

In practice there may be many pragmatic reasons for a focal company to choose to work alone rather than in collaboration with competitors and,

possibly, other stakeholders. One such reason is that a collaborative process may take longer to launch than if the focal company act independently, as negotiations over standard formulation and similar aspects may drag out over time. Another reason is reluctance to share information with competitors. However, in theory I can only think of one compelling reason for developing individual approaches to upstream CSR. That is, if the focal company wishes to be unique in its environmental and social claims.

The discussion above is illustrated graphically in figure 0-3 below.

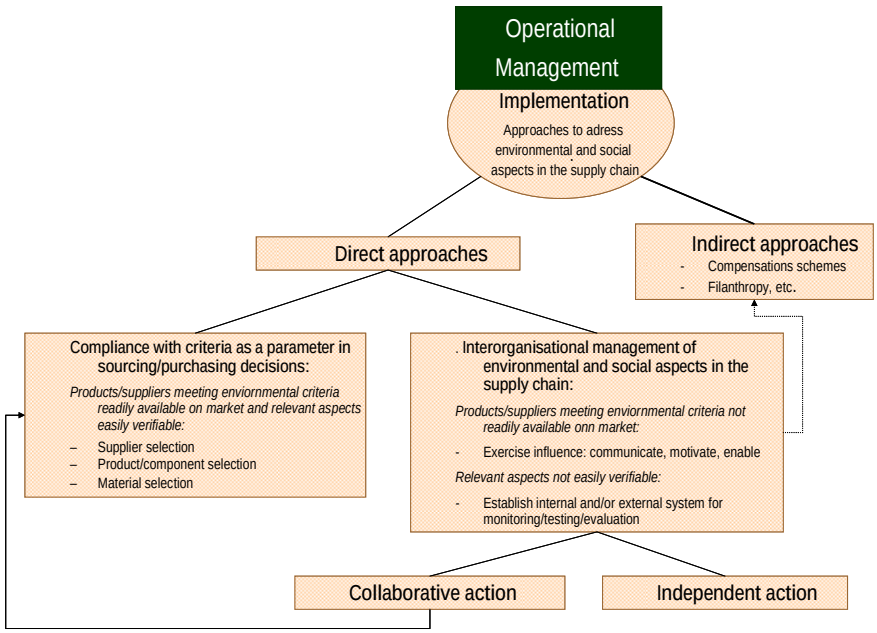

Figure 0-3: A framework to conceptualise different approaches to implementation of upstream CSR

In addition to the frameworks introduced, there are a few key lessons learned that one can take away from the studies that presented in this thesis.

The case studies illustrate the fact that size of the focal company does not necessary correlate to degree of coercive power over suppliers. This is particular relevant as we travel upstream along several tiers of the supply chain. Being a large focal company and being a small focal company both

holds advantages and disadvantages in this context. The advantage of being big includes the fact that large purchasing volumes may serve as an incentive in itself for the supplier, but also that large organisations have more scope, or organisational slack, to absorb costs for required specialist competence and staff resources devoted to address environmental and social aspects in its supply chain. The disadvantages for a large focal company relates to it being less flexible and agile in moving towards sourcing from more progressive suppliers due to the size of its supply base, but also that it may take longer to align internal management systems and procedures to achieve internal goal congruency.

Conversely, the advantage of being small is related to a higher degree of flexibility due to a smaller supply base and a smaller internal organisation that may facilitate swifter change in achieving internal goal congruency, whereas the small focal company may find it more difficult to bear costs associated with establishing specialist functions in-house.

While the size of the focal company can influence its ability to administer rewards and sanctions for the suppliers it seeks to influence, it should be noted that the exercise of influence in the supply chain is not only about sanctions and rewards. For the focal company it is also often about enabling suppliers to appropriately address relevant aspects, as well as about changing the attitudes of relevant actors in the supply chain.

Finally the studies clearly indicate that one focal company may manage different issues/aspects through different approaches. Here it was evident that it matters whether the products/suppliers matching the needs of the focal company are readily available and whether aspects are easily verifiable, (for instance through a commonly accepted certification or labelling scheme). However, also a range other factors appear to play an important role as determinant for the approaches focal companies select. This needs to be studied further, but from my case studies it seems that the focal company's motives and the value that they perceive to be linked to the achievement of improvements play a role here. Another factor is the nature of the aspect that they seek to address and whether it can be verified through process or product control. A third factor that appears to be of importance is the nature of interorganisational relations between the focal company and its suppliers. Finally, the tier of the supply chain in which the aspect arises, also appears to influence the approach that can be taken to influence and verify those aspects.

Table of Contents

TABLE OF CONTENTS ..... **I**

LIST OF FIGURES ..... **IV**

LIST OF TABLES ..... **IV**

ABBREVIATIONS ..... **V**

1. RESPONSIBILITY IN THE SUPPLY CHAIN – THE PROMISE AND THE PROBLEMS **1**

1.1 A LIFE CYCLE PERSPECTIVE 2
1.2 THE LIFE CYCLE PERSPECTIVE IN POLICY 4
1.3 THE IMPLICATIONS OF RESPONSIBILITY ALONG THE LIFE CYCLE 5
1.4 SUPPLY CHAINS AND THE MANAGEMENT OF SUPPLY CHAINS 7
1.5 UPSTREAM CSR: MANAGING ENVIRONMENTAL AND SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN 13
1.6 PROBLEMATISATION AND PURPOSE 15
1.7 READER'S GUIDE TO THIS THESIS 18

2. RESEARCH DESIGN AND METHODOLOGY **19**

2.1 MY BASIC STARTING POINT 19
2.2 RESEARCH EVOLUTION 24
2.3 RESEARCH DESIGN 26
2.4 VALIDITY, RELIABILITY AND THE RELEVANCE OF PRESENTED FINDINGS 36

3. INTRODUCTION TO THE DESKTOP RESEARCH – SKETCHING THE OUTLINE OF OUR BODY OF KNOWLEDGE ON UPSTREAM CSR **39**

3.1 ABOUT THE INCLUDED MATERIAL 41
3.2 READERS GUIDE TO THIS SECTION 50

4. TERMS AND DEFINITIONS – DEFINING THE PHENOMENON OF UPSTREAM CSR **53**

4.1 TERMS 53
4.2 DEFINITIONS 56
4.3 CONCLUDING REMARKS 60

5. ANTECEDENTS: WHAT IS DRIVING THE PHENOMENON OF UPSTREAM CSR? 63

5.1 PRESSURE OR EXPECTATIONS FROM ACTORS THAT ARE EXTERNAL TO THE FOCAL FIRM 63
5.2 POTENTIAL OR ANTICIPATED EFFECTS ON THE BOTTOM LINE 66
5.3 SUPPLY CHAIN CHARACTERISTICS 66
5.4 FIRM CHARACTERISTICS 68
5.5 PERSONAL AWARENESS AND ATTITUDES 70
5.6 ANTECEDENTS – CONCLUDING REMARKS 71

6. PRACTICE – DESCRIBING THE PHENOMENON OF UPSTREAM CSR 73

6.1 PRACTICES IN UPSTREAM CSR – WHAT COMPANIES DO 73
6.2 DETERMINANTS – WHY DO COMPANIES ADOPT A PARTICULAR APPROACH TO UPSTREAM CSR 85
6.3 PREVALENCE OF THE PHENOMENON – HOW COMMON IS IT THAT COMPANIES ENGAGE IN UPSTREAM CSR? 88
6.4 CONSEQUENCES – WHAT CONSEQUENCES DOES UPSTREAM CSR BRING? 91
6.5 FINAL COMMENTS – PRACTICES IN UPSTREAM CSR 97

7. WHAT IS CHALLENGING ABOUT UPSTREAM CSR? 99

7.1 CHALLENGES FROM A FOCAL COMPANY PERSPECTIVE 99
7.2 CHALLENGES FROM THE PERSPECTIVE OF INDIVIDUALS WORKING WITHIN A FOCAL COMPANY 111
7.3 CHALLENGES FROM A SUPPLIER PERSPECTIVE 112
7.4 CHALLENGES FROM A PUBLIC PERSPECTIVE 113
7.5 FINAL COMMENTS ON CHALLENGES 115

8. TOOLS AND GUIDELINES: RECOMMENDATIONS FOR PRACTITIONERS 117

8.1 GUIDELINES 117
8.2 TOOLS 120
8.3 CONCLUDING REMARKS – RECOMMENDATIONS 124

9. CONCLUDING REMARKS FROM THE LITERATURE REVIEW 125

10. CASE STUDY: GREENING THE COTTON TEXTILE SUPPLY CHAIN OF VERNER FRANG 131

10.1 THE FOCAL COMPANY IN BRIEF 132

10.2 THE STARTING POINT – THE VERNER FRANG SUPPLY CHAIN IN 1989 133
10.3 NEW OBJECTIVES – THE PROCESS OF CHANGE 136
10.4 WITHIN CASE ANALYSIS 143
10.5 CONCLUDING REMARKS 147

11. CASE STUDY: UPSTREAM CSR AT H&M (2004 – 2005) 149

11.1 THE FOCAL COMPANY IN BRIEF 150
11.2 UPSTREAM CSR AT H&M 2004-2005 155
11.3 IMPLEMENTATION AND MONITORING OF H&M'S LIST OF RESTRICTED SUBSTANCES 158
11.4 IMPLEMENTATION AND MONITORING OF H&M'S CODE OF CONDUCT FOR SUPPLIERS 164
11.5 SEMS AND ENFAP: CLEANER PRODUCTION FOR WET PROCESSING MILLS 177
11.6 SUPPORTING THE MARKET FOR ORGANIC COTTON –INTRODUCING STYLES MADE FROM YARN CERTIFIED ACCORDING TO THE ORGANIC EXCHANGE BLENDED STANDARD 188
11.7 WITHIN CASE ANALYSIS 196
11.8 CONCLUDING REMARKS 201

12. ANALYSIS AND CONCLUSIONS 203

12.1 EXERCISING INFLUENCE OVER ENVIRONMENTAL AND SOCIAL ASPECTS IN THE SUPPLY CHAIN 204
12.2 VERIFICATION OF ENVIRONMENTAL AND SOCIAL ASPECTS IN THE SUPPLY CHAIN 213
12.3 CONSEQUENCES 216
12.4 INTRODUCING A FRAMEWORK 218
12.5 CONCLUDING REMARKS – KEY LEARNINGS TO TAKE AWAY 227

13. FINAL REFLECTIONS 231

13.1 REFLECTIONS OF RELEVANCE FOR CORPORATE PRACTITIONERS 231
13.2 REFLECTIONS OF RELEVANCE FOR POLICY MAKERS/PRACTITIONERS 232
13.3 RECOMMENDATIONS FOR FUTURE RESEARCH 235

REFERENCES 237

WRITTEN SOURCES 237
ORAL SOURCES – VERNER FRANG CASE STUDY 251
ORAL SOURCES – H&M CASE STUDY 252
LIST OF ALL ARTICLES INCLUDED IN THE LITERATURE REVIEW 253

List of Figures

Figure 1-1: The product chain for a cotton garment showing only the production phase 7

Figure 1-2: A rough picture of what the supply chain for a retailer of cotton garments may look like 9

Figure 2-1: An overview of the research design 26

Figure 3-1: Number of reviewed articles sorted by year of publication 42

Figure 3-2: Most frequently featured journals in the literature review 42

Figure 3-3: Reviewed articles sorted according to initial categorisation 44

Figure 10-1: The structure of the Verner Frang supply chain in 1989. 133

Figure 10-2: The structure of the Verner Frang supply chain 2001 145

Figure 10-3: Material flows in the Verner Frang supply chain 2001 146

Figure 11-1: A rough illustration of the complexity of the H&M supply chain. 153

Figure 11-2: H&M grading system for supplier social compliance. 167

Figure 12-1: Four generic challenges associated with upstream CSR (a) 220

Figure 12-2: Four generic challenges associated with upstream CSR (b) 222

Figure 12-3: A framework to conceptualise different approaches to implementation of upstream CSR 226

List of Tables

Table 4-1: List of terms employed in the reviewed literature 54

Table 4-2: Definitions of upstream CSR 56

Table 6-1: Categories of green supply 81

Abbreviations

AB	Aktiebolag (Swedish for limited company)
BOD	Biological Oxygen Demand
CEO	Chief Executive Officer
CoC	Code of Conduct
COD	Chemical Oxygen Demand
CSR	Corporate Social Responsibility
DfE	Design for Environment
ELIN	Electronic Library Information Navigator (Lund University)
EMS	Environmental Management System
ENFAP	Environmental Fabric Processing Programme
FLA	The Fair Labour Association
H&M	Hennes and Mauritz AB
HQ	Headquarter
IIIEE	The International Institute for Industrial Environmental Economics at Lund University
IOMes	Interorganisational Management of environmental and social aspects
LCA	Life Cycle Assessment
LMSOE	Large and Medium-sized State-Owned Enterprise
MNC	Multinational Corporation
NGO	Non-Governmental Organisation
OE	Organic Exchange (charitable organisation committed to expanding organic agriculture)
OEM	Original Equipment Manufacturer
PSR	Purchasing Social Responsibility
RoHS	Restriction of Hazardous Substances
RSL	Restricted Substances List
SCM	Supply Chain Management
SEMS	Supplier Environmental Motivation Strategy
SME	Small and Medium-sized Enterprise
SUV	Sport Utility Vehicle
UK	United Kingdoms
US	United States (of America)
US FDA	United States Federal Drug Administration

CHAPTER

ONE

1. Responsibility in the supply chain – the promise and the problems

At the Ethical Corporation 2004 European Conference "What's the point of corporate responsibility", Jeffery B. Swartz, President and Chief Executive Officer of the footwear and apparel company Timberland, described the thinking of economist Milton Friedman as "outdated, inadequate and incomplete" (cited in: Blyth, 2004).

While it could be argued that attention to corporate social responsibility (CSR here after) is necessary to maintain a company's commercial viability and (at least in the long run) corporate profitability, and thus, ultimately, can be considered as a strategy for serving the interests of shareholders, it certainly seems that the idea that companies have to embrace a broader scope of responsibility towards the society in which they act and the stakeholders, who affect and/or are affected by its operations, is gaining wide spread acceptance. In a survey of approximately 400 CEOs and top executives participating in the United Nations Global Compact[2] it was found that: "more than 9 out of 10 corporate leaders are doing more than they did 5 years ago to incorporate environmental, social, and political issues into their firms' core strategies" (Oppenheim, Bonini et al., 2007, p.5).

The issues that stakeholders are bringing to the corporate agenda are diverse and range from concerns pertaining to environmental sustainability, human rights, workers' health and safety, community welfare and the spread of HIV/AIDS. As a direct consequence, an increasing number of companies are today finding themselves in a position where they are compelled to address environmental and social problems. Even if these problems arise

[2] The United Nations Global Compact is a global corporate citizenship initiative established to encourage businesses to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption. For more information see: www.unglobalcompact.org

beyond their scope of direct hierarchical control and influence. Some of the issues that companies are finding themselves compelled to address arise upstream in the supply chains of the company in question. It is this phenomenon that this thesis is about.

Although part of the explanation for this phenomenon may lie in the fact that there is an increasing availability of information about environmental and social problems in different parts of the world, and part of the explanation may lie in the increase of stakeholder activism, part of the explanation is probably also due to a change in the way that these problems are conceptualised. It is, for example, interesting to note that when a problem is found in Australia with regards to animal cruelty in sheep farming, blame is not just cast on the Australian farmers, but also on the fashion retailers in Sweden, who are several tiers removed from the farmers in the supply chain, but who sell products that contain the wool from these farms.[3]

While far from all companies are addressing environmental or social issues in relation to their supply chain, it does seem that companies today are facing an expanding scope of corporate responsibility, and it seems that our perception of the *scope* of that corporate responsibility is increasingly becoming linked to the *life cycle of the products* that the company sells.

1.1 A life cycle perspective

Pregnant with my first child, during one of the regular maternity check-ups, the midwife asked me what my PhD research was about. My, admittedly brief, but pretty much to the point, answer was that: "I look at how companies can manage the environmental and social impacts associated with their products when those impacts occur upstream in their supply chains, beyond the company's scope of direct hierarchical control". She was not

[3] In February 2008 Swedish channel TV4's programme Kalla Fakta (Cold Facts) showed how Australian sheep farmers are using a technique called mulesing on merino sheep to prevent parasites from laying their eggs in the wool. The technique involves physical removal of strips of skin around the tail of a lamb without any form of anesthesia. The programme also examined what policy Swedish fashion retailers had with respect to animal welfare. One week after the programme aired, 14 Swedish retailers had made commitments to the effect of boycotting wool which is not 100% guaranteed to be "mulesing-free" (TV4, 2008).

impressed. In fact she looked rather annoyed and in disbelief when she replied: "What do you mean? Products don't deteriorate the environment!"

Well, if we look at the product in itself, it may not necessarily generate any negative environmental impacts. The cup sitting on my desk is not causing any serious harm right now, nor is my car, which is parked on the street outside. However, today, after "An inconvenient truth"[4], the "Stern Review"[5] and all the attention that the issue of climate change has received in media over the last year or so, I hope that even my midwife would make the connection between negative environmental impacts and the *use* of my car. I also hope that she will make a distinction between a fuel guzzling SUV and a hybrid Toyota Prius.

Unlike my midwife, when I see a product, I think of it not only as an item, but also as a sort of embodiment of the environmental harm that is caused by the production, consumption (or use), and final disposal of this product (Heiskanen, 1999). This means that I belong to those who have adopted *life cycle thinking* as a paradigm for how I conceptualise environmental problems.

Life cycle thinking has evolved over many years and definitions and applications of the concept may vary, but there are a few fundamental ideas that make this logic compelling.[6] First, we have the idea that virtually all environmental impacts can be linked to the production, use and end-of-life management of products and services. Second, there is the idea that it is only possible to make a fair comparison between two products (that deliver the same function), from an environmental perspective, if all impacts throughout the products' life cycles are included. Third, there is the understanding that decisions made in one phase of the life cycle can have considerable, negative or positive, environmental impacts in previous and/or subsequent stages of the life cycle. Finally, and perhaps most compelling, is the idea that we can influence the nature and extent of environmental impacts associated with production and consumption,

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4 The documentary movie about Global Warming featuring Al Gore, directed by Davis Guggenheim.

5 The Stern Review on the Economics of Climate Change, by Nicholas Stern is a report on the economics of climate change that was first released in 2006. It was later (2007) published in paperback by Cambridge University Press.

6 For a deeper discussion about the concept of life cycle thinking and life cycle assessment see Heiskanen, E. (1999 and 2002).

regardless of where such impacts originate geographically, by making informed decisions about products and services. A private or organisational consumer can, for instance, have a positive influence by including environmental and/or social parameters in their choice of what product to buy and from what company. A company that produces products can make a difference, for instance, by including environmental and/or social parameters in the sourcing decisions regarding components and raw materials and/or in the design process for its products. A policy maker can make a difference by motivating and/or enabling the producer and the consumer to make such informed choices.

In a way we can say that the logic of life cycle thinking empowers actors, such as private consumers, companies and policy makers, to reach beyond their respective scope of direct control and have a positive influence on environmental aspects that cause problems in other areas of the world, as well as aspects that originate in other areas of the world, but cause environmental harm on a global scale, and/or locally at the point of consumption or disposal.

1.2 The life cycle perspective in policy

Life cycle thinking is not only permeating different stakeholder groups' way of thinking, but it is also concretely manifested in product-oriented environmental policy. Traditional, facility-oriented or point-source focused environmental policy has known limitations in terms of its ability to address disperse emissions and environmental impacts generated beyond national boundaries. These are both central issues considering the complexity and interconnectedness of many of the environmental challenges that policy makers are expected to address. To deal with this challenge, we see an increasing number of examples, where a product focus has been integrated into environmental policy.

Product-oriented environmental policy comes in many different shapes, including as administrative, economic and informative instruments, government-industry dialogues and voluntary industry measures (Dalhammar, 2007). In general they are, however, all designed to motivate (coerce or stimulate) and/or enable different actors within the product chain to take life cycle considerations into account when making decisions about products. One way of motivating action is by allocating responsibility to one actor in the chain, giving them the responsibility to ensure compliance with

requirements related to operations in previous or subsequent steps of the life cycle, see for example the RoHS Directive.

There are also examples of policy, which is designed to stimulate both consumers and producers to take life cycle considerations into account when making decisions about products. One example of such a policy is the European and Nordic eco-labelling schemes, whose criteria are based on a life cycle perspective and are intended to stimulate supply and demand of products with a lower, life cycle, environmental impact.

Life cycle thinking is thus manifested in the way individuals conceptualise environmental problems and responsibility for these problems, but also increasingly in the way responsibility for environmental issues is allocated though policy measures.

While life cycle thinking clearly is concerned with all stages of the product's life cycle, from extraction of raw materials to the end-of-life phase, it should be noted that my research has been limited in its scope to look at issues that arise upstream in the product chain from the perspective of a focal company. This thesis therefore focuses only on that part of the product life cycle which is commonly referred to the production phase.

1.3 The implications of responsibility along the life cycle

On a personal level being a life cycle thinker has both advantages and disadvantages. The advantage is, as discussed above, the sense of empowerment that comes from knowing that my everyday choices, with regards to the products and services I choose to buy and consume, can support, reward and even trigger, positive change for the environment and for the people involved in, or affected by the production of these products. The disadvantage is the sense of responsibility that this worldview brings. This can, today, be a cause for considerable frustrations when it is difficult to find better alternatives or even relevant information about the products and services I buy.

As a consumer wanting to take life cycle considerations into account, I am clearly dependent on companies being willing, and able, to provide me with relevant information, and on their ability to ensure that actors in their supply chain comply with whatever environmental and/or social criteria that I

believe are appropriate. In fact this is of course often true also for the policy maker who is working with product-oriented environmental policy.

In order to realise the promise of life cycle thinking we must e*xpect* and *rely* on companies to be able to:

- Provide relevant information about the products and services: - Tell us about the impacts of this product so that I can make an informed comparison!
- Ensure that relevant aspects are being appropriately addressed: - Take whatever action is needed to ensure that relevant actors involved in the product's life cycle reduce, prevent and/or remediate negative impacts!
- Assume responsibility for the environmental or social standard of the product and the veracity of provided information: - Provide us with guarantees so that we can trust you!

What does this mean from a corporate perspective? I will elaborate on the details of this throughout this thesis, but if we look at this from the perspective of a single company (from now on I will refer to the company whose perspective we are taking, as the *focal company*[7]), we can say that: In order to provide information, the focal company has to *obtain information* regarding aspects associated with previous tiers in the product's life cycle. To be able to ensure that relevant aspects are being appropriately addressed, the focal company has to *verify* the performance of relevant actors involved in the product's lifecycle and in cases when it does not match expectations they may have to *motivate* relevant actors to make required changes/investments needed to comply with the set environmental/social agenda, or to *replace* these actors with other actors who already are in compliance.

Finally, to be able to assume responsibility (for instance, for the veracity of provided information, the environmental performance of the product, or the working situation in the suppliers' factories) the focal company has to be

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[7] Some authors in this field use the term *focal company* to denote a company which rules or governs the supply chain and/or provide direct contact to the customer (Handfield and Nichols, 1999; Müller and Seuring, 2004; Schary and Skjøtt-Larsen, 2001). Please note that I do not make this distinction. By focal company I simply refer to the company whose perspective we are taking, regardless of position in the supply chain or relative position of power over its suppliers.

able to *control*/*verify* critical aspects in all relevant stages of the product's life cycle to a degree that is not only acceptable to themselves but also to the external stakeholders.

To understand how this may play out in reality, it is necessary to understand the interorganisational structure of companies involved in the different stages of the production phase of the product chain and how these companies interact. To do this we need to introduce another fundamental concept in this context: the concept of supply chains and supply chain management. I argue as Preuss (2005b p. 138)that: "From a life-cycle perspective it is […] more or less impossible to envisage environmental protection initiatives without involving supply chain management in these."

As we shall see below, supply chains are, more often than not, complex and dynamic structures and, in such circumstances, none of the above tasks appears to be trivial.

1.4 Supply chains and the management of supply chains

1.4.1 Product chains and supply chains

To illustrate the life cycle of a product, the concept of the *product chain* is sometimes used. Each part of the chain represents not only a phase in the product's life cycle, but also the actor controlling that particular phase. On a very generic and basic level such a chain would include the following elements: raw material extraction/production, processing, manufacture, use and end-of-life management, with some form of transportation occurring between each phase. If we take an example from the textile industry, a cotton T-shirt, and focus only on the production phase, as it is this phase which is the focus in this thesis, the product chain could be drawn as in Figure 1-1, below.

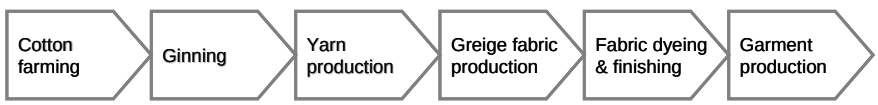

Figure 1-1: The product chain for a cotton garment showing only the production phase

Drawing a picture of a product chain, or at least using such a picture as a mental model, can be a very useful tool to analyse and to illustrate where major environmental impacts occur. If we take the example of the cotton T-shirt, the stages where we often find significant environmental impacts are in cotton farming and in the wet processes of fabric dyeing and finishing.[8]

But, while this will tell you where the efforts for improving environmental issues need to be focused, it is important to acknowledge that the reality of business is seldom organised like this. A company hardly ever sells one type of product exclusively, and even if we did find a company, which only sold one particular type of product, it is still likely that previous steps of the product chain would include more than one actor, and thus the straight chain will start to branch out.

In order to have a realistic discussion regarding the promise of life cycle action and the associated challenges, we therefore need to introduce the supply chain concept into these discussions, a concept that does not necessarily sit so well with the linear logic of life cycle assessment, but is central to the challenge of implementing life cycle thinking in practice. When we discuss a supply chain we do not take the product as our starting point, but a company.[9] The supply chain can be defined as a: "Network of organisations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer" (Christopher, 1992). Why is the distinction between product chain and supply chain important? Because, whereas the product chain for a carton of milk might not be too complex, the supply chain of the grocery retail chain who sells the milk, along with all the other things you can find in a supermarket, may be very complex.

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[8] Please note that if we look at the entire life cycle of a cotton T-shirt, studies have shown that major impacts arise during the use phase as a result of consumer care and also that transportation is an important source of environmental impact in the life cycle of a t-shirt (Ellebaek Laursen, Hansen, et al., 1997; Fletcher, 1999).

[9] It should be noted here that: "The supply chain metaphor is used in many ways …], but three meanings dominate the discussion: (1) the supply chain from the perspective of an invidivual firm (as in "ZipCo's supply chain") ; (2) a supply chain related to a particular product or item (such as the supply chain for beer, or cocain, or oil), and (3) "supply chain" used as a handy synonym for purchasing, distribution and materials management" (New, 1997, p. 16). In this thesis I use the term in the sense of the first suggested meaning.

Let us return to the previous example of the T-shirt. If we were to imagine a retailer of relatively large size, who only sells garments made from cotton, Figure 1-2 below can provide a very rough idea about the complexity of such a company's supply chain.

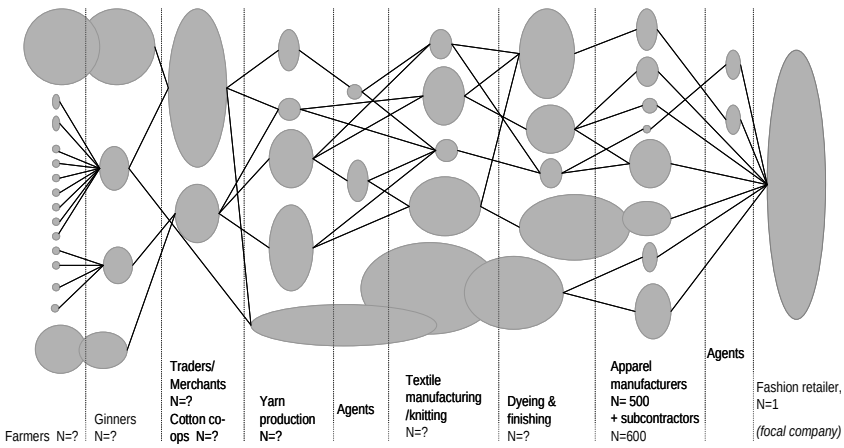

Figure 1-2: A rough picture of what the supply chain for a retailer of cotton garments may look like

This picture only begins to give an idea of the complexity of a full-scale supply chain, but it serves to illustrate some of the complexities present in many supply chains. One of the complexities lies in the sheer number of actors, who are involved. If we take the example above, the company has 500 suppliers in the first tier; these in turn subcontract part of the production involving an additional 600 factories in the manufacture of garments. These are not unusual numbers for a fashion retail chain. What lies beyond the first tier is less certain; surely there will be overlaps, with one apparel manufacturer using the same fabric supplier as another supplier, but to what extent we do not know.[10] Still it is safe to assume that if we should trace all actors of a supply chain for a company that is near the end-consumer in the product chain, we will often end up with a large number of

[10] Apart from the mapping of the full supply chain that I did in my case study of Verner Frang, which is a very small textile company and not a retailer, I have not seen any other full scale mapping of an entire textile supply chain.

individual companies, even if the range can be considerable, from tens to possibly millions, depending of what company we take as our starting point. The textile industry is very heterogeneous, both when it comes to size and level of technology in use. The different sizes of the circles in the figure are an attempt to illustrate that companies of very different sizes are part of the same supply chain, indeed even within the same tier of a supply chain. The circles overlapping are there to illustrate that vertical integration is present in the supply chain. However, far from all actors are integrated over several production stages, and the opposite may also be present, where one stage is further removed from the next stage by the addition of agents acting as intermediaries.

The complexity of supply chains is also present on other levels not possible to show in a static figure. There is the element of change and dynamism due to the fact that individual suppliers are added and dropped according to the evolving needs in the supply chain. Dynamism also arises as a result of changes within companies that are part of the supply chain, such as a change in ownership or management. The fact that many supply chains cross national boundaries also adds an element of complexity. Also from an environmental perspective, as this means that parts of a product, or indeed the final product, can be produced in a country with one set of regulations and commonly accepted norms for what is acceptable from an environmental perspective, but sold in a country with a completely different set of environmental regulations and norms. Finally, we have an additional element of complexity related to the nature of dyadic relations between buyers and sellers along the chain. These relationships can look very different in different sets of dyads, even within the same supply chain, ranging from highly integrated to arm's length, and from collaborative to adversarial in their nature.

In short we can say that supply chains are, more often than not, complex and dynamic structures involving many different organisations located in several different countries.

1.4.2 Managing the supply chain

The issue of how to manage such a complex structure as the supply chain has been receiving increasing interest in research, as well as in corporate practice, since the early 1980s.

The term supply chain management (SCM, hereafter) has numerous different definitions.[11] Possibly, partly, a reflection of the fact that research within this field is a bit of a melting pot for researchers from many different fields, such as logistics, marketing, operations management and purchasing management. However, a general underlying idea is that companies can no longer compete as autonomous entities; instead supply chains compete against supply chains.

While a general theme of SCM is the focus on enhancing consumer value through increased efficiency and effectiveness in the operations within the supply chain, there are several different areas of improvements that can be addressed, such as:

- Cost of purchasing: A focus on finding the right balance between cost/unit, the cost of administering the purchasing process, as well as a balance between cost and supply risk.
- Logistics: A focus on increasing the efficiency of the flow of materials through the supply chain, reducing inbound and outbound delivery times and finding optimal levels of inventory to minimise cost without compromising production and outbound logistics.
- Quality management: A focus on reducing cost by reducing waste, inbound quality control, and production disruptions due to flawed input materials, etc.
- Process and product innovation: A focus on increasing ability to innovate, ensuring access to critical supply base capabilities, and reducing time for new product development.
- Risk management: A focus on reducing the probability of supply-related incidents such as, for instance, supply disruption, cost increases and quality problems. Recently emphasis has also been increasingly placed on managing the risk of being tainted by association.

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[11] Handfield and Nichols (1999) offer the following, commonly reffered to, definition of supply chain management. "The supply chain encompasses all activities associated with the flow and transformation of goods from raw materials stage (extraction), trhough to the end user, as well as the associated information flows. Material and information flow both up and down the supply chain. Supply chain management (SCM) is the integration of these activities through improved supply chain relationships, to achieve a sustainable competitive advantage".

One prominent example of how companies manage the risk of being tainted by association, is the proliferation of so called Codes of Conducts (CoC hereafter) where companies list environmental and social criteria to which their suppliers must adhere.

On an operational level, central elements in supply chain management include the management of information flows, the management of physical flows and the management of contracts and of interorganisational relations.

Painting the history in very broad strokes, it is sometimes said that there has been a general trend, since the 1990's, in which relationships between buyer and suppliers have moved, from adversarial, to collaborative in their nature. (Araujo, Dubois et al., 1999; Preuss, 2005a). Researchers and practitioners alike have argued for an integrative approach to supply chain management, pointing to the benefits of having a strong collaborative partnership with a few leading suppliers rather than maintaining arm's length relationships with a wide supply base. The potential advantages of interorganisational collaboration and integration include more effective governance but also other sources of interorganisational competitive advantage such as relation-specific assets, knowledge-sharing and the presence of complementary resources and/or capabilities (Dyer and Singh, 1998). As it is generally argued that the process of building a collaborative relationship between buyer and sellers requires time and resources, such a development also often prescribe a reduction in the number of suppliers.

From an environmental perspective, a reduced supply base, where actors collaborate and thus have a better insight into each other's operations, carries many potential advantages. The ability to better control what goes on in the supply chain with respect to environmental and social impacts is one. The ability of using a better insight into each other's operations, as a base for environmental product and process innovations, is another.

In later years many authors have, however, started to question the 'lean approach'[12] to supply chain management as a universal solution. These authors argue that while this approach certainly has merits in some situations, other approaches such as, for instance, having a broad supply base, where suppliers compete for orders, can be more advantageous for the

[12] The lean supply chain approach can be defined by two main concepts: Strong and effective relationships, and operational integration (New and Ramsey, 1997).

focal company in other situations. While most commentators agree that interorganisational collaboration and integration can generate significant positive rewards for the focal company they argue that the buying company will do best to develop different supplier interfaces, or types of relationships, with different categories of suppliers. (Araujo, Dubois et al., 1999; Cox, Sanderson et al., 2001; New and Ramsey, 1997; Szandtner, Gershowitz et al., 1997). Empirical evidence are also confirming that companies still employ a vide variety of approaches to sourcing and procurement, involving different levels of integration (Frohlich and Westbrook, 2001; Simatupang, Sandroto et al., 2004), and that few companies are engaged with extensive supply chain integration that covers several tiers of the supply chain, indeed many companies do not have a clear idea of what their supply chain look like beyond the first tier (Fawcett and Magnan, 2002). It has also been shown that buyer/supplier relationships which may be described by the buyer or the external researcher as collaborative may not be so in the eyes of the supplier (Faria and Wensley, 2002).

This means that the management of environmental and social aspects in the supply chain can not just function under one set of circumstances. We can not model approaches to interoganisational environmental management on the assumption that firms will generally move towards a reduced supply base and a partnership approach to supplier relationships, rather we must understand how companies can manage environmental and social aspects in its supply chain under different sets of supply chain structures and different sets of supplier interface/management strategies.

1.5 Upstream CSR: managing environmental and social responsibility in the supply chain

This thesis is about the intersection between CSR and SCM. That is, the point when an issue on the focal company's CSR agenda becomes an issue for its sourcing, purchasing and supply management operations. I use the term *upstream CSR* when I refer to this phenomenon.

I define upstream CSR as *the management of environmental and social aspects that are determined, or occur, upstream within the supply chain beyond the focal company's span of direct hierarchical control.* I make no limitations with respect to what aspects can be included, or how these aspects are being addressed, nor to what tier of the supply chain is being addressed. By such a definition the phenomenon can be very heterogeneous indeed, but the common

denominator is the overall purpose of these actions, that is to prevent, reduce or avoid environmental or social problems that arise in the supply chain, and/or to verify performance with regard to specific environmental and/or social aspects in the supply chain. It is also important to note that I am referring to actions taken by a company to influence aspects in its supply chain, thus excluding actions taken by actors outside the supply chain to influence environmental and social performance within the chain.

Companies engage in upstream CSR for a number of different reasons. Regulations, market demand, stakeholder pressure, or, in some cases, the ambition to differentiate a product or a company brand as environmentally superior to its competitors can compel a company to initiate efforts to improve and/or control environmental performance upstream in its supply chain. The value for companies can lie in the ability to reduce or mitigate negative attention associated with environmental and social aspects in their supply chains, or for the ability to reduce the risk of such attention, but it can also lie in the ability to generate direct financial rewards and/or indirect value by creating a positive association to the company and its products or brand.

Upstream CSR as a phenomenon is not without controversies, but it also holds a significant potential for stimulating good things not just for companies, but for society at large, as well as on an individual level. I believe it is a good thing, if buying companies can motivate their suppliers to continuously reduce the environmental impact associated with their operations, and it is a good thing, if buying companies can contribute to ensuring safe and fair working conditions for the individuals that work in supplier factories.

The controversies are primarily related to the fact that environmental and social issues are generally not perceived to be the realm where companies are best suited to set the agenda, yet as a part of this phenomenon we see companies defining criteria for environmental and social performance to be followed by their suppliers. In a sense, we can say that companies are developing private regulations within the realm of social and environmental behaviour, as well as, private capacity for enforcing such regulations. This situation can be particularly precarious when the criteria are formulated in one part of the world, but enforced in another part of the world.

1.6 Problematisation and purpose

Assuming responsibility for environmental and social aspects in the supply chain entails that the focal company must find methods to manage these aspects. At the minimum the focal company must be able to *verify* relevant aspects that arise in the supply chain and, in order to actively contribute to positive change, they must also be able to *exercise influence* over those actors in the supply chain that control relevant aspects. Here it should be noted that the relevant aspects may arise in any part of the supply chain, sometimes several tiers removed from the focal company, beyond the focal company's span of direct hierarchical control and beyond its direct, contractually regulated, business relations.

Although we see an increase in the number of companies that actively seek to address environmental and social aspects that occur in their supply chains, it is still a fairly new phenomenon and publicly available knowledge about it is still limited.

From a corporate perspective knowledge about how to address issues that arise in the supply chain, is of course, central. The basic problem or question is quite straight forward: – *If our company is expected to deal with particular problems that arise in our supply chain, how do we do this as effectively and as efficiently as possible?* It is also important for the corporate practitioner to understand what different approaches to influence and verify environmental or social aspects in the supply chain entail in terms of resources and competence required, as well as what consequences different approaches may have in terms of key issues such as cost, supplier dependency and flexibility.

Here frontier knowledge is probably lodged within companies that have been pioneers in this area and it is therefore a valuable exercise to create publicly available knowledge by studying such companies to document and analyse what those pioneers have done and what they have learned from this. But even if we must seek to learn from these companies, we must also recognise that they are working in one particular context, often with a limited range of approaches, and so, while it is worthwhile to document the lessons learned from individual companies, it is also important to get a comprehensive view of different types of approaches used and their respective associated possibilities, challenges and consequences. Given the fact that environmental and social responsibility increasingly seems to follow the life cycle of the product, it also becomes important to understand how companies can manage aspects beyond their first tier in the supply chain.

That is to understand how environmental and social aspects can be managed in situations where there is no direct contractual business relation between the focal company and the actor in the supply chain where the problem arises.

From a societal perspective the central issue is partly to understand the potential and the consequences of upstream CSR: *What can we expect/require companies to achieve in terms of triggering positive change and/or verifying environmental and social aspects in the supply chain?* But it is also important to understand the phenomenon as such in order to be able to design policy tools that can effectively and efficiently stimulate or enable more companies to take responsibility for aspects that arise upstream in their supply chains. It is therefore of relevance to have a thorough understanding of the nature, dynamics and consequences of current upstream CSR management practices applied by corporate actors. Especially since many of the tools and policy interventions discussed in relation to product policy fundamentally must rely on interaction between organisations within a product chain. If we better understand the phenomenon this will enable policy makers to better assess what they can do to enable and/or motivate organisations to take action, as well as the potential consequences of different policy approaches.

From a research perspective we are still at a stage where we need to understand and define this phenomenon so that we can have a common platform through which new knowledge can be added to the existing body of knowledge. Over the last 15 years an increasing number of authors, from different background disciplines, have contributed to our knowledge and understanding of how companies manage CSR-related responsibilities in the supply chain. However, as is quite common for a newly developing field of research, the research field is scattered. A multitude of different perspectives and definitions of key concepts are forwarded and many contributions fail to comment on how their findings relate to findings in previously published work. It is thus difficult as a researcher to place your own study findings in relation to the existing body of knowledge, and as a reader to determine whether the contribution of a paper adds new insights, supports previous findings or contradicts the work of others. This is one of the central problems of this field. The other is the lack of studies that analyse the ability of companies to reach problems that arise further upstream in the supply chain than the first tier.

1.6.1 Purpose of this thesis

The overarching objective of all research projects undertaken for this thesis has been to enhance our understanding of the phenomenon of upstream CSR.

When I started my PhD I was primarily interested in the challenges associated with influence and verification in the supply chain that are central in upstream CSR. I was particularly interested in how companies solved this when the aspects they sought to influence and/or verify arose beyond the first tier in their supply chain. But during the course of my case studies, it became apparent to me that while verification and influence is central to a company's ability to assume responsibility and to contribute to positive change, these are not the only tasks practitioners, and researchers in the field, associate with this phenomenon. Through my case studies, it became obvious that from the perspective of the corporate practitioner upstream CSR involves much more than this. To put my research findings in a broader perspective, I therefore turned to the literature. However, rather than finding a framework or a platform into which I could fit my research findings, I found that most studies looked at particular elements of upstream CSR ,but without distinctively making this clear, nor addressing the issue of how the focus of a particular study fitted into a larger context. Upstream CSR is in many ways a messy and complex phenomenon. The current literature reflects this, but there is a need to find structures and common perspectives that will allow us to continue to explore all facets and details of the phenomenon and still see the larger context.

In my thesis I therefore seek to make two distinct contributions in relation to the overarching purpose of enhancing our understanding of the phenomenon of upstream CSR.

The first contribution I seek to make in this thesis is on a specific level where my objective has been to *provide a deeper understanding of how companies in the textile sector address the task of verifying and influencing environmental and social aspects that occur, one or several tiers upstream in the supply chain.*

In my case studies I have sought to answer the following questions:

1. *What does the focal company do to a) exercise influence over actors in its supply chain who control relevant environmental or social aspects and b) verify that relevant aspects are in compliance with the goals/criteria set by the focal company? What activities and processes are involved and how are these organised?*

2. *What does this entail for the focal company and what consequences does this have other affected actors in the supply chain, as well as for the structure, processes and flows in the supply chain?*

The second contribution I seek to make in this thesis is on a more general level where my objective has been to *provide an overview of the current body of academic knowledge related to upstream CSR and a framework through which this complex phenomenon can be understood and further explored.*

1.7 Reader's guide to this thesis

This thesis is divided into four different sections. In the first section, Chapters 1-2, you will find the introduction to the topic and the research that will be presented in this book. In the second section, Chapters 3-9, the results from a desktop study based on an in-depth review of academic articles relevant to upstream CSR is presented. The overview of knowledge covers all issues related to upstream CSR and not just the more narrow focus on verification and influence that are addressed in the case studies. The third section, Chapters 10-12, reports on the findings from my field research. Here two case studies of upstream CSR in the textile industry are presented in separate chapters. The first is a case study of the upstream CSR initiatives of a very small focal company. The other is a case study of the upstream CSR initiative of a very large focal company. This is followed by a comparative analysis of the cases.

In the final section, Chapters 13-14, the conclusions from desktop and field research are presented as the case study findings are enfolded into the extant literature and a framework for how this phenomenon can be understood and further explored is presented. This is followed by final reflections on my research and its contribution to scholarship and practice.

CHAPTER
TWO

2. Research design and methodology

As stated in the previous chapter my ambition in this thesis is to contribute to our understanding of upstream CSR on two levels. On a general level, I have sought to contribute to a better understanding of this phenomenon by providing an overview of relevant literature, as well as, a framework that can aid the readers to organise their understanding. In addition to this general overview, I have sought to provide a deeper understanding of two central challenges associated with upstream CSR (from the perspective of the focal company): the challenge of verification and the challenge of influencing aspects across corporate boundaries in the supply chain.

In the previous introductory chapter, I have tried to explain the logic through which I arrived at these research objectives. In this chapter I describe the research design and the research methodology that I have applied to achieve them.

2.1 My basic starting point

In the following I account for my position with regard to my general views and assumptions about reality, about knowledge and about how knowledge can be acquired. I will also make clear my personal relation to the research topic of this thesis.

To remind readers about the fact that field data are not independent of the researcher, I have, following a suggestion by Perry (1995), chosen to use the term 'I' when describing the work that I have done and the conclusions that I draw from this.

2.1.1 Scientific research paradigm

Guba and Lincoln (1998, p. 195) define the research paradigm as "the basic belief system or worldview that guides the investigator, not only in choices

of method but in ontologically and epistemologically fundamental ways." Briefly, *ontology* refers to the philosophy of, or our assumptions about, reality or the nature of being, *epistemology* is the philosophy of the nature of knowledge and *methodological choices* refer to the techniques by which a researcher seeks to investigate reality to create knowledge (Healy and Perry, 2000).

With regard to ontological position, it is my view that there is a physical world that exists independently of my interpretation. However, I also believe in the existence of a social world that has at least as much influence over man as the "real" physical world, and I believe that this social world is continuously shaped, framed and affected by our personal values, knowledge and experiences.

With regard to epistemology, I believe that reality can be understood and influenced, but to a limited extent. I also subscribe to the idea that knowledge is value mediated and thus value dependent, and, at least in the realm of the social sciences, in part created in interaction between the investigator and her respondents (Guba and Lincoln, 1998).

The methodological choices made for this research will be explained in detail below, but here on a general level I should say that all research projects undertaken during my PhD studies have been qualitative in their nature. It is not that I disfavour quantitative research into the social sciences, but my ambition has primarily been to understand a phenomenon (that was at the time when I started my research journey in 2001 still rather new and not extensively described in literature) and, rather than trying to measure or test predefined propositions, I wanted to observe, explore reality and shape my understanding based on what I learned in the "field". Another factor, which leads me toward a qualitative approach, was that I was primarily interested in understanding the process rather than outcomes.

To be able to describe the phenomenon and contribute to what had been produced before me, I also wanted my research to achieve two things: a) I wanted to understand the phenomenon down to a detailed level of practice, to break down the tasks such as verification to understand all the elements that go into this, and b) because upstream CSR affects at least two, and many times several, parties in the supply chain, I wanted to capture not just the perspective of the focal company, but also the perspective of the suppliers, those that were at the "receiving end" of upstream CSR. With this in mind, I decided to work with case studies. In my case study approach, I

have been inspired by Mintzberg's (1979) ideas about "direct" research, see box below. However, while my case studies have been inductive in their nature in the sense that I did go out into the field without preset propositions to test, my case studies have not been uninformed by previous research. Before going out into the field, I did do extensive readings both in the specific fields related to upstream CSR (green supply chain management, green purchasing, etc.), as well as in general supply chain management literature. I also looked into specific areas, such as interorganisational power and interorganisational control.

Mintzberg's themes, or strategies, for "direct" research:

1. The research has been as purely descriptive as we have been able to make it
2. The research has relied on simple – in a sense, inelegant – methodologies
3. The research has been as purely inductive as possible
4. The research has, nevertheless, been systematic in nature
5. The research has measured in real organizational terms
6. The research, in its intensive nature, has ensured that systematic data are supported by anecdotal data
7. The research has sought to synthesize, to integrate diverse elements into configurations of ideal and pure types

Source: (Mintzberg, 1979, p. 582-589)

Based on the three elements of ontology, epistemology and methodology, Guba and Lincoln (1998) synthesise and analyse four different scientific research paradigms that have been guiding qualitative inquiry: positivism, post-positivism, critical theory, and constructivism. Placing my own research in this context, I would argue that I find myself somewhere between post-positivism (or realism as Healy and Perry (2000) later refers to it) and constructivism.

2.1.2 My personal assumptions and "political" position related to the presented research and the studied phenomenon

I have studied processes that occur in private companies. While I have been financially independent from these companies (my research funding has primarily come from the Swedish EPA), I have been dependent on them for access to interview staff at the focal company, as well as the relevant actors in their respective supply chains. When approaching focal companies, I have made it clear that I was not interested in measuring the concrete results or success of their initiatives, for instance, the environmental improvements achieved, but to understand the processes associated with managing environmental and social aspects in the upstream supply chain and the consequences this had on the organisation and interorganisational processes. In both case studies, I have approached the focal company and not the other way around. While they have had influence over whom I got to meet and interview, they have not had (or sought to have) any influence over my inquiry.

While I have been financially independent of the focal companies studied in this research, I should also state that I have during the last year, in parallel with finalising my thesis, worked for another company in the textile industry with issues related to the management of environmental and social aspects in the supply chain. Since the purpose of my research has not been to describe and understand this process, I do not see this as controversial, in fact, it has offered plenty of new insights into this phenomenon.

However, this, as all other experiences in my life, does influence my personal values and, as noted above, I subscribe to the idea that my personal values influence my inquiry and that therefore my findings are inevitably value mediated (Guba and Lincoln, 1998). I therefore want to take some time here to make my personal opinions related to this phenomenon known to the reader.

It should already be clear to the observant reader that I am not "neutral" on this topic. As mentioned in the introductory chapter, I believe in the value of life cycle thinking. I believe that it would be a good thing if more people would take a life cycle perspective into account in decisions that relate to the design, production and consumption of products and services, and I believe that our ability to do this is, in part, dependent on companies' ability to verify and influence environmental and social aspects that occur upstream in

the supply chain. Consequently, while being aware of the controversies and the complexities associated with upstream CSR and the fact that many issues need to be taken into account in particular related to who sets the agenda and how, I would like to see more companies engaging in upstream CSR. However, based on my experiences as a researcher and a practitioner, I also have respect for the challenges that this entails.

My personal position on this topic can to a large extent be summarised by two quotes from the work of two people, who both in their own excellent way have contributed to shape my political and moral worldview (and that of many other Swedes of my generation). Both quotes are in Swedish and I refer to the footnotes for a translation.

The first quote comes from a children's book written by Astrid Lindgren: Bröderna Lejonhjärta (The Brothers Lionheart). The story is about two brothers. One day the younger brother asks his older brother why he is determined to go to face a dangerous dragon, when he could just as well stay at home and be safe and happy. The older brother replies that there are things you have to do even if they are dangerous. When his little brother asks why he replies:

> *Annars är man ingen människa utan bara en liten lort.*[13] *(Lindgren, 1973 p. 63)*

I am not suggesting that it is dangerous to manage environmental and social aspects in the supply chain, but I acknowledge that, from the perspective of the single company, it can certainly present a substantial challenge. But even so, I believe that there is a moral obligation to address these aspects.

The other quote comes from a song written and performed by the Swedish artist Timbuktu.

> *Allt man kan göra är att göra vad man kan. Sprida lite love, inte förstöra för varann.*[14] *(Timbuktu, 2003)*

What I am trying to say here is that, while I do not believe the challenges associated with upstream CSR are an excuse for corporate inaction, I do believe it is important to recognise these challenges. Thus, personally, I do not expect companies to single-handedly solve all environmental and social

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[13] Own translation: Otherwise you are not a human being but just a little bit of filth.

[14] Own translation: All you can do is to do what you can. Spread a little love, [and try not to] don't ruin/spoil things for eachother.

problems that arise in their supply chain, but I do believe that companies have a moral obligation to do what they can. I also believe that it is important that companies, when engaging with upstream CSR take into account the effects that their actions will have for companies and communities at the receiving end of these initiatives and "try not to ruin things for each other".

2.2 Research evolution

As noted by Mintzberg (1979), the process of doing research is rarely neat and a research design is often the result of a combination of both deliberate and emergent research strategies. This has certainly been the case for me. Before going into the different projects that make up the overall research design for this thesis, I will therefore start by explaining how the research has evolved.

My research journey has been a long and interrupted process. My interest for the topic was raised more than 10 years ago when I was writing my bachelor thesis on Sourcing strategies for eco-friendly cotton garments (Grilling, Kogg et al., 1997). I was therefore very happy when I was offered the chance to explore this topic further, as I was accepted as a PhD candidate at the IIIEE. The focal company of my first study as a PhD student was Verner Frang AB, a very small company in the textile industry, who had managed to convince actors throughout its supply chain, all the way through to the cotton farmers, to adopt their practices to fit with the criteria for the Nordic Swan eco-label for textiles. Intrigued by the fact that a very small company, not representing considerable buying power, had succeeded in such an endeavour, I wanted to understand how they had done this and what consequences this programme had had for the structure processes and interactions in the supply chain.

I later compared the findings of my case study of Verner Frang AB with the findings reported in two different studies (Humphrey, 1998; Murphy and Bendell, 1998) about how a much larger UK-based company, B&C, had addressed negative environmental aspects in their supply chain for wood products (Kogg, 2003b). This inspired the idea to try to do several case studies across sectors so that I would end up with six cases, done in three sectors, and in each sector I would have one case featuring a large focal company and one case featuring a small focal company.

One of the first companies I approached was H&M, a large multinational fashion retailer. They accepted to be part of the study, but this case would take a slightly different shape as compared to the first case study. During my initial interviews, it became apparent that H&M was addressing several different types of environmental and social aspects in its upstream supply chain, and that the methods for addressing these aspects differed in significant ways. This intrigued me and I decided to shape the case study as an embedded case study, where four different H&M programmes/initiatives for managing upstream CSR were included.

While working with the H&M case study, I became pregnant and soon after completing the fieldwork for this study I gave birth to my first son and was away from work for 18 months. After returning to work from my maternity leave, I had to make a decision regarding how to continue my research journey. Before studying environmental management and policy, I studied business administration with an emphasis on sourcing and supply chain management; therefore I also approached this topic as a sourcing/supply chain management problem. But while doing the H&M case study, I started to notice that this perspective prevented me from addressing several other aspects that were of relevance to practitioners in the field.

Upon returning from my maternity leave, I therefore decided to return to the literature and systematically try to tease out the different elements, or themes, which have been studied and discussed in relation to upstream CSR. My ambition was to create a framework, or structure, which could help me, and hopefully others, to organise their thinking and knowledge about this phenomenon. It was also my ambition that this framework would be a tool to explain where my own research findings fit into this larger context.

However, before being able to finalise, the writing up of the literature analysis, I gave birth to my second son and went on maternity leave a second time. While on maternity leave I was offered and optimistically accepted a job as CSR manager at a large firm in the textile industry. So after coming back from my maternity leave I have tried to juggle thesis writing, working and being a reasonably present mother. Eventually I realised that something had to give and made the difficult decision to resign from the exciting, but very time-demanding job. It did however take some time before we found a replacement for my position and this, and the two long periods of maternity leave, is the explanation for why it has taken until now to finalise this thesis.

2.3 Research design

As stated previously this research follows primarily an inductive approach. That is while I did read quite extensively to familiarise myself with the topic, I did not form any propositions or hypotheses to test before entering the field. Mintzberg argues that there are two essential steps in inductive research: "The first is detective work, the tracking down of patterns and consistencies. One searches through a phenomenon looking for order, following one lead to another. But the process itself is not neat. […] The second step in induction is the *creative leap."* (Mintzberg, 1979p. 584).

This description comes very close to my own process of research. I have done detective work in the field through my case studies, where I tried to, as far as possible, without preconceived ideas observe and understand what practitioners in the field were doing, why and what consequences could be seen. I have also done detective work at my desk through the literature analysis, where I have sought to lift out evidence from all the studies I could find and piece them together. The creative leap comes in the proposed frameworks and suggested lessons learned, which I hope will be useful for researchers, as well as, practitioners in the field of upstream CSR.

The figure below is designed to give the reader an overview of the research design by illustrating how different elements of my study relate to the stated objectives.

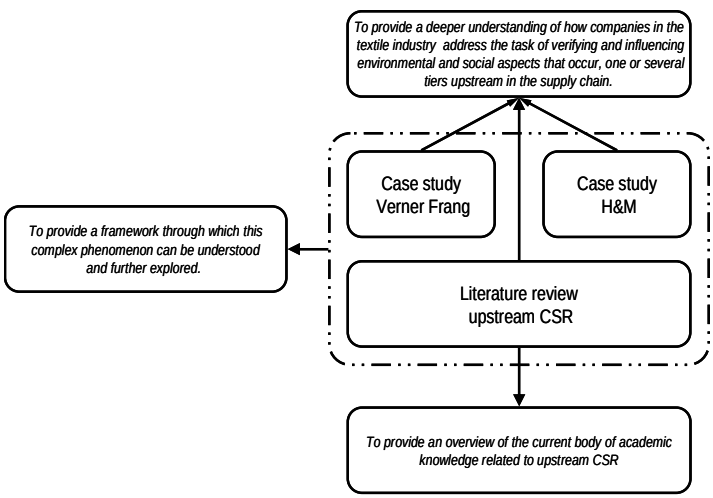

Figure 2-1: An overview of the research design

2.3.1 Case selection

There are several reasons for why I have focused on the textile industry in my research.[15] The primary reason is that members of the textile industry have long lived under pressure from different type of stakeholders to address environmental and social aspects in their supply chains and it is therefore possible to find companies within this sector that have several years experience of working with upstream CSR. This was important to me as I needed to find companies who were actively working to exercise influence over actors in their supply chains, and who were actually taking measures to verify that environmental and social aspects were in compliance with set standards or criteria. I also needed to find companies that did this beyond the first tier of the supply chain.

Another factor that played a role in this decision is that I was, due to prior work experience, reasonably well familiar with sourcing and procurement in the fashion/textile industry.[16]

The two focal companies studied are Verner Frang, a small sized company, which mainly operates as wholesaler of yarn, fabric and to some extent clothing, and H&M, a large multinational clothing retailer with approximately 60 000 employees. Both companies are based in Sweden.

I believe that the studies in the textile sector have offered a particularly interesting research context, for a number of reasons. The case study of the large retailer, H&M, does in itself provide a rich empirical material as it offers an opportunity to look at the management of both environmental and social initiatives in the supply chain, and since the company actively deals with several different types of environmental aspects. This case gives us the opportunity to learn about how the type of issue at hand influences the approach taken to manage it. In addition, the environmental issues, which the retailer attempts to actively influence, occur at several different tiers in their supply chain that allows us to study the particular challenges involved when the focal company has to reach beyond their own direct business

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15 As mentioned previously in Section 2.2 the intention was originally to do case studies in two addtional sectors (an intention that I had to abondon when I did not find more companies willing to alow my access to their supply chains). The the textile industry was, however, my first choice, for the reasons stated above.

16 I have previously worked as an assistant buyer with a small fashion brand and have a degree in textile thechnology and marketing.

relationships. The same is valid for the Verner Frang study, where the company's environmental ambitions forced them to reach and influence suppliers in several tiers of their upstream supply chain. This case is also particularly interesting in itself, as it is an example of upstream CSR initiated by a very small actor with very limited relative power over its suppliers.

In addition to these two cases being interesting in their own right, the comparative element between the two cases provides potential for additional insights. Since the two different focal companies operate within the same industry, but are very different with respect to size, internal resources and relative purchasing power in relation to their first tier suppliers, the comparison between these two cases allows us to learn a little bit more about the role of these factors in upstream CSR.

2.3.2 Methods applied in the case study of Verner Frang

Intrigued by the fact that a small company like Verner Frang successfully had convinced not only its much larger first tier suppliers, but the entire upstream chain of suppliers, to improve their environmental performance, my particular purpose for selecting Verner Frang as a focal company for research was to understand how a small focal company can exercise influence over much larger suppliers.

The unit of analysis for this case study was the company's initiative to convert its entire range of cotton products sourced in Peru from conventional to organic cotton labelled by the Nordic Swan Eco-Label for textiles. The field research covered the focal company and its current upstream supply chain, including the following process steps: cotton farming, ginning, spinning, weaving, knitting, wet processing and garment manufacturing.

The main source of data comes from personal interviews, company documents and on-site observations. All interviews were recorded, except in a limited number of instances when the interviewee did not want the interview to be taped. Data collection was governed by the ambition to understand the current structure, flows and processes of the Verner Frang supply chain and by the ambition to reconstruct the events that brought the Verner Frang supply chain into its current form. The main part of the work was carried out in Peru, where Verner Frang's entire supply chain is located. Before going to Peru however, in-depth, open-ended interviews were carried out with the manager of Verner Frang and with a Swedish consultant who

had been working for Verner Frang in Peru for a longer period, actively taking part in the greening process.

During the summer of 2001, I spent four weeks in Peru, where I conducted in-depth, open-ended interviews with Verner Frang's two main Peruvian counterparts to understand their role in the supply chain, their motivation for being part of the Verner Frang supply chain, and to get their perspective on the events that lead to the greening of the chain. In addition, I conducted a survey of all actors in the chain in the form of semi-structured, open-ended, personal interviews. The questions were designed to get an understanding of (a) each actors operations and the importance of Verner Frang in relation to their other clients, (b) their perception of the greening process and the requirements that they had to comply with, (c) their motivation for taking part, (d) their experiences of the monitoring process and (e) their perception of the consequences that this had had for internal operations and their relationship with other actors in the supply chain. The people interviewed were the persons in each company that had been involved with the decision to take part in the organic cotton programme, in most cases the general manager or the owner, but in one case a senior sales manager. In three cases, where larger factories were involved, I also had the opportunity to interview the production managers who had been more directly involved in the actual process of changing products or processes to comply with the eco-label criteria. The survey included every company/actor within the Verner Frang upstream supply chain with the exception of the farming tier where I visited and interviewed only a small selection (four) of the farmers, who are part of the organic programme. At each site I was also given the opportunity to do a walkthrough of the facilities.

In addition to the above, a number of interviews were conducted with representatives from local NGOs, conventional farmers, a supplier of biological pest controls, local representatives from pesticide and fertiliser companies, and local research institutes, in order to get a better understanding of the local context in which the actors of the chain operate.

2.3.3 Methods applied in the case study of H&M

Unlike the Verner Frang case study, this case took the format of an embedded case study as the project was designed to study four different initiatives where the focal company addressed different environmental and social aspects of concern in its supply chain. These include:

- Chemical residues in finished products as a result of chemicals being used in different stages of production.
- Labour conditions and environmental aspects in the operations of direct, contracted suppliers and their sub-contractors.
- Environmental impacts associated with wet processing (yarn and fabric dying and finishing).
- Environmental impacts associated with conventional cotton farming.

Each of these initiatives represents a unit of analysis for one embedded case. In addition to the overarching objective of understanding how the focal company managed to influence and verify environmental and social aspects in its supply chain, and the consequences of these actions, the ambition was also to understand how each specific issue was managed and to look for possible explanations as to why different issues were managed through different approaches.

The field research covered the focal company's central CSR office in Stockholm, its buying office in Turkey and a small extract of H&M's supply chain in Turkey, including garment producers, weavers, knitters, wet processing plants, yarn producers and one supplier of cotton fibre. H&M sources garments from more than 20 different countries. Based on discussions with staff at H&M's main office, it was decided to do the field study in Turkey. However, since the initiative related to wet processing was cancelled in Turkey, after the field study was planned, a M.Sc. student at the IIIEE, Harshavardhan Bammanahalli, went to India to study this particular initiative there.[17]

Empirical data was gathered through interviews, company documents and on-site observations. All interviews were taped, except in a limited number of cases when the interviewee asked me not to record the interview.

Interviewees include CSR staff at H&M in Sweden and purchasing, CSR and quality staff at the company's production office in Turkey, as well as with staff from organisations along the supply chain of H&M in Turkey. Since H&M has a large number of suppliers in Turkey, the company agreed to provide access to five of their 1st tier suppliers. Through these suppliers I

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[17] This study is presented in: Bammanahalli, H. (2005). Beyond direct business connections: An assessment of environmental initiative in fashion industry to reach out to second tier suppliers. IIIEE. Lund, Lund University**:** 85.

were able to reach an additional five companies operating in previous tiers of the supply chain (two fabric suppliers, two yarn suppliers and one supplier of cotton fibre). In addition interviews were made with local experts related to organic cotton. After completing the field study in Turkey additional interviews were made with key staff at the Swedish head office in order to corroborate and discuss findings.

2.3.4 Scope and method applied in the literature review

The overall objective for the literature review was to extract and summarise published study findings and conceptual developments of relevance to this field and structure these findings in a manner that enables the reader to get a clear overview of the current body of knowledge.

In addition to the objective of illustrating our knowledge base, and the gaps in this knowledge base, the purpose of this exercise was also to enable me to enfold my empirical findings into the existing literature.

Search process and delimitations

While the material included in this review is comprehensive, it has not been the ambition to cover all published material of relevance in this field. For the purpose of providing a basic level of quality assurance of included work, the first limitation is that only articles published in peer reviewed journals are included, thus excluding conference papers and books. Two additional limitations are imposed for practical reasons. Due to my own limited language skills, only articles published in English are included and to facilitate the work of collecting articles, only articles accessible through the Lund University search tool ELIN (Electronic Library Information Navigator) has been included.

ELIN is an electronic search tool that integrates data from several publishers, databases and e-print open archives. It includes large content providers such as ABI/Inform, Cambridge Scientific Abstracts, Elsevier, Emerald, Jstor, Sage, ScienceDirect, Springer, Wiley and many more. At the time of the search ELIN provided access to the material from more than 15 000 journals, including 1538 journals in the field of management, 220 journals in the field of environmental studies and 330 journals in the field of general social sciences. While ELIN provides a very comprehensive access to academic publications, it may not cover all journals that publish material of relevance for upstream CSR. It should also be noted that some journals

delay electronic access to new material by 6 or 12 months. The last search was concluded on September 6, 2006.

In doing the searches it has been my ambition to find material relevant to this topic regardless of the terms used for describing the phenomenon or the disciplinary background of the author. I therefore ran searches on a wide rage of search terms, grouped to cover the three key elements of relevance in upstream CSR.

- To catch the supply chain element the following search terms were used:
  - Supply chain, product chain, value chain, supply network, interorganisational, interorganisational, purchasing, sourcing, life cycle, integrated chain and inter-firm.
- To catch the element of environmental and social responsibility the following search terms were used:
  - Environment*, green, sustainab*, ethical, responsible and social. (Environment* and sustainab*, were truncated to allow for all possible endings in the word.)
- To catch the management element the following search terms were used:
  - Management, strategy, governance and control.

All possible combinations of these terms were used to search both through abstracts and keywords.

In total the search yielded 191 articles, 12 were eliminated immediately since they were not peer reviewed. After a first read-through, an additional 38 papers were eliminated according to the criteria listed below.

- Inclusion criteria:
  - Authors must explicitly address issues that relate to upstream CSR either in their research or in a conceptual discussion. Here it should be noted that I have allowed myself a reasonably wide interpretation of what is related to upstream CSR, and included articles that offer a range of different perspectives on this phenomenon.
  - Papers should be published in peer reviewed journals.

- Exclusion criteria:
  - Papers that take a pure government policy perspective on upstream CSR are not included. (E.g. papers that discuss how policy should be designed in order to stimulate upstream CSR without discussing the actual phenomenon.)
  - Papers that focus exclusively on public procurement are not included, as this situation is highly regulated and research in this area must address a very specific set of legal issues that do not apply to corporate purchasing.
  - Papers that focus on the ethical aspects of purchasing activity itself (e.g. how to prevent purchasing personnel from taking bribes etc.) are not included.
  - Pure environmental assessments of supply chains without any attention to the managerial issues related to upstream CSR are not included.
  - Equally, articles that focus on eco-design without any attention to the managerial implications related to upstream CSR issues have not been included.
  - Articles focusing on post-consumer end-of-life management have not been included as post-consumer end-of-life management entails many challenges that make this distinct from upstream CSR between corporate actors in the supply chain.
  - Articles focusing on technical aspects of, for instance, communication-infrastructure in the supply chain or recycling without any attention to the managerial aspect of upstream CSR have not been included.
  - Finally, articles that deal specifically with the processes involved in establishing a multi-party collaborative effort, such as, for instance, The Forest Stewardship Council and the Round Table for Sustainable Palm Oil, have not been included. Arguably multi-party collaborative efforts are one viable strategy for upstream CSR that corporations can pursue. However, the topic of how to best set up and shape the multi-collaborative process is very distinct. In addition, there is growing body of research on this specific topic and many of these papers are most likely not caught through the search terms applied in this literature review.

Review process

The review process started by a first read through of all papers. During this first reading, articles not fitting the inclusion criteria were eliminated and the remaining papers were classified according to the type of paper, using the following categories: A) Report of research findings from own study (including description of method), B) Literature Review, C) New/own conceptual discussion/development, D) New/own tool development, and E) Other (including all types of opinion pieces, thought notes, overviews etc.).

From all papers data about the stated general purpose/contribution of the paper and used terms and their proposed definitions were extracted. From papers in category A (report of research findings from study) the following types of data were extracted:

- Specific research questions and/or propositions/hypotheses to be answered/tested
- Nature of research design:
  - Here the following categories were used to distinguish different approaches: single case study, multiple case study, survey, model or other (individually specified)
- Level of analysis
  - As specified
- Geography (if explicitly stated).
- Industry (if explicitly stated).

In addition to the above the following data was extracted from papers categorised as either type A (report of findings from study) or type C (conceptual discussion/development):

- Reference to existing theory/theoretical concepts in developing own study/concept: as stated or not stated.
- Propositions/hypotheses developed (but not tested, see above)
- Defined Constructs: exact or not stated
- Proposal for new theory/new conceptual developments: as stated or not stated.

To minimise the possibility of misinterpretation in this part of the process, I have as far as possible avoided to make my own interpretation of the authors' message, but instead extracted the text as written, or noted that this particular type of information was not provided.

After this first review process, a second reading took place, during which I extracted the key findings or key contributions from included papers and through an iterative process grouped these under common re-occurring themes. In this work I took care to distinguish findings from untested propositions and ideas. Finally findings grouped under each theme were analysed to look for corroborations, contradictions, open questions and blank spots in the related body of knowledge.

Critique of the selection and review processes

Since the phenomenon discussed in this review is relatively recent, it is quite likely that the frontier of knowledge is not to be found within the body of relevant scientific publications, but may instead reside within the individual actors and organisations that experiment with different approaches and learn through trial and error. Thus it could be argued that limiting the review to peer reviewed journals will exclude relevant material that could offer key insights, such as papers presented at practitioners' conferences, resource material from industry associations or published interviews with practitioners, etc. This critique is relevant, and should be noted by the reader. Therefore it must be reemphasised that the main ambition in this paper is to take stock of what *research* relevant to this field have achieved so far and structure these findings in a manner that enables the reader to get a clear overview of the current body of *scientific knowledge*. It is, however, also part of my ambition to identify critical areas for future research efforts, and here it is my firm belief that this can not be done from "the ivory tower". This part of the discussion is therefore not just built on the findings of the review, but also on my own case studies, as well as, my interactions with practitioners and policy makers who have experience of this phenomenon, coming at it from different perspectives, industries and professional backgrounds.

An obvious limitation in the review process is the fact that I have been working alone and my reading and subsequent representation of the work of others will inevitably be influenced by my own experiences and ideas about this subject. Often in review processes, personal biases are counteracted through using multiple reviewers that are required to find consensus on

interpretations. I have instead tried to avoid, as far as possible, abstracting data into categories, and made an extensive effort to represent the text from the original authors within this thesis, before I discuss how different contributions relate to each other. Still it must be acknowledged that my personal background and ideas also affect how I choose what is of key relevance in different papers, and other readers, or the respective authors, may have other views.

2.4 Validity, reliability and the relevance of presented findings

From the start I must admit that I still find very difficult to assess and comment on the reliability and generalisability of this type of research with any comfortable degree of certainty. To my comfort, I am not the only one feeling uneasy in this situation as also other authors (Janesick, 1998; Scholz and Tietje, 2002) have noted that these concepts are rooted in the positive science tradition and do not necessarily easily lend themselves to qualitative research.

With regards to validity or credibility in my case studies, I have used triangulation in that I have taken care to interview many different actors involved in or affected by each studied upstream CSR initiative. All interviews have been taped and I have transcribed large parts of the tapes while writing up the cases. I have also sought to strengthen validity by presenting my findings for representatives of the focal companies in both the cases as a method of respondent validation. It is a measure of credibility that they found the results believable. However, as always in this type of case study, a large number of variables are at play and I can not control for all factors, nor can I be completely certain that I have truly identified the most important factors.

With regards to reliability or external validity, it is clearly a limitation that my study only includes two case studies, although one with embedded cases. For the presented findings and conclusions I have sought, and in several cases found, corroborative evidence in the studies of others. Still it must be acknowledged that the presented framework, which is based not only my study findings and the findings presented in the reviewed literature, but also on my own experience of working with upstream CSR as a researcher and as a practitioner, do represent a *creative leap* (Mintzberg, 1979). While I believe that this framework can allow future research in this field to be more precise

and that it will serve to give the reader a general understanding of the phenomenon of upstream CSR from the corporate practitioner's perspective (regardless of industry or particular characteristics of the focal company), I do not have any proof of this. To support my case for such generalisations I have only the fact that so far in literature I have found corroborative evidence, but not evidence to the contrary. In addition there are a few instances where I have had the opportunity to present and discuss my framework with practitioners from other sectors who have recognised it as useful.

That being said, I am fairly confident that the framework is only a rough starting point that can surely be refined and improved as we learn more about the phenomenon.

CHAPTER
THREE

3. Introduction to the desktop research – sketching the outline of our body of knowledge on upstream CSR

Over the last 15 years an increasing number of authors, from different disciplines, have contributed to our knowledge and understanding of the phenomenon of upstream CSR. However, as is quite common for a newly developing field of research, the research field is scattered. A multitude of different perspectives and definitions of key concepts are forwarded and many contributions fail to comment on how their findings relate to findings in previously published works. It is thus difficult as a researcher to place your own study findings in relation to the existing body of knowledge, and as a reader to determine whether the contribution of a paper adds new insights, supports previous findings or contradicts the work of others.

The purpose of the literature review presented here was to address this problem by providing *an overview of the current body of knowledge*. Together with the case studies presented in this thesis the review of the literature was also the basis for the development of *a structure, or a framework, through which this complex and heterogeneous phenomenon can be understood and further explored*. In the following chapters, I will attempt to sketch a picture of what is known and what is not known, suggest possible ways of categorising what we know and identify key issues, knowledge gaps and opportunities for future research.

When I first set about to complete my literature analysis, in the fall of 2006, there was to my knowledge, no literature review published in English that attempted to give a comprehensive overview of the current state of knowledge related to upstream CSR. Müller and Seuring (2004) had published a conference paper which is an abbreviated English version based on a longer publication in German, where they do cover a wide selection of published papers (122 publications in which they also include conference papers and book chapters). However, in the English publication they only very briefly touched upon the contents of the reported findings and confine

themselves to three specific areas of findings under the headings of "*Goal relation between Business objectives and sustainable development", "Barriers and Supporting factors"* and finally *"Pressures and incentives".*

Other contributions had also looked at literature relevant to a specific issue within this broader field, such as environmental purchasing (Zsidisin and Siferd, 2001) and the transfer of moral values in purchasing (Preuss, 2000), or at the relation between UPSTREAM CSR and related research fields such as green product development (Baumann, Boons et al., 2002), and operations management (de Burgos and Céspedes Lorente, 2001).

However, while my progress on the literature review was temporarily interrupted by the birth of my second son, two literature reviews worth noting here were published.

Srivastava (2007) published a literature review, in which he argues, like I do, that a broad and widely accepted frame of reference for this field is missing (Srivastava uses the term Green Supply Chain Management) and that there is a need to present a comprehensive and integrated view of the literature published so far in order to develop such a frame of reference. He also argues that: "Earlier works and reviews have a limited focus and narrow perspective. They do not cover adequately all the aspects and facets of GrSCM [green supply chain management]" (Srivastava, 2007, p. 54), and states that the objective of his own review is: "to present a comprehensive integrated view of the published literature on all the aspects and facets of GrSCM" (Srivastava, 2007, p. 54). Surprisingly, he then goes on to delimit his own review to specifically focus on reversed logistics and mathematical modelling aspects, and he explicitly excludes green purchasing.[18] While I have no objections to the findings presented in Srivastava (2007), I do however have strong objections to the following statement made in the conclusions of the article: "We present a state-of-the-art literature review of

[18] Reversed logistics is one area that I have not included to any large extent in my own review, as I have in my research design excluded papers that deal with post consumer recycling, and end-of-life management. My argument for this delimitation is that post consumer recycling poses many challenges that are very specific to this particular situation and thus distinct from challenges associated with managing environmental and social aspects that occur upstream in the supply chain. I come from a purchasing and supply chain management background and for me this exclusion made sense, but I can see that if you come from a logistics background and have an interest in environmental management, reverse logistics may indeed be one of the most interesting and challenging issues to look at.

GrSCM integrating the whole gamut of activities in the area" (Srivastava, 2007p. 68). Not only do I find that several key issues of pertinence for upstream CSR have not been addressed in his review, but he has also, through his explicit research design excluded, all contributions that has been written on the topic of green purchasing.

I do however agree with Srivastava, as do several other authors (see e.g. (Ardente, Beccali et al., 2006; Bowen, Cousins et al., 2001b; Roberts, 2003), that a better understanding of this phenomenon can provide valuable input to corporate, as well as political decisions makers. Right now the frontier of knowledge, with regards to this phenomenon, is probably not found in academia, but scattered among individual practitioners in progressive companies. Clearly we have much to learn by observing and analysing the work of such practitioners, however it is only by comparing these stories and the lessons learnt by an individual or an organisation that we can start discerning predictable patterns and key determinants. Thus I believe that it is high time to start piecing together the evidence in order to take stock of what research of relevance to this field has achieved so far and to identify critical areas for future research efforts.

In 2008 Seuring and Müller then published a new literature review where the stated objectives are much the same as mine, they review the relevant paper published between 1994 and 2007, and they offer a conceptual framework intended to summarise the field (Seuring and Müller, 2008). The framework presented by Seuring and Müller (see more under Section 12.4.1) is different from the framework presented at the end of this book. So while I will not offer the first comprehensive review, I will in this book offer a different perspective as a complement to the work of Seuring and Müller.

3.1 About the included material

As explained in Section 2.3.4, the material included in this review was identified by running a number of relevant search terms through the Lund University search tool ELIN (Electronic Library Information Navigator). In total the search generated 179 peer-reviewed articles, after a first read-through 38 papers were eliminated as non-relevant, following the criteria specified under Section 2.7.1 (Method chapter), leaving in total 141 articles that have been included in the review. The earliest article included (Drumwright, 1994) was published in 1994. The spread of contributions according to the year of publication is illustrated in Figure 3-1 below.

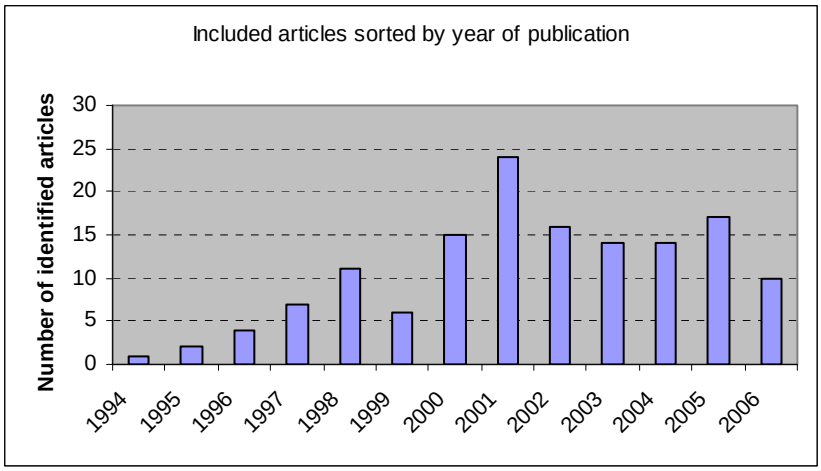

Figure 3-1: Number of reviewed articles sorted by year of publication

46 different journals are featured in the review. Not surprisingly most featured journals have an emphasis either on environmental management in general or on supply chain management, and associated fields such as logistics and operations management. There are also contributions from journals with a focus on ethics in business. Almost half (48%) of the contributions come from the four journals listed in Figure 3-2 below.

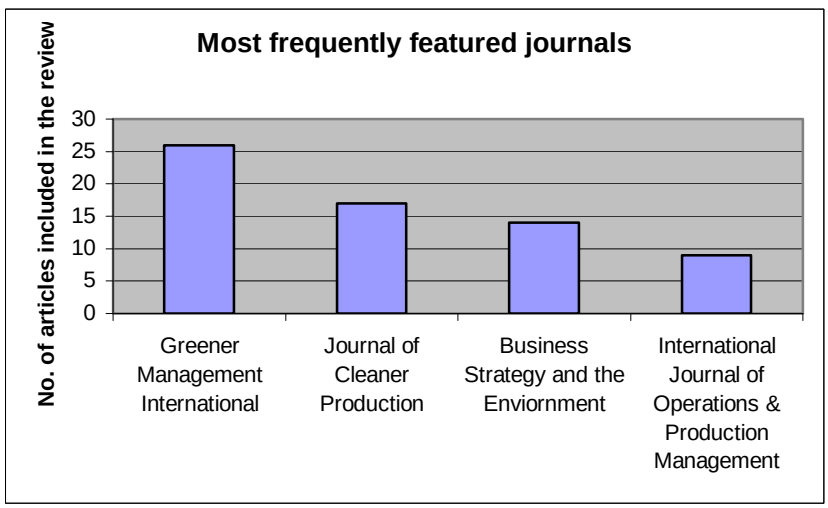

Figure 3-2: Most frequently featured journals in the literature review

An overwhelming majority of the authors come from Europe and North America. More than 50% of all authors featured in the material are based in Europe[19], and approximately 30% are based in North America. Asia come a distant third with a little less than 10%, whereas only four African based authors are featured in the material along with three authors based in Australia and two in South America.

During the review process the papers were divided into five different categories based on the nature of the article. The categories used were:

A. Report of research findings from own study (including description of method)
B. Literature Review
C. New/own conceptual discussion/development not including report of a specific study
D. New/own tool development
E. Other (Including all types of opinion pieces, thought notes, overviews etc.)

Here it should be noted that even if a paper is classified as a literature review, the content of such a paper commonly goes beyond merely reviewing and synthesising included material and also offers a discussion of, and sometimes proposals of new, concepts and theoretical directions.

The spread according to the division above can be seen in Figure 3-3 below. The most commonly featured type of article, more than 50%, reported on the results of a specific study made in the field of upstream CSR.

[19] The authors may have a different nationality; the data is based on the location of the university or organisation that the authors have stated as being affiliated with in the article. A total of 210 individual authors where identified, for five of those there was no indication of geographical base.

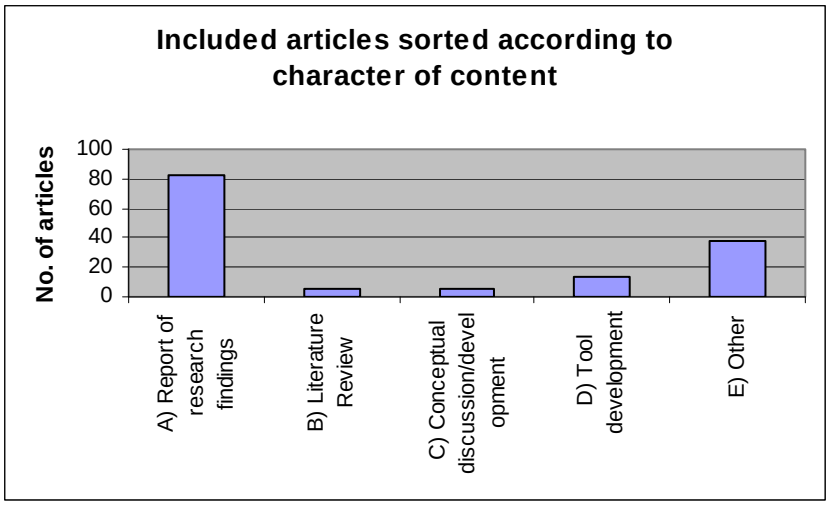

Figure 3-3: Reviewed articles sorted according to initial categorisation

3.1.1 Methods applied

To get an overview of how this phenomenon has been explored, articles that featured a report of research findings from own study, was further categorised based on the methodology applied in the study, using the following categories:

- Single case study
- Multiple case study
- Survey (here I include all sorts of surveys, such as questionnaires and interview studies, and all combinations of these)
- Mathematical modelling
- Other (only a very limited number of articles did not fit into any of the above categories, the methods used in those studies include text analysis, focus group interviews and action research)

Several studies involve a mix of methods and lines are not always easily drawn, but as a general observation surveys and case studies are by far the most frequently used methodologies for studying this phenomenon. Over 90% of the reported studies involved some form of survey or case study. Out of these, the division between surveys and case studies was fairly even with a very slight majority for case studies.

3.1.2 Theoretical perspectives used to inform research in this field

An often-repeated criticism of research in this field is that it remains uninformed by theory. In their review of environmental research in the supply chain management literature, Zsidisin and Siferd (2001) notes that "The progression toward theory development in environmental purchasing is still in its infancy. […] Theory, especially from other disciplines, has not been well integrated into environmental supply chain research. One of the potential reasons for this lack of integration is due to the newness of both environmental and supply chain research" (p. 70).

The papers reviewed in this thesis indicate that 5 years later theory development still has not come that far, and Seuring and Müller (2008, p. 1706) also notes that "a theoretical background is often missing". But it is wrong to say that the field remains completely uninformed by theory. In this section I will go over the references to theory identified in the reviewed material.

Theory that describes the context

Several authors refer to networks and systems when they seek to describe the context in which upstream CSR takes place. Although the world *supply chain* is still widely used, it seems that most contributors agree that the metaphor of a system or a network come closer to describing the structure and dynamics of the supply chain.

Some authors have also turned to systems theory to look for theory that can help them explain and analyse the context in which upstream CSR takes place.

Andersson and Sweet (2002) introduce a conceptual framework designed to capture the dynamic interplay between change agency and structure in interorganisational networks. They view the supply chain as a form of industrial network and apply ideas and concepts from texts on loose and tight couplings in systems in order to understand persistence and transformation in organisational networks. In their analysis they follow the following four theoretical perspectives: (1) the dynamics of overlapping networks, (2) changes within one network, (3) dyadic relationship changes, and (4) changes from the perspective of the single actor. They also include a longitudinal perspective in their analysis distinguishing between three

different stages in the change process within an industrial network: a 'start-up phase', an 'implementation phase' and a 'diffusion phase'.

Boons and Berends (2001) also discuss interaction in different types of organisational networks using the theory of loosely coupled systems (Weick, 1982) and couples this with new institutionalism (DiMaggio and Powell, 1983). Based on the idea that networks can be used as a tool to work towards sustainability, in that they provide participants with three main advantages: adaptability, diversity that can contribute to new learning, and the exchange of tacit knowledge, the authors compare sector-specific networks with regional networks and networks linked by their affiliation with a product (product chains). They argue that the latter may provide a better starting point for the process of sustainable development, as organisations linked together through the product chain are less similar than organisations that belong to the same industry sector, but have more common ground through their link to the same product than do companies within regional networks. This argument is based in the ideas that there needs to be a balance between stability and flexibility in networks in order for learning and innovation to occur in networks.

Canning and Hanmer-Lloyd (2001), investigate the environmental adaptation process in the context of supplier-customer relationships and use the IMP (International Marketing & Purchasing) interaction framework (Håkansson, 1982) as a tool to describe and explore the context in which this phenomenon takes place. A key underpinning of the IMP interaction framework is the interactive nature of supplier-customer relationships, and it accounts for individual, company, inter-firm and environmental factors that might impinge on the behaviour, experience and perceptions of those involved with supplier or customer companies.

Pesonen (2001) looks at a later development of Håkansson, and uses the industrial network theory perspective (Håkansson and Snehota, 1995) to study the nature of co-operation required by life cycle thinking in a case study of the development process of an environmental management systems in a Finnish metal industry network.

Another theoretical perspective on the context is the concept of global value chain analysis (Gereffi, 1994; Gereffi, Humphrey et al., 2001; Kaplinsky, 2000; Schmitz and Knorringa, 2000). Smith and Barrientos (2005) use the concept of global value chain analysis to study Fair Trade and Ethical Trade and its implications on governance structures in the supply chains.

Goldbach and Seuring (2003) refer to Williamson's (1975; 1985) work on forms of institutional arrangements allowing transaction between economic actors (market arrangements, hierarchical arrangements and hybrid arrangements) in their study of German mail order firm OTTO and its transition from working with conventional cotton to establishing a supply chain for organically grown cotton.

Another theoretical perspective that can be used to describe/explore the role of the context is Giddens theory of structuration (Giddens, 1984). Maier and Finger (2001) use theory of structuration to analyse constraints to organisational change in two case studies that analysed the introduction of organic products into Swiss food processing organisations.

Hall (2000) introduces additional theoretical perspectives that can shed light on the dynamics of the context. In his case studies on environmental supply chain dynamics, Hall (2000) extensively looks at the works on social power and the concept of channel power (as defined by El-Ansary and Stern (1972)). He uses this to analyse both supply chain pressure, which he argues is based on channel power and technical competencies, and external pressures for environmental improvement.

In seeking to understand and describe the context in which interorganisational management of environmental aspects takes place Hall (2000) also refers to Ring and Van De Ven (1992) and their work related to governance of buyer supplier relations.

> *Ring and Van De Ven argue that the governance of buyer-supplier relations is dependent upon the need to rely on trust between parties and the level of risk associated with the relationship. Low levels of risk and/or little need for trust should be governed by markets. High levels of trust with low risk should be managed by recurrent contracts. High levels of risk and low levels of trust should be governed by hierarchies; while high levels of both trust and risk (i.e. subcontractors) should be managed through closer buyer-supplier relations (Hall, 2000, p. 460).*

Apart from theories that are used to understand the context and its influence on the phenomenon of upstream CSR, theory from different fields have also been used to shed light, not on the phenomenon as a whole but on different specific questions. Here follows a list of such examples:

The resource-based view of the firm and the natural resources based view of the firm

Carter (2005) uses the resource-based view in order to develop and test a set of hypotheses regarding the potential link between PSR (purchasing social responsibility) and firm performance. By adding two intermediate steps in the correlation, he demonstrates that there is a correlation between PSR and organisational learning and between organisational learning and improved supplier performance, which in turn ultimately leads to lowering of costs.

De Bakker, Fisscher et al. (2002) also refer to the resource-based view, looking in particular at Hart's (1995) 'a natural-resource based view of the firm' and Verona's (1999) 'resource based view of product development' in their study of the organisational implications of managing products' environmental characteristics.

Vachon and Klassen (2006b) refer to the natural-resource-based view of the firm when they develop and test the hypotheses that: "(H1) As the extent of green project partnership with suppliers increases, manufacturing performance (i.e., costs, quality, delivery and flexibility) and environmental performance improve. (H2): As the extent of green project partnership with customers increases, manufacturing performance (i.e., cost, quality, delivery and flexibility) and environmental performance improve" (p. 664). In their study they found support for both these hypotheses.

The relational view of the firm

In a survey of North American package printing companies, Vachon and Klassen (2006a) looked at the correlation between supply chain characteristics and green supply chain practices. They found technological integration between buyer and supplier to be positively linked with a higher propensity to collaborate in environmental planning, establishing common environmental goals, and jointly addressing the environmental aspects of product and process design. In their discussion of the results the authors revisits the collaborative paradigm within supply chain theory referring to the relational view of the firm (Dyer and Singh, 1998). The authors argue that the link between strategic core matters and "non-core concerns" (where they place what they term GSCP, green supply chain practices) implies that the scope of the collaborative paradigm needs to be expanded, and that one way to enlarge this paradigm is to consider supply chain management within the broader context of sustainable development (Vachon and Klassen, 2006a, p.813).

Transaction cost analysis

Zsidisin and Siferd (2001) suggest that transaction cost analysis could be integrated with environmental purchasing research. They point out that the purchasing function will most often take the lead in activities related to monitoring and influencing suppliers' environmental performance and suggest that transaction cost analysis can be used to evaluate the decisions regarding whether these functions should be performed internally or be outsourced to other organisation. They also argue that transaction cost analysis can be used to understand the relationships that purchasing organisations form with its suppliers.

Meisner Rosen, Bercovitz et al. (2001) also use the theory of transaction cost economics to examine contracting mechanisms used by firms in the computer industry to structure programmes designed to encourage suppliers to improve their environmental management systems and/or the environmental quality of their products. They found that: "Those companies moderately or actively involved in environmental supply chain management were more likely to 1) recognize, and express concern about, potential expropriation and shirking hazards and 2) choose to organize inter-firm environmental management activities using relational and neo-classical, rather than classical arm's-length, contracting. Both these findings are in line with TCE predictions." (p. 99).

Game theory

Corbett and DeCroix (2001) use concepts from game theory in their analysis of how buyers and suppliers will act under different types of chemical management contracts, including so called "shared-savings" contracts for supply of indirect materials. In a follow-up to this paper, Corbett, DeCroix et al. (2005) use the double moral hazard framework to model shared-savings contracts. The authors argue that the double moral-hazard framework could be applied to more supply chain management research questions, in particular, they argue that it can help identify when a linear (and hence easily implementable) contract may or may not be optimal.

Stakeholder theory

Dolan and Opondo (2005) refer to stakeholder theory as one of the influential concepts behind the increasing application of multi-stakeholder

processes and stakeholder dialogue in the definition of standards for example ethical sourcing.

Business ethics theory

Park (2005) and Park and Stoel (2005) use business ethics theory and in particularly the Elaboration Likelihood Model to study how personal disposition with regards to idealism and relativism influence purchasing professionals decisions with respect to socially responsible buying.

From the overview above it appears that most theory included in the study of upstream CSR has been theory that in some way can help us understand the context in which this takes place, primarily focusing on the nature and structure of supply chains, or, on a more limited level, the dyadic relationship between a seller and a buyer. I do not propose to be able to judge which of these perspectives is more useful. Putting on different "theoretical glasses" to explain and understand the impact of the context should be useful, and it is my belief that they can surely complement each other. Here I believe that the key learning that can be drawn is that the evidence collected so far indicates, not surprisingly, that the context clearly influences the nature and the outcomes of companies' upstream CSR activities.

But I also think it is important to highlight the other theoretical perspectives used to shed light on particular questions or issues. While I argue that it is important that we have common frameworks, or structures, to understand and talk about this phenomenon so that we can relate knowledge from different sources and start piecing them together to a larger whole, I would also argue that the best way to take our understanding forward is to break the phenomenon down and study at particular elements and questions within this larger frame. Here is where I believe our understanding of upstream CSR can, perhaps to a much greater extent than what has happened so far, be informed by theory.

3.2 Readers guide to this section

In the following six chapters I will attempt to provide the reader with a clear and structured overview of the research findings and conceptual content produced within this field of research. The presentation will be structured in the following way.

- Chapter 4. *Terms and definitions:* Before attempting to outline our current body of knowledge, I will discuss the how authors have termed the phenomenon that they study and what definitions have been proposed. This is important since we will find that different authors use not only different terms but also different definitions for the same terms and, as a consequence they place different boundaries on their scope of interest for their studies.
- Chapter 5. *Antecedents of upstream CSR:* In this chapter I summarise findings related to the important question of what drives companies to engage in upstream CSR.
- Chapter 6. *The practice of upstream CSR:* Here I discuss the operational practice of upstream CSR. What do companies do to address environmental and social issues in their supply chains? I also look at what we know about the determinants of upstream CSR; why do companies choose a certain approach? As well as the presence and the consequences of upstream CSR.
- Chapter 7. *The challenge of upstream CSR:* In this chapter I discuss studies that have contributed to our understanding of what makes upstream CSR difficult. I look at challenges from a corporate perspective, and the perspective of individuals working within a company. A few studies have looked at this from the receiving end. That is, what is challenging about upstream CSR from a supplier perspective. Finally I discuss challenges related to upstream CSR from a public perspective.
- Chapter 8. *Barriers and recommendations:* In Chapter 8 I move on to discuss the contributions in this field that address the how question? What difficulties exist and how can companies act to successfully achieve upstream CSR-related objectives. In this chapter I will compile the advice and recommendations that authors have proposed based on their findings, or in some instances based on their own ideas or critical thought.
- Chapter 9. *Conclusions from the literature review:* In the last chapter of this section I will attempt to identify key lessons learned and key areas of controversy, as well as, key areas that have not yet been explored. I will provide some of my own reflections on where we stand and where future research endeavours within this field need to make a contribution.

CHAPTER
FOUR

4. Terms and definitions – defining the phenomenon of upstream CSR

One of the first thing that strikes you as a reader when compiling work within the field of upstream CSR is the sheer number of different terms and definitions that are employed. The question that first comes to mind is whether this variety is just a matter of semantics or if it actually indicates that different terms represent different phenomena. If the latter should be the case, then we need to consider whether they are related and research findings could still complement each other or whether they need to be considered as separate fields of research. I will return to this question in the discussion at the end of this chapter, but for now I will settle for providing the reader with an overview of the terms used and their proposed definitions, as well as, offering a few comments regarding the similarities and differences found in the material.

Further we shall also look at how different contributors to this field have described and sought to understand and explain the context and the dynamics of the context in which we find upstream CSR. That is how do authors describe and analyse the supply chains in which companies seek to manage aspects of environmental and/or social relevance.

4.1 Terms

In Table 4-1 below you will find a list where all the identified terms used to refer to the phenomenon under study in the included papers have been compiled. As you can see the list is long and the variations are many. Also it seems that there are no clear favourites, although the terms "environmental supply chain management" and "green supply chain management" are used at a slightly higher frequency.

Some variations appear to be a result of taste and semantics, e.g. "environmental supply chain management" compared to "supply chain

environmental management" whereas others imply more important differences as they appear to influence the delimitations of what has actually been studied. Such variations are found along at least two parameters. First, we find variations with regard to the nature of desired improvements or issues to be addressed. Some authors look exclusively at environmental aspects, others at social/ethical issues, and a third group chose to use terms that imply a consideration for both environmental and social aspects. The second important variation between terms is found in relation to what actors are referred to. Here we find two broad groups; terms that imply a focus on the activities of a company within the supply chain and terms that do not imply a focus on a specific actor, but rather could be used to look at the activities and initiatives of several different actors within or outside the product chain. Within the first group there is further a possibility to differentiate between terms that indicate a focus on the activities of the purchasing or sourcing function within a company, and terms that imply a focus more broadly on the supply chain management activities of a focal company (recognising that such activities can be located within many different functions of a company).

Table 4-1: List of terms employed in the reviewed literature

Terms that take a focal company / management perspective	
Terms that imply a focus on the activities of the purchasing/buying or sourcing function within a company	
Purchasing with emphasis on environmental aspects	Environmental purchasing: (Baumann, Boons et al., 2002; Carter and Carter, 1998; Carter, Ellram et al., 1998; Carter, Kale et al., 2000; Ofori, 2000; Zsidisin and Siferd, 2001) Environmentally preferable purchasing: (Elwood and Case, 2000) Green purchasing: (Green, Morton et al., 1998; Min and Galle, 1997; Min and Galle, 2001) Environmental sourcing strategy: (Handfield, Sroufe et al., 2005)
Purchasing with emphasis on ethical aspects of sustainability	Ethical sourcing: (Blowfield, 2000; 2003; Dolan and Opondo, 2005; du Toit, 2002; Roberts, 2003) Sourcing ethics: (Graafland, 2002)
Purchasing with wider emphasis on CSR/sustainability issues	Socially responsible buying: (Maignan, Hillebrand et al., 2002) Socially responsible buying/sourcing: (Park, 2005; Park and Stoel, 2005) Socially responsible organisational buying: (Drumwright, 1994; Preuss, 2000; 2001) Purchasing social responsibility: (Carter, 2004; Carter and Jennings, 2002)

Terms that imply a focus on supply chain management activities from a focal company perspective	
Supply chain management with emphasis on environmental aspects	Environmental supply chain management: (Berger, Flynn et al., 2001; Forman and Søgaard Jørgensen, 2004; Hagelaar, van den Vorst et al., 2004; Hagelaar and van der Vorst, 2002; Handfield, Sroufe et al., 2005; Holt, 2004; Kogg, 2003a; Meisner Rosen, Bercovitz et al., 2001; Seuring, 2004a; Zsidisin and Siferd, 2001) Green supply chain management:(Bloemhof-Ruwaard, Beek et al., 1995; Hervani, Helms et al., 2005; Kainuma and Tawara, 2006; Rao and Holt, 2005; Sarkis, 1998; 2001a; Sarkis, 2001b; Sarkis, 2003; Seuring, 2004a; Trowbridge, 2001; Zhu and Cote, 2004; Zhu and Sarkis, 2004; 2006; Zhu, Sarkis et al., 2005) Supply chain environmental management: (Rao, 2002) Green supply: (Bowen, Cousins et al., 2001a; 2001b; Green, Morton et al., 1996; 1998) Green supply chain: (Khoo, Spedding et al., 2001) Green supply chain practices: (Vachon and Klassen, 2006a) Green value chain practices: (Handfield, Walton et al., 1997) Greener supply: (Preuss, 2002; Preuss, 2005b) Greening of the supply chain: (Cousins, Lamming et al., 2004) Greening the supply chain: (McIntyre, Smith et al., 1998b) Environmental management strategies for the supply chain: (Kumar and Malegeant, 2006) Interorganisational environmental management: (Ardente, Beccali et al., 2006; Sinding, 2000)
Terms that can be seen as related to/or subsets to green or environmental supply chain management	Environmental supply chain relations: (Theyel, 2001) Green project partnership: (Vachon and Klassen, 2006b) Environmental supply chain dynamics: (Hall, 2000) Environmental supply-chain innovation: (Hall, 2001) Product oriented environmental management: (de Bakker, Fisscher et al., 2002; Klinkers and van der Kooy, 1999) Life cycle management: (Brent and Visser, 2005; García Sánchez, Wenzel et al., 2004; Kärnä and Heiskanen, 1998; Seuring, 2004a)
Supply chain management with sustainability focus	Sustainable supply chain management: (Teuscher, Grüninger et al., 2006) Responsible chain management: (de Bakker and Nijhof, 2002)
Terms that do not define the phenomenon from the perspective of a particular type of actor	
These terms do not necessarily imply a focus on the activities of a focal company, but can be used to discuss the activities of several different types of actors within or outside the supply/product chain.	Integrated chain management: (Cramer, 1996; de Groene and Hermans, 1998; Seuring, 2004a; Seuring, 2004b; Wolters, James et al., 1997) Product chain management: (Ardente, Beccali et al., 2006; Boons, 2002; Kärnä and Heiskanen, 1998) Chain-oriented environmental improvements: (Cramer and van Leenders, 2000)

4.2 Definitions

Let us now move on to see how different terms have been defined. Although far from all authors provide a distinct definition of the term they use to refer to the phenomenon which they study, the literature review revealed a substantial number of different definitions. Very few of these definitions have been reapplied in the work of authors other than the original proponent, and it is clear that we are not at a stage where one or a few definitions are starting to gain significant widespread acceptance. In Table 4-2 below you will find a compiled list of proposed definitions, their original source and the references for other papers that have adopted the same definition.

Table 4-2: Definitions of upstream CSR

Definitions that take a focal company / management perspective
Purchasing /sourcing: Emphasis on environmental aspects
Environmental purchasing: *Environmental purchasing is defined as the purchasing function's involvement in supply chain management activities in order to facilitate recycling, reuse, and resource reduction.* (Carter and Carter, 1998) & (Carter, Ellram et al., 1998) This definition is also used in: (Carter, Kale et al., 2000) (Ofori, 2000)
Environmental purchasing: *Environmental purchasing (EP) for an individual firm is the set of purchasing policies held, actions taken, and relationships formed in response to concerns associated with the natural environment. These concerns relate to the acquisition of raw materials, including supplier selection, evaluation and development; suppliers' operations; in-bound distribution; packaging; recycling; reuse; resource reduction; and final disposal of the firm's products.* (Zsidisin and Siferd, 2001)
Green purchasing: *In general, green purchasing is defined as an environmentally-conscious purchasing practice that reduces sources of waste and promotes recycling and reclamation of purchased materials without adversely affecting performance requirements of such materials.* (Min and Galle, 2001)
Environmental sourcing strategy: *For the purpose of this study an environmental sourcing strategy formally integrates environmental issues with supply base and purchasing process activities.* (Handfield, Sroufe et al., 2005)
Purchasing /sourcing: Wider emphasis on all aspects related to CSR/sustainability
Socially responsible organisational buying: *Socially responsible organizational buying is that which attempts to take into account the public consequences of organizational buying or bring about positive social change through organizational buying behaviour.* (Drumwright, 1994) This definition is also used in: (Preuss, 2000; 2001)

Socially responsible buying (SRB): *SRB can be defined as the inclusion in purchasing decisions of the social issues advocated by organizational stakeholders.* (Maignan, Hillebrand et al., 2002)
Purchasing social responsibility: *We refer to the involvement of the purchasing function in socially responsible logistics activities as purchasing social responsibility (PSR).* (Carter and Jennings, 2002)
Ethical sourcing: *By ethical sourcing (or trading) I mean that a company at one part of the supply chain (typically a brand owner, retailer or other Western company with a public profile) takes responsibility for the social and/or environmental performance at other stages of the chain, especially for that of primary producers.* (Blowfield, 2003)
Purchasing social responsibility: *Most recently, these five stand-alone areas of supply management (diversity, the environment, human rights, philanthropy and community, and safety) have been conceptualized as a more holistic, higher-order construct of social responsibility termed "purchasing social responsibility" (Carter and Jennings, 2004).* in (Carter, 2004)
Supply chain management: Emphasis on environmental aspects
Green supply: *Green supply refers to the way in which innovations in supply chain management and industrial purchasing may be considered in the context of the environment.* (Green, Morton et al., 1996)
Environmental supply chain management: *Environmental supply chain management (ESCM) for an individual firm is the set of supply chain management policies held, actions taken and relationships formed in response to concerns related to the natural environment with regard to the design, acquisition, production, distribution, use, re-use and disposal of the firm's goods and services.* (Zsidisin and Siferd, 2001) This definition is also used in: (Hagelaar, van den Vorst et al., 2004; Hagelaar and van der Vorst, 2002; Kogg, 2003a)
Green supply: *We use the term 'Green supply' to indicate 'supply management activities that are attempts to improve the environmental performance of purchased inputs, or of the suppliers that provide them. They might include activities such as co-operative recycling and packaging waste reduction initiatives, environmental data gathering about products, processes or vendors, and joint development of new environmental products or processes. The term encompasses a wide range of activity, and is broader than previous definitions of environmental purchasing'[…]. Two main types of green supply can be identified within this catch-all definition. The first, here termed "greening the supply process", represents adaptations made to the firm's supplier management activities aimed at incorporating environmental considerations. […] The second main type, "product-based green supply" is conceptually distinct from greening the supply process in that it involves changes to the product supplied. It also includes attempts to manage the by-products of supplied inputs such as packaging.* (Bowen, Cousins et al., 2001a; 2001b)
Green supply chain management (GSCM): *In this paper we consider the literature and develop four factors for GSCM practice [Internal environmental management, External GSCM practices, Investment recovery, Eco-design]. As can be seen in this table we take abroad perspective of GSCM and include internal and external practices that play a role in greening the supply chain.* (Zhu and Sarkis, 2004)

Environmental supply chain management: *We will use the term 'environmental supply chain management' for environmental management that addresses the whole life-cycle of a product or service. We define environmental supply management practice in a product chain as attempts to: *Address environmental problems in a product chain *Convert the understanding of problems and their management into changed practices in the individual companies in the product chain and/or the product chain as a whole.* (Forman and Søgaard Jørgensen, 2004)
Green supply chain management: *Green supply chain management (GSCM) = green purchasing + green manufacturing/materials management + green distribution/marketing + reverse logistics*. (Hervani, Helms et al., 2005)
Green supply chain management: The authors do not offer a specific definition, but state that: *green supply chain management encompasses: environmental initiatives in 1) inbound logistics, 2) production or the internal supply chain, 3) outbound logistics, and in some cases 4) reverse logistics, including and involving material suppliers, service contractors, vendors, distributors and end users working together to reduce or eliminate adverse environmental impacts of their activities.* (Rao and Holt, 2005)
Environmental supply chain management (ESCM): *The formal system that integrates strategic, functional and operational procedures and processes for employee training and for monitoring, summarizing and reporting environmental supply chain management information to stakeholders of the firm. The documentation of this environmental information is primarily focused on supplier performance, audits, design, waste minimization, training, reporting to top management and goal setting.* (Handfield, Sroufe et al., 2005)
Green Supply chain practices (GSCP): *Based on the internalization/externalization framework, and by integrating the general characteristics discussed above, we define two sets of GSCP: (1) Activities using markets or arm's-length transactions conducted by the buying organization in order to evaluate and control its suppliers, termed here as environmental monitoring and (2) activities comprising a direct involvement of the buying organization with its suppliers to jointly develop environmental solutions, termed here as environmental collaboration.* (Vachon and Klassen, 2006a)
Interorganisational environmental management: Following Sharfman and colleagues (Sharfman, Shaft et al., 1998) we can define inter-organizational environmental management as: activities between a firm and either a supplier or customer, where the firms jointly engage in any process that alters, considers, monitors, evaluates, assists, directs, impacts, affects etc. any activity either within a firm, its business units or between firms that has a meaningful environmental consequence. (Sinding, 2000)
Supply chain management: Terms that can be seen as related to, or subsets of, environmental supply chain management
Environmental supply chain dynamics (ESCD): *For the purpose of this discussion, ESCD are a phenomenon where environmental innovations diffuse from a customer firm to a supplier firm, which environmental innovation defined as being either a product, process, technology or technique developed to reduce environmental impacts.* (Hall, 2000)

Environmental supply-chain innovation: *For the purposes of this discussion, environmental innovation is defined as a new product, process or technology developed and/or adopted by a firm to reduce environmental impacts. Environmental supply-chain innovation is when a supplier, under the advice, coercion or direction of a customer firm, adopts an environmental innovation. Of relevance to this discussion is the notion that there must be some form of interfirm innovation (i.e. an exchange of information, joint development of a technology, and so on). Without inter-firm innovation, the customer firm is acting only as a regulator and is leaving the onus of the innovation to the supplier.* (Hall, 2001)
Product-oriented environmental management: *Therefore we employ the concept of Product-Oriented Environmental Management (POEM), which is defined as a systematic approach to organizing a firm in such a way that improving the environmental performance of its products across their product life cycles becomes an integrated part of operations and strategy. (de Bakker, 2001)* quoted in (de Bakker, Fisscher et al., 2002)
Life cycle management: *Management of the company decisions that have environmental consequences at any point of the product's life-cycle.* (García Sánchez, Wenzel et al., 2004)
Supply chain management: Terms that reflect a wider emphasis on all aspects related to CSR/sustainability
Responsible chain management: *Responsible chain management is defined here as managing issues of responsibility across the product lifecycle.* (de Bakker and Nijhof, 2002)
Definitions that do not define the phenomenon from the perspective of a particular type of actor
Integrated chain management: *The Enquete Commission of the German Bundestag, "Protection of Humanity and the Environment" defined this as: The management of material flows by stakeholders (to be) the goal-orientated, responsible, integrated, and efficient manipulation of material flows and to establish targets derived from the ecological and economic realm, under consideration of social aspects. Goals for environmental performance improvements are established on the level of the single firm, within the supply chain of actors, or on the public policy level" (Enquete-Kommission, 1994). The individual stages in integrated chain management are goal definition, actor and material flow analysis, material flow valuation, strategy development, and finally implementation and control (Enquete-Commission, 1994).* In (Seuring, 2004b)
Integrated chain management: *Integrated chain management can be defined as the integrated management of a product chain in terms of the environmentally, socially and economically responsible management of the production, consumption, distribution and ultimate disposal of a product.* (Cramer, 1996) This definition is also used in: (Wolters, James et al., 1997)
Product chain management: *I will use the term of 'product chain management' as the general label for initiatives of actors, within or outside the product chain, related to the reduction of the environmental impact of the product during its life cycle.* (Boons, 2002)

As with the list of terms it is possible to group the identified terms and definitions into two broad groups; definitions that look at this phenomenon from a company/management perspective and definitions that do not define

the phenomenon from the perspective of a particular type of actor, but include initiatives and actions from actors within or outside the product chain. Within the first group it is further possible to distinguish between definitions that focus on the activities or role of the purchasing function and definitions that focus more broadly on management activities with environmental or social implications in the supply chain. So to put it simply, we find authors who study the role and activities of the purchasing function in relation to environmental and social aspects that arise in the supply chain. We also find authors who do not delimit their interest to the activities of the purchasing function but study all company activities that can be linked to the management of environmental or social aspects in the supply chain. Finally we find authors who in one term include initiatives by all types of actors (companies, public policy makers, NGOs etc.) that can be related to the improvement of social and environmental performance in a product chain.

While the term "chain management" is frequently used, it is important to note that most definitions may be interpreted as referring to management of environmental and/or social aspects within the supply chain, but not necessarily managing *all actors* within a chain, nor that one firm will be able to, or even seek to, manage a supplier firm on a more general level. As pointed out by Bowen, Cousins et al. : "We use the term "supplier management" here exclusively in the sense of bringing about desired environmentally sound performance in the firms' relationship with the suppliers; we do not suggest one firm can "manage" another firm in a more general manner" (p.175).

Although there are considerable variations among the proposed definitions, it is apparent that all definitions are talking about the management of environmental and/or social aspects within the supply chain. Regardless of what specific terms are used, or in what order they come, this is the common denominator.

4.3 Concluding remarks

As shown from the tables presented above a range of other terms and definitions has been proposed by different authors. In my review of literature, I counted no less than 32 different terms used to describe this phenomenon and 18 different definitions. As mentioned earlier, it also becomes apparent that none of the proposed definitions are widely accepted

by other authors. In this thesis I have chosen to use yet another term, upstream CSR, and yet another definition: *the management of environmental and social aspects that are determined, or occur, upstream within the supply chain beyond the focal company's span of direct hierarchical control.* I make no limitations with respect to what aspects can be included, or how these aspects are being addressed, nor what tier of the supply chain is being addressed.

I really did not want to add to the confusion by suggesting yet another term and yet another definition, but I found my self compelled to do so. Firstly I wanted a term that includes both environmental and social issues, as I have found that these often, but far from always, pose similar challenges and can be/are being managed in similar ways in the supply chain. But I wanted to avoid using the term sustainable as that can imply a certain minimum standard to be achieved, even if admittedly it can be difficult to define such a standard. Secondly I wanted to avoid using terms such as procurement and sourcing, as these issues need not necessarily be managed by the sourcing or procurement departments. I also consciously avoid the term *supply chain management* as I have found many examples of how companies can address environmental or social issues in their supply chains without actually directly *managing* their suppliers. In addition I wanted to avoid sending the impression that one focal company actually can manage its entire supply chain. This is very rarely the case.

By my definition of upstream CSR, the phenomenon can be very heterogeneous indeed, but the common denominator is the overall purpose of these actions, that is to prevent, reduce or avoid negative environmental or social problems that arise in the supply chain, and/or to verify environmental and social performance with regard to specific aspects.

It is also important to note that when I speak about upstream CSR, I am referring to actions taken by one company to influence aspects in its supply chain, thus excluding actions taken by actors outside the supply chain to influence environmental and social performance within the chain.

CHAPTER
FIVE

5. Antecedents: What is driving the phenomenon of upstream CSR?

The question of what trigger companies to engage in upstream CSR has interested several authors. In this review I found over 25 articles that had something to contribute on this issue. To provide a better overview of the findings related to this question, I have grouped the different antecedents identified in the material into different categories. One type of antecedents that is identified in several studies is pressure or expectations from actors that are external to the focal firm. Other studies have found antecedents in the structure of the supply chain. We also find what I refer to as bottom line oriented antecedents. Yet another category is focal firm characteristics and, finally, antecedents lodged in personal beliefs and attitudes.

Before we proceed, it should be noted that in many cases, the studies reported have only looked at one category of antecedents, for instance focal firm characteristics, and have thus not asked about the presence of other types of antecedents in their study.

5.1 Pressure or expectations from actors that are external to the focal firm

The two triggers that are mentioned most frequently are both forms of external pressure that is placed on the focal company. The first one **current and forthcoming legislation** is identified in several studies as a driver for upstream CSR (Berger, Flynn et al., 2001; Canning and Hanmer-Lloyd, 2001; Carter and Dresner, 2001; Forman and Søgaard Jørgensen, 2004; Green, Morton et al., 1996; Min and Galle, 2001). Forman and Søgaard Jørgensen (2004) go further and distinguish between two different types of policies that they have identified as drivers; governmental regulation of chemicals and materials, and governmental regulation as public-private sector-based forum. So we note that it does not need to be regulatory measures to push companies into action but that other types of policy

initiatives can work as well. It is also interesting to note that Min and Galle (2001) identifies potential liability for disposal of hazardous materials as a driver for upstream CSR since this shows that also end-of-life oriented regulation can trigger upstream CSR. However, it should be noted that the authors also say that this seem to be more relevant for larger firms and speculates that this may be explained by the fact that they have perhaps "deeper pockets" and are thus more concerned regarding potential liability for disposal of hazardous materials.

The importance of regulatory measures as a driver is also illustrated by the following quote from Min and Galle (1997) who reports the findings of a survey of NAPAM (National Association of Purchasing Management) members in firms with a high level of awareness and frequent applications of "green" purchasing: "Current green purchasing strategies seem to be "reactive" in that they try to avoid violations of environmental statutes, rather than embedding environmental goals within the long-term corporate policy" (p. 16). While the authors seem to imply that a reactive strategy is less desirable (and it is not clear from whose perspective it is less desirable, the focal company's or society in general), this is not the point I want to make, but I believe that this quote can be used to argue that regulation appears to matter in this context.

Some studies have however found evidence to the contrary: In a survey Bowen, Cousins et al. (2001a) found no correlation between regulations and legislation and environmental activities. However, the authors note that, the supply behaviour observed in the study are such that are undertaken above and beyond those required by current regulation and legislation, and argue that a likely explanation for this finding is that it is the threat of future legislation rather than current regulation that effects green supply activity. Carter and Carter (1998) also present evidence of relevance here. In their study, the hypothesis that "the perceived influence of the regulatory sector on environmental purchasing activities will be significantly greater than the output, input and competitive sectors" was tested and rejected. Based on this we cannot argue that regulations are the *most important* driver, or *most frequent,* driver. So let us be content by stating that policy action seem to be important as a driver for upstream CSR and note that the study of Carter and Carter (1998) does not provide the answer to the question of what is driving the customers, to put pressure on the focal company.

This brings us to the other most frequently identified factor to drive upstream CSR: **pressure from customers.** Pressure from customers is mentioned as an antecedent to upstream CSR by several contributors (See:

Berger, Flynn et al., 2001; Canning and Hanmer-Lloyd, 2001; Carter and Dresner, 2001; Cramer and van Leenders, 2000; Forman and Søgaard Jørgensen, 2004).

Carter and Carter (1998) compare the importance of different external antecedents and find that the output sector (buyers) impacts the level of environmental purchasing activities to a significantly greater degree than suppliers and competitors.

Theyel (2001) finds evidence that indicates that firms with environmental relations with their customers (including customer set requirements, information exchange and collaboration with customers) also have similar relations with their suppliers, and notes that: "This suggests that firms transfer knowledge through their supply chains and supports the notion that environmental learning occurs within the firms' supply chains." (p.67).

However, it is probably important in this context to make a distinction between professional customers (corporations, public institutions, and other organisations) and private consumers, and also to always keep in mind that the perception and actions of buyers are in turn influenced by different institutional elements. Welford and Frost (2006) for instance remark, in their study of major brand name companies sourcing in Asia, that these companies do not experience that much pressure from consumers in a direct way. Even though consumers want to be reassured that companies are not abusing workers, they do not go to the companies for this information. Instead they appear to rely on second hand information, for example media reports, which the authors argue in turn is strongly influence by NGOs and trade unions.

Other external, less frequently identified, drivers for upstream CSR include:

- **General public concern, public debate, NGO pressure** (Drumwright, 1994; Forman and Søgaard Jørgensen, 2004; Hall, 2000; Welford and Frost, 2006). Hall (2000) notes a clear relationship between the pressures to which firms were exposed and the actions that were ultimately initiated. He also finds evidence that indicate that firms that are under a broader set of pressures prioritise addressing the issues targeted by pressure groups or consumer interests. In fact Hall states that in his research "all environmental supply chain initiatives could be traced back to the exposure of a specific pressure, either in reality, the potential threat of the perception that the pressure existed" (Hall, 2000 p. 468)

- **Shareholder pressure** is indicated as a driver for upstream CSR in Welford and Frost (2006) who also distinguish between different types of shareholders and specifically points out long-term investors such as pension funds and investment trusts as sources of pressure for corporate action in relation to environmental and social problems in the supply chain.

Some authors, like Min and Galle (2001) and Welford and Frost (2006) talk about **risk reduction** as a driver for upstream CSR. Welford and Frost (2006) note that "companies cannot afford to be seen or even perceived as doing anything to harm people or the environment in the supply chain" and that "bad publicity (even if not accurate) harms reputations and damage brands" (p. 168). While it makes perfect sense to label the desire to reduce risk as a driver for upstream CSR, it is important to remember that the *antecedent* to focal companies perceiving a risk is arguably pressure or expectations from regulators or other types of stakeholders (here I include shareholders, and employees in the term stakeholder).

5.2 Potential or anticipated effects on the bottom line

While several studies have find customer pressure to be an antecedent to upstream CSR, it is interesting to note that there are a lot fewer studies that indicate expected **competitive advantage or market opportunities** as a driver. In this material I only find three references where perceived market opportunities are explicitly identified as a driver for upstream CSR initiatives (Cramer, 2000; Forman and Søgaard Jørgensen, 2004). On the other end of the spectrum, for bottom line oriented drivers, we find a few more studies that have identified the perceived potential for increased **efficiency and cost savings** as being a driver for upstream CSR (Berger, Flynn et al., 2001; Canning and Hanmer-Lloyd, 2001; Dobilas and MacPherson, 1997; Green, Morton et al., 1996). In contrast to the above, Min and Galle (2001) found that: "Buying firms tend to perceive their environmental programme as a cost centre rather than a profit centre." (p. 1233).

5.3 Supply chain characteristics

Now let us proceed to look at research that has analysed the impact on the uptake of upstream CSR of different supply chain characteristics.

Carter and Carter (1998) found that the greater the **vertical coordination** between suppliers and buyers, the higher the level of environmental purchasing activities. Interestingly they also found that the dependence of the manufacturer on the environmentally friendly input positively impacts the degree of vertical coordination. If this holds true then we should see increased vertical integration in supply chains as a result of the need to control environmental impacts in prior supply chain stages.

Along similar lines, Vachon and Klassen (2006a) found a strong positive linkage between **technological integration**[20] and environmental collaboration with both suppliers and customers. In the same study they also found evidence that indicated that **a smaller supply base** favoured greater *environmental collaboration*.

In a comparative case study looking at branded clothing and footwear, forest products and branded confectionary, Roberts (2003) looks for the explanation to why the implementation of ethical sourcing codes of conduct has been considerably more successful in some sectors than in others. She argues that there are four supply network characteristics that influence the propensity to introduce an ethical sourcing Code of Conduct (CoC hereafter) in a particular sector. The characteristics identified by Roberts are 1) number of links between supply network member demanding CoC and stage of supply network under scrutiny, 2) diffuseness of the state of supply network under scrutiny (by diffuseness Roberts means whether the supply chain is controlled by a few large companies or a larger number of smaller actors), 3) the reputational vulnerability of different network members and 4) the power of different members of supply network (Roberts, 2003p. 168).

The importance of power is also noted by Hall (2000) who argues that environmental innovation will diffuse through the supply chain if there is a channel leader with sufficient channel power over their suppliers that also possess the relevant technical competencies, and are themselves under specific environmental pressure.

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[20] Technological integration is defined in the article as: "tacit knowledge sharing taking place between a buying and supplying organization in strategic areas like product development, process reengineering, and technical training. The term technological is defined broadly to include not only structural aspects such as product- and process-related changes but also infrastructural aspects related to methods and managerial systems)" (Vachon and Klassen, 2006).

5.4 Firm characteristics

When it comes to firm characteristics the findings in several studies indicate that **size** matters. Bowen, et al. (2001a) Hall (2000), Holt (2004) and Min and Galle (2001), all found indications that larger firms are more active with regards to upstream CSR than smaller firms. Bowen, Cousins et al. (2001a) argue that this could be explained by the fact that larger firms often have more organisational slack, or alternatively that larger firms are more visible in society and thus prone for pressure for environmental improvement. Hall (2000) and Holt (2004) also point to the explanation that larger firms are more visible in the public eye.

In addition to firm size, we find several different types of antecedents that are in some way related to the organisation of the firm and firm processes as well as firm competences. Cramer (2000) argues that **room for manoeuvre** are important for whether or not a company will successfully proceed with eco-efficiency improvements in the supply chain. Carter, Ellram et al. (1998) list **support from middle management** and the establishment of **clear goals for environmental purchasing** and level of **training** that personnel receive in buying environmentally friendly inputs as important factors.

Hall (2000) lists **technical competence** as a necessary precursor to "Environmental Supply Chain Dynamics[21]". Green, Morton et al. (1996) have also looked at the relation between competences and upstream CSR and found that firms, which are good at formal approaches to the selection and assessment of suppliers find it easier to incorporate environmental factors in those assessments, but the authors also note that: "[…] although this means that firms may be good at diffusing green practices through their supply base by this mechanism, it is not a guarantee that firms will be good at collaborating with trading partners on specific environmental initiatives" (p.195).

Bowen, Cousins et al. (2001b) have findings along the same lines but are more surprised by the result: "Our main unexpected finding is that supply management capabilities facilitate the implementation of product-based

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[21] ESCD is defined in the article as*:* "A phenomenon where environmental innovations diffuse from a customer firm to a supplier firm, with environmental innovation defined as being either a product, process, technology or technique developed to reduce environmental impacts" (Hall, 2000, p. 456).

green supply[22], but not greening of the supply process." (p. 185). The authors discuss the possible reason for this findings and suggest two possible explanations: a) that the key corporate resources identified as relevant for product-based green supply do not necessarily facilitate greening the supply process, and b) that the impetus for greening the supply process lies entirely outside firms' normal supply management process and that thus capabilities are not sufficient to initiate green supply on their own, but need to be accompanied by a general desire within the company to be more environmentally responsive and that this desire is often derived from external pressures. The authors then goes on to argue that the suggested explanations run contrary to current research and suggests that future studies should question whether different capabilities are required for greening the supply process than for product-based green supply. Personally I find the authors surprise, rather surprising, considering how different the tasks associated with upstream CSR can be.

Another of firm characteristics that a few studies have found to be important in this context is related to general corporate environmental policy and strategy. In this material two studies have found a positive correlation between **a strong corporate strategy on environmental issues in general** and upstream CSR. Bowen, Cousins et al. (2001a) found a positive relationship between the proactivity of the firms' environmental approach and the likelihood of implementation of green supply, but notes that the link between corporate *policy* and implementation in operating units can be weak. Implying that a progressive policy on environment is not enough, whereas progressive action on other areas of environmental

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[22] Bowen et al. distinguish between different types of green supply: "The first type, '**greening the supply process',** [emphasis added] represents adaptations made to a firm's supplier management activities aimed at incorporating environmental considerations into these activities. Green supply action of this type are changes to the process of collecting environmental information on suppliers and assessing and ranking suppliers' environmental performance. The second type, **'product-based green supply',** [emphasis added] is conceptually distinct from greening the supply process in that it involves changes to the product supplied. It also includes attempts to manage the by-products of supplied inputs such as packaging. Product-based green supply includes initiatives such as recycling, which requires co-operation with a supplier and efforts with suppliers to reduce waste. The third type of green supply, '**advanced green supply'**, includes more proactive measures such as introducing environmental criteria into buyers' performance or entering into joint clean technology programmes with suppliers" (Bowen, Cousins et al., 2001, p. 47). In another article published that same year the authors stick to the two first categories: greening the supply process and product-based green supply, using the same definitions as above (Bowen, Cousins et al., 2001).

management may generate upstream CSR initiatives. Along the same lines, Rao (2002) found that: "environmental initiatives undertaken by the leading edge companies were also leading them to go beyond their own performance and strive towards the greening of suppliers" (p. 650). Contrary to this, however, Green, Morton et al. (1996) note that they did not find any evidence to suggest that real progress on environmental purchasing necessarily follows when firms have active environmental programmes in other areas.

Having a formal environmental management system (EMS) has also been identified as an antecedent to upstream CSR, as firms with a certified EMS address their own accreditation to an environmental management standard by assessing a supplier's environmental performance (Baylis, Connell et al., 1998; Clayton and Rotheroe, 1997).

Finally, under this section where we are discussing antecedents in firm characteristics, the seems relevant to point to the study by Carter, Ellram et al. (1998) who notes that: "While the results […] highlight key organizational factors that can aid in the successful implementation of environmental purchasing, they do not explain why higher levels of environmental purchasing exist in German firms [as compared to U.S. firms]. Researchers may want to examine other factors, such as the external influence of customers, government, suppliers and other relevant stakeholders to see whether they can explain the differences […]" (p. 36).

5.5 Personal awareness and attitudes

In the final category we find several authors, who have identified a correlation between personal attitudes and awareness with regards to environmental and social/ethical issues, and the implementation of upstream CSR. Bowen, Cousins et al. (2001a) found a positive relationship between middle managers' perceptions of corporate environmental proactivity and green supply. Green, Morton et al. (1996) also found evidence along similar lines and infers that a broader environmental awareness is a necessary, but possibly not a sufficient, factor explaining firms adoption of green supply practices. Park and Stoel (2005) have also looked at personal attitudes toward ethics and social responsibility and found that it significantly predicted SRB [socially responsible buying]. In another article published the same year Park show that: "[…] individual ethical beliefs, idealism and relativism, play important roles in SRB [socially responsible

buying] decisions and are powerful enough to generate employees' distinctive reactions to organizational environments." (Park, 2005, p. 95).

Chouinard and Brown (1997) provides a concrete example of how information can trigger upstream CSR action in their case study of how the U.S. based apparel company Patagonia decided to switch from conventional to organic cotton. They report that the trigger of this decision was a meeting at the company where company staff were informed and educated about the impacts of conventional cotton farming. It should, however, be noted that Patagonia as a company had already before this a deep commitment to environmental values.

Drumwright (1994) also looked at the level of the individual and noted the role of so called 'policy entrepreneurs' and converts as a driver behind socially responsible purchasing initiatives. She notes that the zeal of such policy entrepreneurs were always rooted in a personal commitment involving a process of moral reasoning and argues that for policy entrepreneurs, opportunities to engage in socially responsible buying posed ethical dilemmas to which they must respond. However, interestingly she also found that environmental commitment and awareness in the individual could grow as a result of the company's engagement in upstream CSR.

5.6 Antecedents – concluding remarks

The question of what drives a company to engage in upstream CSR is an important question that has interested many of the authors who do research in this field. As noted in the introductory chapter, upstream CSR has the potential to deliver good things from a society perspective, and it is therefore in our interest to understand what it is that compels a company to take measures to address environmental and social aspects that occur upstream in their supply chain.

From the overview above it becomes clear that there are no simple answers, and as noted by Forman and Søgaard Jørgensen (2004, p.49) "there might be different triggers for environmental initiatives within the same company". It does seem that external pressures such as legislation, or the anticipation of legislation and the pressure from key stakeholders, can trigger companies to engage in upstream CSR. But we have also seen that studies found links between upstream CSR and organisational structure, as well as, the mindset of individuals. It should be noted here that in this review it can be hard to

distinguish between antecedents or prerequisites. What is a motivating factor and what is an enabling factor. I have made no distinction here, but perhaps this should be useful for researchers who are interested in looking deeper at this topic.

It should also be interesting to reflect more on the chronology of antecedents. At the very basic level arguably all other antecedents are dependent on our perception of corporate responsibility, either the perception of someone within the firm, with power to influence the corporate agenda, or the perception of an external stakeholder who holds some form of influence over the company. The perception of what is entailed in corporate responsibility is clearly changing and is of course shaped by a number of different things such as education, information, regulations, corporate praxis, media, NGO activities etc.

CHAPTER

SIX

6. Practice – describing the phenomenon of upstream CSR

After the discussion about definitions above, it is clear that common denominator for the research in this field is that we study and discuss the management of environmental and/or social aspects within the supply chain. But what does that entail? In this chapter I will attempt to provide an overview of what the reviewed material has to say about four questions of relevance:

- What is it that companies *do* in order to manage environmental and/or social aspects that occur within their respective supply chains?
- Why do companies adopt this approach and not another approach – what are the determinants?
- How common/prevalent is this phenomenon?
- What consequences can be seen?

6.1 Practices in upstream CSR – what companies do

So let us see what it is companies do; what type of activities we are talking about when we discuss upstream CSR.

As could be expected most of the papers included in this review describe and/or discuss practices in upstream CSR. These accounts are far too many to summarise here. Instead I have tried to extract complementing accounts to provide an overview of different types of practices that can fall under the label upstream CSR. I also look at suggested typologies that categorise initiatives that can be defined as upstream CSR by looking at different suggested typologies for upstream CSR.

Under the heading of "theorizing greener supply" Preuss (2005b) identifies a number of different focus areas, or avenues for action for the focal company including:

A. Environmental criteria/standards related to the product to be purchased
B. Environmental requirements/criteria related to the manufacturing processes used by the supply chain
C. Include the environment in supplier assessment
D. The supply function could become involved in internal environmental protection initiatives
E. The supply function becoming involved in downstream initiatives such as product recovery and recycling of excess materials
F. Improved efficiency in/reduced impacts associated with inbound and outbound logistics.

While going through the articles in this review, I decided to take this list as my starting point and adapted it by adding described practices found that was not included in the original list. In some cases I have entered these as additional examples under an already existing category, in others as a new category. As you will se below, two categories have been added. I have also omitted two points from Preuss's list; points D & E. It is not that I disagree, the supply function certainly can become involved both in internal environmental protection initiatives and in downstream initiatives related to product recovery and recycling, but in this thesis I have delimited my scope to focus on the management of environmental and social aspects that occur upstream in the supply chain.

Below you will see the adapted list, but before getting to the list, I want to re-emphasise that upstream CSR projects are not simply a task for the purchasing function but can be initiated by a broad array of functional areas within a firm (see e.g. Carter and Dresner (2001)).

- **Consideration of environmental and/or social criteria/standards *related to the product* in purchasing decisions.** Elwood and Case (2000) note that there are examples of both **single-environmental-attribute purchasing programmes** and **the use of multiple environmental attributes when making purchasing decisions**. Handfield, Walton et al. (1997) argue that supply managers should consider ways to reduce the amount of hazardous waste produced, while also addressing these issues earlier in a product's life cycle. One way of doing this is through the establishment of a **list of chemicals to**

avoid (see for instance Elwood and Case (2000)). Such a measure can have positive impacts in terms of preventing or reducing the volume of hazardous waste in the end-of-life phase of the product. But is should be noted that toxic reduction may of course also reduce negative environmental impacts on and around production sites in the supply chain, work environment in the supplier factories and product use-phase impacts to give a few examples. A distinction is in order here between listing limit values for chemical residues in products, and between listing chemicals that are should not at all be used in the production processes, or indeed onsite, in supplier factories. This distinction is important, because the task of verifying the chemical content in a product is distinct from the task of verifying that a supplier does not use a certain chemical onsite. Another avenue for action that is related to product criteria or standards is the option of **creating lists of approved products** (see for instance Elwood and Case (2000)). Presumably the development of these lists will be based on some form of product-oriented criteria or existing standard, such as, for example, a third party eco-label.

- **Consideration of environmental and/or social criteria/standards related to the manufacturing processes of supply chain actors in purchasing decisions.** As noted above, the focal company can develop a list of chemicals that should not be present (at all or in concentrations above certain limit values) in the product. Another option for action is to **develop lists of chemicals to avoid** (see Elwood and Case (2000)), in the production process or on-site in supplier factories regardless of whether or not these end up as traceable elements in the product. As with environmental criteria related to the product, environmental criteria related to the manufacturing processes can be both **single-attribute** and **multiple attributes** (Elwood and Case, 2000).
- **The inclusion of environmental and/or social criteria in supplier assessments/evaluations.**
    - There are several approaches that a focal company can apply when it comes to supplier evaluations and the follow-up on supplier evaluation. Holt (2004) goes through the literature and notes that seeking information on the environmental performance and policies of suppliers may be followed by a decision to discontinue buying from suppliers that fail to provide information, the distinguishing criteria here becomes the suppliers willingness to provide required information, whereas another alternative is to discontinue purchasing relationships with suppliers that fail to

meet set criteria. In the latter case, the content of the information is used to evaluate compliance and guide the response from the focal company.

  - One well known way of conveying environmental, as well as social, criteria to a supplier is through the establishment of a **Code of Conduct/practice.** Blowfield (2000) is one author who has looked more closely at this particular approach. He notes that when European and North American retailers and brand name companies face pressure to meet voluntary or mandatory ethical requirements relating to such areas as food safety, health and safety, worker welfare, human rights, integrated crop management, waste management, and animal welfare, these companies need to put in place systems that allow them to monitor the actions of their suppliers and that this is typically done through the adoption of codes of practice that set out criteria with which suppliers must comply.
  - Closely associated with CoC's in particular and to a lesser extent supplier evaluations in general is the phenomenon of **supplier auditing,** (see for instance Graafland (2002) and Welford and Frost (2006))

- (Added item) **Coaching or mentoring suppliers to support improvements in environmental and/or social performance.** (See for instance Holt (2004) and Rao (2002). Rao (2002) argues that environmental mentoring refers to the development of a more fundamental relationship between the customer and the supplier, that involves guiding and supporting suppliers rather than merely monitoring and evaluating their performance.
- (Added item) **Close collaboration with suppliers for the purpose of improving environmental and/or social performance**, (see Elwood and Case (2000)). Unlike the previous item, this is not a situation where the focal company provides knowledge and competence for the supplier, but an approach where the focal company and its suppliers exchange competence and knowledge in order to find new and improved solutions to a problem.
- **Improved efficiency in/reduced impacts associated with inbound and outbound logistics.**
  - The obvious example here is of course to optimise in- and outbound transport. But there are also other options. Handfield, Walton et al. (1997) provide two examples by pointing to the

possibility of reducing environmental impacts by using recyclable packaging and/or reusable standardised containers in transport.

The list above provides the reader with one type of overview with regards to upstream CSR. It lists, at a rather generic level, different types of paths that the focal company can follow in order to get at environmental or social problems that originate within the supply chain. However, a word of caution is in place here, as such a list as presented above can offer a false sense of overview.

Whereas the list above provides examples of what it is companies can do within the realms of upstream CSR, it tells us little regarding how they can approach different tasks, and what type of action the different approaches actually entails. To illustrate this point, I have compiled findings related to one of the activities identified above: The inclusion of environmental and/or social criteria in supplier assessments/evaluations, by the means of establishing a CoC for suppliers.

A closer look – taking the example from studies that have looked at companies' experiences of implementing a Code of Conduct (CoC) for suppliers.

Contributions on this topic were found in five of the reviewed papers. Each paper contributes to highlight different aspects of what it may entail for a company to work with a CoC.

In a study of UK-based retailer Tesco, Lindgreen and Hingley (2003) provide an example of a collaborative approach to the development of guidelines or criteria for suppliers, as illustrated by the following quote from the Tesco Agriculture Manager: "There is a partnership between us. We cannot do anything without the supplier. Everything is discussed [and] agreed. We negotiate on it [guidelines] heavily because they [the suppliers] are the ones that have to implement it for us." (Lindgreen and Hingley, 2003, p. 337) In the same article, they authors also provide an example of how collaborations with other type of stakeholders becomes important in the development of policies and guidelines including, among others, veterinary surgeons, various farm assurance schemes, and feed mills.

Blowfield (2000) notes that the criteria specified in the codes of conducts can be comprehensive or specific in scope, that the codes of conducts can be developed unilaterally or through a multi-stakeholder process and that

audits can be performed by internal staff or by external service providers. He argues that there is a growing trend to use independently administered sectoral and cross-sectoral standards (such as the Ethical Trading Initiative, MPS, Eurep, Forest Stewardship Council) and notes that these type of initiatives allow a wider range of stakeholders to be involved in the auditing, reporting and consultation process.

Welford and Frost (2006) did a survey of Asian manufacturing companies, Asia based CSR managers of multinational brand-name companies and Asian CSR experts and finds that companies have adopted different practices with regards to identified non-compliances with the CoC among suppliers, ranging from the outright cutting of contracts to long-term programmes to rectify non-compliance issues. They also note that several interviewed CSR managers think it difficult to cut contracts, as they know it will lead to job losses.

Welford and Frost (2006) also provide some insights into what it is like to be at the receiving end of a CoC by asking the suppliers for their perspective. They report that factory managers complain because many of their customers have developed their own CoC, which they expect the supplier to adhere to, but that elements in these different CoCs are sometimes contradictory. On the other side, suppliers are also concerned with the fact that they are inspected many times (some factories interviewed reported that they were hosting more than 50 audits per annum) to codes that are in many respects identical. The authors note and are surprised by the fact that even in sectors where CoCs are well developed and audit activities relatively advanced (such as the garment and footwear sectors) there has not been a repeat of the common CoC promoted in the electronics sector.[23]

The study of Welford and Frost (2006) also highlight some of the practical challenges associated with audits, for instance the fact that many managers

[23] Here it should be noted that six of the major CoC initiatives, including the Fair Labor Association, The Fair Wear Foundation and the Ethical Trading Initiative, started a project called JoIn (Joint initiative on corporate accountability and workers rights) in 2003. The objective of this projects is rather loosely stated: to learn from one another, to develop joint methods and to investigate possibilities for further collaboration. The project has resulted in a first draft for a joint code of labour practices (in 2007) but the project is not yet completed and it remains to be seen what the results will be. (www.fairwear.nl)

in supplier factories, knowing that they are not in compliance with code criteria, put in place mechanisms so that it appears that they do, for instance by keeping more than one set of books. They authors report that some of the interviewed managers of supplier factories admitted that they cannot even obey local laws, particularly when it comes to employment practices. Wellford and Frost further notes that most professional CoC inspectors are well aware of the prevalence of double bookkeeping: "Auditors often say that their job is not to find out whether factories are cheating on the audit, but how, and they have been saying this for the better part of half a decade." (Welford and Frost, 2006, p. 171) They note that this poses challenges related to how audits are performed, but also points to the fact that, inspectors may also be a part of the lies and cover-ups involved in the auditing process. In the study they quote a manager of a supplier firm saying: "I tell auditors that I cannot tell them the truth in relation to some of their questions. They smile and move on to something else." (p.171).

Dolan and Opondo (2005) also illustrate a side of complexities associated with auditing. The authors note that the methods of corporate social auditors of major firms such as KPMG, SGS, and BVQI, have been criticised for failing to address concerns of marginalised workers, as well as, failing to capture sensitive issues such as gender discrimination and sexual harassment. The authors argue that while local auditors, belonging to the Horticultural Ethical Business Initiative in Kenya (HEBI), through knowledge of language, local culture, and their capacity to perform regular monitoring are well equipped to identify these type of deep-seated workplace problems, Northern buyers continue to value the certifications of the major firms, despite costs, because the major firms can provide consistency in auditing systems across industry sectors and countries. Dolan and Opondo argue that as long as corporate auditors remain privileged in the marketplace, the HEBI auditors will be unable to expand their institutional role.

On the topic of audits we also find the study of Graafland (2002), who has looked at how CoC auditing is organised in a case study of clothing retailer C&A. Graafland describes how the company has set up the audit organisation SOCAM that is funded by C&A but independent of C&A's commercial activities. This organisation's sole task is to carry out the audits. Information about violations against the criteria in the CoC is reported to C&A where decisions regarding how to proceed are made.

By reading these articles, which each provides a different perspective on the phenomenon of Codes of Conduct, we see that the task of implementing a CoC entails a range of different types of activities, such as developing or choosing a set of criteria to be included in the CoC, communicating this CoC to all relevant suppliers, implementing practical procedures for verifying compliance with the CoC as well as procedures for how act in case non compliances are found. The latter may range from simply cutting the contract to more complex responses involved in supporting suppliers to improve performance. We also learn that what may appear as a straightforward technique for managing environmental and/or social aspects in the supply chain entails a range of challenges and choices of critical relevance for the outcome of such a programme. When working with CoCs companies must make decisions with regards to what criteria should be included in the code, and *how* those criteria should be developed (unilaterally, in collaboration with the suppliers, with external experts, with competitors etc.), they need to consider how they will verify that suppliers are in compliance with the code and when they do this they need to address challenges associated with corruption, deception etc.

Indeed it seems reasonable to assume that every approach listed above will entail particular sets of activities, choices and challenges, and that it is not until we understand what those are that we can start understanding what the phenomenon of upstream CSR really entails and what the critical issues for research and practice are.

6.1.1 Suggested typologies in upstream CSR

By extracting typologies from the reviewed material it becomes very obvious that different authors are wearing "different glasses" when they look at the phenomenon of upstream CSR. Below I have tried to categorise different suggestions for upstream CSR typologies based on the key lines or focus for making distinctions.

First we find typologies where distinctions between categories are based, primarily, on the focus of the implemented upstream CSR measure. Here we find three typologies that are similar in nature to the list presented in the previous section, but the way in which the authors have grouped the different upstream CSR measures differ. Bowen, Cousins et al. (2001a) identifies the three different categories of green supply as illustrated in Table 6-1.

Table 6-1: Categories of green supply

Type 1: **greening the supply process**	"Represents adaptations made to a firm's supplier management activities aimed at incorporating environmental considerations into these activities. Green supply action of this type are changes to the process of collecting environmental information on suppliers and assessing and ranking suppliers' environmental performance."
Type 2: **product-based green supply**	"Is conceptually distinct from greening the supply process in that it involves changes to the product supplied. It also includes attempts to manage the by-products of supplied inputs such as packaging. Product-based green supply includes initiatives such as recycling, which requires co-operation with a supplier and efforts with suppliers to reduce waste."
Type 3: **advanced green supply**	"Includes more proactive measures such as introducing environmental criteria into buyers' performance or entering into joint clean technology programmes with suppliers

Source: (Bowen, Cousins et al., 2001a, p. 47)

In another article published that same year the authors stick to the two first categories: greening the supply process and product-based green supply, using the same definitions as above (Bowen, Cousins et al., 2001b).

Based on their study of OEMs, disk-drive manufacturers and semiconductor/equipment manufacturers, Meisner Rosen, Bercovitz et al. (2001) develops a typology that is similar to the one offered by Bowen, Cousins et al. (2001a). The authors argue that there are two types of programmes for working with component and equipment suppliers on environmental issues: The first type focuses on improving suppliers' environmental management systems (EMS), whereas the other type is focused on design for environment (DfE). The latter type entails asking suppliers to improve the environmental characteristics of products, components, or equipment, and came in two varieties: "Product DfE" programmes which focus on components and subassemblies and "Equipment DfE" programmes which focus on improving the environmental characteristics of the process equipment used by that the vendor supplied to the focal company.

In the list offered by (Walton, Handfield et al., 1998), we recognise many of the activities also mentioned in the two previous contributions, but here the categories are more narrow. Based on a study of five different companies within the furniture industry the authors classify the identified environmental management activities into five major supply chain-oriented categories (Walton, Handfield et al., 1998, p. 6):

- Materials used in product design for the environment
- Product design processes
- Supplier process improvement
- Supplier evaluation
- Inbound logistics processes.

Unlike the above, Dobilas and MacPherson (1997) do not categorise different types of upstream CSR activities but rather different types of focal companies, based on their upstream CSR focus and ambition. Although the authors note that their survey sample is too limited to offer a formal typology, the authors identifies three such categories in their study of uptake of the role of environmental factors in the contract allocation decisions of European and North American Multinational Companies (MNCs, hereafter).

In the first category they place MNCs that have elevated environmental matters to executive positions within the corporate hierarchy. They note that in their sample these firms are very large organizations that enjoy a degree of oligopsonist or monopsonist power in terms of input purchasing and that any non-compliance by subcontractors carries the risk of contract termination.

In the second category Dobilas and MacPherson (1997) place companies that have developed clearly articulated internal standards but weak or nonexistent compliance requirements. The authors comments that this group appears to enjoy weaker bargaining power for policy enforcement, but that another possibility is that these firms have no desire to enforce particular standards beyond their own corporate boundaries.

In the third category the authors place companies that focus less on product and process concerns but more on issues related to packaging and waste reduction. It is interesting to note that unlike the prior two categories, here the authors make a distinction based on issues addressed rather than the

focal company's level of, and capacity for, enforcement (Dobilas and MacPherson, 1997).

Yet another approach to categorising different companies based on their upstream CSR is offered by Drumwright (1994). Based on her study of purchasing processes within ten different companies she differentiates between four different types of organisations pursuing socially responsible buying. She first make the distinction between organisations where the socially responsible behaviour was positioned by senior managers as a differentiating factor, and organisations in which socially responsible behaviour is not heralded as a deliberate business strategy.

In the former category, Drumwright (1994) distinguishes between; Type I organisations where the socially responsible behaviour was presented as an extension of the founder's ideals and values, and Type II organisations where the corporate strategy to be socially responsible stemmed from management's recognition that socially responsible behaviour was inextricably linked to the company's success and to discouraging further regulation that would alter the industry's structure.

In the latter category (organisations in which socially responsibly buying is not part of the deliberate business strategy Drumwright (1994) distinguish between type III and type IV companies. Type III organisations were those in which socially responsible buying was motivated by a compelling competitive advantage not related to social responsibility (Drumwright gives the examples of cost reductions and "hassle avoidance). Here the author notes that firms in this category, unlike firms in category I and II, did not appear to attempt a comprehensive approach to social responsible buying but were responding to issues that they perceived to be of importance to customers or among competitors at the moment.

The last type belonging to the second category, type IV is described as firms which did not have a deliberate strategy of socially responsible buying, but differed from type III firms in that their socially responsible buying had non negligible costs. That means that for these firms, any benefits from socially responsible buying will not directly translate to the bottom line, but could yield favourable publicity (Drumwright, 1994).

Forman and Søgaard Jørgensen (2004) has developed a typology that is primarily based on the type of relationship between the focal company and their suppliers: They offer a typology with three different categories based on case studies of Danish companies in the textile sector (p. 53):

- "The **wake strategy**, where the company does not place requirements on suppliers but follows in the 'wake' of companies that already place these requirements.
- The **asymmetrical partnership**, where a company wants long-term relationships with a supplier. The customer is dominating the relationship, builds up a lot of competence itself and ensures that the supplier meets the requirements.
- The **symmetrical partnership**, where a company wants long-term relationships with a supplier, enters a mutual partnership with the supplier(s) and builds strategies in dialogue."

Vachon and Klassen (2006a) have also made distinctions based on the nature of supplier-buyer relationships. They define two sets of what they refer to as green supply chain practices (p. 798):

- "Activities using markets or arm's-length transactions conducted by the buying organization in order to evaluate and control its suppliers, termed here as environmental monitoring (Gascoigne, 2002; Krut and Karasin, 1999); and
- activities comprising a direct involvement of the buying organisation with its suppliers to jointly develop environmental solutions, termed here as environmental collaboration (Florida, 1996; Geffen and Rothenberg, 2000; Rao, 2002)"

Here we also find Holt (2004) who distinguishes between two key supplier interface arenas: supplier assessment/evaluation and supplier education and monitoring.

Hall (2001) makes another type of distinction of relevance in supply-chain CSR. Based on a case study of UK food retailer Sainsbury's Hall introduces the 'sphere-of-influence model', illustrating the supply chain, in which he distinguishes between three different areas of responsibilities (p. 115):

- The legal responsibility of the firm: "This is clearly defined by regulations and is easily managed, as was the case with Sainsbury's. Given that it is legally mandated, it usually does not involve supply-chain issues."

- The sphere-of-influence area: "where the customer firm has an influence or control over the suppliers' or customers' behaviour. The area of own brands is one such example. Conversely, non-organisational stakeholders such as environmental groups may legitimately argue that the customer should also take responsibility for these suppliers' or customers environmental policies."
- The sphere of concern: "This is where environmental issues may be of concern to the customer firm but the firm may have little or no control over these policies."

One type of distinction, which is clearly reoccurring, is the distinction between upstream CSR measures that focus on supplier processes, and measures that focus on the product or more specifically product design. Another theme, which is picked up by more than one author, is the distinction between collaborative and coercive/arm's length type of relation between focal company and its supplier. It is clear that typologies can take different starting points and I do not think that there is one way of categorising upstream CSR that is better or more useful than all others. It all depends on what you want to achieve with the offered typology. Unfortunately I did not find that the sources quoted above, with the exception perhaps of the last entry, offered much in terms of a discussion about the decision to use this type of typology and in what way that would be useful for different types of readers (e.g. other researchers, corporate practitioners, policy practitioners etc.) Such a discussion is needed in order to clarify the purpose and usefulness of certain distinctions. The lack of those arguments is possibly the reason why there is no (at least none that was found in this review) uptake of these typologies among other researchers.

6.2 Determinants – why do companies adopt a particular approach to upstream CSR

Here I have tried to lift out findings that will give us some idea of why a focal company has chosen a certain approach to upstream CSR. From my perspective determinants for upstream CSR is an interesting question as this understanding may give us some form of predictability in terms of corporate reactions to policy or other external pressure and I was surprised to find that only a few authors had something to contribute on this issue.

Blowfield (2003) argues that the **structure of different industries** influence the possibility of launching various initiatives: "both sector and position [in the value chain] are key determinants in the way business is responding to demands for greater social and environmental responsibility" (Blowfield, 2000, p. 193). In a discussion about ethical sourcing initiatives in the coffee, tea and coca sector, Blowfield notices that price to a higher or lesser extent is linked to the origin of the product in the coffee and tea chain, whereas such considerations are almost entirely absent for cocoa, where country, but not grower location, is a factor in determining price. He goes on to argue that the **importance attached to product provenance** will impact what tracing mechanisms are in place and that this in turn will have an impact on the upstream CSR practices in that industry as "the degree to which the elements of the supply chain know and understand each other has consequences for how social and environmental issues are addressed" (Blowfield, 2003, p. 18).

He provides evidence that suggest that the level of pressure and time that a company perceives itself to have to respond to pressures may have an impact. Blowfield uses the example of high profile companies in the horticulture and apparel sectors, two sectors that have been under significant pressure to adopt better practices. He argues that "the need for timely comparable, credible and complete information from all suppliers is critical for such companies, and, given the difficulties in reaching a consensus about sustainability criteria […], such companies have largely ignored process-oriented, consultative approaches such as social auditing, and instead adopted performance-based systems that clearly prescribe what suppliers must do" (Blowfield, 2000, p. 193).

Obviously from a societal perspective this may pose a bit of a dilemma. While it may be in the common interest to see swift improvements, they may come at a cost in terms of unilaterally determined criteria, whereas a more inclusive, and arguably more just, process for criteria development may take longer to deliver concrete results. Here we can also see how the same type of corporate action may be interpreted differently depending on circumstances. A company that is under no direct pressure to act on a certain issue may invite suppliers and stakeholders to a conference to discuss criteria for sustainability and be applauded for their initiative. A company that is under pressure may find that that same course of action could be seen as a way of avoiding taking action on the issue.

Roberts (2003) has discussed determinants for individual versus collaborative action taking the example of the branded confectionary industry. She notes that companies in this industry who are considering how to effectively manage ethical risks in the supply chain face the triple challenges in the shape of long supply chains, diffuse sources and powerful intermediaries with little interest in implementing solutions and goes on to argue that under these circumstances joint action among competitors in the confectionary industry, developing a universal code and a joint system for verification, is likely to be much more effective than if each company develops their own code and verification infrastructure.

Vachon and Klassen (2006a) have looked at another relevant issue in upstream CSR, the issue of monitoring in supply chains. In a survey of North American package printing companies they looked at the correlation between supply chain characteristics and green supply chain practices. In their definition of green supply chain practices they distinguish between two sets of practices: Environmental monitoring defined as: "activities using markets or arm's-length transactions conducted by the buying organization in order to evaluate and control its suppliers" (Vachon and Klassen, 2006a, p. 798) and environmental collaboration defined as: "activities comprising a direct involvement of the buying organization with its suppliers to jointly develop environmental solutions" (Vachon and Klassen, 2006a, p. 798). Based on the principle that close interaction reduce the need for monitoring, the authors hypothesise that monitoring would be reduced as integration increases between actors in the supply chain in their sample, however it is interesting to note that no such correlation was found.

Vachon and Klassen (2006a) discuss possible explanations one being that the incremental cost of monitoring relative to the benefit (for instance the avoided risk) is relatively small, especially when logistical integration becomes more extensive. Another possible reason suggested by the authors is that stronger logistical integration and greater environmental monitoring are both outcomes of increased communication between the members of the supply chain which would explain the positive relationship between the two constructs, as they are both driven by the approach toward communication. Finally, the Vachon and Klassen suggest that another explanation may be that the upstream CSR initiatives are primarily reactive (driven by the objectives related to risk minimization and monitoring), as opposed to more proactive collaboration.

Unlike the previous contributors Bowen, Cousins et al. (2001a) have looked inside the firms to identify determinants. They founds a link between green supply and corporate environmental objectives, based on evidence showing that companies with the most proactive stance on environmental issues also undertook the most proactive green supply measures. In such companies the authors found a high level of managerial commitment to environmental issues despite recognition by middle managers. It is also interesting to note that environmental initiatives often presented a net cost to the business in the short term (Bowen, Cousins et al., 2001, a p. 57).

Finally, a word of caution might be in place here as regarding the predictability, as upstream CSR often influence and is in turn influenced by many different stakeholder groups, we would perhaps do best to see these initiatives as dynamic and evolving processes. An argument that illustrated by the following quote from du Toit (2002, p. 357):

> *Clearly private sector self-regulations – in agro-food networks and elsewhere – is only on the cards at all because it can serve some of the interest of wealthy Northern consumers and transnational corporations (TNCs). That, however, does not offer a clear indication of its longer-term significance for the transformation and restructuring of social and power relations. As scholars of globalized agro-food re-regulation have pointed out, the significance of private regulatory regimes cannot simply be read off from or reduced to corporate interests. They need to be seen as sites of struggle and contestation, the outcomes of which are not deducible a priori from the actors' structural positions (Goodman and Watts, 1994; Watts, 1996). The key question for those who need to make political judgements and decisions is how to understand the actual ways these contests and struggles can unfold.*

6.3 Prevalence of the phenomenon – how common is it that companies engage in upstream CSR?

It seems that there is a general belief among many contributors to this field regarding the positive potential for upstream CSR to generate important environmental and social improvements. Based on case studies of several furniture industries Handfield, Walton et al. (1997) argue that are a number of areas within the value chain which can significantly affect environmental results achieved within a company (such as amount of toxic and solid waste generated and that managers therefore should integrate environmental thinking into purchasing decisions. Verschoor and Reijnders (1997) also argue that purchasing departments are in a strategic position to contribute to prevention in the field of toxic substances or toxic reduction, .

However, the articles included in this review, where attempts has been made to analyse to what extent companies engage with upstream CSR, indicate that the uptake is not that significant and that the potential of upstream CSR is still largely untapped (Holt, 2004; Preuss, 2001; 2005b; Verschoor and Reijnders, 1997; Zhu and Geng, 2001).

It should be noted though, before we go ahead and draw any conclusions that the number of articles addressing this issue was small, only 5 papers, and the scope of each individual study limited. Another important factor is that this practice of upstream CSR is still relatively new and constantly evolving, and the studies of relevance included in this review are now old (publication year range from 1997-2005). Thus these findings should not be interpreted as representing the situation today.

6.3.1 Barriers to corporate uptake of upstream CSR

Several contributors have discussed possible explanations for why companies are not engaging in upstream CSR to a larger extent. One identified barrier is a lack of appropriate skills and resources. In a survey of large and medium-sized state-owned enterprises (LMSOE) in **China** (Zhu and Geng, 2001) notes that: "Green SCM is still a new concept in China. Some Chinese enterprises have recognised its importance and have tried to put it into practice, but most of these enterprises lack experience as well as the necessary tools and management skills." (Zhu and Geng, 2001).

Related to this Preuss (2002) notes another type of barrier to upstream CSR in the fact that few business schools include environment in their core curriculum, which means that most new management professionals are not trained to consider the natural environment as a factor in business decision-making.

In a later article Preuss also looks inside the firm to discuss potential barriers and argues that there are structural reasons that prevent the supply chain manager from seeking to source environmentally friendlier alternatives such as their relative low status as middle managers and the reactive service nature of the supply function. Preuss also points to the influence of performance measurement criteria that generally privilege economic criteria (Preuss, 2005b).

Another identified barrier is the cost associated with engaging in upstream CSR. In a survey of purchasing professionals Min and Galle (2001) found that the economic investment required for green purchasing programmes was cited by buying firms as the most serious obstacle to successful implementation of green purchasing programmes.

In a conceptual paper Sinding (2000) discusses why we do not see more companies engage in interorganisational environmental management and identifies four different groups of barriers to adoption:

- **Institutional barriers,** which Sinding describes as "the outcome of isomorphic institutional forces that promote the adoption of intraorganisational environmental management practices" (p. 90).
- **Economic barriers,** where Sinding includes absolute cost increases associated with the interorganisational practices and transaction costs that arise as a "result of the need to establish governance structures for the interorganisational approaches that are not required for the intraorganisational ones" (p. 90).
- **Inertia derived from pressures on organisations to be reliable and accountable** which, Sinding argues, will favour companies that conform to institutional norms.
- **Informational problems**. Here Sinding, points to the fact that when companies need information from several tiers of the product chain, efficiency requires that information flows are highly standardised and adequate for the purpose at hand, and notes that: "At the same time authority over, and access to, the information flows have far-reaching strategic implications that grow in importance as the volume and levels of detail of the flows increase" (p. 90).

But Sinding (2000) also points to a more simple explanation noting that: "While these theoretical dimensions may help explain the lack of development of interorganisational approaches to environmental management, a more straightforward explanation may be that the internal approaches seem to be working just fine for companies in financial terms" (p. 90).

6.4 Consequences – what consequences does upstream CSR bring?

This is a question that has received quite a bit of attention from researchers within this field. More than 20 of the studies included in this literature review had something to contribute on this issue. The large majority of these studies focuses on the relationship between upstream CSR and firm performance. It is interesting to note that while there are articles that tells us something about other types of consequences of upstream CSR, the issue of consequences was generally not the central question posed in these studies.

The evidence is mixed with regards to the relationship between upstream CSR and firm performance. Only one study (Carter, Ellram et al., 1998) has found significant direct correlations between upstream CSR and increased firm performance, but several studies have shown correlations between upstream CSR and other relevant aspects, which in turn have a positive impact on firm performance.

Carter and Jennings (2002) authors argue that the results of their study show that trust leads to cooperation between buyers and suppliers that trust thus plays a key mediating role in the relationship between Purchasing Social Responsibility (PSR) activities and cooperation. They also found a positive relationship between cooperation in between buyers and suppliers, and supplier performance. In a subsequent replication of this study using a wider group of included industries in the sample Carter (2004) confirmed these findings.

In a later study by Carter (2005) the findings revealed no direct relationship between Purchasing Social Responsibility (PSR) and firm performance, but they did indicate a correlation between PSR and organisational learning, between organisational learning and supplier performance, and finally between supplier performance and cost reduction. The author therefore argues that his study provides evidence that PSR "does, ultimately, lead to improved financial performance in the form of cost reduction" (Carter, 2005 p. 187). However, he also points out that the results suggest that firms that engage in PSR are not guaranteed to improve firm performance since they must effectively learn from their PSR activities to improve supplier performance and thus ultimately lower their own costs (Carter, 2005).

Rao (2002) follows a similar line of reasoning and argues that: "SCEM [supply chain environmental management], though it did not lead to competitiveness and economic performance directly, did lead to environmental performance of the firm, which in turn led to competitiveness and economic performance. Hence there did exist a clear significant link between SCEM through environmental performance, competitiveness to economic performance." (p. 650).

In a survey of Chinese manufacturing and processing industries Zhu and Sarkis (2004) also found a correlation between green supply chain management practices and improved environmental as well as economic performance. However the authors point out that the findings are limited by the fact that the sample is based on Chinese manufacturing enterprises which have different characteristics compared to firms in other countries are only recently adopting many of these practices (Zhu and Sarkis, 2004).

In a survey of North American package printing companies Vachon and Klassen (2006b) found a positive link between green project partnership with primary suppliers and delivery performance.

Bowen, Cousins et al. (2001a) note that their study of green supply performance outcomes indicates that the commercial potential of green supply measures "is clearly not being reaped in short-term profitability and sales performance" (p. 57). However, the authors still argue that there is evidence to suggest that a proactive green supply approach can prepare firms for superior performance on a longer-term time scale as they will be better positioned to manage environmental risks and will be able to develop capabilities for continuous environmental improvement.

What is particularly interesting in the contribution of Bowen et al. is that they note that some types of environmental supply initiative hold more potential for immediate private gain than others. They argue that product-based green supply initiatives in particular can be very effective in terms of generating private gains for the focal company, since a focus on for instance waste elimination or reduction will also reduce costs. Whereas efforts to green the supply process, can be costly in the short term as infrastructure to collect data, process the information and even support to suppliers in meeting environmental objectives are required (Bowen, Cousins et al., 2001a). Based on this the authors make a sensible and important conclusion that also explains the mixed evidence from other studies: "It is not the

absolute level of green supply that is the best guide to potential private gains, but an analysis of appropriate green supply practices in context" (p. 57).

While not making any linkages to overall firm performance, a few other studies also found positive "side effects" for firms engaging in upstream CSR. In a case study of Patagonia, Chouinard and Brown (1997) report that their upstream CSR engagement has generated new and useful competence for the focal company: "One of the greatest benefits has been the development of new skills in our research and development group. Because of the lack of readily available organic cotton fabrics, we had to learn a great deal about […] the process of organizing production of a finished fabric from raw cotton through spinning, fabric manufacture, dyeing, and finishing. We are now capable of buying off-the-shelf goods when they meet our needs and developing new fabrics when necessary. […] In effect, we became a learning organization with the ability to assimilate new information rapidly and to be innovative in our approach to production." (Chouinard and Brown, 1997, p. 127).

Based on his findings in a survey study of U.S. chemical industries Theyel (2001) argues that an advantage of closer relations within the supply chain is that new knowledge will be created and shared. He then goes on to argue that firms that engage in supply-chain relations as part of their environmental strategy are likely to be leaders in areas such as waste reduction and environmental innovation.

A few studies have looked at the costs associated with upstream CSR. The story of Patagonia Inc.'s transition to use organically grown cotton (Chouinard and Brown, 1997) shows an increase of costs internally as the organisation had to spend resources on addressing new challenges, but also due to increases in the price of the product. "Price was a difficult issue. Increases in production costs varied by product but ranged from 15% to 40%" (Chouinard and Brown, 1997, p. 124).

In a case study of environmental improvements in a supply chain for polyester linings Seuring (2001) also notes how costs increase as a result of changes to production processes and the limited volumes ordered for an environmentally superior product. But he also notes possibilities for reducing such cost increases through analysing costs from a supply chain perspective and joint efforts between actors in the supply chain to deal with aspects that drive up costs.

But there are also studies that indicate that upstream CSR can lead to reduced costs. Lindgreen and Hingley (2003) found that a collaborative approach in the case of Tesco, coupled with the reduction of the number of suppliers lead not only to improved performance and control over issues related to animal welfare and food safety, but also to reduced costs.

Taking the perspective of the suppliers at the "receiving end" of upstream CSR initiatives Welford and Frost (2006) found mixed reactions from suppliers regarding the costs and benefits of being in compliance with customers' codes of conducts. Many of the respondents complained about significant costs associated with achieving compliance and the auditing process but they also found evidence of improved firm performance on the level of the supplier: "One factory owner interviewed for this study said that since introducing CSR practices he had reduced his staff turnover from 18 per cent per annum to 8 per cent, and perceived this to be a significant and valuable cost saving" (Welford and Frost, 2006, p. 173).

Another discernable theme was studies that reported on consequences for the structure and nature of interactions in the supply chain. The story of Patagonia Inc.'s transition to use organically grown cotton is one such example. "Where previously we were able to buy finished fabrics built to our specifications, we found ourselves creating linkages among the entire supplier chain. Staff identified cotton brokers with access to grades of cotton appropriate to the quality needed for the finished goods and put them in touch with spinners willing to work with organic cotton to develop the yarns for knitting and weaving mills. In some cases, new relationships between spinners and greige fabric manufacturers needed to be established. All of this took time and resources" (Chouinard and Brown, 1997, p. 123).

Another example of the increased complexity that may follow with environmental and ethical supply chain management is provided by Lindgreen and Hingley (2003) in their case study of the relationship between food retailer Tesco and its meat suppliers. They note that there is no longer a single point of contact between Tesco and meat suppliers, but that relationships instead take place between several different functions.

Yet another example comes from Meyer and Hohmann (2000) in their description of how Swiss cotton yarn retailer Remei AG managed their transition to work with organically grown cotton. The authors noted that the partnership oriented approach chosen by the focal company meant that they had to completely reorganise their business relations in the supply chain.

This leads to strong dependence on a few producers and buyers which in turn means that business risks are increased (as a result of less flexibility and dependence on the weakest partner) and possibly increased transaction costs.

But there is also evidence that shows that upstream CSR does not necessarily need to have significant impacts on the structure and nature of interaction in the supply chain. Based on interviews with representatives from four different tiers within the computer supply chain, Meisner Rosen, Bercovitx et al. (2001) note that they did find four case where a firm had changed its approach to managing procurement and supplier evaluation and selection in order to achieve environmental goals. But the authors also point out that "Our research shows that companies in the industry supply chain that are actively involved in the environmental supply-chain management have folded their supplier DfE and EMS programmes into existing procurement and supplier management programmes that are already organized along relational lines" (Meisner Rosen, Bercovitz et al., 2001, p. 99). Thus it becomes a little bit like the chicken and the egg dilemma and the authors also point out that this needs to be explored further: "In particular, it will be important to investigate how companies whose interactions with suppliers are based on classical contracting organize supplier EMS and DfE programmes. If relational contracting is needed to control the risk associated with investments in improving the environmental performance of a supply chain, will such companies have to begin adopting more relational methods of working with their suppliers? Can they do this in the environmental arena without changing the way they interact wit their vendors in other areas?" (Meisner Rosen, Bercovitz et al., 2001, pp. 99-100).

6.4.1 Consequences in a wider perspective

A few contributions also address consequences that go beyond the single firm, and interaction in the supply chain.

One such perspective is the equal, or fair, distribution of income between actors in the supply chain. Auroi (2003) compares a study that has identified the income distribution within the regular coffee chain with another study that has looked at the income distribution pattern between actors in a coffee chain operating under the criteria for the Fair-Trade Labelling. He finds, perhaps not surprisingly given the nature of the criteria for Fair-Trade Labelling that, for raw material producers and production units, the fair-

trade system actually is more profitable than trade through the normal market (Auroi, 2003).

Another perspective of relevance here is the issue of who is setting the standards. Blowfield (2000) points out that the majority of codes of practice have been developed in Europe or North America and thus will prioritize the issues with most resonance for stakeholders in those regions not necessarily taking into account the relevance or importance of those issues in developing countries. But he also argues that these codes still represent a potential to generate positive change and that it would be a missed opportunity not to seek to optimize the contribution that upstream CSR can make to the sustainable business agenda.

Dolan and Opondo (2005) also shed some light on the issue of justice and fairness in relation to standard/criteria development. They argue that multi-stakeholder represent an advance on codes that are unilaterally designed and implemented and that such initiatives also assume increasing importance in countries such as Kenya the state's ability to enforce labour and environmental laws are week. But they also note that multi-stakeholder processes also brings with it problems related to justice and equality by pointing to the important issue of who participates in the governance structures of multi-stakeholder processes, and how they participate, as this will influences the long-term prospects of such initiatives and their likely beneficiaries. "In fact, the power to determine which stakeholders are called to the bargaining table and whose voices are validated is significantly influenced by market pressures beyond Kenya. The fact that HEBI [the Horticultural Ethical Business Initiative (in Kenya)] continues to receive international support despite the absence of trade union participation is indicative of how Northern actors continue to shape the trajectory of MSPs [multi stakeholder processes]" (Dolan and Opondo, 2005, p. 97).

Interestingly though, in this discussion, Welford and Frost (2006) note that: "CSR via codes of conduct has often become an exercise in seeking compliance with local law rather than moving beyond it (p. 168)." However they also note that this appears to still serve a purpose as evidence suggests that local enforcement of legal compliance in certain parts of Asia may be weak. "One of the most commonly articulated complaints from CSR managers is the lack of local government involvement in enforcing local law. 'My job would be a lot easier', said one manager, 'if the government just enforced the law'." (Welford and Frost, 2006, p. 171).

Another potential consequence of political relevance highlighted by Welford and Frost (2006) is the evidence suggesting that SMEs often (though not always) find it more difficult to comply with codes of conduct than larger organizations. This can result in buying companies moving towards consolidating supply chains with fewer, and larger. The authors argue that this may mean that SMEs struggling to implement CSR will find themselves cut out of big buyer's supply chains. This can have one of two consequences either they are driven out of business or they will compete for contracts with buyers who have less strict CSR standards. The authors note that: "The ramifications of this vicious cycle are obvious: given current trends, CSR could be confined to a relatively small number of larger companies with a sales turnover in the hundreds of millions of dollars per annum while the large majority of smaller companies will find themselves confined to markets where CSR is trumped by pricing and delivery pressures." (Welford and Frost, 2006, p. 175).

6.5 Final comments – practices in upstream CSR

The study of upstream CSR is a relatively new field of research, as is indeed the phenomenon itself. This becomes apparent when looking at descriptions and reports of practices that can fall under the definition of this phenomenon. But this is only one half of the explanation for the fact that the picture we get is sketchy and fragmented. The other explanation lies in the nature of this phenomenon. CSR is a messy concept, in that it is contested, subjective, evolving and may include a very wide range of issues that are themselves complex and contested. Supply chains are a messy context in that they are, more often than not, heterogeneous, complex, dynamic and transnational. Inevitably upstream CSR will be a messy phenomenon, and part of our challenge as researchers who are trying to understand and explain what is happening, is to find ways of structuring this phenomenon in a way that allows us to develop deeper, more specific and, above all, well grounded knowledge.

CHAPTER
SEVEN

7. What is challenging about upstream CSR?

In this section I have collected accounts regarding difficulties or challenges associated with upstream CSR. 33 contributions of relevance were found in this category and the identified accounts can be divided into four different categories based on whose perspective we are taking, i.e: For whom does this present a challenge? Most of the identified relevant contributions relate to challenges from the focal company's perspective, but some authors have also addressed challenges from societal perspectives and others from the perspective of the individual working within a focal company. A few entries report on challenges from the suppliers' perspective. This is notable as we could arguably learn a lot about the consequences of upstream CSR, as well as, the explanations for the success or failure of different upstream CSR initiatives by looking at this phenomenon from the suppliers' perspective.

As we go through the different contributions, you will note that, in addition to being distinguishable based on perspective, reported challenges also range from the practical to the philosophical/moral.

7.1 Challenges from a focal company perspective

Let us start by looking at the challenges that upstream CSR may entail for a focal company. Again I have tried to facilitate the possibility of getting an overview of the findings by organising them under a number of different subheadings.

7.1.1 The challenge of addressing issues beyond the first tier of the supply chain

If we do take a life cycle perspective on environmental management, issues that need to be addressed will inevitably sometimes be located further upstream in the supply chain, beyond the focal company's first tier suppliers.

Authors have reported that this may present a considerable challenge for a focal company. Welford and Frost (2006) note that: "One particular problem that was mentioned by experts interviewed for this research was the inability of many companies to see further than one (or at most two) levels down their supply chain" (p. 170). They report that few multinational brand name companies are vertically integrated and they therefore rarely engage with issues that are associated with raw material extraction and agriculture, while noting there are often serious problems both associated with environmental degradations and with exploitation of workers in these sectors. Welford and Frost (2006) also report that: "CSR managers admit that they find it difficult to do much more than deal with the first tier of suppliers. They recognize there may be problems further down the supply chain but do not have the resources to do very much in this respect" (p. 170).

Another example, from the textile sector, of the particular challenges that companies may face when trying to resolve environmental problems that are located several tiers upstream, is illustrated by the story of Patagonia Inc.'s transition from the use of conventional to organic cotton in their clothing products. Where the company previously could buy finished fabrics to their specifications, going organic meant that the company had identify the right suppliers not just in the first tier but in several tiers of the supply chain. In this case as far down as to find cotton brokers with access to the appropriate grade of organic cotton that could be used in Patagonia's fabrics. The company then had to create linkages among the entire supplier chain, putting the right cotton broker in touch with spinners willing to work with organic cotton, and also contributing to create new relationships between spinners and greige fabric manufacturers. As reported in the case, all of this naturally requires both time and resources from the focal company, in addition the company claims that even though they did not pay for development directly, the fabric prices were increased reflecting the costs born by the suppliers for their part of the development process (Chouinard and Brown, 1997).

7.1.2 Retrieving relevant information from suppliers

Based on focus group interviews and a survey of Finnish producers of electrical and electronic appliances, Kärnä and Heiskanen (1998) note that the focal companies they interviewed stressed the difficulty of obtaining information regarding material contents of components and parts from their suppliers. The authors point out that focal companies need this type of

information in order to respond to enquiries from customers and also to provide data for product LCAs, but finds in their study that it is often a time consuming effort to collect the need information since supply chains involve several tiers and span many different countries.

7.1.3 The challenge of deciding what to do

Whereas several contributors in this field has suggested models for how to identify environmental impacts in the supply chain (Faruk, Lamming et al., 2001; Gauthier, 2005; Kainuma and Tawara, 2006) and others have developed methods for the evaluation of different upstream CSR initiatives (Sarkis, 1998; 2003). Hall (2001) highlights a dilemma related to the challenge of deciding what to do that these methods and models do not address, the issue of where to draw the boundary for the scope of responsibility in the supply chain. Or simply put, the question of what issues a focal company should seek to address. As Hall rightly imply this is a question of a moral nature and as we all know the perception regarding what is morally acceptable changes over time.

Based on a case study of UK food retailer Sainsbury's, Hall, (2001) introduces the 'sphere-of-influence model', illustrating the supply chain, in which he distinguished between three different areas of responsibilities, the legal responsibility of the firm[24], the sphere-of-influence area, and the sphere-of-concern. By sphere-of-influence area Hall refers to those parts of the supply chain where the focal company has influence or control of the suppliers' behaviour and name the area of own brands as one such example. Whereas by sphere-of-concern he refers to areas of the supply chain where environmental issues may be of concern to the focal company but where they have little or no control over the environmental policies that these suppliers employ.

Hall goes on to point out that the distinction between these spheres is not always clear-cut nor is it static and he notes that "what may be legitimate behaviour today may not be so tomorrow. Understanding these dynamics is thus a key challenge for management" (Hall, 2001, p. 115). As noted above

[24] Hall argues that the legal responsibility of the firm, since it is legally mandated, usually does not involve supply chain issues. However given an increased focus on product oriented policy this is changeing. One prominent example of a legislation where compliance with the law requires companies to exercise influence and verification along the supply chain is REACH.

Hall here raises the issue of where to draw the boundary of corporate responsibility in the supply chain by taking the example of UK based retailer Sainsbury and asks the questions whether a supermarket have a legitimate right and/or obligation to prescribe behaviour in areas such as chlorine-free pulp, pesticide and herbicide use and animal husbandry (Hall, 2001).

This moral dilemma is more thoroughly explored in the study by Preuss (2000), in which he asks the question of whether the: "process of a company imposing criteria on suppliers, even if they are socially responsible, can lay claim to a moral quality of whether it simply represents an extension of buyer power over suppliers?" (p. 152). Preuss puts this question to the test by checking whether the transfer of moral values to suppliers is approved by at least two out of three ethical theories; utilitarianism, Kantian deontology and virtue ethics. He finds that all three supports a moral quality to demands for social responsibility in supplier-buyer relationships, although not unconditionally. Using the lens of Kantian deontology, Preuss argues that a company is morally justified in making demands related to social responsibility upon its suppliers, only if it agrees their own organisation should be subjected to similar demands its customers. Using the lens of virtue ethics, Preuss concludes that the transfer of social responsibility concerns along the supply chain would no longer be considered morally justified it such requirements threatened the economic viability of the companies involved; "destruction of the community for the sake of ideal values is not acceptable to Aristotle" (Preuss, 2000, p. 154). Finally, using the lens of utilitarianism, Preuss finds that utilitarianism would classify upstream CSR as morally justifiable only if the possible negative impacts to the profitability of the involved companies resulting from the transfer of moral values along the supply chain is outweighed by the increase of happiness enjoyed by the employees and the society in general (Preuss, 2000, p. 156).

7.1.4 Criteria definition

Du Toit (2002) highlights one of the challenges associated with developing criteria for a upstream CSR agenda: the need to have a set of criteria that works in many different contexts as buying companies "do not want to re-invent their auditing technology every time they source a product from a different place" (du Toit, 2002 p. 367). He then points out that the need for universal standards inevitably leads to another challenge which is the need to relate universal standards to the various local contexts where they are put to use.

The article by Dolan and Opondo (2005), featuring a study of a multi-stakeholder body launched to guide social accountability in Kenya's cut flower industry, illustrates another important dilemma related to criteria definition in multi stakeholder settings. They show that even though the approach of including different types of stakeholders in the process can serve to make standards better reflect the opinions of different stakeholders, such as local interest groups, this is not a process without controversies as it is still a matter of who gets invited to the negotiating table, and at this table power structures still play an important role.

7.1.5 Interorganisational and intercultural communication

Communication is a central element of upstream CSR. Support regarding how to communicate the results of the company's CSR efforts, such as the guidelines from the Global Reporting Initiative[25], is readily available, but research shows that the interorganisational communication between actors in the supply chain also can present a considerable challenge and here we find less readily available advice for corporate practitioners.

Welford and Frost (2006) note that the managers and owners of suppliers frequently have problems in fully understanding the pressure that the focal companies are experiencing from stakeholders, which mean that they do not fully recognize how important CSR is for the focal company.

Wycherley (1999) interviewed an number of UK-based suppliers to Body Shop International and found that one barrier to progress was that suppliers were of the opinion that the environmental message coming from the Body Shop sometimes had a more general political overtone. Wycherley points out the irony in that: "too much pressure from BSI [Body Shop International] on suppliers may be perceived by them [the suppliers] as a political act, or as eco-evangelism, and as such may be resisted" (Wycherley, 1999, p. 126).

Rao (2002) argues that in the South East Asian culture, relationship building is of critical importance, and that therefore "the imposition of a rule or norm cannot work unless it has been discussed and deliberated" (p. 651). He claims that people in this region place an emphasis on being consulted when criteria are defined and that they will only willingly oblige in situations where

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25 See www.globalreporting.org

there is a relationship of trust between them and the focal company that seeks to enforce a rule. Rao then goes on to argue that in such a context a "partnership and mentoring approach of greening suppliers appears to be the right answer to bringing about environmental sustainability in the region" (Rao, 2002, p. 651). If Rao is correct, any company with a very large number of suppliers based on South East Asia may indeed be in for a substantial challenge.

That communication is a central part of upstream CSR initiatives is also illustrated by the findings of Canning and Hanmer-Lloyd (2001), who notes that while some difficulties in upstream CSR can arise as a result of technical problems, progression of the process is also at times conditioned by the relationship between the focal company and its supplier which in turn is conditioned by the behaviour and experience of those individuals that are involved. The authors conclude that successfully reducing environmental impacts along the supply chain requires consideration of factors that goes beyond finding the optimum technical solution (Canning and Hanmer-Lloyd, 2001).

7.1.6 Motivating change in supplier performance/activities

Based on their case studies of five companies within the furniture industry Walton, Handfield et al. (1998) note that the task of convincing a supplier to meet certain environmental requirements or work towards solving certain environmental problems can often be a challenge. They argue that the supplier must either be willing or coerced to comply with the requirements of the focal company and notes that if the supplier is coerced, the supplier may very well resist. Their findings also indicate that motivating change can be more difficult if the supplier is a smaller company, and they argue that this is due to a lack of internal resources in the supplier organisation.

Walton, Handfield et al. (1998) provide one notable example of how a supplier refused to comply with the expressed wishes of the focal company in a situations when the buying focal company appears to have considerable leverage over the supplier. In this example the focal company accounted for nearly 80 percent of the supplier's business, the supplier was located very close to the focal company. Still when the focal company inquired about the possibility of using reusable packaging for the products that they bought from the supplier, the supplier refused. This led to the focal company

dropping the supplier and instead started to produce the material sourced from this supplier in house (Walton, Handfield et al., 1998, p. 8).

Cramer and van Leenders (2000) also illustrates that it can be challenging to motivate suppliers their study point to an important aspect of the nature of supply chains, the fact that even though the focal company may be a large player in its industry, this does not per definition make them large and important clients to their suppliers, as the company's suppliers may sell to actors in a range of different industries, even in cases where the focal company is a large player in its industry. The authors note that even though the focal company of their study, a catering company, was a large player in the catering business with a market share about 34%, "most of their suppliers were not willing to alter their products for the catering sector alone" (Cramer and van Leenders, 2000, p. 56).

7.1.7 The challenge of control/verification or monitoring in the supply chain

The study of Welford and Frost (2006) provides several examples of practical challenges associated with the practice of supplier auditing. One such challenge is the problems associated with shirking and cheating. In their study they found evidence that many managers of focal companies who are not in compliance with CoC criteria put in place mechanisms so that it appears that they do, and that the practice of keeping more than one set of books is commonplace. They also note that most of the inspectors know this as well and argue that "the proliferation of codes of conduct has probably simply resulted in a proliferation of record keeping" (Welford and Frost, 2006, p. 169). They also found that the CSR managers interviewed for their study generally felt that the methodology of audits or inspections commonly used is flawed, and that they were frustrated by the fact that they had a lack of resources and insufficient personnel to inspect factories.

It is interesting to note that while buyers, consumers and other external stakeholders often perceive third party audits to be a guarantee that the focal company is not covering up problems in the supply chain, Welford and Frost (2006) reports that interviewed CSR managers are not happy when they are forced to use third party inspectors since they are not satisfied with the quality of the audits or with the audit companies' internal systems for quality assurance. The authors notes that the increased competition in the auditing business has seen prices for audits plummet, with small local auditing firms entering the market offering audits for prices as low as 300

USD (in the Pearl River Delta in China). The consequence of this, the authors argue, is that audits are done quickly, that staff turnover in auditing companies is high and that new auditors do not receive appropriate training (Welford and Frost, 2006, p. 169).

To further reveal the complexity of the issue, Welford and Frost (2006) also found evidence indicating that inspectors are sometimes complicit deceiving the focal company: "One manager interviewed said 'I tell auditors that I cannot tell them the truth in relation to some of their questions. They smile and move on to something else.'" (Welford and Frost, 2006, p. 171).

Based on their study of the computer industry Meisner Rosen, Bercovitz et al. (2001) note the number and location of suppliers can represent a barrier to on-site inspection as many of the industries suppliers are scattered throughout the developing world in places far away, and notes that most of the interviewed focal companies scheduled one or two site visits to their supply base per year at most. But the authors also highlights another aspect of the control/verification dilemma when they note that the focal companies did not want to formally audit the suppliers EMS practices and worried that: "If they were to monitor (their suppliers] too closely, they would find they had assumed legal responsibility for their suppliers' practices" (Meisner Rosen, Bercovitz et al., 2001, p. 98). The authors note that the suppliers still felt that they must monitor suppliers closely enough to ensure that the supplier would not suffer an environmental accident or a regulatory problem that would be serious enough to cause delivery problems for the supplier.

Another important issue raised in the article by Meisner Rosen, Bercovitz et al. (2001) is the important distinction between verification of supplier processes and verification of the environmental characteristics of products. They report that while people working with product oriented initiatives also feared supplier shirking, they did not worry that close inspections would lead to them about having to assume legal responsibility for the suppliers operations. "The desire to meet government regulations regarding banned chemicals or to qualify for eco-labels created positive incentives for environmentally active manufacturers to verify vendor compliance" (Meisner Rosen, Bercovitz et al., 2001, p. 98). The authors also note that it is much easier in a practical sense to set up verification systems for product oriented criteria as "failure to meet an environmental product design goal usually shows up as an observable defect in the product itself; for example, the failure to use lead-free solder in circuit board fabrication" (Meisner Rosen, Bercovitz et al., 2001, p. 98).

The authors concludes that this indicates that product oriented and process oriented issues are managed quite differently as a result of the fact that associated legal and practical issues are so different (Meisner Rosen, Bercovitz et al., 2001).

Freeman (2003) points to another type of challenge related to control, which is rooted in the structural characteristics of the supply chain, the issue of homeworkers: "Because they are part of the 'informal economy', homeworkers are particularly difficult to locate and monitor and they thus pose a challenge for companies who are trying to ensure sustainable social practices are present throughout their supply chains. They are also some of the poorest workers to be found in supply chains, often working in the worst conditions" (p. 108). It is important to note that this is not a marginal problem. Freeman (2003) refers to estimates that approximately 20-25% of the non-agricultural labour force in Southern countries are homeworkers, and in certain sectors the phenomenon is even more common. In her conclusions, the author notes that the improvement of conditions will not be an easy task to solve and she argues that this can not be solved by buying companies alone, but rather through concerted efforts of a range of relevant actors. She also argues that "a step-by-step approach of working to improve homeworking conditions, rather than attempting to exclude homeworkers from global supply chains, is the best way to bring about sustainable improvements in the lives of some of the world's poorest workers" (Freeman, 2003, p. 117).

7.1.8 Willingness and ability to change sourcing and supply base

More than one author have noted that the upstream CSR agenda may force the focal company to reorganise its sourcing process and/or to alter the supply base that they use (Chouinard and Brown, 1997; Meyer and Hohmann, 2000).

Maier and Finger (2001) have studied the food processing industry and argue that: "An important constraint in the introduction of organic products by a 'conventional' company identified through our research [2 case studies in the food processing industry] was the commonly held assumption that organic ingredients can be bought in the same way as conventional products" (p. 93). The authors argue that this assumption has mislead purchasing staff and caused them to apply dysfunctional organizational routines in their work when sourcing organic products.

Andersson and Sweet (2002) performed a case study of the implementation of a new system for waste recycling involving a Swedish food retail chain store, a specific local retailer and its service provider for waste management. They asked what the strategic challenges and managerial implications are for companies involved in such a change process were and found that such challenges included finding new/suitable network structures between parties in the supply chain that will enable effective and efficient coordination, which in turn meant that single actors needs to be able to adapt and reorganise so that they can utilise strengths of both loose and tight couplings. The also note that: "Changes in roles, in the use of power to achieve coordination and mechanisms for dealing with conflicts must change over time as the characteristics of relationships and relationship configurations change. What is considered to be economically efficient and effective coordination during one period may not be efficient or effective in the next" (Andersson and Sweet, 2002, p. 477).

Dobilas and MacPherson (1997) notes that as a result of a growing attention to environmental and social aspects in sourcing analysis of why companies substitute suppliers from one geographical area with suppliers in another geographical area which is normally based on a changing map of cost and quality, will soon also need to factor in environmental aspects. The authors notes that upstream CSR together, with other forms of organizational innovation of relevance for sourcing decisions such as total quality management and business process re-engineering, raises the level of complexity in decisions regarding where and from who to source, considerably.

7.1.9 Competence

That the lack of specific competence can pose a challenge for upstream CSR has been reported both in terms of competence within the focal company and in terms of competence within the supplier firms.

Competence in the focal firm

In his case study of UK food retailer Sainsbury's, Hall (2000), shows that the interorganisational management of environmental aspects sometimes requires a company to acquire a whole new set of competencies. The author notes that public concern had pressured the focal company to becoming involved in activities that were considerably distant from the retailing function. To do this the company needed to acquire high levels competence

in areas not related to retailing. In the case of Sainsbury's they became heavily involved in "upstream technologies and practices such as pesticide reduction, animal husbandry, forestry management and agricultural biotechnology" (Hall, 2000, p. 163).

These findings are corroborated in the study of Lindgreen and Hingley (2003) who have studied another food retail chain, Tesco, and reports that this company is now carrying out in-depth research on how to keep and transport livestock in order to be able to share these findings with farmers and other suppliers.

Based on their case studies of three automotive assembly plants Geffen and Rothenberg (2000) also note that upstream CSR may require the focal firm to acquire access to new competencies and expertise and argue that suppliers can be one source of such competence. Indeed the authors argue that "Implementing radical innovation in an integrated technological system demands capabilities beyond those likely to exist within a single company" (Geffen and Rothenberg, 2000, p. 184). The authors stress that the successful implementation of environmental innovation in the supply chain requires consideration of management factors as well as technology factors. They conclude that "the most effective partnerships were based on new contractual arrangements that included consideration of environmental goals and encouraged broader sharing of innovative products and ideas across more elements of the production system" (Geffen and Rothenberg, 2000, p. 184).

Based on the findings from several case studies of Danish textile companies, (Forman and Søgaard Jørgensen, 2004) has developed a typology of supply chain management-relevant competences, which also reflect the challenges involved. These include:

- Interpretation competence: "Interpretation competence is partly the competence to understand external requirements from, for example, environmental agencies and customers, and partly the competence to translate those requirements into practice within the company itself" (Forman and Søgaard Jørgensen, 2004, p. 54).
- Technical environmental competence: "refers to the insight into technical and chemical process, among other things, which is a prerequisite for the adjustment/reorganisation of a production process or a design scheme in order to meet environmental requirements" (Forman and Søgaard Jørgensen, 2004, p. 54).

- Documentation competence: "is knowledge about how to build and operate documentation systems, document handling routines and so on" (Forman and Søgaard Jørgensen, 2004, p. 54).
- Control competence: "refers to knowledge about monitoring systems, management systems and auditing, and the responsibility for or the empowerment to maintain control" (Forman and Søgaard Jørgensen, 2004, p. 54).
- Network competence: "is the ability to create changes in a product chain through networking between customers and suppliers, including the ability to motivate the companies in the chain to enter a dialogue, as well as the ability to transfer technology and knowledge in or between product chains" (Forman and Søgaard Jørgensen, 2004, p. 54).

Competence in supplier firms

Based on a study performed in the Asian region, Welford and Frost (2006) argue that in most countries in this region companies lack competent staff that have the skills and the training to manage CSR initiatives. They also note that in many areas there is also a lack of available consultancy expertise as well.

One possibility of enhancing supplier competence is for the focal company to engage in some form of initiative for supplier development. The findings in a exploratory case study of Toyota Motor Corporation Australia by Simpson and Power (2005), does however indicate that the supplier development task present significant challenges. The authors note that to engage in such an endeavour the focal company need to be convinced that it worth the risk associated with investing company resources in this type of project, but also that the supplier must be convinced that it is in their best interest to accepting guidance and support from a buyer.

7.1.10 Internal goal congruence

The following quote from Welford and Frost (2006) illustrates the dilemma that can occur when the focal company has not aligned its upstream CSR agenda with its general sourcing and procurement agenda: "Managers and owners [of suppliers] repeatedly pointed out that they face tighter and tighter margins […]. They complain that their customers put even more demands on them to improve workplace practices, health and safety, environmental performance etc., but at the same time are constantly looking for lower and

lower prices for their orders. They complain of a mismatch between the demands of CSR departments and those of procurement managers" (Welford and Frost, 2006, p. 174).

Whereas this might seem as a problem for the suppliers, the result of this "mismatch" has rather serious consequences as it may foster a culture of improving appearances rather than making real improvements. Welford and Frost (2006) quote one manager of a supplier saying: "we cannot be good employers unless we are making profits. Unless they pay more money for products we are going to be forced to keep cheating" (p. 197).

7.2 Challenges from the perspective of individuals working within a focal company

Another way of looking at the issues of challenges related to upstream CSR is by reflecting on the possibilities of individuals within a firm and the challenges that they may face within the organisation when wanting to implement upstream CSR.

Based on a study of 30 manufacturing companies within various sectors in the UK and Scotland, Preuss (2005b) reflects on the low levels of implemented upstream CSR and argues that part of the explanation can be found in the fact that supply departments is often a reactive service function within many organisations and that supply managers often are found at the middle management level and not at in the top management of companies. He also notes that the performance criteria traditionally employed to measure performance of supply managers highly emphasise financial results, and argues that such structural constraints "crowd out attention to 'softer' issues of management, such as the natural environment" (Preuss, 2005b, p. 138).

Handfield, Sroufe et al. (2005) argue along similar lines noting that supply chain executives do not easily claim a position at the level of management where business-level strategy development and planning decisions are made. Like Preuss (2005b), Handfield, Sroufe et al. also note the problem that supply managers find when it comes to absorbing costs for upstream CSR initiatives while still being evaluated under financial performance metrics. The authors also note that this dilemma often only becomes concrete at the operational level and is easily overlooked in a general strategy development process: '"doing the right thing' or being environmentally friendly is very

easy to put forward as a broad goal that everyone agrees on. However, when environmental strategies filter down to the functional and commodity-level strategy development process, managers must consider how buying more responsibly will affect the performance metrics used to evaluate the supply chain management groups" (Handfield, Sroufe et al., 2005, p. 5).

Patagonia's story of the decision to move from conventional to organic cotton in their clothing also shows that a lot of the challenges associated with upstream CSR are located within the firm. The report that while this decision carried with it a number of technical challenges, many of the issues that needed to be resolved where questions related to organizational change and structural integration. They note that provide examples of how the company had to find ways of accommodating multiple concerns from different departments and point out that: "Care in the integration of environmental improvements into an organization will produce long-lasting dividends. Done poorly, the innovation is not likely to reach its full potential and may be the precursor of scepticism about future efforts" (Chouinard and Brown, 1997, p. 127).

7.3 Challenges from a supplier perspective

In the reviewed material I have not found many accounts of upstream CSR from the suppliers' perspective, the receiving end so to say.

The article of Welford and Frost (2006) is one exemption. Reporting on a study that includes interviews with Asian factory managers, they note a conflict between CSR-related demands on suppliers and the strong pressure that they perceive to drive prices per unit down. They also highlight the fact that many suppliers, as well as the focal companies, incur cost associated with the auditing process. Many of the interviewed suppliers claimed that they would like to "cut down the money spent on record keeping and preparing for inspections and spend this money on training workers, on improving working conditions and on ensuring staff retention" (Welford and Frost, 2006, p. 197).

7.4 Challenges from a public perspective

When upstream CSR initiatives does achieve objectives related to environmental or social improvements, these initiatives do not just add value for the focal company, but for society as a whole. One could argue that one challenge from a societal perspective is to figure out how to trigger more corporate action in this field. This is something that several researchers have focused on in the quest to understand what motivates upstream CSR. However, as we shall see below, there are consequences of upstream CSR that are not always beneficial for all and thus it is important to understand the implications of upstream CSR on a societal level and what challenges we may need to address. The contributions found in this review have in this context focused much on issues of equality and fairness:

7.4.1 Defining standards – equality perspective

In a discussion about ethical sourcing practices in the cocoa, tea and coffee supply chain, Blowfield (2003) concludes that while there have been positive change in businesses notions of responsibility, "sustainability needs to be recognised as a contested and subjective concept, the negotiation of which will be influenced by the perceptions and, above all, power of different parties. A just outcome from such negotiation (and justice is an inherent part of sustainability) is not simply a question of attempting to involve interested parties (although, given the differences in interests, education, location, culture etc., that in itself will be an immense challenge) but also a question of developing means of negotiation that are not inherently biased towards a particular party or world-view" (Blowfield, 2003, p. 22).

In his article based on a study of the Ethical Trading Initiative and du Toit (2002) argues along similar lines noting that CoCs about labour and social issues "are marked by relatively quick convergence around a set of standards that more powerful interests can argue represent 'acceptable international norms'. It is not the substantive appropriateness of the code that is decisive but its public credibility and defensibility in retailers' home markets" (du Toit, 2002, p. 367). Pointing to the fact that while the buyers may want 'universal' standards, these standards will always need local articulations, the author goes on to identify challenges associated with this process: "Operalization and interpretation are never simply technical processes but always have a political dimension and create terrains of contestation. This politics is fraught with real difficulties. Not all stakeholders are equally well positioned to influence the outcomes of design processes. The problem is

not only that outcomes of 'stakeholder consultation' are still controlled from the 'North', but also that power is unequally distributed between 'Southern' stakeholders: some are more able to use and manipulate the new power-knowledge technologies than others " (du Toit, 2002, p. 367-368).

A third contribution commenting the same dilemma is the study by Dolan and Opondo (2005): "In fact, the power to determine which stakeholders are called to the bargaining table and whose voices are validated is significantly influenced by market pressures beyond Kenya. The fact that HEBI [the Horticultural Ethical Business Initiative (in Kenya)] continues to receive international support despite the absence of trade union participation is indicative of how Northern actors continue to shape the trajectory of MSPs [multi stakeholder processes]".

Dolan and Opondo (2005) also discuss the role of infrastructure for third party verification of standards, noting that even though the methods of auditors belonging to global firms (such as KPMG, SGS and BVQI) have been criticised for failing to address the concerns of marginalised workers and failing to identify problems related to issues such as gender discrimination and sexual harassment, such firms are often preferred by Northern buyers (despite higher costs) because they can provide consistency in auditing systems across industries and countries. The authors argue that local auditors tied to HEBI [the Horticultural Ethical Business Initiative (in Kenya)] "are well equipped to identify deep-seated workplace problems (through their knowledge of language, local culture, and their capacity to perform regular monitoring)" but that "they will be unable to expand their institutional role if corporate auditors remain privileged in the marketplace" (Dolan and Opondo, 2005, p. 97).

There is also the risk that focal companies in their efforts to do the right thing actually risk making matters worse. Wells (2004) investigates some of the key criticisms that have been raised against US universities' ethical purchasing policies that seek to ensure a certain minimal labour standard in supplier factories. Wells notes that three of the major criticisms are:

- That ethical buying codes are protectionist
- That they weaken economic development.
- That they cost jobs, particularly those of women and children, in low labour standard regimes.

In examining each of the claims listed above he found that all of them had significant empirical and logical problems. He did however find support for a fourth common criticism: "The […] criticism that university ethical buying policies may promote an essentially corporate-dominated alternative to more effective state-centred regulation has been shown to be cogent in some key respects" (Wells, 2004, p. 134). Wells notes that if more effective forms of international labour regulation is to be developed, this question needs to be raised on the agendas of governments and international economic organizations such as the World Trade Organization. He goes on to argue that: "At a time when the preconditions for this more effective, state-centred regulation of international labour rights and standards need to be created, the ethical purchasing policies of universities can be a step toward improved human rights and better international labour standards" (Wells, 2004, p. 135).

7.5 Final comments on challenges

The one thing that strikes you after an exercise like this, that is, compiling findings that indicate challenges in relation to upstream CSR, is that these challenges range from the micro to the macro perspective. This is obviously also a reflection of the fact that upstream CSR as a phenomenon is something that concerns not just actors within the supply chain, but also society at large. While macro perspective challenges, such as how justice is ensured in the development of criteria for social or environmental performance, are of direct relevance from a political perspective, it is perhaps equally important for policy makers to have an understanding of the micro level challenges that companies face in working with upstream CSR, as this will help policy makers and other external parties, such as NGOs, to understand what we can expect companies to manage and what type of support they might need.

Conversely, while it is obviously of relevance to corporate practitioners to understand micro level challenges associated with solving specific tasks associated with upstream CSR, it may also be of relevance to have a basic understanding of more macro level challenges, as this can help companies understand expectations and concerns from external stakeholders, which in turn may influence their choice of approaches. For example, by paying attention to the society's macro level concern for justice, when selecting or developing criteria to work with in a CoC, a company may avoid critique from external stakeholders who focus on such issues.

CHAPTER
EIGHT

8. Tools and guidelines: Recommendations for practitioners

Below I briefly summarise what the reviewed literature had to offer in terms of guidelines and tools to support practitioners in the field.

8.1 Guidelines

In the following section I have collected advice and recommendations related to upstream CSR present in the literature. Under this heading I include overarching guidelines and recommendations regarding specific activities or challenges. We shall start by looking at overarching guidelines.

The guidelines that I have found are similar in that they offer some form of stepwise approach for upstream CSR. While the steps differ in some respect, there are also several similarities, and they all bear resemblance to the classical Demming plan-do-check-act circle.

Canning and Hanmer-Lloyd (2001) provide the following guidelines for environmental adaptation in a buyer supplier relationship based on their findings from four different case studies. The authors distinguish between guidelines for internal action and guidelines for inter-company action.

With regards to internal action the authors list the following advice (Canning and Hanmer-Lloyd, 2001, p. 235):

- Re-evaluate company strategies where strategic adaptation is required.
- Managers responsible for introducing adaptations with exchange partners must have the support of senior managers.
- In order to guide the behaviour of managers responsible for introducing adaptations, performance targets or actions must be consistent with the adaptation being pursued.

With regards to inter-company actions the authors distinguish between the following phases or tasks; stimulating interest and the management of the process and action. With regards to stimulating interest they suggest that the focal company should (Canning and Hanmer-Lloyd, 2001, p. 235):

- Be prepared to present a case to an exchange partner of the need to adapt and the contribution of both parties to the process of adaptation.
- Highlight the potential benefits at both the organizational and individual levels which can accrue from adaptation.

With regards to the second interorganisational task, management of the process, they recommend the practitioners to (Canning and Hanmer-Lloyd, 2001, p. 235):

- Allocate responsibility to one manager in each company for overseeing activities within the respective organizations and for co-ordinating the process with the exchange partner.
- Ensure that managers involved in the process possess the expertise and credibility to persuade a partner of the company's problem-solving capabilities and to clarify uncertainties that a partner might have.
- Use customer and supplier facing managers to facilitate access to appropriate representatives in the partner organization.
- Ensure continuity in the managers involved in the process.

With regards to the third interorganisational task which the authors simply call action the provide the following advice (Canning and Hanmer-Lloyd, 2001, p. 235):

- Make resources available to invest in the process which reflect the nature of the adaptation being sought.
- Consider the implications of the way in which tasks and costs are shared between companies: joint contribution could restrict the transferability of problem solving expertise.
- Ensure the timely execution of agreed tasks in order to facilitate the progression of the process and to avoid frustrating the actions of an exchange partner.

Based on their case studies (focusing on interviews with purchasing managers) of multinational companies in the US, UK, Japan and Korea Handfield Sroufe et al. (2005) have developed a stepwise approach to

developing a "green commodity strategy" comprised of the following steps (p. 16):

1. Define the strategic and environmental importance of the commodity: (* form commodity team, II: determine strategic importance of commodity)
    - Here they authors stress the need for corporate practitioners to prioritise with regards to what issues to address and suggest that the way to do this is to start by selecting those commodities with the highest priority, and go from there. In evaluating the priority of commodities they suggest that the companies should look at three different dimensions: supply risk, profit contribution and environmental risk.
2. Conduct research: (* collect data from multiple sources of information, * determine trends, * identify market leaders) - develop a commodity status report
    - The authors state that the commodity status report should compile relevant a decision support and include information about future supply, price and profit contribution for the commodity. Noting that the process of linking environmental and commodity strategies causes supply chain processes to become more complicated, the authors argue that each supplier and product must be evaluated on cost, quality, lead time, flexibility and environmental impact.
3. Develop a strategy: (*determine measures, * select suppliers, * select strategy that best matches needs and conditions)
    - Here the authors stress the need to look at the environmental impacts associated with the production and commodity itself as well as with the transport of the commodity.
4. Implement strategy: (*establish detailed plans, * negotiate contract, * assign ownership of task)
    - The authors point out that the detailed action plan needs to specify the type of contract to be used for the commodity, whether an alliance or partnership will be pursued or whether further supplier training or development is needed.
5. Monitor progress: (* review progress, * monitor key metrics, *advice suppliers of changes and results)

Maignan, Hillebrand (2002) argues that "The development of sound purchasing practices respectful of corporate social responsibilities is based on six consecutive steps" (p. 647-648):

1. Assessing stakeholder pressures
2. Clarifying purchasing policies based on organizational values
3. Estimating potential business benefits and costs
4. Choosing a SRB [Socially Responsible Buying] strategy
5. Implementing SRB practices
6. Leveraging SRB

In a survey of purchasing professionals, Min and Galle (1997) found that green purchasing strategies seem to be 'reactive' in that they try to avoid violations of environmental statutes. The authors note that the environmental compliance issues can be complex and suggests that "Perhaps the best response to this situation is to develop more aggressive, proactive environmental audit programmes" (Min and Galle, 1997, p. 16). As a guideline, the following audit process is suggested:

1. Identify applicable environmental statutes.
2. Develop standard checklists for environmental compliances.
3. Organize an audit team comprised of both internal management and outside third-party inspectors.
4. Maintain records related to handling, storage, use, and disposal of waste.
5. Assess the nature and degree of potential violations and liabilities.
6. Develop a corrective action plan and monitor its progress.

8.2 Tools

Fifteen out of the 142 articles included in this review are articles that present some sort of tool developed by the author/s for upstream CSR. A lot fewer, I only noted three contributions (Ardente, Beccali et al., 2006; Baumann, Boons et al., 2002; McIntyre, Smith et al., 1998a) that provide some reference to, or descriptions of, other tools that are already out there and in use by companies.

If we proceed to contributions where the authors have themselves developed some form of tool for supply chain-CSR, I have again for the sake of providing a better overview ordered them into categories according to what type of problem the tool can aid in solving. Below you will find brief presentations of the identified tools sorted into three different categories.

In the first category we find tools that are designed to **aid companies making decision about what to do** with respect to supply chain-CSR. Here we find two types of approaches where the starting points are a little bit different. In the first group I have listed tools that are designed to analyse the supply chain for the purpose of identifying key environmental and/or social problems that could then be prioritised for upstream CSR initiatives. In the second group I have included **tools that are designed to aid in the evaluation of different supply chain-CSR initiatives.** Whereas the first type of tools analyse the supply chain from an environmental and/or social perspective, the second type of tools start with an upstream CSR initiative and analyse this from a business perspective.

In the former group; *tools for the identification of CSR-related issues/problems in the supply chain,* we find the following contributions:

- Faruk, Lamming et al. (2001) developed a management tool called ecological supply chain analysis (EcoSCAn) that: "frames a comparative environmental analysis of products capable of performing broadly equivalent functions. The analysis occurs over complete extended supply chains and within defined supply chain stages at a product level and, to some extent, at a site level" (Faruk, Lamming et al., 2001, p. 13). Essentially, the tool allows the user to identify problem areas within the supply chain and think about opportunities for reducing impacts at those points.
- Gauthier (2005) extends the methodology for life cycle assessment (LCA) so that it also includes the social performance of a product throughout the various stages of its life cycle as well as additional phases of the life cycle, including, research and development, testing, the design phase, and maintenance.
- Kainuma and Tawara (2006) use a multiple utility function approach to assess the supply chain including the re-use and recycling phases, and evaluate performance from a managerial viewpoint, as well as, an environmental viewpoint.

In the second group; tools for the evaluation of different upstream CSR alternatives, we find two contributions:

- Sarkis (1998) developed a model designed to help companies in the "strategic evaluation of environmental practices and programmes [that] helps in analyzing various projects, technological or business decision alternatives. […] The central focus of the model was on the impact of various organizational alternatives on major environmentally conscious business practices, including design for the environment, life cycle analysis, total quality environmental management, green supply chain management, and ISO 14000 requirements" (Sarkis, 1998p. 172-173).
- Later Sarkis (2003) develops another decision framework designed to aid companies to evaluate different upstream CSR initiatives based on a number of different factors of relevance feed into a dynamic non-liner multi attribute decision model.

García Sánchez, Wenzel et al. (2004) have also started from a business perspective in their tool development, but given it a slightly different twist. They provide two different tools, both presented in the same article. The first is a tool which they describe as a "self-assessment tool for companies to assess their present level of LCM [life-cycle management]" (García Sánchez, Wenzel et al., 2004, p. 9). The approach taken is to analyse by which frequency the company integrates life-cycle considerations into its decision-making processes. In addition to this, the authors present a tool for assessing "the conditions shaping the feasibility of LCM for a company" (García Sánchez, Wenzel et al., 2004, p. 9) based on a evaluation of internal capabilities and resources, the nature of the products in focus, the influence that the focal company can exercise in the supply chain and the framework conditions given by the market and society. The authors state that the purpose of this tool is to assess whether these conditions encourage or discourage the company to adopt LCM.

The second category includes different frameworks and **tools for supplier evaluation**. Here we find the following four contributions:

- Pointing out that information about environmental impacts associated with suppliers in developing countries are often not readily available, Brent and Visser (2005) have developed a tool to assess suppliers based on three operational parameters: water use, energy use and waste produced per manufactured item. The tool called 'environmental performance resource indicator' (EPRII) uses a life cycle impact

assessment framework to assess the impacts on water, air, land and mined abiotic resources.

- Enarsson, (1998) has developed a tool for evaluation of suppliers, where four main factors are identified for appraisal, the supplier as a company, the supplier's processes, the product itself, and transportation.
- Emphasising that the different companies places varying importance on different types of criteria used for evaluating suppliers Humphreys, McCloskey et al. (2006) present a system that uses fuzzy logic to aid management in assessing a supplier's environmental performance in the supplier selection process.
- Noci (1997) also suggests a "a conceptual approach that identifies measures for assessing a supplier's environmental performance and, secondly, suggests effective techniques for developing the supplier selection procedure according to an environmental viewpoint" (p. 103). Noci notes that such a process must start with the clarification of the buying firms green strategies.

Finally, in the third category **tools for supply chain optimisation,** we find four different contributions. All of them offer some approach of comparing different supply chain structures in order to make decisions regarding the structure and composition of the supply chain.

- Sonesson and Berlin (2003) uses modelling techniques to simulate five different scenarios for the milk supply chain in Sweden and to analyse the results using LCA methodology.
- Khoo, Spedding et al. (2001) developed a simulation model designed to optimise performance in terms of traditional business values as well as least transport pollution.
- Kleineidam, Lambert et al. (2000) developed a method for modelling production chains including recycling, allowing the user to investigate properties of the chain concerning its dynamical behaviour with respect to stability and controllability. Properties, which the authors argue, are prerequisites for effective chain management, as in the evaluation of recycling policy.
- Zhou (2000) proposes an approach for sustainable supply chain optimization for the continuous process industry, which is based on a combination of two multi-objective decision-making methods.

To summarise we see that the literature provides tools for decision support for the focal company in determining what issues or projects to engage in,

tools for supplier evaluation and tools for supply chain optimisation. The methodologies and parameters vary and it would of course be interesting to see field tests and evaluations of these tools. So far it appears to have been done to a very limited extent. Two questions are relevant to explore further: whether the tools in themselves useful and appropriate in practice, but also whether they offer assistance in areas where practitioners need it. Given the fact that there is a rich source of tools and guidelines of relevance to upstream CSR provided by actors outside of academia[26], it would be interesting to see more research like the study by Ardente, Beccali et al (2006), who study the application of POEMS in SMEs. If we are operating under the assumption that it would be good to see more corporate practitioners engaging with upstream CSR, studies that evaluate the applicability, effectiveness and usefulness of available tools should deliver useful feedback and direction for further development of such tools.

8.3 Concluding remarks – recommendations

If we compare the list of challenges with the list of tools there are many areas of challenges that are addressed by tools or guidelines. The issue, for example of how to best motivate suppliers to comply with environmental requirements, or indeed to provide information regarding environmental performance, is not substantially covered here nor is the issue of control and verification. It seems that while challenges occur on all levels from macro level down to nitty gritty operational details, the tools and recommendation lay only on a rather generic level using the perspective of the focal company's decision maker.

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[26] Examples include e.g. PRIO a tool developed by the Swedish Chemicals Inspectorate, with the aim to facilitate in the assessment of health and environmental risks of chemicals so that for instances purchasers can identify the need for risk reduction and obtain help in developing routines for purchasing. Several multi stakeholder schemes offering packages for the management of social compliance in suppliers including the Fair Labor Association, the Fair Wear Foundation and the Business Social Compliance Initiative and many other types of tools. Tools and recommendations are provided by a wide range of different actors including governmental organisations, non-governmental organisations, industry associations and consultancies

CHAPTER
NINE

9. Concluding remarks from the literature review

The purpose of this literature review was to summarise published study findings and conceptual developments of relevance and to structure these findings in a manner that enables the reader to get an overview of the current body of knowledge.

My approach to provide such an overview has been to group research findings around themes. In reading I have not limited myself to focus merely on the stated objectives and conclusions that the authors arrive at, but I have also examined each presented finding, or piece of evidence, in its own right. Going through the text I continuously asked what questions each presented finding, or fact, could serve to shed some light on. There is always more than one way to slice a cake and, surely, this is not the only way to organise the material, but from this process emerged the overarching themes that I have gone through in the chapters above: antecedents, practices and consequences, challenges and finally recommendations, each with its particular set of sub-categories.

Based on this overview, we can see that certain themes have been more explored than others. Antecedents have received proportionally more attention as have challenges and consequences, in particular consequences for firm performance. However when we break these overarching themes down into sub-categories the number of contributions are in most cases still rather limited. This is of course not surprising considering that the total number of papers identified for the review is 141. This number of papers is not an insignificant contribution on a topic, but here we also have to consider the complexity and heterogeneous nature of the phenomenon and the fact that it has been examined from many different perspectives and on many different levels.

In fact, an initial reaction after doing this type of exercise is the realisation that upstream CSR clearly is a complex and heterogeneous phenomenon,

which does not easily lend itself to simple overviews and explanatory models. It is, however, possible to identify central and commonly recurring challenges, or tasks, that focal companies may need to address as they engage in upstream CSR. These include the need to communicate requirements along the supply chain, the challenge of exercising influence over the decisions and practices of suppliers, suppliers' suppliers etc., and the task of monitoring or verification. From the perspective of the focal company though, it is also important to note that upstream CSR does not start with implementation. A central challenge associated with upstream CSR is the task of setting the company's upstream CSR agenda, making decisions regarding what particular environmental and social aspects in its upstream supply chain they should seek to address. Another common challenge, or task, in this context is to define, or "shop" for, suitable criteria to define good or bad performance.

As shown by the reviewed research, upstream CSR as a phenomenon is not without controversies, but it also holds a significant potential for stimulating good things not just for companies, but for society at large as well as on an individual level. It is a good thing if buying companies can motivate their suppliers to continuously reduce the environmental impact associated with its operations, and it is a good thing if buying companies can contribute to ensuring safe and fair working conditions for the individuals that work in supplier factories.

The controversies are partly related to the fact that environmental and social issues are generally not perceived to be the realm where companies are best suited to set the agenda, yet as a part of this phenomenon we see companies defining criteria for environmental and social performance to be followed by their suppliers. In a sense we can say that companies are developing private regulations within the realm of social and environmental behaviour and as well private capacity for enforcing such regulations. This situation can be particularly precarious when the criteria are formulated by actors in one part of the world but enforced in another part of the world.

As mentioned earlier, it is important to note that research about upstream CSR covers several different perspectives ranging from a macro level, looking at this issue from a society perspective, to the micro level, looking at it from the perspective of a focal company, or even from the perspective of an individual working with these issues within a focal company.

Clearly it is relevant to study this phenomenon both from a societal perspective and from the perspective of companies within the supply chain, both the focal companies and the suppliers. But it is important to note that, depending on what perspective we take, different questions become of key relevance.

From a political or societal perspective, or the perspective of those stakeholders that have an interest in realising the potential public benefits of upstream CSR, the following questions seem to me to be of high importance.

- In what way can external actors such as policy makers and NGOs motivate and/or enable focal companies to engage in upstream CSR?
- What form does this phenomenon take in practice and what consequences can be identified? Are environmental and social improvements realised, and to what extent are there other "side" consequences that should be considered and perhaps mitigated?
- What are reasonable expectations? What issues can we expect companies to address through the supply chain and what pace of progress is probable?

From the private perspective, a focal company perspective, the following questions seem to be important:

- The issue of "how" should be central for any practitioner in the field? How do we influence the appropriate actors in the supply chain and how do we verify their performance?
- But preceding this question is also the question of "what". Companies must go through a process of identifying what aspects in their supply chains they must/want to address. Sometimes this is a given, for instance, if there are legal requirements in place, but other times stakeholder expectations are a lot less explicit and specific.
- What are the consequences of different approaches, not just in terms of how effective they are in terms of achieving set goals, but also in terms of cost and their impacts on other issues of relevance, such as the structure of the supply chain, relative dependence between the focal company and its suppliers and, related to this, their flexibility in sourcing?

Some of these questions have been addressed in the reviewed literature. On the topic of antecedents, we can see that companies engage in upstream CSR

for a number of different reasons. Regulations, market demand, stakeholder pressure, or, in some cases, potential savings or the ambition to differentiate a product or a company brand as environmentally superior to its competitors, can compel a company to initiate efforts to improve and/or control environmental performance upstream in its supply chains. The value for companies can lie in the ability to reduce or mitigate negative attention associated with environmental and social aspects in their supply chains, or the ability to reduce the risk of such attention, but it can also lie in the ability to improve firm performance as a result of cost savings or through the creation of a positive association to the company and/or its products or brand.

While these findings do not suggest one best approach for external stakeholders, such as policy makers or NGOs, to stimulate or motivate focal companies to engage in upstream CSR, it does suggest that external pressure is important and that regulation and policy surely can play a role here.

By understanding some of the challenges associated with implementing upstream CSR, it is also possible for policy makers to start piecing together information regarding what they can do to enable focal companies to engage in upstream CSR. From the material it appears, for instance, that upstream CSR entails the need for companies to acquire sets of competences that are normally not within their sphere of business, both in terms of related issue expertise, but also in terms of expertise in interorganisational management, including supplier development, auditing, etc. The lack of such competence has also been identified as a barrier, suggesting that policy makers can enable more companies to engage in upstream CSR by supporting companies to acquire such competence, for instance by supporting the development of an external infrastructure of service providers that can support companies with such a competence.

While the question of consequences is explored from a firm perspective, there are surprisingly few contributions that have looked at the consequences of upstream CSR from a broader perspective. It would have been very interesting to see more studies on the actual results, in terms of goal achievement, of upstream CSR initiatives. It is clear that several studies have described activities of companies, whereas very few have described the results of these activities in terms of real environmental or social improvements. This is not so surprising considering the methodological challenges involved in such an endeavour, in particular considering that researchers are almost always dependent on focal companies to identify

actors in their supply chains. As it is, we have only sporadic evidence to go on, such as in the case of CoCs where, for instance, the study of Welford and Frost (2006) indicates that while working with CoCs have surely generated real improvements for workers employed in factories covered by such codes, there are also a lot of problems in terms of corruption and deceit and it seem reasonable to say that we are far from a situation of perfect compliance.

Why is this of relevance to external stakeholders? This type of findings are of course important for practitioners as it sends a signal regarding a choice of approach and the need to re-evaluate methods and tools, but it is also important for policy makers as it will tell us something about what is reasonable to expect that focal companies will success in managing? Always remembering though that this is not a constant, just because one approach has not been 100% successful does not mean that this is an impossible task. However, it suggests that it may be a little more difficult to solve than what was at first perceived.

CHAPTER
TEN

10. Case study: Greening the cotton textile supply chain of Verner Frang

This case study tells the story of how Verner Frang AB, a very small Swedish textile trading company, managed to establish a supply chain that was able of supplying textiles and yarns labelled with the Nordic Swan textile eco-label. The criteria for the Swan entails not only that the raw material, the cotton, must be certified as organic, but there are also requirements that influence the following steps of the chain including ginning, spinning, weaving/knitting and wet processing.

Intrigued by the fact that a small company like Verner Frang successfully had convinced not only its much larger first tier suppliers, but also actors along the entire upstream supply chain, to improve their environmental performance, my objective for this study was to understand how Verner Frang addressed the tasks of verifying and influencing environmental aspects throughout its upstream supply chain.

I have specifically set out to answer the following questions:

1. *What did the focal company do to: a) influence actors in its supply chain to get them to agree to adapt their operations to ensure compliance with the criteria of the Nordic Swan Eco-label for textiles and b) control and verify that relevant aspects are in compliance with the criteria of the Nordic Swan Eco-label for textiles?*
    a. *Related to the question of influence I also sought to understand: How significant did the actors in the supply chain perceive the adaptations required to meet the Eco-label criteria to be?*

2. *What did the conversion to sourcing organic swan labelled cotton yarns entail for the focal company and what consequences did it have for other affected actors in the supply chain, as well as for the structure, processes and flows in the supply chain?*

Given the size of the focal company in this case study, a particular emphasis has been placed on explaining how this small company could exercise influence over its, much larger, suppliers.

10.1 The focal company in brief

The focal company of this case study is Verner Frang AB, a small Swedish textile trading company with 5 employees. In 1986 the company was bought by its current owner. At the time, the company imported several different types of yarn which they marketed to customers in the European textile industry. But in the late 1980s the owner decided on a new strategy for the company focusing exclusively on marketing environmentally superior textile goods.

There were several reasons leading up to this decision. During the late 1980s the company had seen their market in Europe decreasing in the face of increasing competition from low cost producers in Asia and South Eastern Europe. At the same time, there was an increasing interest in eco-textiles. The opportunities for including environmental criteria in public procurement were increasingly being discussed and explored, and eco-textiles and natural fibres were in high fashion. Many fashion retailers launched their own ranges of eco-fashion, but along with this flood of eco-textiles came the critique that many of the claims of being environmentally friendly were unfounded and not sufficiently controlled. Several critics argued that there was a need for independently verified labelling based on environmental criteria taking a life cycle perspective into account.

It was in the light of these developments that the owner of Verner Frang AB saw the ability to provide certified organic cotton yarn and fabric as an opportunity to differentiate the company's products and target a growing market for eco-textiles. As the company had a long tradition of working with Peruvian suppliers, and Peruvian cotton is recognised for its high quality, a decision was made to source the organic cotton in Peru.

What started out as a business idea did, however, soon develop into a strong personal commitment, as the owner of the company learned more about the environmental and social impacts of cotton farming. This may have played a significant role in the events that followed, because importing yarns and textiles made from organically grown cotton proved to be far more complex than simply identifying a suitable supplier and placing the order. When they

set out on this process Verner Frang's current suppliers did not have organic cotton in their ranges. As it turned out, it was not only impossible to find Peruvian suppliers of organic cotton yarn, the company realised that it could not even find the raw material they needed, certified organic cotton, in Peru.

10.2 The starting point – the Verner Frang supply chain in 1989

Before the decision to specialise in organic cotton textiles, Verner Frang was buying yarn from a number of different spinning mills in Peru. They had been using the same suppliers over a number of years and built up a good business relationship with these, but Verner Frang had never had any reason to identify the actors beyond the 1st tier in its supply chain. The company functioned essentially as an agent between the spinneries and the customers on the European market. Below you see a graphic illustration of the Verner Frang Supply chain in 1989 (Figure 10-1).[27]

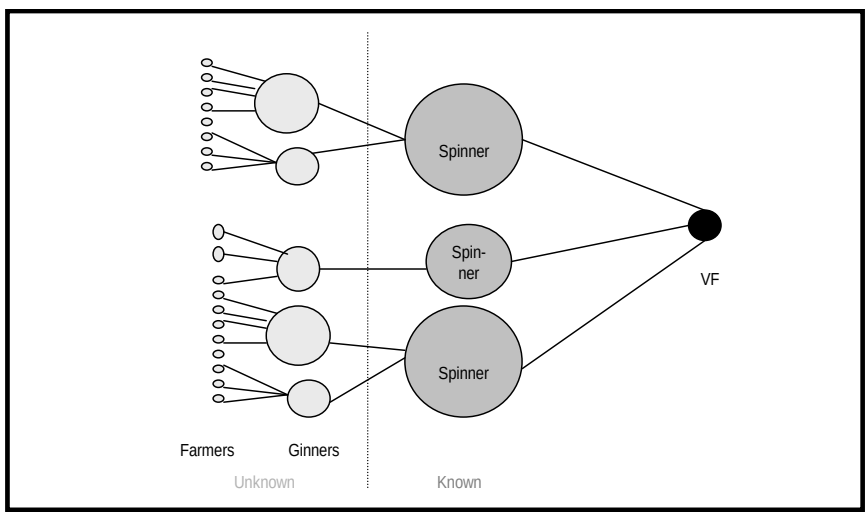

Figure 10-1: The structure of the Verner Frang supply chain in 1989.

[27] Please note that this is not an exact representation of the 1990 supply chain. As Verner Frang only interacted with their first tier suppliers no effort has been made to map out the tiers beyond that. The figure will still give an indication of what it may have looked like. Allthough it is possible that the spinners sourced cotton fibres through cotton traders acting as intermediaries between ginners and spinners.

In figure 10-1, circles in darker grey represents actors in the supply chain that are known to the focal company, circles in lighter grey represent actors in the supply chain that are not known by Verner Frang. The difference in size is intended to illustrate, although not to any exact scale, the relative size of Verner Frang's order volume in relation to the total production of each supplier.

The flows in the chain were straight forward. Information flowed in both directions, although for our focal company the direct flow of information was limited to a dyadic level. Material flowed downstream through the chain, from one tier to next, until it reached Verner Frang or the customers of Verner Frang directly. The financial flows moved in the opposite direction.

The only process-related issues that Verner Frang was concerned with was whether the cotton fibre was combed before spinning, and whether the yarn was spun in a ring spinning machine or in a open-end spinning machine, as this influences the quality of the yarn. For each order, Verner Frang would specify what spinning technique should be used and whether or not combing was required, along with other specifications such as yarn count[28], ply[29] etc., depending on the yarn quality the customer desired. This is standard practice in the industry and if the supplier had not complied with these specifications, this would have quickly been noticed upon closer analysis of the delivered yarn.

10.2.1 Textile production – some basic facts

The raw material: Cotton fibres[30]

Cotton fibre grows on plants. In a few places, it is still possible to find wild species of cotton plants, but they are rare, and almost 100% of all cotton consumed today is farmed.

The cotton plant is very sensitive during the growth period and conventionally grown cotton is considered to be one of the most pesticide intensive crops on average. If the fibre is harvested by machine, it is also

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28 Mass per unit length of a yarn.

29 Number of single yarns twisted together to form a folded yarn.

30 Please note that yarn can be made from other types of natural, or man-made, fibres.

common practice to apply chemical defoliants in order to remove all leaves from the plant before harvesting. In many countries, particularly on small farms, the cotton is, however, still harvested by hand. Before the fibres have been processed, the harvested cotton is referred to as *raw cotton*. The quality of the cotton fibre is dependent on the length and the thickness of the cotton fibre. Long, fine fibres are of higher quality than short coarse fibres.

Ginning

Before the raw cotton can be spun into yarn, the raw cotton is put through a mechanical process called *ginning* where the cottonseeds, any impurities and fibres that are too short (linters) are removed.

Spinning

In the spinning plant the cotton fibres are carded[31], and sometimes combed,[32] to ensure that the fibres are aligned before the fibres are spun into single yarn. Generally cotton yarn is composed of two or more single yarns that have been twisted around each other to form a folded yarn. To achieve a more even quality in the yarn, it is common practice to mix cotton fibres from different farms in the spinning process.

Fabric production

Once the yarn is ready, it may be knitted or woven into a fabric directly, or it may be dyed before the fabric is produced. Both knitting and weaving are mechanical processes. Dyeing and finishing involves chemical treatment of the fabric or yarn but may also involve mechanical treatments. Yarn and fabric dyeing and finishing are wet processes that are generally water and energy intensive.

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[31] *Carding*: The disentanglement, cleaning and intermixing of fibres to produce a continuous web suitable for subsequent processing.

[32] The yarn is combed to achieve a higher degree of alignment. The quality of the yarn, and the ability to make very fine yarn increases, when the fibres are combed before spinning.

10.3 New objectives – the process of change

In 1989 things changed. Verner Frang had a new strategic objective: to trade high quality yarn made from organic cotton fibre. As a result, the company now had to be concerned with the processes that took place on the cotton farms, three tiers upstream in their supply chain. An additional challenge came from the fact that, unlike the process specifications mentioned above for the spinning, it is not possible to determine whether a yarn is made from organically grown cotton simply by analysing the delivered goods.[33]

The owner of Verner Frang quickly realised that specialising in certified organic cotton was not going to be as easy as simply identifying a suitable spinner that produced yarn from certified organic cotton. In the late 1980s he did could not find certified organic cotton fibre on the market in Peru.

10.3.1 Required improvements – criteria for the textile eco-label

Scandinavian Textile decided to use the Nordic Swan Eco-label for textiles for its products. The criteria for this eco-label include requirements related to:

- **Farming:** 100% of the cotton fibre must come from certified organic farms. The requirements for certifying farming as organic are manifold, but the core requirement is that no synthetic fertilisers, chemical pesticides or chemical herbicides are applied, neither to the land nor to the crop, and that the farmer must comply with these requirements for a period of three years before the crop can be certified as organic (Krav, 2001).
- **Ginning:** The organic fibres must be kept separate from conventionally grown fibres to ensure that there is no contamination.
- **Yarn and fabric production:** The criteria are most extensive for the wet processing stage. In the mechanical processes in spinning, weaving and knitting, the oil used for lubrication of the machines must comply with certain criteria, as should the wax added to the yarn in the spinning

[33] While it is possible to chemically analyse the fibres to trace residues of pesticides, this is not sufficient to determine whether the farmers have complied with the criteria for organic farming as specified by KRAV, the Swedish certification body that Verner Frang uses.

process, and the sizing agents[34] added in the weaving processes. In the wet processing stage there are requirements concerning COD levels and the pH-level in the wastewater effluent. In addition, there is a range of limitations concerning chemical content in finished textile products, which in effect limits the type of chemical agents and dyestuffs that can be used in the wet processing stages of production.

In addition to these criteria, all involved companies are obliged to keep detailed journals regarding contents of the product, the raw materials, chemicals used and discharge levels, and be prepared to submit this information to the certifying body upon request (Nordic Ecolabelling, 1998).[35]

10.3.2 Phase one – greening the cotton fibre

In order to achieve its objectives, Verner Frang first of all had to motivate a sufficient number of farmers to convert to organic farming in a way that met the requirements for organic cotton farming as specified by the certifying body.[36]

After a land reform in the 1970s, most of the farms in Peru are very small. In the Canete valley south of Lima, where Verner Frang initiated their organic cotton programme, the average size of the farm is 5 hectares. The farmers are many times rather poor and many of them, in particular in the older generation, have no formal training in farming techniques. Financial and technical support to the cotton farmers is often provided by the ginning mills, who provide the farmers with seeds, fertilisers and pesticides, or, alternatively, with enough money so that the farmer can buy these things. This cost, plus interest, is then deducted from the payment the farmer

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[34] Size is a film-forming substance that is normally applied to warps before weaving to protect the yarn and make it stronger during the weaving process. The size is washed out during the wet processing stage of textile production.

[35] Please note that this is only a brief summary of the requirements in the criteria document.

[36] In the beginning Verner Frang used FVO (Farmed Verified Organic) as a certification body, but changed over to the Swedish certification body KRAV after a few years. Both are accredited by IFOAM, the International Federation of Organic Agriculture Movements.

receives when delivering the raw cotton.[37] It is also common practice that farmers receive technical support from representatives for different fertiliser and pesticide suppliers, who also sometimes provide financial services by extending credit to the farmer.

After having discussed the possibilities of buying organic cotton yarn with one of his suppliers for conventional yarn, the sales manager at the supplier introduced the owner of Verner Frang to the owner of the yarn mill. This man was also the owner of a ginning mill in the Canete valley south of Lima. As it turned out he was also a trained entomologist[38], and had previous experience of organic farming. Although he claims to have been sceptical in the beginning as to whether the farmers would follow the instructions for organic farming, he agreed to work with Verner Frang. He states that his main motivation for agreeing to collaborate with Verner Frang on this project was the financial rewards, but that his understanding of the conditions for organic farming played a role in the decision: "Our motivation was initially economic, a better income. At the time there was already a strong market in Peru for conventional cotton. We where not sure that the farmers would follow the instructions for organic farming, but we still decided to give it a go. What made me decide was that I knew that entomological management, the insect management, was easy due to the culture[39] in the Canete Valley" (Owner, ginning mill, personal interview, 25 June 2001).

The financial reward for the ginning mill was the premium that Verner Frang offered to pay for the organic raw cotton. This is renegotiated each year, but normally falls within the range of 10-15% of the price of conventional cotton (Owner, company that operates as Verner Frang's Peruvian supply chain coordinator, personal interview, 25 June 2001).

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37 Before the cotton is put through the ginning process it is called raw cotton.

38 Entomology is the bransch of zoology that studies insects

39 In the Canete vally (where the ginning mill and its contracted farmers is located) there has been a culture of using biological pest control, ever since the mid 1950's when the entire harvest of cotton in the valley was lost completely due to too intensiv applications of pesticides which killed both the bad and the beneficial insects. This incident led to initiatives in research and the development of local compatence integrated pest control managment. (Owner, ginning mill, personal interview, 25 June 2001).

The ginning mill, Tiendas Unidas S.A. (TUSA hereafter), became in effect a direct subcontractor to Verner Frang. At the commission of Verner Frang, TUSA recruited farmers to participate in the organic programme and provided them with technical and financial support during the growth period. The Verner Frang organic cotton programme was launched in 1989 together with a small number of farmers. In 1992, they received their first certification. Although the programme started out small, it quickly grew to represent approximately 30% of the ginning mill's total turnover (Owner, ginning mill, personal interview, 25 June 2001).

It is important to note that the ginning mill, also before joining the Verner Frang organic programme, does far more than simply gin the raw cotton. The company also finance the farmers and provide technical support before planting and throughout the growth period. To provide support to the farmers the ginnery employs farming technicians that travel around the countryside on motorcycles providing support for the farmers that are under contract with the company (Owner, ginning mill, personal interview 25 June 2001).

To achieve the objective of supplying certified organic cotton fibre to Verner Frang, TUSA had to educate some of its employed farming technicians in organic techniques. In 2001, the company had three technicians working, although not exclusively, with the organic programme. The technicians visit the farmers every 15 days, starting before planting and through the growth period until harvest. If there is a problem they come more often (Farming technician, ginning mill, personal interview, 10 July 2001). As the organic farmers receive additional support, the technicians who are responsible for organic farmers have responsibility for 250 hectares each in total (out of these 80 hectares are organic farmland) whereas other technicians, who only manage conventional farms, are responsible for 300 hectares each (Owner, ginning mill, personal interview, 25 June 25, 2001).

It is the job of the technicians to select suitable farmers and convince them to join the programme. They also educate the farmers in organic farming techniques and the requirements of the certification body, and support the farmers throughout the various stages of the cotton farming process.

TUSA pay the farmers a premium for the organic raw cotton (as compared to conventional cotton), but the interviewed farmers that participate in the programme also emphasised the possibility to learn more about farming techniques as an important reason for joining the programme. The farmers

in the organic programme receives more frequent visits by the farming technicians, without additional cost, and, in addition, TUSA arranges regular meetings for the farmers where they invite speakers to give talks on different issues related to organic farming.[40] To access local expertise in the area of organic farming Verner Frang and TUSA has established collaboration with a local experimental farm where different methods of biological pest control and fertilisation is developed and tested. As per their agreement the owner of this farm shares his knowledge with the farmers that are under contract with TUSA.

The organic programme kept growing continuously until 1997 when approximately 200 farmers were growing organic cotton. In 2001, when the field work for this study was done, there were 144 farmers in the programme.

The certification process is carried out by an independent certification body, which normally visits the farms at least once every year. The cost of the certification is covered directly by Verner Frang, but the owner of the ginning mill argues that an important part of the technicians' role is also to monitor and continuously motivate the farmers to stay in the programme. During the ten years the programme has been running, they have involuntarily lost approximately 20 farmers (Farming technician, ginning mill, personal interview, 10 July 2001) The organic farming technicians argue that the most common reasons for farmers dropping out are either that the farmer has sold his land, or that they have decided to grow another crop, for instance potatoes, which is more risky, but in a good year can generate a higher return than cotton. In a few cases, dropouts have also been a result of the farmer not fully understanding the requirements of organic farming.

It is worth noting that the sourcing process of TUSA has been affected by the organic farming project. One example is that TUSA have started to produce its own organic fertiliser as opposed to buying it. They are also teaching the farmers to do their own foliar fertiliser. According to the owner of the ginning mill also conventional farmers have adopted these techniques (Owner, ginning mill, personal interview, 25 June 25, 2001).

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[40] These meetings are also open for conventional farmers working with TUSA. According to the farming technicians and a Swedish consultant working with the Verner Frang project in Peru, this has had the effect that some of the conventional farmers have started to use biological pesticide controls and have become more restrictive in their use of pesticides.

10.3.3 Phase two – greening the textile production

During the first few years, Verner Frang settled for certifying the raw material as organic, and at that time the only requirements in the following steps was to carefully keep the fibres separated in order to prevent contamination from conventional fibres. But in 1994, when the Nordic Eco-labelling introduced their first criteria for textile, Verner Frang decided to set the objective to label their products with the Swan textile eco-label. At the time, they were also broadening their range of organic products offering, in addition to yarn, woven and knitted fabric, towels, garments and bed sheets.

Their task therefore became to find suitable suppliers in all the tiers of textile production, including spinning, weaving, knitting, wet processing and garment manufacturing and to motivate these actors to comply with the criteria of the Swan-textile eco-label. TUSA and the farmers in the organic programme already fulfilled the requirements for the farming and ginning stage.

In 2001, two spinning mills, three weaving mills, one knitting mill and three wet processing plants, and two garment manufacturers were certified to produce eco-labelled products for Verner Frang.[41] Verner Frang's order volume has never represented more than 5% of the total turnover of any of these suppliers. In several cases, their total annual orders were worth less than 1% of the supplier's total turnover. None of the interviewed suppliers are asked to comply with similar demands by other clients.

Although most of the actors, with the exception of one of the wet processing plants[42], claim that complying to the environmental criteria was never any major problem, they all claim that it is more costly for them to produce organic products because of cost of ensuring that the material is not mixed with conventional fibre/yarn or fabric, and, perhaps more importantly, because of the small order volumes that causes obstruction in the production flows.

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[41] Both spinning mills, one wet processing plant, one weaving mill and one garment manufacturer were all part of the same corporation. One weaving mill and wet processing plant where also belonged to one company.

[42] Traditionally this plant only weaves for Verner Frang. They did one smaller order when they also dyed the product. In connection to this order, they experienced some difficulties in developing an acceptable dye recipe.

All actors in the chain charge premiums for their services in relation to meeting the eco-label criteria, but many of them claim that this premium is at least partly, and in some cases almost completely, lost due to cost increases. Still they all say that the premium was an important part of the motivation for making the effort to comply with the criteria for eco-labelled textile production at the request of Verner Frang, as at the start they all were expecting the volumes to grow. The volumes did grow, at least until 1997[43], but not at the rate these suppliers had expected. Even so, they have all decided to continue as a supplier for Verner Frang, and most of them took care to point out that they still see Verner Frang as an important client.

It should be noted here that Verner Frang has made a significant effort in making the process of complying with the criteria and the process of certification as painless as possible for the actors in the chain. They contracted a Swedish consultant, who had lived in Peru for many years, to support the companies in the change process. His job was to assist the different actors in the chain finding suitable substitutes for chemical products, which didn't comply with the criteria, and with developing the necessary documentation for the certification. He also accompanied the representatives from the certification body each time they came for inspection.

Verner Frang also established a permanent presence in Peru through commissioning a well-known and established Peruvian textile trader to administrate the production flow from ginned cotton fibre to product ready for export. This local office coordinate all production activities, and administers information flows, material flows and in some cases even the financial flows between the different actors involved in the Verner Frang supply chain (Owner, company that operates as Verner Frang's Peruvian supply chain coordinator, personal interview, 25 June 2001).

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[43] In the period between 1997 and 2001 Verner Frang's order volume declined slightly. This was not necessarily a reflection of decreasing demand for organic textiles, but rather a result of the US dollar strengthening in relation to the European currencies. As the Peruvian Sol is tied to the US dollar, this made organic suppliers in Turkey and India, a lot more competitive by comparison. (Owner, company that operates as Verner Frangs Peruvian supply chain coordinator, personal interview, 25 June 2001)

10.4 Within case analysis

Verner Frang faced significant challenges on their way to becoming a supplier of eco-labelled textile products and reaching their goal was a long-term process. Two factors contributed to the challenges that the company faced: (1) There was no supply of certified organic cotton available on the Peruvian market and (2) the company were only able to buy relatively small volumes. To put it bluntly, Verner Frang was not exactly in the position, where they could call its yarn supplier and ask them to set up an organic programme on their behalf.

Still, the changes required for the spinning mill and each individual actor in the textile production chain (knitting, weaving, wet processing, manufacturing) were not perceived as that significant. They had to account for the chemicals used in the process, and in some cases find substitute products, but in many cases they could buy acceptable substitutes from their usual suppliers. There was of course still the extra cost of keeping the organic material separate and the cost of handling small orders, but they were compensated for this through the price premium that Verner Frang was willing to pay. Verner Frang also took measures to facilitate the process of finding approved input materials.

The significant changes were in the fibre production. The farmers, had to comply with strict organic criteria and learn completely new techniques of farming, and the ginning mill had to educate their staff and devote a significant amount of time and resources to the programme. For the ginning mill there was the additional cost of supervising the farmers but also an additional cost for handling them so that they do not leave the programme, in total the company estimated that the cost of organic raw cotton was between 9-12% higher than for conventional cotton (Owner, ginning mill, personal interview, 25 June 2001). It is important to note here that for them, however, Verner Frang was not a small customer. In fact for the organic farmers Verner Frang was the sole costumer, and for the ginning mill the organic programme represented 30% of the company's total turnover.

While most of the interviewed actors in the chain stated the premium, expected growth and, in the odd case, care for the environment, as the main motivation for joining the programme, Verner Frang did a number of things that most likely played a role in their success in convincing suppliers to collaborate:

Find someone your own size to pick on. In the supply chain tiers where major changes were required, Verner Frang chose to work with partners for whom their orders where important enough to motivate the extra effort.

Pay a premium: If the cost of loosing you as a customer is less than the cost of accommodating your wishes, you can still get your way through compensating a supplier for the extra costs incurred. Verner Frang did this, but one could also argue that they were in a way sharing the added margins that they could command from their customers with the actors upstream in the supply chain that had made it possible.

Facilitate to make the process as painless as possible: Verner Frang invested significant resources, employing a consultant, who was there to support the actors throughout the process of making required changes.

Pick the right actors: By commissioning a local counterpart, with long experience in the industry, to work on its behalf, Verner Frang was in a position where they could benefit from his knowledge of the local industry, as well as, his connections and influence. He knew what actors to approach and, in some instances, a supplier has taken smaller orders more as a favour for him, than as a favour for Verner Frang. Finding a ginnery with an owner who had an interest in and understanding of organic farming most probably also played a critical role in the process as well, as this person's personal interest in organic farming worked as a motivation alongside the financial premiums that Verner Frang provided.

Promise growth: Additional costs in the textile production chain were to a large extent driven by the actors having to handle small volumes. The potential of larger orders coming in the future made the collaboration more interesting.

It is however also important to note that this case also shows how different incentives were adapted to fit the needs of different type actors. Where a premium was paid in all tiers and support was provided to participants in all tiers, the nature of support differed significantly between the farmers and the actors in subsequent tiers. It is also relevant to note the 'softer' factors that were noted as being a relevant part of the motivation for farmers to join, and stay in, the organic programme. "In the beginning it was probably the premium that convinced the farmers to join the organic programme but then there has been a growing consciousness and they also feel that they are a part of a team" (Owner, ginning mill, personal interview, 25 June 2001).

As mentioned above the process of greening the Verner Frang supply chain has generated rather significant changes in the processes related to fibre production stages, but only rather limited changes in the textile production processes. For Verner Frang the changes have been fundamental. As illustrated by the story in the case description, the process of sourcing and the process of ensuring that the delivered goods meet their requirements, the control process, are completely different in 2001 compared to 1989, before the greening process started.

In addition, the structure of Verner Frang's supply chain has also changed dramatically, and so has its patterns of interaction with its suppliers (see Figure 10-2).

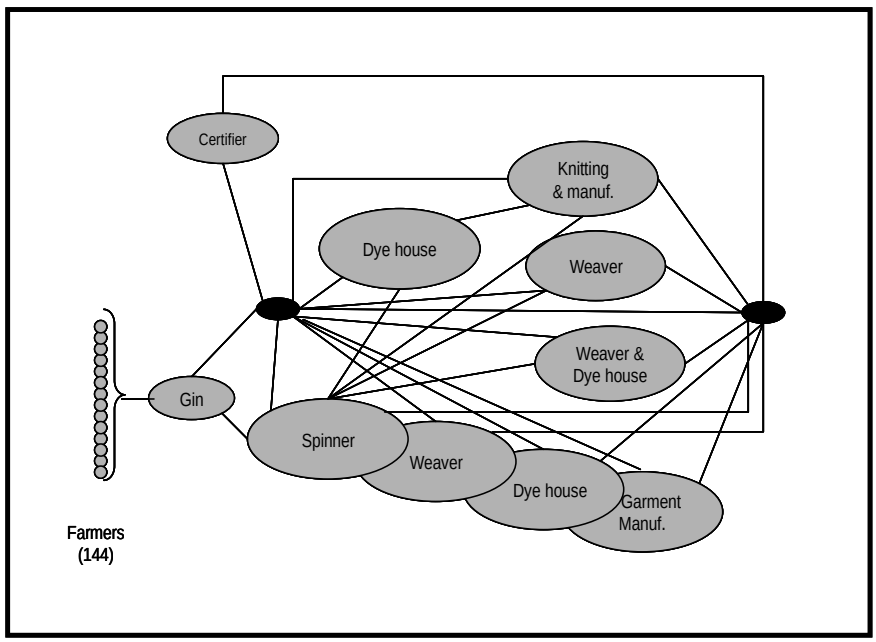

Figure 10-2: The structure of the Verner Frang supply chain 2001

As we can see, there are a number of new actors in the chain. Some of them are there because Verner Frang has expanded the range of products which they offer to their clients. There are, however, also two new key actors: the local office and the external certifying body that monitors the compliance the criteria of the Swan textile eco-label. All the lines represent two way flows of interaction. In this supply chain, Verner Frang's function is no longer merely as an agent between the suppliers in Peru and their customers

in Europe. They play a central role driving the environmental performance of all actors, and, through interaction with all actors in the chain, they coordinate the flow of the product from fibre to final product. Another fundamental difference to note is that Verner Frang after launching its organic programme now has full knowledge of all actors involved in its supply chain.

While the flows of information and money today are a good deal more complex than 10 years ago, it should be noticed that the flow of materials remain essentially unchanged, moving downstream through the different stages of the supply chain (see Figure 10-3).

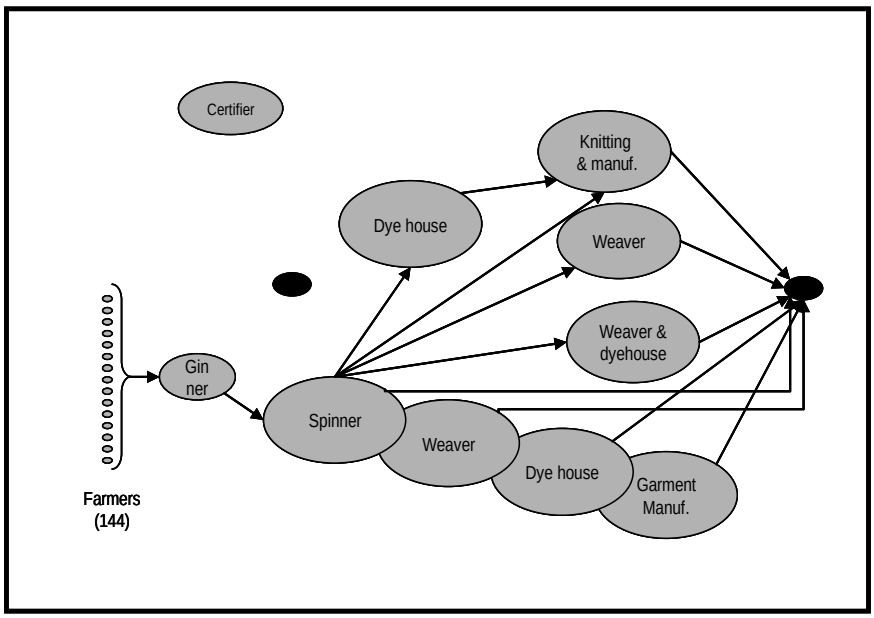

Figure 10-3: Material flows in the Verner Frang supply chain 2001

A good understanding of the actors in the supply chain and of the local context in which they operate has helped Verner Frang to find ways to motivate the relevant actors to comply with their environmental requirements. Still it must be emphasised that the company had never been able to achieve its objective of supplying eco-labelled textiles, if it had not been willing to go outside their traditional patterns of supply chain interaction.

In this case it is also important to note the need for dual verification or control programs, in particular in the farming tier where the company had a system of continuous internal control through the monitoring of the farming technicians employed by the ginnery in combination with the external verification process performed by the third party certification body.

It should also be stressed that the greening of the supply chain came at a cost for Verner Frang. The company pay a premium compared to conventional production in all stages of the chain, the cost of administering sourcing, purchasing and control is considerably higher than before, and they have lost some of their negotiating power as the company has become dependent, to a higher degree than before, on a limited number of suppliers. In the case of Verner Frang, the additional costs were motivated by the rewards associated with achieving its objective for greening the supply chain.

10.5 Concluding remarks

This study has shown that the process of greening a supply chain can be very complex, even in a case like this, when the number of actors in the supply chain is very limited and the focal company knew from the start which aspects of the supply chain that should to be improved, and the techniques available for achieving these improvements. Success depends not only on an understanding of the environmental and technical aspects of the supply chain, but also, and perhaps even more so, on a thorough understanding of the social and business context that relevant actors of the chain operate in.

CHAPTER
ELEVEN

11. Case study: Upstream CSR at H&M (2004 – 2005)

This chapter tells the story of how H&M, a Swedish-based multinational apparel retailer, addressed 4 different CSR related issues in its upstream supply chain in 2004.[44] Like Verner Frang, H&M is a company that has been working actively with upstream CSR for many years. Two of the programmes included in the study had been in place for more than 5 years, while two were in an early phase of implementation when this study was made. However, unlike Verner Frang, H&M is a very large company representing considerable, buying volumes and internal staff resources. In addition, as compared with the Verner Frang case, it is not only the size of the focal company that is bigger in this case, but also the size of and the complexity of the focal company's supply chain.

Thus this case study will, in combination with the previous case, provide some insights regarding how the size of the focal company, and the size and complexity of its supply chain, influence the focal company's actions and its ability to achieve results with respect to upstream CSR.

This case study was designed as an embedded case study, where the focus of each embedded case was a specific programme or project initiated by H&M to address a specific CSR-related issue that arise in its supply chain. The four different initiatives each addressed one of the following issues:

- Harmful chemical residues in finished products.
- Labour conditions and environmental aspects in the operations of 1st tier suppliers and their subcontractors.
- Environmental impacts associated with wet-processing.
- Environmental impacts associated with cotton farming.

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[44] As explained in chapter 2.3.3 the field data for this case study was collected in Stockholm, Turkey and India during 2004 and 2005.

The overall ambition for this case study was to understand how H&M has addressed each of the specific issues listed above, with particular focus on how they have addressed the task of exercising influence over relevant actors as well as the task of verifying that suppliers are in compliance with set criteria.

For each of the studied initiatives, I have specifically set out to answer the following questions:

1. *What did the focal company do to: a) influence actors in its supply chain to get them to agree to adapt their operations to fit H&M's environmental or social agenda, and b) control and verify that relevant aspects are in compliance with the criteria or objectives prescribed by H&M?*

2. *What did addressing the specific issue entail for the focal company and what consequences did it have for the focal company and for other affected actors in the supply chain, as well as for the structure, processes and flows in the supply chain?*

11.1 The focal company in brief

Hennes & Mauritz AB (here referred to as H&M) is a Swedish-based multinational fashion retailer. The company opened its first store in Sweden in 1947 and today (2008) it is selling clothes, cosmetics, accessories and footwear in approximately 1600 stores in 29 countries in Europe, North America, Asia and the Middle East. In 2007 the total turnover was 92 123 MSEK (close to 10 Billion EUR) and by the end of 2007 the company was employing 68 000 people.[45] The majority of the H&M employees are working in the H&M stores (H&M, 2008a).

The company's headquarter is located in Stockholm, Sweden. Based here are corporate management and the main departments for design, procurement, finance, accounts, expansion, interior design and display, advertising, communications, investor relations, human resources, logistics, security, IT and CSR (H&M, 2008a).

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[45] The company has an explicit intention to grow and has grown rapidly over the past decade. In 2004, when most of the fieldwork for this case study was performed, the company had approximately 45 000 employees and a turnover of 62 985 MSEK (H&M, 2005)

In addition to the headquarter, the company has 15 different 'country offices', where all support functions for the H&M stores in a certain country or region are based. H&M also has 19 production offices, based in different countries in Asia and Europe, which functions as the link between H&M's central buying office and the company's suppliers.

11.1.1 Supply chain structure

In 2007 the company had approximately 800 suppliers listed, in Asia, Europe and Africa and in total approximately 2500 factories that were involved in the manufacture of H&M goods. Approximately 2/3 of the products are produced in Asia and the rest mainly in Europe (H&M, 2008c).[46]

The significantly larger number of factories, compared to suppliers, is explained by the fact that that one supplier may have more than one factory and/or use subcontractors for part of the production. To give an example of this: In 2004 the production office in Turkey was working with approximately 60 large suppliers and most of these companies were using approximately 8-10 subcontractors (Country manager, H&M Turkey, personal interview, 11 October 2004).[47]

All numbers are an approximation as there is always a continuous process of new suppliers being added to the supply base, as well as old ones being dropped as better alternatives are identified. Again to provide an example: In 2004 the manager of the production office in Istanbul estimated that approximately 2-3 suppliers were dropped each year, for various reasons, and 2-3 new were recruited to replace them (Country manager, H&M Turkey, personal interview, 11 October, 2004).

H&M has several suppliers that are vertically integrated, meaning that the same company's own facilities can perform several steps of the production

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[46] In 2004 and 2005 the company estimated that approximately 60% was produced in Asia and the rest mainly in Europe (H&M, 2006).

[47] H&M requires that their suppliers should get pre-approval from H&M before placing production with any subcontractor. This means that if H&M places an order for 10 000 pieces of a garment with one supplier and this supplier finds that it does not have enough capacity to complete this order in time, the supplier may subcontract (part of) the production to another company, but must notify H&M and the subcontractor must be approved by H&M.

chain, such as, for instance, garment making and textile production, and possibly even yarn production. It is, however, important to note that this is far from always the case and it is not a requirement or an explicit strategy to only source from vertically integrated factories. H&M does generally not nominate fabric suppliers, this means that when a garment is produced at a factory which is not vertically integrated, that is, which does not produce its own fabric, H&M will not have any contractual relationship with the mill, which produces the fabric, nor will they require the garment maker to provide any information about where the fabric is produced. In effect this means that H&M primarily has direct contractual control over the first tier of their supply chain. What goes on beyond that tier can only be controlled by checking the final product and/or through extraordinary measures.

Figure 11-1 provides a very rough illustration of the complexity of the supply chain of H&M. It should be noted that this picture is a significant simplification and not in any form an exact representation. For one thing, I have only included the production of cotton fibre in this illustration. In reality layers of complexity will be added to the picture as suppliers of a range of different types of synthetic and natural fibres will be added. This means that, if we trace back the supply chain for all types of H&M products, the picture would include several different types of fibre producers ranging from sheep farmers to multinational chemical giants producing the raw materials for synthetic fibres. In Figure 11-1 the variations in the size of the grey circles are there to represent the fact that supply chain actors come in different sizes. Lines between grey entities represent contractual relationships between a buyer and a seller, and overlapping grey entities are there to represent suppliers which are vertically integrated.

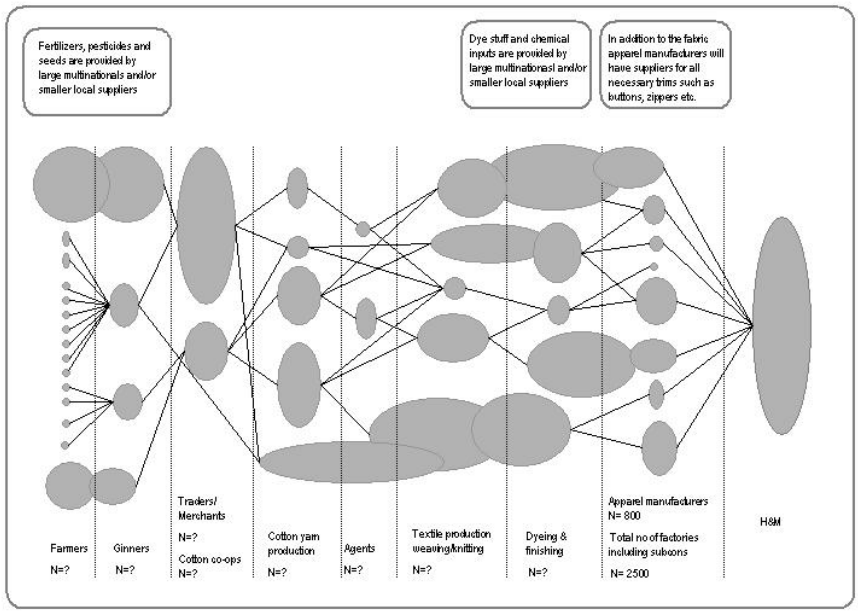

Figure 11-1: A rough illustration of the complexity of the H&M supply chain.
(Please note that this example only includes the cotton alternative in the fibre producing stages of the supply chain.)

One question of interest is how much overlap can be found in the second and third tier upstream in the supply chain. That is, how many of H&M's apparel suppliers will source their fabric from the same textile mills. A survey, which H&M sent to large suppliers in China and in India, showed that in China it was very uncommon that two different apparel suppliers sourced from the same fabric mill, whereas in India it was more common (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

11.1.2 The procurement organisation and process

While all garments are designed in-house, the company does not own any production facilities. As mentioned above, the company has 19 production offices[48], which serve as a link between the design and buying department in Stockholm and the company's suppliers.

The central purpose of having production offices in the countries where the garments are produced is to ensure that H&M has a supply base that can meet the needs and requirements of H&M with regards to quality, price, lead-time and social and environmental performance (Country manager, H&M Turkey, personal interview, 11 October 2004).

In each production office the company employs merchandisers, technicians, quality assurance staff and Code of Conduct auditors, they also have staff focusing on research and development, and staff working with the practicalities associated with shipping and logistics (Country manager, H&M Turkey, personal interview, 11 October 2004).

When an item has been designed, the central HQ sends out the design and technical specifications to one or several production offices, where merchandisers will contact appropriate suppliers to get price quotations and samples. If the supplier selected by the merchandiser is awarded the final order, the technical staff working with this merchandiser will follow the process of developing the style until the final counter sample has been approved. Once all aspects of the style (fabric, workmanship, trims etc.) are approved and the supplier has been given the go ahead to start production, the production office will send out quality controllers to be present in the factory during the production run (Country manager, H&M Turkey, personal interview, 11 October 2004).

It is also the responsibility of the production offices to continuously identify new potential suppliers that match H&M's evolving needs and requirements. When a new supplier is identified the company first performs a technical inspection to ensure that the production capacity of the factory is appropriate for the needs of H&M. The next step is to send in the CoC auditors, who will ensure that the factory lives up to the minimum requirements related to social and environmental performance that is

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[48] In 2004 the company had 22 production offices 10 in Europe, 10 in Asia and 1 each in Africa and Central America (H&M 2005).

stipulated in the H&M CoC for suppliers. When the factory has passed these two stages, a first order is placed with the supplier to test and evaluate their performance in practice (Country manager, H&M Turkey, personal interview, 11 October 2004).

11.2 Upstream CSR at H&M 2004-2005

For this study I was particularly interested in projects that related to the supply chain and during our initial talks it became apparent that H&M was working with at least four issues, where success was dependent on the performance of actors upstream in their supply chain. The aspects they where focusing on included:

- Harmful chemical residues in finished products:
  - *Upstream CSR program:* Implementation and monitoring of H&M's list of restricted substances.
- Labour conditions and environmental aspects in the operations of 1st tier suppliers and their subcontractors:
  - *Upstream CSR program:* Implementation and monitoring of H&M's Code of Conduct for suppliers
- Environmental impacts associated with wet-processing.
  - *Upstream CSR project:* SEMS (Supplier Environmental Motivation Strategy) and ENFAP (Environmental Fabric Processing Programme), two projects directed at reducing the environmental impacts of wet processing.
- Environmental impacts associated with cotton farming.
  - *Upstream CSR program:* Supporting the market for organic cotton by introducing styles made from yarn certified according to the Organic Exchange blended standard (with 5% organic and 95% conventional cotton fibre) into H&M's collections.

Bellow I will describe and discuss how H&M works with each of these issues one by one, but first I will briefly describe the central CSR organisation of the company.

11.2.1 The CSR organisation in 2004

The current manager of the CSR department has been working with environmental and social affairs at H&M since 1997, and was the first person in the company to hold a position with overarching responsibility for these types of issues within the company. Initially this function also included responsibility for quality issues, but after a few years the company decided to devote one fulltime position exclusively to environmental and social affairs and move the responsibility for quality to a separate position (CSR manager, H&M Stockholm, , personal interview, 7 September 2004).

Before the specific position as CSR manager was created in 1997 responsibility for environmental and social affairs were scattered among several different departments including the quality department and the production offices.

When asked what happened in 1997 that triggered the decision to create a position with overall responsibility for environmental affairs, the CSR manager laughs and says "I returned back to Sweden" [after having spent a few years working for H&M abroad]. But she continues by saying that it was a combination of events. Her returning and having expressed an interest in working with these types of issues, and the fact that they saw a need to have a department that took the overall responsibility for quality and environment. She does not explicitly refer to any external pressures as motivating this decision (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

While working with both quality and environmental and social affairs, the CSR manager was formally reporting to the head of the buying department, but with regards to certain issues she reported directly to the managing director. Eventually when the responsibility for the quality issues was transferred to another position, H&M rearranged the hierarchical structure so that the CSR manager became a member of the top management team reporting directly to the managing director. She argues that she is in a much better position to work with these issues from the new position, since environmental affairs obviously does not only relate to the purchasing organisation, but also other elements of the H&M organisation such as the sales organisation (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

In 2004 the central CSR department had six employees. The people working within the CSR department divided their responsibilities so that one person

was primarily focusing on environmental affairs related to the supply chain, and one was working with internal environmental management primarily focusing on the H&M stores. A third staff member had the main responsibility for the company's annual CSR report and two people were working as coordinators for the CoC auditors, who are employed throughout the world in the different production offices. Finally, there was one person who is focused on training and the development of tools. The company also employs chemists, responsible for updating the company's guidelines for chemical residue restrictions. However, these people were formally employed in the quality department and did not formally report to the CSR manager, although they still collaborate and communicate since the company classifies chemicals in products as a question that is a part of its CSR agenda (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

In 2004 the company employed over 30 CoC auditors. These auditors are formally a part of the production offices and not the central CSR department, which also means that the cost of performing CoC audits falls on the production offices and not on the central CSR department. The practical work of recruiting auditors is also performed by the production offices. But the CSR department formulates the specifications with regards to what qualifications a candidate for this position should have and in terms of defining the content of their work, the auditors are completely controlled by the CSR department (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

In addition to ongoing continuous tasks, such as ensuring compliance with the H&M CoC for suppliers, and the internal environmental management in the H&M stores, the CSR department is also working with several different projects focusing on different types of environmental or social aspects. When asked about the process for deciding what projects to work with and what issues to engage with, H&M's CSR manager replies that each year she sits down together with her team and they discuss what they want to do over the next fiscal year and try to estimate a price tag for each project. After which she takes this to the management group for approval. Suggestions for projects can also come from other parts of the organisation, but primarily it is the CSR department that defines the company's CSR agenda (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

In the annual budget for the CSR department, only concrete additional costs are included and not costs that the company incur regardless such as

personnel costs for CSR staff. The company has not tried to estimate the value of their CSR engagements for the company. When asked about this, the CSR manager replies that such an activity would cost money in itself. Essentially they ask themselves whether a project is necessary and/or will be good for the company, and if the answer to this question is yes, then the next task is to figure out a way to do this as cost effectively as possible. "Once we have made up our mind [about going through with a project] then it may cost what it costs" (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

11.3 Implementation and monitoring of H&M's list of restricted substances

Background

H&M introduced their first list of restricted substances in 1995. This coincided with a strong focus on the issue of chemicals in textiles both in the media and from Swedish authorities.

In January of 1995 one of Sweden's larger newspapers published an article which reported that chemical residues in garments were making the wearer and the people working in the retail stores ill. During the spring that followed, mass media was reporting that sales staff in clothing stores reported various kinds of adverse reactions such as respiratory problems and skin reactions that were suspected to be caused by the chemicals in the garments. Swedish authorities also reacted and a hearing was held at the Ministry of the Environment with representatives of the textile industry, commercial organisations and various public authorities. During this hearing, it was found that there was widespread ignorance in the industry with regards to what chemicals may be found in imported textiles or garments. It was also found that there was a lack of knowledge regarding which chemicals might cause problems for those who handle and/or wear the textiles. (Swedish National Chemicals Inspectorate, 1997)

Later the same year, the Swedish National Chemicals Inspectorate carried out a preliminary study to learn more about the scope of the problem of chemicals in clothing and following this, in January 1996, the National Chemicals Inspectorate was commissioned by the Government to propose measures to limit the risks to human health and the environment caused by chemicals in textiles (Swedish National Chemicals Inspectorate, 1997).

Purpose of the programme

The purpose of this programme is to ensure that products sold through H&M stores do not contain residues of chemical substances that can be harmful to the wearer or to the environment during use, care or final disposal of the product.

While H&M's restrictions in some parts go further than the law, an important purpose of this programme is of course for H&M to ensure, and demonstrate, compliance with legal requirements. However, another important part of the motivation for working with substances in products is related to product safety. Chemical residues found in textiles may cause harm to the wearer, as these substances may be allergenic, or toxic in other ways. Thus it is of course in H&M's interest to ensure that such chemicals can not be found in their products. However, there is also an environmental objective as H&M also includes an environmental perspective in their evaluation of chemical substances. They argue that this contributes to reducing the environmental impact associated with H&M's products in the production stage, as well as in the use phase and end-of-life phase of the products life cycle (H&M AB, 2003).

The detailed requirements are stated in H&M's Chemical Restrictions for textile, leather, plastic and metal products, sometimes referred to as their restricted substances list (RSL hereafter).[49] The company apply the strictest legal requirements with regards to chemical residues, for all markets in which H&M is selling their clothes. In cases where H&M goes beyond legal requirements, the company refers to the precautionary principle and, in the company's evaluation of chemical substances, consideration is taken of effects on humans, as well as the effect on the environment.

Tier of the supply chain where compliance is determined

The most critical stage of importance in this context is the wet processes related to textile dyeing and finishing. Depending on the type of product and the structure of the supply chain, the company in control of the wet processes can be either a first tier supplier, a subcontractor to the first tier supplier, or a second or even third tier supplier in relation to H&M. For knitted products it is more common that knitting, dyeing and finishing is

[49] To see the current verstion of H&M's list of restricted chemicals go to: www.hm.com/gb/corporateresponsibility/downloads__downloads.nhtml

done in the same factory, whereas for woven garments vertical integration with the textile mills is less prevalent.

However, it should also be noted that chemical residues in garments can be traced back as far as the original raw material, the cotton, acrylic, wool or similar, and that contamination with unwanted chemicals can occur throughout the supply chain, also in apparel production (e.g. spot removal) or transport (e.g. applications of mould treatment or biocides).

11.3.1 Operational approach

The central elements of this programme is a) the list of restricted chemicals that is a part of the supplier agreement, b) H&M's verification of compliance which is done through testing samples (to a small extent in internal labs, but primarily in third party labs) and c) the possibility to sanction suppliers for non compliances through the contract provisions which means that H&M can require the supplier to fix the problem and claim any financial losses that may arise if the product is found to contain restricted substances in concentrations that exceeds stated limit values.

Although the CSR department reports on how H&M manages the issue of chemicals in products in the annual H&M CSR report, the operational responsibility establishing the standard for chemicals in products and ensuring compliance with this standard is placed under the quality department (CSR manager, H&M Stockholm, personal interview, 7 September 2004). H&M employs chemists, and part of their responsibility is to continuously update the company's RSL as new laws are developed or knew knowledge about harmful chemicals is revealed. In this work H&M is also collaborating with external experts, relevant authorities and with competitors in the textile industry (H&M AB, 2003; 2005).

In the Turkish production office, H&M has 9 people employed in their internal lab. The large part of their work is related to testing quality aspects, such as washing tests, colour etc., but they can also perform tests to check formaldehyde content. Other tests are, however, done in external labs (Lab Technician, H&M Turkey, personal interview, 11 October 2004)

It is the lab staff who gives instructions regarding what tests must be performed with respect to each style. In addition some tests are performed randomly (Lab Technician, H&M Turkey, personal interview, 11 October 2004).

Here it should be noted that all H&M suppliers have to sign an agreement to abide by H&M's chemical restrictions, called the Chemical Restrictions Compliance Commitment. Thus suppliers contractually guarantee not to use certain chemicals in production and are required to ensure that all products are in compliance with the requirements specified in the H&M RSL. To verify that suppliers take this responsibility H&M performs tests in its own labs, or send garments to external labs for testing, to ensure that critical substances are not present in concentrations above specified restriction values. As noted above, H&M has a basic laboratory in the production office in Turkey, but, testing for chemical residues is mainly performed by independent test labs. In 2004 H&M estimated that the company in total did approximately 20 000 chemical-related tests (H&M AB, 2005).

While the RSL includes a long list of substances[50] H&M states that tests are made on products where the risk of detecting breaches to our chemical restrictions are higher: "This means that products that are made of particular materials, or that are manufactured by suppliers with poor track records are selected for testing. For example, products with certain colours are more likely to contain banned AZO dyes, which are prohibited by H&M." (H&M AB, 2005, p. 34) In 2004 nickel, AZO dyes, disperse dyes, formaldehyde and phthalates are examples of substances that were routinely tested for (H&M AB, 2005).

For each style the production team responsible for developing the style and finding the suitable supplier will get instructions from the lab regarding what types of tests needs to be performed on this particular style. Based on these instructions the production team informs the supplier so that they can send the appropriate materials to H&M for testing (Senior QC, H&M Istanbul, personal interview, 11 October 2004).

H&M support their suppliers with information on how to implement and comply with the chemical restrictions. They also provide advice to suppliers on how to locate and solve problems related to a violation of the RSL (H&M AB, 2004).

Still H&M acknowledges that sometimes garments that are not in compliance with the RSL restrictions end up in their stores. They therefore

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[50] To see H&M's current list of restricted substances go to: www.hm.com/gb/corporateresponsibility/downloads__downloads.nhtml

also refer to their system for recall management as being important in order to secure a fast recall of a particular item (H&M AB, 2004).

11.3.2 Consequences and reactions

Focal company perspective

One noticeable consequence from the focal company perspective is the fact that H&M has built up, on a central level, strong internal competence in the area of chemicals in textiles. They have also established a network of contacts with external experts and relevant authorities which enable them to keep track of developments of relevance.

The chemical restrictions are included in the standard agreement for suppliers. This means that if the supplier should deliver a product which is not in compliance with the specified restrictions, they (the supplier) will have violated the contract and H&M can cancel the order and/or make a claim against the supplier for any financial losses incurred. This process does not differ significantly from the process of claiming any other type of fault in the delivered product such as failure to meet specified quality criteria. So while the chemical restrictions have added a battery of tests to be made on samples, the sourcing process and organisation has not had to be adjusted to cope with this issue.

H&M do, however, need to commit organisational resources to track suppliers' compliance. However, rather than building up a specific function for this, as is the case with the CoC implementation, the monitoring of chemicals in products is integrated with the monitoring of other quality aspects such as shrinkage, pilling, colour fastness, etc. Since verification does not require on-site inspections in the suppliers' factories, less organisational resources have to be devoted to monitoring these issues. Whereas the CoC team in Turkey had five full time employees at the time of this study, there was one person in the lab that devoted only part of her time to testing for chemical residues.

However, it should be noted that H&M subcontract the majority of tests for residues to external textile laboratories. External labs may also be used for certain quality tests and are therefore not a new addition to the structure of the supply chain.

Supply chain structure and flows

No clear impacts on the supply chain structure or the nature of interaction could be observed. At the time when this field study was made, H&M had been working with chemical restriction for almost ten years. When this issue was discussed with suppliers, they referred to the fact that they were sourcing chemicals from large multinational companies as a guarantee that they would not use substances that would leave unwanted residues in the garments. Whether or not this was the case before the chemical restrictions were introduced could not be ascertained during this study.

Supplier perspective

Like H&M, several of the interviewed suppliers of fabrics and knitted garments had small in-house labs, and were also sending samples to external laboratories on a regular basis. Which meant that again, like for H&M, the supplier has had to develop some form of internal competence with respect to what tests are relevant to make etc. However at the time when this study was done, the interviewed suppliers seemed to accept that this was a normal part of doing business.

11.3.3 Concluding remarks

As noted above the issue of chemicals in products is very much organised as a part of the quality assurance work, both centrally (the team that establish the list of restricted substances) and in the production offices. Possibly one explanation is that this issue came on the agenda before H&M had created a central CSR department. However, in terms of the operational monitoring, it also seems to be a very pragmatic solution as keeping track of lab reports on chemicals residues and lab reports regarding other quality parameters such as shrinkage etc. have very much in common.

It is relevant to note here that since this study was done, H&M has joined the AFIRM group. AFIRM is a multi-company working group that includes several large multinational apparel and footwear retailers and brands with RSLs as well as relevant experts. The stated purpose of this group is to "provide a forum to advance the global management of restricted substances in apparel and footwear, communicate information about RSL to the supply chain, discuss concerns, and exchange ideas for improving RSL management, to ultimately elevate consumer satisfaction" (AFIRM-group, 2008).

Part of the AFIRM group's agenda is to encourage suppliers' and manufacturers' self-governance of chemical product safety. Towards this purpose they have developed a "RSL supplier toolkit", which is available on their website.[51] Through the AFIRM group H&M, and other members of the group, also holds seminars for suppliers in different parts of the world.

Clearly this initiative indicates that even though suppliers interviewed for this study claimed to have no problem meeting the requirements in the RSL, H&M must have experienced that (at least in certain regions, though not necessarily in Turkey) there is scope for improvement and that they believe that part of the solution to the problem lies in improving relevant competence within suppliers.

11.4 Implementation and monitoring of H&M's Code of Conduct for suppliers

Background

H&M first started to develop and implement their Code of Conduct for suppliers in 1997 and in 1998 the first inspections were performed (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

It is clear that when H&M started to work with their CoC, H&M, but also several other large retail and sportswear brands, had been exposed to NGO campaigns and negative publicity focusing on poor working conditions in factories. The company has endured negative media attention related to working conditions in the supply chain on several occasions over the years, and clearly says that part of the motivation for creating the CoC and working with inspections is to protect the brand. However, when asked what triggered the decision to start this process, the CSR manager also refers to the fact that it coincided with the decision by the company to open up own production offices in several countries where they where sourcing garments, as this meant that they came closer to production and got a better understanding of the working conditions. When the staff at H&M became aware of the working conditions, it also became important for them to do something to address these problems (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

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[51] www.afirm-group.com

Purpose of the program

The basic purpose of the CoC and the programme that H&M has implemented to audit suppliers is to ensure that the working conditions in the factories that produce products for H&M are reasonable, thus protecting both the people working to produce H&M's products and the H&M brand from being tainted by association with factories with poor working conditions.

H&M's Code of Conduct regulates supplier performance pertaining to human rights, labour rights and environmental management under the following headings: legal requirements, child labour, safety, workers rights, factory conditions, housing conditions and environment.[52] Below follows a brief summary of the requirements listed under each heading:

Legal requirements: Under this heading H&M states that all suppliers must, in all their activities, follow the national laws in the countries where they are operating.

Child labour: H&M states that they do not accept child labour. They also state that they want to support children affected by their ban on child labour, and that if a child is found to be working in a factory producing for them, H&M will in cooperation with the factory make sure that any measures taken should always aim to improve, not worsen, each individual child's situation.

Safety: Under this heading H&M details requirement related to building and fire safety and the availability of first aid and medical attention to workers.

Workers rights: Under the heading "Basic Rights" H&M detail their position related to issues such as bonded labour, mental and physical forms of disciplinary actions, sexual harassment, freedom of association and the right to collective bargaining, discrimination and the right to an employment contract. Under the heading "Wages and working hours" H&M requires that suppliers shall pay wages regularly and on time, that legal minimum should be the lowest acceptable compensation, "but not a recommended level". They further state that weekly working time may not exceed the legal limit

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[52] To see the most recent version of H&M's CoC go to: www.hm.com/gb/corporateresponsibility/downloads__downloads.nhtml. It should be noted that the in the first H&M CoC the requirements for environmental performance were not included, these were added in a later version that was introduced in 2004 (CoC responsible, H&M Turkey (October 11, 2004) personal interview).

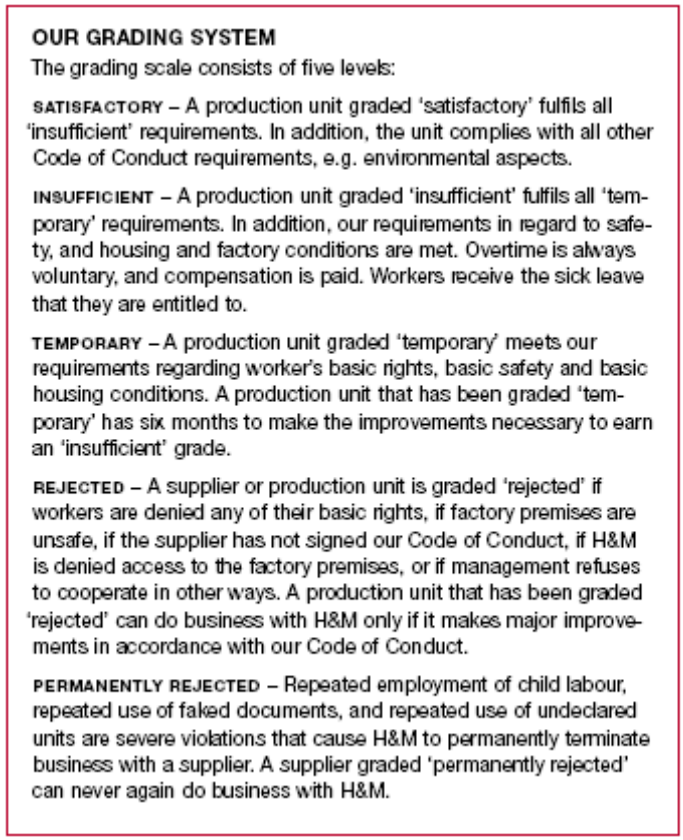
and that overtime should be voluntary and properly compensated. Workers should be granted stipulated leaves, including maternity leave and the dismissal of pregnant workers is not acceptable.

Factory conditions: Under this heading the H&M CoC regulates areas such as indoor air and temperature, lighting and sanitary facilities.

Housing conditions: Essentially all requirements regarding safety and factory conditions also cover the housing area, when the supplier provides this type of facilities for its employees. H&M also makes stipulations related to the living space, and facilities provided and states that no restrictions may be placed on workers abilities to leave the dormitories during off hours.

Environment: Under this heading H&M requires that all suppliers must comply with all applicable environmental laws and regulations in the country of operation. Although not explicitly stated in the CoC, H&M has stated that when auditing facilities to verify compliance with local environmental law, the auditors focus on four main areas: environmental law and governmental permits, chemicals, wastewater treatment and waste management. In relation to chemicals, the focus is on workers' safety and emissions to water and ground. Factories with wet processes such as dyeing or washing are required to use wastewater treatment plants and the sludge that the plant produces must be handled in compliance with relevant legislation. As compliance with the CoC is only verified in the first tier (and for subcontractors who produce garments), it should be noted that the criteria for chemicals management and wastewater treatment are only relevant for suppliers that are vertically integrated in the sense that dyeing and finishing and garment production are located in the same facilities and for garment suppliers that has a laundry facility on-site (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

It is important to note that though H&M does not explicitly say that all suppliers will be in full compliance with the CoC. In 2004 the company was using the grading system presented in Figure 11-2 for supplier compliance.



OUR GRADING SYSTEM

The grading scale consists of five levels:

SATISFACTORY – A production unit graded 'satisfactory' fulfils all 'insufficient' requirements. In addition, the unit complies with all other Code of Conduct requirements, e.g. environmental aspects.

INSUFFICIENT – A production unit graded 'insufficient' fulfils all 'temporary' requirements. In addition, our requirements in regard to safety, and housing and factory conditions are met. Overtime is always voluntary, and compensation is paid. Workers receive the sick leave that they are entitled to.

TEMPORARY – A production unit graded 'temporary' meets our requirements regarding worker's basic rights, basic safety and basic housing conditions. A production unit that has been graded 'temporary' has six months to make the improvements necessary to earn an 'insufficient' grade.

REJECTED – A supplier or production unit is graded 'rejected' if workers are denied any of their basic rights, if factory premises are unsafe, if the supplier has not signed our Code of Conduct, if H&M is denied access to the factory premises, or if management refuses to cooperate in other ways. A production unit that has been graded 'rejected' can do business with H&M only if it makes major improvements in accordance with our Code of Conduct.

PERMANENTLY REJECTED – Repeated employment of child labour, repeated use of faked documents, and repeated use of undeclared units are severe violations that cause H&M to permanently terminate business with a supplier. A supplier graded 'permanently rejected' can never again do business with H&M.

Figure 11-2: H&M grading system for supplier social compliance. (H&M AB, 2005, p. 50)

H&M does not explicitly state any overarching ambition level with regards to the level of compliance among the suppliers. On a production country level objectives are formulated in terms of number of audits to be made during a year and the percentage of audits that should be unannounced, the company may also formulate objectives to achieve improvements on particular issues each year. The prioritised issues may vary from country to country, reflecting the local situation and stakeholder priorities (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

Tier of the supply chain where compliance is determined

As per a corporate decision H&M verifies compliance with the code for all suppliers with whom H&M has direct contractual relations and the subcontractors that these companies use for the manufacture of H&M products.

Essentially this means that the CoC programme focuses on the performance of producers in tier one of the H&M supply chain. But the distinction between a subcontractor and a second tier supplier is not always evident. To draw the line H&M applies the following principle: "After the fabric is cut, every piece, wherever they go we call that place a production unit. [Question: And that's where the CoC applies?] Yes." (CoC responsible, H&M Turkey, personal interview, 11 October 2004). However, it should be noted that if a factory is vertically integrated and the fabric mill and the apparel production is located on the same premises H&M will also inspect the fabric mill.

11.4.1 Operational approach

The key elements of the CoC programme is a) the code itself which is incorporated into the supplier agreement, b) the verification activities done through CoC audits performed by internally employed auditors and c) the follow-up on identified non-compliances which range from providing advice and setting up agreed timelines for corrective action to formal sanctions such as listing the supplier as rejected or permanently rejected for all future collaboration with H&M.

At the time of this study, H&M employed five auditors in Turkey, two in Istanbul and three in Izmir. One of the auditors based in Istanbul had the coordinating responsibility for the audit activities in Turkey, reporting to the central CSR department in Stockholm. This audit team is responsible for auditing all Turkish production units, but also production units in neighbouring countries when these are used as subcontractors by H&M's Turkish suppliers.

In October 2004 the head of the audit team estimated that the team of five auditors were responsible for approximately 350-400 production units, but pointed out that the exact number changes continuously: "It changes a lot, today they are using one unit and the next day the job is finished" (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

The team performs both initial audits and re-audits. The majority of re-audits are unannounced. In 2004, from beginning of the year up until October (when the study was made), the team had performed in total approximately 300 re-audits, out of these 185 were unannounced.[53]

The approach to CoC implementation, as the code in itself, has developed over time. Clearly, for any company that starts out doing audits, a large part of the task involves performing audits of existing suppliers.

In 2004 H&M described the following process for compliance verification when a new potential supplier is identified. Before the social compliance team steps in, the merchandising teams have already assessed the factory to get a sense of prices and qualities. If H&M decides to initiate collaboration with this supplier, the social compliance team sends out the CoC to the supplier so that the supplier is aware of the criteria they are expected to live up to and the preparations they are expected to make. After this the first audit is arranged. If the supplier denies H&M to perform an audit, H&M will not initiate collaboration with this supplier. The first audit is performed before the first order is placed (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

During the inspection, the auditor start by visiting the production place to do a workplace inspection. During this time they look at fire exits, evacuation plans, work place safety and general conditions in the work place, such as temperature, light and air quality. The inspector also looks for young-looking workers. During the workplace inspection the auditor often also does a few (5-10) short informal interviews with workers, to get an idea of whether workers are happy in their job (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

At a later stage during the inspection they also make more formal interviews with workers. The worker interviews are made on-site, but performed in a separate room with no other personnel from the audited supplier present. During the audits the auditor also distributes their business cards to workers so that they can contact them after an audit, if they want to make a complaint. When H&M started to do audits, worker interviews where not included, but, as they learned more about auditing, they added this as an

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53 Note that this does not include initial audits.

element in the standard audit procedure in 2003 (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

After the factory inspection, the auditor starts the documentation inspection, looking at pay rolls, personnel files, social insurance, time cards, calculations of salaries and calculations of overtime, for a random selection of factory employees (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

While the CoC is a rather general document, H&M has developed detailed guidelines, so that the auditor knows in detail what to look for and how to assess a situation. The company does not require full compliance immediately, the results of the audit must meet a minimum standard that is defined by the CSR department and commonly agreed upon within the sourcing organisation.

> *The main thing from code of conduct is that we can not request everything at once, it is not possible we need to make some schedule or it needs to improve gradually. But of course we need to find a balance as well; we can not say that you have ten years […]. This doesn't work (CoC responsible, H&M Turkey, personal interview, 11 October 2004).*

The process for subcontractors is similar. If a supplier needs to use a subcontractor, they are required to apply for permission to use this unit. H&M has specific documents for such an application. The supplier is expected to check the unit before H&M and to be sure that the unit is quite ok and suitable for H&M products before making the application. When H&M receives the application, they arrange an audit and based on the results of the audit the supplier receives a go or a no-go decision to use the subcontractor for H&M production (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

Based on the specific context in the country, H&M identifies particular areas of focus where the auditors must try to achieve a gradual improvement within a given time frame. For Turkey they give the example of social insurance. When reports from the NGO sector showed that a large part of the apparel industry was in the informal sector where employers did not pay social insurance for their workers H&M made the decision to focus their attention on this issue. But they approached the issue stepwise initially requiring that suppliers must ensure that at least 30% of workers have social insurance, then 50%, from 50%-60%, and now they are requesting 100%. They also point out that they take into account the type of factory that they are at. The lowest tolerance level related to social insurance coverage (30%),

which they worked with initially, was only applicable for small sub-contracted units, whereas more was required of H&M's direct suppliers or larger subcontractors (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

After an audit the supplier can be rated either as insufficient or satisfactory. To be rated as satisfactory at least two different H&M inspectors has to agree that the factory is satisfactory. The overtime must be in the legal limit and no problems should have been identified during the worker interviews (CoC responsible, H&M Turkey, 11 October 2004).

Insufficient means that non-compliances have been identified. If non-compliances are found, H&M asks the factory to improve according to an agreed time plan: "After the inspection, we ask the management how fast they can improve on issues that needs fixing, and we agree on a timeline. It changes a lot depending on the improvements that needs to be done. Sometimes they just fix everything within a week, but sometimes it takes a few months" (CoC responsible, H&M Turkey, personal interview, 11 October 2004). For more critical issues H&M may also stop production with a factory until the situation has been resolved.

After the first initial audit, H&M is trying to make follow-up audits twice a year, but also states that it can sometimes be more frequent.

As mentioned above, the company has three criteria for permanently rejecting a factory: repeated instances of child labour, fake documents and undeclared units. The first time such a problem is identified, a letter of warning is sent from H&M's head office in Stockholm to the supplier. The letter states that a violation of the H&M CoC has been found, that this is not acceptable and that if the supplier repeats the same failure they will be permanently rejected as a supplier to H&M. If H&M observes the same non-compliance a second time, a letter of termination is sent to the supplier (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

When a significant problem is identified during an audit, this information is shared within the H&M team so that merchandisers and product managers are aware of the problems. Once when the company had identified undeclared units working for one large supplier, H&M asked the supplier to come to the H&M office for a meeting, when they explained how seriously H&M looks upon this type of non-conformance with the CoC. All the same, the supplier continued to use undeclared units and when H&M found out

the second time they terminated their collaboration. "It can be hard but it should be done" (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

When asked why she thinks that the supplier didn't listen to the warning the CoC responsible says that she can not know the reason but "yes, I can say that they were quite confident, they thought maybe that H&M can never leave us because we [H&M] are quite big with them, and we are" (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

However, it is also important to note that an additional possible explanation comes from the fact that it can be very difficult to detect that a factory uses undeclared units.

> *Yes it is difficult [to detect whether a supplier use undeclared units]. It is a really big city [Istanbul] and there are lots of, lots of, lots of subcontractors around. They are small ones, and I can say that in some areas especially in some suburbs there are some buildings and every floor and every building can have some kind of sub-contractor (CoC responsible, H&M Turkey, personal interview, 11 October 2004).*

Finding undeclared units is clearly a mixture of detective work and luck. Sometimes H&M receives an anonymous tip from an "old friend" and other times it is the company's QC staff that notice that the production rate in the designated factory does not add up to the full order volume and are able to trace this back to an undeclared unit (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

11.4.2 Consequences and reactions

Focal company perspective:

From an organisational perspective it is clear that the programme has had consequences, as H&M has built up an entire organisation within the company that exclusively deals with the task of implementing the CoC. The company has also had to restructure the sourcing process slightly, so that audits are performed before any orders are placed with a new supplier or a new auditor. In this sense the programme clearly carries a not insignificant cost for H&M.

Supply chain structure and flows

This programme has also, at least in part, been a driver for H&M to ensure that they are informed about, and have access to visit all subcontractors. However, it should be noted that also the Quality Assurance team even more frequently visit both suppliers and their subcontractors during production of H&M goods.

H&M has noticed a reduction in the number of subcontractors used during the last years. H&M's CSR manager argues that this may be because of the additional burden the suppliers experience when they are required to ensure that subcontractors follow the H&M CoC. She also believes that the CoC has influenced the parameters for how H&M suppliers choose subcontractors. For instance, after requiring that all production units should pay social security for their employees, suppliers have had to choose subcontractors that lived up to these standards, this was not the case when H&M first started to address this issue (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

One of the interviewed suppliers, who worked with a very large number of subcontractors, between 50-80 in total, out of which he estimated that more than 25 for H&M, confirmed that it was challenging to find good subcontractors. He also mentioned that another customer, a large sports brand, required that all production was paced within the company's own production units, not allowing anything to be sub-contracted to external production units. To manage their subcontractors this supplier has an internal "subcontractor" team that works to ensure that all subcontractors meet customer standards. However, this team is part of the company's quality assurance department and does not exclusively focus on social compliance (Account manager, knitwear producer, personal interview, 19 October 2004).

While H&M does provide suppliers with a chance to improve according to mutually agreeable timelines, the CoC programme has also meant that H&M has had to stop working with a few suppliers that would not follow the basic requirements of the code. In some cases these suppliers have been large suppliers, with whom H&M had worked for many years.

In terms of supply chain structure, it is clear that both H&M and their direct suppliers have as a result of this programme a slightly narrower selection of possible sources. It is interesting to note, however, that while H&M through having a direct requirement has spread the standard in the CoC to all

subcontractors, the practice of having a CoC for suppliers does not naturally travel further up-stream in the supply chain. None of the interviewed suppliers had a CoC that they required their suppliers to follow.

Here it is interesting to note how the perception of what is acceptable business practice changes along the supply chain. In one of the interviews with a first tier H&M supplier, this became particularly apparent. Although this respondent jokingly said that next H&M would send auditors to his home inspecting if he separated his household waste properly, he stressed only the positive when asked about his perception about the fact that H&M and other clients frequently come and do audits: "They are giving us free know-how […] If you look from the positive way, what they are doing is to make us a better company" (Manager, knitwear supplier, personal interview, 15 October 2004). However when asked if he puts similar social or environmental requirements on his yarn suppliers a little later in the interview, the reply came instantly: "No we don't, I mean we have no right to ask them." When reminded that earlier he had argued that H&M's CoC programme had been good for his company and making them a better company, the respondent adjusted his answer: "We have a right to ask […] and they will always welcome, they will not reject us, they will not say why you are asking, but […] I am 100% sure, confident, that whatever we apply in our company they have to apply in their company, […] I am sure that they have been checked by the people who are checking us" (Manager, knitwear producer Turkey, personal interview, 15 October 2004).[54]

Supplier perspective

Here it should be noted that H&M is far from the only company in the textile and apparel industry that is working with a CoC, and with regards to the criteria included in the code, the codes of different companies have more similarities than differences. Both H&M and suppliers that were interviewed also mentioned that H&M had a fairly pragmatic approach to their implementation: "We are not asking for very specific things such as; hang the extinguisher here or there, the key point is that it should be reachable" (CoC responsible, H&M Turkey, personal interview, 11 October 2004).

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[54] Here it should be noted that H&M does not do any CoC inspections in yarn and fabric suppliers unless these are vertically integrated with first tier supplier.

The fact that more than one buying company is working with a CoC has both advantages and disadvantages. From the supplier perspective the advantage is of course that, by following stricter criteria, they are not only qualifying for one potential buyer, but for several who have similar expectations. Here, however, reactions from suppliers differed slightly. Some suppliers stated that most buyers are asking for the same things in principle, whereas one first tier supplier complained that it was a little bit "painful" when the details of the requirements differ. This supplier was asking for a European standard that all could use, and was also working within the Textile Manufacturers Association at the Turkish and the European levels to push for the development of such a standard (Owner, woven garments producer Turkey, personal interview, 12 October 2004).

The disadvantage, which several suppliers noted, was the fact that so many audits were made every year because several different buyers want to perform one or several audits per year. Obviously, for suppliers this means that staff is diverted from their normal work, which in turn will cost the company money.

> *You can think that if you have ten customers, if they make inspections once in two months. Which means 10 days you have to give the service for them at least ½ day - 1 day, and each of them they can ask differently you know, some paper, some files, some machinery…. [Question: So for each inspection it would be at least one person spending half a day from your staff?] Yes of course, and the factory is already under this pressure, so if you separate some people, one or two, […] so it takes time and it takes also money (Owner, woven garments producer Turkey, personal interview, 12 October 2004).*

The same supplier mentioned that the Turkish clothing manufacturers association, together with Istanbul Chamber of Commerce, had tried to establish an independent and private inspection department a few years earlier. But the initiative did not work: "because as I say each customer asks different." He also argued that another part of the explanation was that some customers were already involved with a private institution "and so this institution does not want to loose their revenues" (Owner, woven garments producer Turkey, personal interview, 12 October 2004).

11.4.3 Concluding remarks

While doing this study, I asked H&M if they were interested in collaborating with other companies with regards to a CoC development and verification. At that time they had initiated talks with competitors in the industry, but were hesitant towards the possibilities of having a collaborative approach

with competitors (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

Soon afterwards, H&M did, however, join the Fair Labour Association (FLA). While the FLA does not require its members to harmonise the code or to follow a certain model for implementation, the organisation facilitates for its members to share audit information, as well as to share experiences of auditing and supplier development.[55] Today there are several companies/organisations that offer web-based services for such data exchange of audit information (for instance, Fair Factories Clearing House and Sedex[56]). The arguments for this type of data sharing is that this benefits both buyer and supplier by reducing the need for auditing and the paper exercise associated with both auditing and the self-evaluation forms that companies may ask their suppliers to fill out.

It is important to note that since this study was made, H&M has further developed their approach to CoC implementation and the programme has changed significantly over the years. It is similar in its composition of basic building blocks; the CoC, the team of internal auditors etc., but the methods and tools used by the auditors and the policies and the guidelines for how to assess situations etc. have been developed and are different today than what they were in 2004. In line with the FLA 3.0 programme[57], H&M have moved towards a more collaborative approach in their work with CoC implementation, focusing on coaching rather than policing and on finding solutions to persistent problems (such as, for instance, excessive overtime and inadequate grievance procedures) in collaboration with the supplier (H&M AB, 2008b).

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55 For more information visit www.fairlabor.org

56 For more information visit www.fairfactories.org and www.sedex.org.uk

57 FLA 3.0 is a new compliance methodology designed by the Fair Labor Association to "help factories assess their own level of labor compliance and build capacity to implement system to fill compliance gaps by addressing root causes of labor violations" Fair Labor Association (2008). FLA 3.0, Fair Labor Association. 2008.

11.5 SEMS and ENFAP: Cleaner production for wet processing mills

Background

While the SEMS and the ENFAP projects are slightly different in their approach they both carry the central theme of addressing environmental aspects of textile wet processing through cleaner production measures. The SEMS project was initiated in 2002, and it successor ENFAP in 2004. While H&M acknowledges that the issue of environmental impacts associated with the wet processes of textile production were being discussed within the industry in different settings at this time, they claim that the main driver for the company to engage with these projects was the awareness that major environmental impacts were caused in this stage of the product chain and the sense that addressing these problems was within the scope of H&M's responsibility, even though they feel that their ability to influence is weaker further upstream in the supply chain as the company does not only longer have a direct business relationship with these actors (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004) & CSR manager, H&M Stockholm, personal interview, September 7, 2004).

The company did not experience any pressure from external stakeholders or attention in the media with regards to these issues. In 2004 they said that the external pressure had increased slightly, but that you still needed "pretty strong glasses" to see it (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004). It seems that the decision to engage in SEMS and ENFAP was not a response to pressure from external stakeholders, it is rooted in the stated environmental policy of the company, but it is possibly at least in part, also a response to anticipated future pressure.

Purpose of the programme

As noted above H&M has been working with two separate, but related projects that were designed to address, and improve, environmental impacts of textile dyeing and finishing. The first project called SEMS (Supplier Environmental Motivation Strategy) was completed in 2003.

When initiating the SEMS project, H&M had made a decision to see what the company could do to address environmental impacts associated with the dyeing and finishing of textiles (in a life cycle perspective, this stage of the

apparel's life cycle is generally perceived to generate significant environmental impacts). However, while H&M wanted the SEMS project to result in concrete environmental improvements in the supply chain, they also saw the project as a first step to generate important internal competence for further action. H&M wanted to learn more about the wet processes per se, what environmental improvements could be achieved, and to see what they as a fashion buyer and retailer could do to stimulate environmental improvements in this stage of the product life cycle. The idea was also to collect good examples of how Cleaner Production initiatives could generate both financial and environmental savings for the wet processing mills, so that these good examples could be introduced to other mills in the H&M supply chain to motivate them to do similar things (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004). Thus the objective was both to generate improvement and to generate competence within H&M to address these issues.

In 2004 after completing and evaluating the SEMS project, H&M initiated a second project designed to improve the environmental performance of textile mills involved in the production of H&M products. This project was called ENFAP (Environmental Fabric Processing Programme). Also for ENFAP the purpose was twofold: to generate improvements, but also to learn more about what H&M could do to influence mills to take measures to improve environmental performance. As discussed below, the approach and tools used where slightly different. In ENFAP as compared to SEMS, another relevant difference is that ENFAP, in its initial stage, was focused on wet processing mills that were *not* vertically integrated with an H&M supplier. Thus with ENFAP, H&M was exploring ways of influencing actors in the supply chain with which they did not have any direct business relationship (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

Unlike the other three programmes included in the H&M study, where detailed criteria regarding social and/or environmental performance on the part of the suppliers are specified, neither SEMS nor ENFAP is organised in this way. On the contrary, while H&M has a general ambition to see wet processing mills adopting cleaner production practices, and thus reduce negative environmental impacts, they have clearly expressed that it is the mills themselves who shall decide on what specific cleaner production options they should implement.

However, whereas H&M in the SEMS project did not set any objectives regarding what type of environmental improvements they wanted to see, they did have such objectives for ENFAP. With ENFAP H&M had the ambition to ensure that the wastewater was treated properly, that the mills improved their chemical management (which would also mean that they can improve their ability to ensure compliance with H&M's chemical restrictions) and finally H&M wanted to see increased resource efficiency as a result of the ENFAP process.

Tier of the supply chain where adjustments are expected/required

Both SEMS and ENFAP are expressively focused on addressing environmental problems arising in the wet processes related to dyeing and finishing of the fabric. But because H&M decided to work with vertically integrated suppliers in the SEMS project, and intentionally avoided vertically integrated suppliers for the first part of the ENFAP project, this means that for SEMS the critical tier was the 1st tier where as for ENFAP the critical tier was the 2nd tier.

11.5.1 Operational approach

Both SEMS and ENFAP were set up as projects, while the CSR department of course ensured that the relevant people within the organisation were informed and bought into the process, these projects did not interfere with the sourcing process. The company is admittedly considering the possibility that they may have to integrate environmental performance of the textile mills into the sourcing criteria in the future, but for these projects the company sought to make it very clear to the companies participating in both SEMS and ENFAP that the outcomes and findings of these projects would not influence H&M's sourcing decisions, at least not in a negative way (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

SEMS

The central elements of this project was a) supplier companies that were willing to participate in the project on a voluntary basis, b) external service providers that could perform an initial environmental review and suggest options for environmental improvements (not in a format developed by or for H&M), and c) the action plan developed by the company which was sent

to H&M and later followed up through an assessment of the progress made by participating companies against this plan.

Four vertically integrated suppliers participated in the SEMS project. These suppliers were located in four different countries: Turkey, India, Portugal and Indonesia.

H&M assigned a local project manager at the respective production office, but engaged external consultants to do an Initial Environmental Review and provide suggestions for environmental improvements. The company used local consultants in each country. The consultant spent a few days on-site to get the necessary input data which were used to generate a report. When the report was ready the consultants returned to the company to present their findings and suggestions for improvement actions. H&M then asked the participating mills to develop an action plan and set time frames for when suggested improvements should be achieved, and to send this to H&M. The final step of this project was to evaluate the outcomes by tracking the actions taken by the participating suppliers. This evaluation was completed in 2003 (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

ENFAP

The central elements of this project was a) 1st and 2nd tier supplier companies that were willing to participate in the project on a voluntary basis, b) the "Low Hanging Fruit Tool", developed by external cleaner production experts for H&M, including a guide illustrating how to implement different performance improvement options and a questionnaire and a feasibility checklist that is used to assess each mill's opportunities for improvements, c) H&M's internal ENFAP auditors that coordinated the project and provided technical support to participating mills, and d) the action plan which the suppliers were asked to develop based on which their progress was later evaluated.

Initially it was decided that the programme would be carried out in three major production countries for HM: India, China and Turkey. After initial review, Turkey was excluded since it was observed that the wet processing mills there are much more developed in terms of their environmental performances compared to their counterparts in China and India. One programme representative each was identified in the production countries to coordinate the programme.

To identify wet processing mills to be part of the project, H&M identified the largest H&M suppliers in China and India, who together made up 75% of the total volume bought from each country. These 1st tier suppliers were asked to fill out a questionnaire with questions regarding how they source fabric, from what textile mills and how much of what they buy from each textile mill is for H&M products (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004). In India the replies revealed the names of approximately 25 wet processing mills. A separate questionnaire was then sent to the identified mills to get information regarding the type of production in the mill, environmental awareness onsite, size, capacity of processing, etc.

When the mills had responded to this questionnaire a final screening was made to identify suitable companies to participate. In this screening H&M looked at several different criteria including: willingness to participate, scope for environmental improvements in the mills, long-term prospects for the mills to work with HM orders, type of production in the plant, and location. H&M also wanted participating mills to have their own effluent treatment plant (as this enables them to measure improvements in environmental performance effectively), and they did not want the mill to already be ISO 14001 certified (as H&M believed that non-certified mills would have more scope for improvement).

For ENFAP, H&M wanted to avoid involving vertical suppliers in the first stage, as they did not want vertically integrated suppliers to perceive themselves as easy targets for new programmes. H&M values vertical suppliers as essential for future business plans, and thought it was important to reassure such suppliers and give them time to prepare for the programme (Bammanahalli, 2005).

Finally six 1st tier suppliers and respectively six wet processing mills were selected for the ENFAP project in India. Three mills from North of India and three mills based in the South of India.[58] H&M deliberately wanted to include mills from both the Northern parts and the Southern parts as they perceived that there is a considerable difference in the working atmosphere, attitude and knowledge level of mills in Northern and Southern parts of India (Bammanahalli, 2005).

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[58] Here it should be noted that although H&M in principle wanted to avoid vertically integrated suppliers, one of the included mills was part of a vertical set-up.

It is interesting to note that, at the point when the mills agreed to participate in the project, it was still not fully formulated. Thus the mills signed up irrespective of proposed contents of the programme (Bammanahalli, 2005).

Once the mills were identified, H&M contracted external consultants to help them develop a tool that could be used to introduce and promote Cleaner Production (preventive environmental management strategies) within the selected mills. The stated aim of this tool was to: "Help wet-processing mills supplying to H&M, improve their environmental performance and consequently reduce their production costs. […] The tool would help the wet-processing mills identify options that lead to reduced energy and water consumption and reduced toxicity and/or quantity of chemicals used" (Bammanahalli, 2005, p. 38).

The developed tool was named the "Low Hanging Fruit Tool" and consists of five different elements: A guide for the H&M audit staff regarding how to implement the Low Hanging Fruit tool in the participating mills, a manual for performance improvement options, questionnaire for the mills, a feasibility checklist and an action plan.

In India H&M assigned two H&M auditors to the project, one was responsible for the three mills located in the North of India and one was responsible for the three mills located in the South of India. These persons were responsible for coordinating the project with both the 1st tier suppliers and the mills. After an initial meeting, where also the 1st tier suppliers were present, the H&M representative visited each mill to evaluate, with the help of the Low Hanging Fruit Tool, the potential for environmental improvements that would also generate financial returns. Based on this evaluation the mills were asked to develop action plans where they indicate which cleaner production options they intend go forward with. H&M then continued to monitor the progress of the mills during the course of a year (H&M AB, 2007).

In the manual for improvement options the Low Hanging Fruit Tool listed 41 different performance improvement options. For every listed option, the tool provided a brief description about the option and how they can be achieved, environmental effects of the measure, its applicability and financial aspects associated with it. Five options were termed as "Management Options", these options focused on establishing organisational resources for working with environmental improvements and to measure the usage of water, energy, wastewater and chemicals. H&M considered these options as

"basic" or compulsory, and expected all the mills to implement these options, if they were not already in place. The remaining thirty six options were termed as "technical options", a selection of measures that any wet processing mill could implement to improve their environmental performance and also save production costs. H&M wanted the mills to take up at least three technical options in the first phase of the programme (Bammanahalli, 2005).

Auditors were instructed to make at least two visits to all the participating mills. The main purpose of the first visit (introductory visit) would be to go through different Improvement Options mentioned in the tool, to briefly mention the sections of the LHF Tool, how it works, and, wherever necessary, to briefly reinforce the advantages of CP techniques. During the second visit (main visit), the H&M representative together with a suitable person at the mill (production manager, senior engineer, etc.) was asked to go through the LHF Questionnaire and fill in the questionnaires. It was also emphasised in the instructions to involve the mill staff responsible for water/effluent treatment plants, energy/boilers and chemical stores during this meeting.

The questionnaire was used to help the mills identify performance improvement options for the particular mill. The responsible H&M auditor worked supported the mill to work through this questionnaire by going through it together with a suitable person/s at the mill. If the mill then wanted, they could use the feasibility check list as a support tool to further explore the technical, economical and environmental aspects of each option. With this input information the participating mills were given a fixed period (around one to two months) of time to develop an Action Plan. This Action Plan was then used by H&M as a basis for the follow-up on the implementation of the selected options (Bammanahalli, 2005).

11.5.2 Consequences and reactions

Focal company perspective

What H&M has done with the ENFAP, and also the SEMS, project is to provide interested actors in the supply chain with information about Cleaner Production and a practical tool that the wet processing mills can use to identify and implement improvements. In addition H&M is also providing some organisational resources, trained auditors, who can support the mills in their work with this tool.

As a result of the project H&M has built up not only practical tools for the mills, but also considerable in-house competence related to the environmental impacts of wet processes and the possibilities for reducing such impacts. H&M also comes away with an increased understanding of their own supply chain and the way fabric mills work, and of how they can motivate companies to improve their environmental performance through the provision of information and tools rather than contractually regulated sanctions or rewards.

The stories of SEMS and the initial stages of ENFAP is a good illustration of how practical details and changing circumstances may influence the outcome of projects such as these.

In the SEMS project H&M was very happy with the outcome in one out of the four participating mills. In this mill they could see clear improvements being made and it was also easy to trace these improvements back to the Initial Environmental Report that H&M had funded for the mill (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004). H&M believes that part of the explanation for the success in this case lies in the nature of the report produced. The report produced for the supplier which had the best uptake was very practical and provided concrete recommendations for actions including an analysis of the costs and benefits, whereas the other reports were less concrete: "too academic, in their [the suppliers] eyes" (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

In two of the other participating companies, H&M did see environmental improvements being made, but it was not always easy to trace this back to the report sponsored by H&M. H&M believes that part of the explanation can be traced back to the content and the quality of the reports, but they also point to the fact that both of these companies underwent considerable organisational changes while the SEMS project was running. Nature also intervened as one of the mills was actually flooded with water mid-way through the project and all the SEMS-related documents literally floated away with the river (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

In one of the participating suppliers H&M was not able to see any real improvements being achieved. Part of the explanation, they assume, is the fact that H&M had reduced the volume of orders placed with this supplier: "The number of orders went down and his interest went down

proportionally" (Environmental coordinator, H&M Stockholm, personal interview, 9 September 2004).

The early reactions on the ENFAP programme indicated similar challenges. The low hanging fruit tool was first introduced to the participating mills in March of 2005 and in August the same year (when Bammanahalli did his field study in India) all six mills had developed an action plan as requested. Already at this stage H&M were facing challenges. While all three Southern mills were perceived by the H&M auditors responsible for ENFAP to be more proactive in their approach compared to their North Indian counter parts (the H&M auditor's attributed this difference to better attitude and long-term thinking of Southern mills), they challenge in this case was that many of the suggested options suggested in the low hanging fruit tool had already been implemented in these mills before ENFAP, and so the auditors and the factories were finding it challenging to identify relevant options not already implemented in the mills. Eventually though all of the Southern mills identified four different technical options each to proceed with (Bammanahalli, 2005).

In the North there was clearly more scope for improvements, but here the mills were more reluctant to commit to any of the technical options identified as feasible. The response did not meet H&M's expectations. H&M's auditors needed to convince the mills to attend meetings and agree to deadlines, which went against the intentions of H&M that the programme should be voluntary and primarily driven by the mill's own zeal and interest. However, in spite of these initial hurdles in some of the mills, H&M auditors were hopeful that mills showing slower response would realise the benefits of the programme and the situation would improve with time (Bammanahalli, 2005).

In one case H&M's auditor believed that part of the explanation for their reluctance to commit to the programme could be traced back to the fact that after the launch of the programme, H&M's order volumes for the mill reduced due to some contractual failures between H&M and a sister concern of the mill. Whereas the mill argued that they had already had a long-term plan of investing approximately 3.5 million USD on modernising the infrastructure and that they did not find the targets of the low hanging fruit tool to fit in to their long-term plans (Bammanahalli, 2005).

In the third Northern mill the response to the ENFAP programme was more positive and this mill had decided to concentrate on two management

options and two technical options from the tool. However, unfortunately, both the individuals responsible for ENFAP at the mill decided to leave the company midway. H&M's auditor tried to revive the programme with new counterparts in the mill, but after realising that this mill was going through a bad financial situation, they eventually decided to drop this mill from ENFAP, and instead started to look for a new mill to be part of the programme (Bammanahalli, 2005).

In terms of environmental improvements, real improvements have been reported. But it is also clear that the reaction and success of the two projects has varied between different mills.

Supply Chain Structure and flows

Both SEMS and ENFAP (at least initially) were rather small projects that only involved a small fraction of H&M's total supply chain. As such they have not had any major impacts on the structure of H&M's supply base so far. However, it is interesting to note that through the ENFAP programme, H&M has established direct connections with 2nd tier suppliers, with which they did not previously have any direct business relationship. H&M went through their first tier suppliers to find the mills and had the approval and cooperation of their first tier suppliers, but after this H&M interacted directly with the mills without going through their 1st tier suppliers.

Supplier perspective

When interviewing representatives from the mills participating in the ENFAP project, Bammanahalli (2005) found that, in spite of H&M's efforts to highlight the opportunities for cost reduction as a primary objective for implementing cleaner production options, it was ENFAP's connection to environmental improvements that seems to have attracted more attention from participating mills. Even though all participating mills conceded that almost all the options mentioned in Low Hanging Fruit Tool would result in some kind of cost benefits and they expressed that they were happy to be part of an initiative that gives opportunity to look at their own factory in a different perspective.

It is interesting to note that when Bammanahalli (2005) asked about the greatest strength of ENFAP, all six mills were unanimous in saying "voluntary nature of the program".

> *They were all used to getting requests from customers on quality issues which were "compulsory". Hence, getting to choose their options and set up timelines was appreciated by all six mills (Bammanahalli, 2005, p. 45).*

It is also interesting to note that mills interviewed in the Bammanahalli study were concerned by the fact that they did not see improvements in environmental performance fetching them more business from their customers. Even though they expected the implementation of the Cleaner Production options identified through the ENFAP programme to generate cost savings, they noted the fact that H&M did not commit itself to give continuous business to the mills associated with ENFAP (regardless of the improvements achieved) as a problem.

> *These mills were not sure if "cost reduction" could successfully serve as a sole driving force under these circumstances (Bammanahalli, 2005, p. 45).*

None of the participating mills had ever come across any initiative from foreign buyers similar to ENFAP, and hence some of the participating mills were curious about H&M's intentions. Bammanahalli (2005) notes that: "Although all the mills visited, expressed their happiness about H&M's initiatives, at least three mills seemed to think that this could lead in H&M looking closely into costing-calculations of wet processing; which could ultimately result in wet processing units being asked to decrease their production charges. This view however was only an apprehension and they did not want to comment any further since ENFAP is still in the initial stages" (p. 46).

He also notes that one mill thought that H&M was doing this exercise because they were looking at nominating mills so that all garment exporters supplying to H&M eventually would be asked to process their fabrics in mills associated with ENFAP.

Bammanahalli (2005) concludes that: "It was clear from the interviews held with the mills that H&M's real intentions behind ENFAP of "taking responsibility towards environment and to meet future demands of the customers" had not reached all the concerned mills" (p. 46).

11.5.3 Concluding remarks

H&M has continued to promote Cleaner Production in textile mills. In their annual CSR report for 2006, they report that they have reached 23 dyeing mills in India China and Bangladesh. Since 2006 the company is also including vertically integrated suppliers in the project. They also state that the idea is that this should be a continuous part of their efforts to improve the environmental performance of their supply chain (H&M AB, 2007, p. 9).

In the CSR report for 2007, H&M reports of continued progress and also provides examples of the cleaner production measures that have been implemented as a result of the program. In the CSR report for 2007, the company also states that one of their objectives for 2008 is to initiate audits of fabric suppliers (H&M AB, 2008b).

11.6 Supporting the market for organic cotton – introducing styles made from yarn certified according to the Organic Exchange blended standard

Background

Organic Exchange is a charitable organisation committed to expanding organic agriculture, focusing particularly on increasing the production and use of organically grown fibres. One of the tools that Organic Exchange (OE) has developed to support greater use of organic inputs is the OE Blended Standard. Products made with a variety of fibres, but containing a minimum of 5% organic cotton, can be certified against this standard.

H&M's programme with Organic Exchange was initiated in 2003, when the company decided to investigate the opportunities for starting to use OE blended yarns for H&M products. At that time there was no legal pressure on apparel importers to work with organic cotton or indeed to otherwise address the negative environmental impacts of conventional cotton farming. While the environmental impacts of cotton farming has been discussed in media both before and after this date there was no specific media attention or NGO campaign directed at the company at the time they decided to engage with this project.

The CSR manager of H&M learned about the Organic Exchange programme and the OE Blended Standard from a person who was working with environmental affairs for a large sportswear brand. This person encouraged H&M to join as well, and as a result H&M decided to look further into it and eventually made the decision to start investigating the possibilities to work with OE blended yarns (CSR manager, H&M Stockholm, personal interview, 7 September 2004).

The company thus experienced no, or at least very limited stakeholder pressure. It is also worth noting that they did not expect any market rewards, at least initially, and did not (at the time) label the garments that were produced with OE blended yarns.

However, clearly it could be said that this programme fitted into H&M's general environmental policy and their ambition to address major environmental impacts.

Purpose of the programme

As mentioned above, the purpose of H&M's Organic Exchange programme was not to label the products produced within the scope of this programme. The company's purpose was address the negative impacts associated with cotton farming by contributing to the creation of a larger market for organic cotton, and instead of labelling individual products as containing a percentage of organic cotton, the company was interested in calculating, and reporting (in their annual CSR report) the total tonnage of organic cotton purchased by the company.

When the project first started the initial ambition was to test and evaluate working with OE "blended products". As the first orders were shipped and results were positive, the company has set an ambition to continuously increase the total tonnage of organic cotton included in H&M products annually (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

Tier of the supply chain where compliance is determined

In order to be certified as organic, the cotton fibres must be grown according to organic standards. In order to be eligible to be certified with the OE Blended Standard, the yarn producer must follow the requirements of this standard and be able to show that they are mixing in the percentage

of organic fibres that is claimed. Critical tiers are thus fibre production and spinning. In subsequent stages it must also be verified that the OE blended yarn is actually used. At the time of this study, H&M were only working with the OE Blended Standard for knitwear. This makes a difference as knitwear yarn suppliers are often only one tier removed from the H&M's direct, first tier, suppliers.[59]

11.6.1 Operational approach

The central elements of this initiatives are a) the OE blended standard created by the Organic Exchange, b) the third party certification body (that has been approved by Organic Exchange) which certifies the yarn producer but which also issues certificates for each H&M order verifying that OE blended yarn has been used to the percentage claimed, and c) the specification in the order for an OE blended style that allows the H&M supplier to source OE blended yarn from any supplier, but requires them to ensures that the yarn supplier is certified for production according to the OE blended standard and is able to provide the documentation that H&M requires, in the format that H&M requires.

Turkey was the first pilot country for this project. In 2003 the central buying office informed the H&M production office in Turkey that they wanted to explore the possibilities of working with organic cotton in the form of a blended yarn. Initially one person from the R&D team in the Turkish production office was assigned the task of exploring the market to learn more about the availability of the raw material (organic cotton) and spinneries that could deliver this type of yarn.

Based on this initial research H&M identified a small number of spinneries that had already since before been working with the OE Blended Standard. They then contacted one of their suppliers and asked them to source the yarn from these nominated spinneries. A first trial order was placed in December 2003, which was delivered in March 2004. After evaluating this first order in March, the company decided to continue with the project and between March and October 2004 the company had shipped out approximately 16 orders. All these orders were made with blended yarn containing 5% organic cotton, amounting to in total approximately 5 tonnes

[59] In knitwear it is common with fabric production and apparel production in the same factory. This is less common for wowen products.

of organic cotton (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

Initially the company primarily placed OE blended orders for baby and children's wear products. The reason for this decision was that the proportion of the total cost derived from the cost of yarn is lower for baby/children's wear than for adult wear. H&M has also not increased the price level in the stores for OE blended products, as compared to comparable products without any organic content (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

The process of sourcing OE blended orders is only slightly different from the way H&M traditionally sources garments. It is very important for H&M to ensure that their claims regarding organic content are verified and therefore the company puts a lot of emphasis on ensuring that the production is certified and that proper documentation follows with every order.

To ensure this H&M collaborates with SKAL Turkey, a certifying body that certifies producers against the OE Blended Standard. SKAL makes sure that 5% of the cotton used for the yarn is certified organic cotton fibre: "Everything has to be traced back and comply with the organic rules" (Employee, SKAL Turkey, personal interview, 21 October 2004). SKAL ensures that the spinneries have an appropriate set-up for producing OE blended yarns. This means among other things that the organic cotton should be stored separately and that the blending system has to be set up so that everybody knows which bales are organic cotton, and which are conventional cotton.

For the H&M OE program, SKAL issues a certificate for every order where they include information about the bale numbers for organic cotton and also calculates the total amount of organic cotton used for that particular H&M order. This does not mean that they make a new inspection in the spinnery every time an order is placed. When a supplier is new to the OE blended programmes goes there to inspect the production, but after checking a few orders, verifying that everything is done according to the standard, rather than going on-site to perform the inspection the supplier must provide SKAL with the documentation regarding bale numbers so that SKAL in turn can verify that these contain organic cotton fibres (Employee, SKAL Turkey, personal interview, 21 October 2004). The cost of certification is born by the producer.

The other difference is that H&M for the first OE blended orders nominated the spinneries that they wanted the knitter/apparel producers to source the yarn from. This could have some disadvantages for the H&M supplier, as in many cases this was the first time they had sourced from the nominated spinnery. It is also not a practice that H&M wants to continue: "It is not possible to continue with this kind of relations [nominating spinneries], time wise, price wise and so on" (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004). After the initial trial orders, H&M has therefore informed their 1st tier suppliers, working with OE blended orders, that for coming orders the supplier is free to source the yarn from any spinner, providing that they ensure that the spinner understand H&M's requirements for OE blended yarns and that the spinnery gets the required certification to produce according to the OE blended standard (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

Thus in the start up of this project the process of sourcing was different, and additional man-hours were used from H&M's side to set up the project. However, already less than a year into this project, it appears that apart from ensuring that the appropriate certificates follow with the orders, there is little additional effort on the part of H&M's sourcing process for these types of orders (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

11.6.2 Consequences and reactions

Focal company perspective

As noted above, initially this project meant that H&M went further upstream in the supply chain, than what they normally do. However, this was only done during the initiation of the projects. So in terms of sourcing procedures the programme has not had any major implications in terms of how sourcing is organised and the organisational resources needed to handle this project are rather limited.

In terms of cost, H&M is expecting a slight increase in the cost of goods as a result of the higher cost of the organic cotton fibre as compared to conventionally grown fibre. However, since they only blend in 5% and they were so far only doing this for baby and children's wear, the price difference where not significant (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004). It should be noted here that one of the yarn

suppliers involved in this project had made a decision to run one of their lines with a 95/5 blend continuously, absorbing the additional cost of the organic cotton fibre and selling the yarn at the same price as yarn made from 100% conventional cotton (Chief of sales export, yarn producer, personal interview, 15 October 2004).

Supply chain structure and flows

Again, initially, there was a change in the supply chain structure, as H&M made direct contact with suppliers further up-stream. This was, however, only a temporary phenomenon. H&M suppliers of OE blended orders are now free to select their yarn suppliers as for any order outside the OE blended program, but they do have the additional task of ensuring that this supplier will live up to all requirements that H&M has for OE blended orders.

However, one change worth noting is that the certifying organisation SKAL has now become a part of the H&M supply chain in the role of a critical service provider, who enables H&M to source OE blended products and make claims regarding their use of organic cotton, without actually performing own inspections in the supply chain.

When H&M started this project, they had identified two spinneries on the Turkish market that were certified to supply OE blended yarns. However, H&M clearly states that it is their objective to ensure that more yarn suppliers will be available: "H&M is a very big company and we can not only buy from certain places, it should be flexible […], quick, and so on" (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

Some of the suppliers decided to introduce the OE programme to the spinners that they normally sourced from, whereas others have decided to continue sourcing from the spinneries H&M originally nominated (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004). As a result an additional three spinneries had been certified to produce OE blended yarns by October 2004 (Employee, SKAL Turkey, personal interview, 21 October 2004).

Supplier perspective:

When asking H&M's representative regarding the response from the knitters, she mentions that they had initial worries primarily related to the quality and how H&M would react if the price was higher. They also expressed concerns about what the consequences would be if deliveries were delayed as a result of them having to use a nominated spinnery and not their own sources initially. H&M calmed their worries on this point and, after the first initial orders, all suppliers that had worked on the programme were positive saying to H&M that they were ready and willing to take more orders for OE blended products (Responsible OE programme, H&M Turkey, personal interview, 11 October 2004).

The representative of the certifying body, SKAL Turkey, says that a spinnery only has to make slight changes to be ready to produce OE blended yarns, showing that it only requires a very small investment from the spinnery to get certified (Employee, SKAL Turkey, personal interview, 21 October 2004).

The knitwear supplier interviewed during this project had chosen to continue working with the yarn supplier that H&M had initially nominated for the OE blended yarn. Apart from a slight increase in the price of yarn, he did not perceive working with these types of orders as being very different from conventional styles (Director, knitwear supplier, personal interview, 13 October 2004).

For the yarn supplier the differences in internal operations were more noticeable, but not dramatic. It should be noted that the yarn supplier interviewed in relation to the OE programme had been working with OE blended yarns since the beginning of 2003, before H&M initiated their programme and before this also with yarns made from 100% organic cotton. In fact this company had made a decision to mix in 5% organic cotton in all yarns produced in one of their three mills. This was done as a promotional project during one year and all the blended yarn produced during this year was sold at the same price as yarn without any organic cotton. This meant that during this promotional campaign the company was absorbing the additional costs of the raw material for the 5% organic cotton that was mixed in. At the time of the interview, the price for organic cotton fibre was approximately 30% higher than for conventional cotton fibre (Chief of sales export, yarn producer, , personal interview, 15 October 2004). When asked about the reasons for doing this promotional project, the informant responds that they felt that customers (end-users such as large brands and

retailers) were not aware of the importance of organic cotton farming and because of the price difference they were hesitant to try. The company therefore decided to run this project and combine this with other promotional activities to spread information to customers about organic farming (Chief of sales export, yarn producer, personal interview, 15 October 2004). After the end of 2003, the company had discontinued the project of running one mill continuously with a 95/5 blend and where now only producing OE blended based to order.

In terms of differences for production, the company points to the fact that they need to keep the organic fibres, and later the blended yarn, separated throughout the process from inbound storage to outbound storage. They also point to the need to have all documentation in place and the fact that the certifying body SKAL comes to do inspections, in this case 6 days in a year (Chief of sales export, yarn producer, personal interview, 15 October 2004).

For the yarn producer, sourcing is also different. This mill was sourcing all its conventional yarn from USA, but for organic they used three different types, Aegean Turkish cotton, Israeli cotton and Peruvian cotton. Both conventional and organic cotton is sourced through cotton traders, but they still perceive it to require more resources to source organic as they have to make sure that the appropriated documentation is in place (Chief of sales export, yarn producer, personal interview, 15 October 2004).

11.6.3 Concluding remarks

Since this study, H&M has continued to work with blended products and have also started to sell garments made from 100% organic cotton, as well as garments made from 50% organic cotton and 50% conventional cotton. The company has also started to label garments made with organic cotton. During 2008 the company expects to use around 3 000 tonnes of organic cotton and the company aims to continue to increase volumes by at least 50% a year in the next five years. (H&M, 2008b)

In addition to these activities, the company is also involved in a range of other projects related to cotton. One such project is designed to support cotton growers during the crossover period from conventional to organic cotton. The aim for 2008 is to use 50 tonnes of transitional cotton in H&M collections.

The company is also involved in a project initiated by WWF that is designed to improve conventional cotton growing, and in addition to organic cotton the company has also started to sell garments made from organic wool, recycled wool and recycled polyester. For basic baby wear, they also have a small collection which is labelled with the EU Flower eco-label for textiles (H&M AB, 2008a).

11.7 Within case analysis

In my research, and subsequently when writing the case descriptions in this thesis, I have deliberately focused on getting down to the very practical details associated with upstream CSR. It is my belief that it is at this level we first can begin to truly understand the practice and the challenges associated with this phenomenon from the perspective of the focal company.

It is now time to return to the research questions that guided the research for this case study. In the following section I will discuss them one by one.

What did H&M do to a) influence actors in its supply chain to get them to agree to adapt their operations to fit H&M's environmental or social agenda and b) control and verify that relevant aspects are in compliance with the criteria or objectives prescribed by H&M?

The four initiatives described in this case confirm the view that the task of managing environmental and social aspects that are determined by another actor in the supply chain involves two fundamental, linked, but yet different types of challenges: The challenge of influencing supplier performance to meet certain set criteria or reach desired goals, and the challenge associated with verification of supplier performance or product standard/ characteristics.

The process of *verification* can arguably be an important element of the process of seeking to *influence* the performance and/or decisions of an actor in the supply chain, but as this case study shows the process of influencing a supplier can include many other elements.

Let us start by looking at how H&M has addressed the challenge of influencing actors in the supply chain.

In the case of the CoC, as well as in the case of chemical residues H&M applies the threat of sanctions as part of the method for motivating suppliers to comply with their requirements. These sanctions take a slightly different form. With the CoC, H&M clearly states that the repeated violation of their minimum requirements will lead to the supplier being listed as permanently rejected as an H&M supplier, whereas for the chemical residues the primary sanction is that H&M retains the right to cancel an order and seek financial claims, if they should find that the product contains restricted chemicals above maximum limit values. However, while H&M has contractually built in the threat of sanctions as a formal consequence if suppliers do not comply with chemical restrictions or the CoC, it is important to note that this is not the only method that the company applies in their attempts to influence supplier compliance. This approach is paired with efforts that are designed to support suppliers in their work to achieve compliance. H&M is also providing documentation, specific advice, and training for suppliers to *enable* them to mange these issues in their own operations.

When addressing the environmental impacts of the wet processing stage, H&M also engaged in a project where they provided tools and support to enable actors in the supply chain to address environmental problems. But here they relied on other forms of motivation. In the SEMS and the ENFAP projects the company explicitly avoided any threat of sanctions. Neither did they want to provide direct business rewards as incentives for participating companies such as granting participating mills a nomination as a preferred H&M fabric supplier. Instead the company relied on the provision of information and support as their primary tools to influence the mills. In this effort they stressed the financial returns that could be realised by implementing different cleaner production options, hoping that this would motivate the mills to engage. It is interesting to note that while the possibility to generate financial returns was acknowledged by the participating mills, it did not seem to be this that determined their response. It is always difficult to assess what is the real reason underlying a decision but, different ways of seeing this is conceivable. A mill may choose to implement a cleaner production option primarily for the purpose of reducing costs, but a mill may also choose to implement a cleaner production option primarily because of the environmental improvements, but the fact that there is a financial pay-back makes it possible for them to do this.

In the case of the blended cotton, we have to add an additional dimension to our understanding of what it may involve to manage environmental and

social aspects in the supply chain, because here H&M actually did not initially need to influence a supplier to comply with a certain criteria, but rather the challenge was to identify suppliers, spinneries in this case, that already were in compliance (that is certified to produce yarn according to the organic exchange blended standard). However, H&M did have to motivate their first tier suppliers to work with these yarn suppliers, this was achieved through an informal process involving information and reassurances with respect to different elements. By nominating yarn suppliers for the initial orders, H&M also facilitated the process for the garment makers in that they did not have to do the research work to identify suitable suppliers. H&M did have the ambition to increase the number of yarn suppliers, and thus the ambition to influence actors in the supply chain. However, in this case rather than going straight to this tier, as in the ENFAP programme, the company relied on their garment makers to manage this process. The company gave their first tier suppliers the choice to source yarn from other sources than the suppliers H&M originally nominated, provided that the supplier could ensure that this yarn supplier had the appropriate certification and were able to deliver the documentation according to H&M's requirements.

In all four initiatives verification is a central and significant part of the effort. But the process of verification differs. Here we see a clear difference between *process control* and *outcome control*. While compliance with chemical restrictions are verified through testing samples in a lab, compliance with the CoC has to be verified by comprehensive on-site audits involving visual inspections, documentation reviews and interviews with workers and the management. The former is integrated with the testing procedures for quality, whereas the need to verify compliance with the CoC has entailed the need to build up a department of specialists working exclusively with this task.

With regards to the organic exchange programme, two things are of relevance to note with respect to the issue of verification. First of all it is relevant to note that while the organic exchange standard is a product standard in the sense that it says something about the product, the yarn, and not about the supplier, it also involves process-oriented criteria applicable for the yarn manufacturer. Unlike the chemical residues, the product-oriented criteria for the blended yarn can thus not be verified through inspecting or testing the delivered product, but verification must take place through on-site inspections by means of certification. Secondly it is relevant to note that this is an example where the on-site inspection has been outsourced to an independent service provider (SKAL). This means that

H&M can verify process criteria through the paper trail rather than through making their own on-site inspections. In this case the existence of such a service provider has considerably facilitated the process for H&M.

Finally it should be noted that the process of upstream CSR does not start with the task of motivation/influence and verification. Nor does it end there. Before coming this far H&M also goes through a process of determining what issues the company shall engage with, learning about environmental and social impacts, defining goals and developing tools and procedures for achieving these goals. The CSR department is also involved with the process of stakeholder interaction and reporting.

What did addressing the different issues entail for the focal company?

The first thing that comes to mind here is the fact that there is a considerable difference between the different initiatives included in this study. Certain programs required more change and more resources from the focal company than others. For example, whereas the programme designed to manage suppliers' compliance with the CoC has seen H&M build up an internal department devoted primarily to this task, the organic exchange programme did not see any additional resources allocated to this programme above and beyond what could be spent on any other type of new product development. While this is in line with the idea that distinctions can be made between product initiatives and process initiatives, it should be noted that the difference in terms of resources allocated to verification on behalf of the focal company is not explained by the process/product control distinction as the criteria for OE blended yarn is process-related. The difference in internal resources devoted is explained by the fact that H&M outsource verification for organic exchange blended yarns but, not for CoC verification.

Differences in allocated resources can probably also partly be explained by a link to another parameter, that of the purpose of, and motivation behind, the programme. The most distinct difference here can be seen between the CoC programme and the ENFAP programme. While these two programs are fundamentally different in their set-up and components, primarily because of the fact that ENFAP, unlike the CoC programme, is directed at suppliers in the second tier, where H&M does not have a direct business relationship, there is also another difference that is of relevance to note. While H&M want to see environmental improvements as a result of ENFAP, these projects are limited in their scope, while the CoC programme

covers all suppliers and set a minimum standard for what is acceptable performance. Part of the explanation for the more modest objectives for the ENFAP project may be that this project, unlike the CoC project, is addressing an issue where the company, at the time of the programme's inception, were facing very limited pressure from external stakeholders.

Another obvious issue that has also been noticed in other cases (Hall, 2001) is that the company has built up internal competence related to a range of issues that are rather far from the company's core business of designing, sourcing and retailing fashion. These skills range from developing a deeper understanding of particular environmental and social problems to practical skills associated with e.g. social auditing. Clearly H&M is aware of how important this is as they actually launch projects, e.g. SEMS, where an important part of the motivation for doing this project was so that they (H&M) could "learn" more about this topic and the situation of the suppliers.

These skills are also a reflection of the new roles that H&M takes on in relation to their supply chain. This includes the role of information provider, trainer/enabler, provider of support and advice, and the role of the enforcer and inspector.

What consequences can be identified for the affected actors in the supply chain, as well as, for the structure, processes and flows in the supply chain?

In comparison with the previous case study of Verner Frang, the case study of H&M revealed very little evidence that upstream CSR had lead to major changes in the structure and flows of the supply chain.

With the exception of minor, although important tweaking, such as for example the fact that a factory has to be audited before the first order is placed, none of the studied programmes have significantly altered H&M's approach to sourcing and supply management. On a practical level such changes does make a difference, and one reported consequence is that H&M suppliers appear to have reduced the number of subcontractors that they work with as a result of the fact that such subcontractors need to be audited and approved by H&M before production may start.

From the perspective of the suppliers, we also find mixed consequences. It is clear that suppliers have faced a position where they are expecting to open up their doors and let H&M, or an external party, in to verify compliance

with specified goals. Several reported that they had learned from this process in ways that did not just enable them to meet the expectations of H&M, but also to improve their business in a more general sense.

11.8 Concluding remarks

The story of H&M and the four different initiatives described in this chapter illustrates how complex the practice of upstream CSR can be. Indeed it is complex on many levels. I can think of at least three:

- Complex context: The sheer number of actors involved in the production of H&M products is daunting in itself, but you must also add to this the element of continuous change within the supply chain *and* within each company that is a part of the supply chain.
- Complex issues: Defining good performance is a challenge in itself. Part of the challenge for H&M is related to the need to interpret, sometimes very broadly expressed, expectations of different stakeholders and break down words such as environmentally friendly, sustainable, or ethical into concrete requirements or suggestions for actors in the supply chain.
- Complex phenomenon: One of the key take-away learnings from this case is to see the fact that there is not one way to address all issues in the supply chain. H&M uses different approaches to manage different issues, and their approaches are also continuously evolving as they learn from previous experience.

Given such circumstances, it seems clear that there will never be any general "best way" to manage all environmental and social issues in the supply chain. The study of H&M also shows that success or failure can be determined by details, such as the quality and format of the report of an initial environmental review, or the method applied for audits. Given this finding it seems that the development of upstream CSR must be a learning process of trial and error. H&M has, since this study was made, continuously developed their approach in the different areas, particularly in their approach related to supplier compliance with the company's CoC. It is not unreasonable to assume that even companies like H&M, who are by many recognised as a leader in this field, will also continue to adjust their approach for years to come as the learn from the experiences made today.

CHAPTER

TWELVE

12. Analysis and conclusions

In this chapter I will go back to the research questions posed in the beginning of this thesis and discuss these in the light of the findings from the studied cases, as well as, the reviewed literature. I will also propose a framework, which I believe can be helpful for someone who seeks to understand and/or further explore the phenomenon of upstream CSR.

Before we go any further though, I would like to stress that while the focal companies of both case studies presented in this thesis arguably are comparatively advanced in their work with upstream CSR, the reader should remember that the field studies were made some years ago. These case narratives should therefore not be seen as examples of what is the current state-of-the-art in terms of, for instance, auditing methods, or the approach to evaluate and address non-compliances. For this they are too old and since none of the described methods have worked perfectly, the companies have continuously developed and consequently changed their methods over time, and they will most likely continue to do so for years to come.

However, while this thesis will not offer the reader a prescription for how to do the best audit or how to best train suppliers on cleaner production methods[60], the case studies and the literature review do allow us to start tease out central elements and components of upstream CSR, with a particular emphasis on the tasks and challenges associated with the exercise of influence over, and the verification of, environmental and social aspects in the supply chain.

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[60] This is not to say that such a study would not be interesting. I believe it would be very useful in particular for corporate practitioners. But the method of a case study is probably not the best approach to provide such answers, rather a comparable study looking at the methods of several companies, where the reasearcher would also have the ability to track and compare the results. My own experience is that two different CoC audits (using slightly different audit-methodology) can generate significantly different pictures of the same company.

12.1 Exercising influence over environmental and social aspects in the supply chain

One possible, and I believe important, distinction to make when discussing how focal companies seek to influence other actors in its supply chain is to discern between focal company initiatives that are intended to *enable* suppliers to address environmental and/or social aspects in their operations and focal company initiatives that are intended to *motivate* suppliers to address environmental and/or social aspects in their operations.

Personally, when I started looking in to this phenomenon, I did not reflect upon the possibility that upstream CSR would entail focal companies teaching its suppliers how to address environmental and social problems. I was interested in the element of motivation and I guess that I implicitly assumed that the supplier would know more about how to manage their operations than the buying company, which normally would not operate the same type of production process. However, both my own case studies and extant literature provides several examples of how the focal companies have engaged in enabling activities such as supplier training, the provision of consultancy services and the development of tools designed to provide guidance and ideas for suppliers regarding how to address the environmental issues that the focal company wants its suppliers to put on the agenda. That this is a prevalent phenomenon also outside the textile sector is supported by findings from several other researches (See, for instance, Hall (2000), Holt (2004), Lindgreen and Hingley (2003) and Rao (2002).

The fact that both Verner Frang and H&M (in all discussed initiatives, except in the organic exchange programme) has engaged in enabling measures is worth noting, as it indicates that the root of upstream CSR failures (that is when suppliers do not comply with requirements or specific requests) or slow progress, may well lie, at least partly, in a lack of understanding and competence on behalf of the supplier and not just in a lack of willingness to comply with the requests of the focal company. As such enabling measures often focus both on the how and the why (how can you address this issue and why should you do this), these initiatives also suggest that willingness on behalf of suppliers to accommodate the environmental and social requirements of the supplier may in part also be dependent on the suppliers understanding of the focal companies' motives behind these requests, as well as, their understanding of the environmental and social consequences of continuing as is without addressing these problems.

However, while it is clear that support and education along the supply chain has been a significant element of the initiatives studied in my case studies, it is also clear that enabling measures were in all but one project (H&M's ENFAP project) combined with some form of motivating measures administered by the focal company.

In his article on environmental supply chain dynamics, Hall (2000) refers to the taxonomy of French and Raven (1959) on the sources of power of one social entity over another. According to this taxonomy A would have power over B in any of the following situations (Hall, 2000, p. 461):

- Rewards: Where the source of power lies in B perceiving that A has the ability to mediate rewards for B.
- Coercive: Where the source of power lies in B perceiving that A has the ability to mediate punishments or sanctions for B.
- Expert: Where the source of power lies in B perceiving that A holds special knowledge or expertise of relevance.
- Referent: Where the source of power lies in the fact that B identifies with A.
- Legitimate: Where the source of power lies in B perceiving that A has a legitimate right to prescribe behaviour for B.

In the case studies we can see that both Verner Frang and H&M have employed a range of different approaches to motivate suppliers to adopt their operations in order to comply with environmental and social criteria, and that they have relied on coercion, rewards and expertise as a source of power to influence.

Coercive measures such as the use of s*anctions, or the threat of sanctions,* for non-compliance or failure to achieve set goals are used for instance by H&M in their Code of Conduct programme, where suppliers are threatened with rejection/permanent rejection, if serious non-compliances are identified during an audit. Another example is the RSL programme, where suppliers are made aware that they may be held financially liable for any losses that H&M incurs as a result of delivered garments containing chemical residues above set restriction values.

In the Verner Frang case, the focal company used several different versions of *rewards or other positive incentives.* Verner Frang paid a premium price to virtually all suppliers in all tiers, but they also arranged non-financial types of

incentives or rewards such as the provision of additional technical services and social activities for the farmers that participated in the organic farming programme.

Both H&M and Verner Frang have also used *expert advice coupled with persuasive methods* where they are appealing to the supplier's sense of environmental and social ethics and/or self interest by illustrating the link between improved environmental or social performance and improved business performance (without linking this to rewards or sanctions administered by the focal company). It is interesting to note here that it does not need to be the focal company who is the expert, but they can retain the collaboration of an expert for the purpose of their upstream CSR programme. Verner Frang did, for example, establish collaboration with a local well reputed organic farmer who agreed to share his skills and knowledge with the farmers that participated in the Verner Frang/TUSA programme for organic farming and H&M engaged experts on Cleaner Production in the textile industry to develop materials for their SEMS project.

Here it is relevant to stress that, while rewards and provision of expert knowledge can be applied in all situations and in all tiers of the supply chain, the use of sanctions, or the "credible threat" of sanctions, is subject to conditions. If the supplier can easily replace the focal company with another buyer, they may not perceive the threat of being rejected or permanently rejected as a cause for serious concern, and may therefore choose to not comply with environmental and/or social requirements placed on them by a particular buyer.

The threat of sanctions will also be more difficult to use as a motivating strategy when addressing issues that arise beyond the first tier unless direct business relationships are established with these actors, for instance, through nominating suppliers or through explicitly choosing to work with vertically integrated suppliers. It is of course conceivable that the focal company can require its 1st tier suppliers to sanction their suppliers (the focal company's 2nd tier suppliers), if they do not comply with specific criteria. However, here again, the requirement holds that these actors must then be a significant enough buyer, or that several first tier suppliers use the same 2nd tier supplier. If this is not the case the, "threat" will not be of any concern for the vendors that they need to influence

But as noted by Hall (2000) and by French and Raven (1959), and also by other writers on the issue of power (see for instance, Clegg (1989) and Haugaard (1997)), there are also other dimensions of power that need to be taken into account, if we are to understand one company's ability to exercise influence over the decisions of another company in its supply chain.

The role of *legitimacy* as a source of social power in this context can, I believe, be illustrated by the story of the H&M supplier who spoke at length about how the H&M CoC, and the programme they run to ensure that suppliers follows this code, was good for his company helping him to make his company better in *all* respects. But when asked a little later in the interview if he would consider transferring the CoC and the practice of auditing to his suppliers, his instinctive response was to say that he could never meddle with the way his suppliers run their business. From this, I infer that that after 10 years of working with Codes of Conducts, apparel producers may have accepted that western brands/retailers have a legitimate right to place requirements on them related to labour rights etc; but this apparel producer did not find it equally acceptable that he in turn should have the right to impose such requirement on his fabric suppliers.

In light of the fact that there are many different approaches to *enable* and *motivate* suppliers to address environmental and social affairs, it is also interesting to note that the mix of approaches and the practical set-up of how they were administered differed between the studied focal companies, but also within each case. In the study of H&M the organisational set-up and the methods of exercising influence in the ENFAP programme is very different from the implementation of the CoC, which in turn is different from their approach to managing chemical residues in products, etc. However, these variations were also present in the Verner Frang study. The observant reader will have noted that the methods used by Verner Frang to get spinneries and dye houses on-board differed from the approach used to engage the ginning mill and in turn the cotton farmers.

Clearly elements such as interorganisational relationships and dependencies between the focal company and its buyers play a role here, but also more subtle aspects such as the competence of the supplier and the cultural context in which the supplier operates. The latter is exemplified by H&M's experiences of working with the ENFAP project, where the same approach had different successes in the two different regions of India where the project was implemented.

The lesson to be drawn here is that we cannot ask in general terms: What is the best way to exercise influence in the supply chain? Instead we must ask how this particular company can best address a particular issue given the context (the supply chain) in which it operates. This is not to say that every situation is so unique that general knowledge cannot be created. However, I believe that it is important for the practitioner to always factor in the context and the specific issue at hand and not without reflection transfer an approach that has proved successful in one setting to a completely different setting.

12.1.1 How does the size of the focal company relate to its ability to exercise influence in the supply chain?

In trying to understand how the case companies have addressed the task of influencing actors in the supply chain, I have also been interested in understanding the role that the size of the focal company plays in this situation.

As explained earlier, I use the term focal company to refer to the company whose perspective we are taking, that is the company that is seeking to influence and/or verify environmental and social aspects upstream in the supply chain. In my definition, a focal company can be both large and small and it can be located at any stage along the product chain.

It is not uncommon, however, that people implicitly or explicitly associate the term focal company with a company of particular characteristics. Seuring and Müller (2008), for instance, suggest (following: Handfield and Nichols (1999) and Schary and Skjoett-Larsen (2001)) that the typical focal company has three characteristics in common (Seuring and Müller, 2008, p. 1699):

1. It usually rules of governs the supply chain.
2. It usually provides the direct contact to the customer.
3. It usually designs the product or service offered.

By such a definition, we can draw the conclusion that the focal company of my first case study, Verner Frang, does not fit with the idea of a typical focal company. When starting out Verner Frang, certainly was not in a position where they governed their supply chain. They did not, generally, have direct contact with the end-customer and they did not, in most cases, design the end-product. The company did, however, in spite of its small size and market share, manage to manoeuvre itself into a position where it could

govern, or influence and verify, not its entire supply chain, but the critical environmental aspects that arose in its supply chain. I bring this up in order to highlight two important lessons that should be drawn from my research. The first point is that also companies that are not in a position of obvious leverage over their suppliers can manage environmental and social aspects in their supply chains. Clearly the Verner Frang case has shown that the threat of business sanctions is not the only viable method of motivating suppliers to improve environmental performance.

The second point I wish to make here, and I believe that this is even more important, is that we can not assume that only large brand names or retail companies will be the only ones that are put in a position, where they are expected to assume responsibility for environmental aspects that occur upstream in the supply chain. Verner Frang is just one example of an atypical focal company, but there are numerous other examples, and the very nature of life cycle thinking will tell you that different types of companies will be finding themselves in a position where they want to, and or are expected/required to, address environmental and social aspects upstream. One topical example is the REACH regulation, where the requirements related to substances in articles[61] have made all importers of products into EU responsible for verifying whether the imported product contains substances listed as substances of very high concern. This means that all companies which import products to the EU, large and small, close to the end-consumer or several tiers removed from the end-consumer, need to gather information from upstream suppliers regarding the chemical content of the products that they buy and to verify that this information is correct. I argue that it is important for researchers to acknowledge that focal companies will come in many different sizes and shapes, and that we therefore need to understand how different types of focal companies are managing, or could manage, these types of challenges. Also small companies may need/want to engage in upstream CSR. They may not be the typical target of media and NGO campaigns, but they will also need to respond to regulations such as REACH and they will also be the subject of customer expectations and requirements.

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61 For more information about REACH and its requirements related to substances in articles see ECHA (2008) *Guidance on requirements for substances in articles*. Helsinki, European Chemicals Agency ECHA at: http://guidance.echa.europa.eu/docs/guidance_document/articles_en.pdf

Returning to the three characteristics of a typical focal company described by Seuring and Müller (2008), it seems that the focal company of my second case study, H&M, fits rather nicely into two of the three criteria. H&M has direct contact with the customer and they do design the final products. They are also a very large company, much larger than most of its first tier suppliers. However, based on the findings of the case study, it does not follow that their size and their position in the supply chain necessarily means that H&M "rules or governs" its supply chain.

In the supply chain, size and placement in the supply chain, does not automatically equal power or control over previous tiers in the chain. If I compare the two case studies presented in this thesis, it does not follow that managing environmental and social issues in the supply chain, and achieving real results, comes easier for H&M or that conversely it should be unachievable for the small focal company. There are several explanations for this. First of all, when I asked H&M's suppliers most of them said that although H&M was a very important customer (sometimes accounting for up to 60% of their business), it would not be difficult for them to replace that business if they were to loose their contract with H&M. From this I infer that if H&M was to ask things from the supplier, that the supplier felt were unreasonable, they would also have the choice to say no to H&M and find alternative customers. The conclusion is substantiated by the finding that H&M has had to permanently reject also a supplier with whom they had worked for many years, because this supplier repeatedly, despite strong warnings from H&M, broke the critical rules stipulated in H&M's CoC for suppliers. Even single dimension explanations of interorganisational power, such as the one suggested by Cox (2001), who analyses power structures in the supply chain in terms of dependency relations, clearly illustrates that the size of the focal company and tier in the supply chain are not the single determinants of power in the supply chain.

Another factor of relevance when we talk about supply chains is that the influence of the focal company does not automatically travel to subsequent tiers upstream (several of H&M's second tier suppliers were not aware that H&M was the final customer). Thus H&M becomes dependent on the leverage that their first tier suppliers in turn have over second tier suppliers. Here it is worth noting that many of H&M's 1st tier suppliers are small or medium sized companies.

The element of size is of course not unimportant, it matters as internally there will normally be more organisational capacity, or slack, to employ

internal expertise in relevant areas, but it also matters in relation with the suppliers as the size often also means that they focal company will be able to buy larger volumes, making it financially interesting for the supplier to accommodate requests from the supplier within reasonable limits. My case studies indicate that the size of the focal company matter in this context as it is linked with the ability of the focal company to offer financial incentives (which does not have to mean the willingness to pay extra, but simply the financial incentive linked with the opportunity of selling large volumes to one customer), but that size is not per definition linked to coercive power.

However, my case studies have also shown that "no power to coerce" does not equal "no power to influence". One of the most important lessons from these cases is that the focal companies use a complex web of different types of measures to exercise influence over environmental and social aspects in their respective supply chains.

In fact I would argue that being a large focal company and being a small focal company both holds its advantages and disadvantages.

The advantage of being a large focal company includes the fact that large order volumes works as an incentive for cooperation in itself, but also that such organisations have a better capacity to absorb costs for required specialist competence. Disadvantages for a large company, as compared to a smaller can be found in that it can be more complex and take longer time to achieve internal goal congruency with regards to decisions that impact upstream CSR.

Conversely, the advantage of being small lies partly in this flexibility. For a small organisation it may be a lot easier to achieve internal goal congruency, and align sourcing and procurement processes with new upstream CSR objectives. In the case of Verner Frang it is clear that the challenges did not arise in the internal work. To illustrate the impact that size may have on time needed to align internal processes and achieve internal goal congruency I can give you the anecdotal example that I came across in 2008 while attending a seminar with representatives from the textile and furniture sector. At this seminar a representative from a large multinational retailer showed their timeline for developing and rolling out new criteria into their supplier and product evaluation process. This timeline spanned two years. The subsequent speaker came from a small sportswear company; he explained that the process was a little quicker in their company: "I sit down with Leif

[the sourcing manager] and then we decide that this is how we are going to do it".

Another advantage of being small is that if a small entity finds that its supply base is unwilling to cooperate, it may be able to identify new sources in progressive companies that share the focal company's ambitions with respect to environmental or social performance. For a larger company it may be difficult to identify enough progressive companies to cover its sourcing needs and it will also be a longer process. On the flip side, the disadvantage for a small company is of course partly that it may not be able to offer large volumes as an incentive to cooperate and that it may have more difficulties to finance in-house expertise in specialised areas that are not core to the company's business.

12.1.2 Upstream CSR – without the need to exercise influence

In this discussion it is also important to highlight the fact that upstream CSR, or addressing environmental and social aspects upstream, will not always require the focal company to actively influence actors to change. There are of course plenty of examples where the suppliers have anticipated the needs and wants of companies further down its supply chain (or for other reasons have engaged in improving the environmental and social performance of their operations or their products). In such a situation, products or suppliers fitting the requirements of the focal company will be readily available on the market. That is, the focal company will be able to relatively easy identify suitable suppliers that fit their request list in all respects (price, quality, delivery time etc.) including their specific environmental and/or social requests.

The example of organic exchange cotton is one such example where H&M did not initially need to motivate, or enable, spinneries to start developing yarn that could be certified according to the OE blended standard, but simply identified spinneries that were already doing this on their own initiative.

In this case compliance with the environmental or social criteria works as a *qualifying criteria* and the "burden of proof" of compliance is transferred from the focal company to the relevant actor in its upstream supply chain. As we shall discuss below, such a scenario often requires the existence of standardised criteria and an external system of verification. These standards

may relate to products such as for instance, the EU Flower for textiles, and to suppliers such as for instance an ISO 14001 or EMAS certification.

It should be stressed here that available on the market does not necessarily mean *readily* available for the focal company. Even though certified products, or producers, may exist, they may not fit the needs of a particular focal company in other respects, for instance, with regards to price range, quality or geographical location. It is also conceivable that a focal company may be tied in with a supplier for other reasons such as for instance infrastructural investments and joint projects which forces them to stay with a supplier rather than selecting another supplier that already qualify with required standards. In the case of Verner Frang, the company could have found certified organic fibre and most probably certified organic yarn available on the market elsewhere in the world, but part of the company's business idea, and its entire history, was based on working with Peruvian cotton. Hence they made the decision to engage in activities to influence Peruvian suppliers rather than simply buying certified yarn, or cotton fibre, from other parts of the world.

12.2 Verification of environmental and social aspects in the supply chain

When discussing control or verification a distinction is often made between process control and product control. The case studies presented in this thesis involved examples of both such forms of control. In H&M's RSL programme, compliance is verified through sending samples for lab testing, whereas process control was the core of most of the other studied initiatives, such as, for instance, H&M's CoC program. One thing that the case studies of both Verner Frang and H&M remind us of is that, when it comes to environmental affairs, the distinction between process and product becomes less obvious. It is in fact quite common that product-related criteria such as, for instance, that the yarn should be made from organic fibres, often involve requirements related to the production (or in this case farming) process. This means that the environmental claims related to the product often cannot be verified through inspecting or testing the product, but must be verified though inspection of the production process.

In the context of the supply chain, this is of course a challenge given the fact that process inspection can be a pretty resource intensive activity when you

have a large dynamic supply base that may also be spread over many different countries.

Clearly the task of process control will be more challenging for a company if it has a large supply base, but it will also become more challenging as we move beyond the 1st tier. In the Verner Frang case the focal company solved the challenge of monitoring beyond the first tier (the cotton farmers) by establishing a direct business relationship with the ginning mill whose technicians routinely visited the fields as a part of the company's normal business routine. The additional task of ensuring compliance with the criteria for organic farming did mean that they needed to develop competence in this area and they also upped the number of visits to farmers in the organic programme as compared to conventional farmers. Still this solution is a lot more resource-efficient than if Verner Frang had gone and established their own organisation to monitor the farmers.

When discussing verification in this setting it is also important to highlight the feature of double verification systems that is often exists within this context. By double verification systems, I am speaking of a situation when relevant aspects are verified through some form of independent monitoring performed by a third party actor, which is not a part of the supply chain, but also through a monitoring system established by actors within the supply chain. Obviously here the purpose of the external system is to ensure external credibility whereas the internal system is to satisfy the focal company's need for control. But, why the need for two systems?

There are at least two types of typical situations where both internal and external verification systems are in place. One is when the focal company want to buy labelled products and is dependent on a specific group of suppliers for delivering the labelled product (or components) and alternative sources are not readily available. To ensure that the external certification process will go well, the focal company may want to have an internal system of monitoring in place, which monitors the process on a more frequent basis. In the Verner Frang case, for instance, the organic farming process is monitored frequently by the ginning mill, but also inspected annually by a third party inspector nominated by the certification body. The logic behind this double control system is of course that the focal company need to be reassured that all is going according to plan so that they do not get any uncomfortable surprises when the external inspection takes place.

It is interesting to note that if the supplier can already show, through providing the adequate documentation, that they have passed the certification process *and* if the focal company can find alternative sources if the supplier should fail a subsequent certification process, then the need for the focal company to establish an internal form of monitoring is significantly reduced. The risk of failure would then be transferred to the supplier (and, possibly, the external certification body, if it should be revealed that the certification was awarded erroneously). H&M's organic exchange programme is one such example where the focal company did not see any need to establish an internal monitoring system, but settled for ensuring that all required documentation provided by the external third party verification body was in place.

Another example of a situation where both internal and external verification systems frequently are used is CoC verification. H&M has, since the case study was made, added an element of independent external verification for their CoC programme through their membership in the Fair Labor Association (FLA). Members of the FLA commit to being a part of FLA's system for independent external monitoring (IEM). This means that FLA will organise third party audits for a random selection of H&M's suppliers. The results of these IEM audits are published on FLA website[62].

This is a different way of approaching external verification as compared to the external certification used in Verner Frang's organic cotton programme or H&M's Organic Exchange programme. Here the external verification serves primarily as a verification of, or a type of quality assurance for, the focal company's internal monitoring system and not as a guarantee that all factories are in perfect compliance with all stated criteria.

Regardless of the set-up, it is, however, clear that the third party "verifier" often plays an important role in upstream CSR. Clearly a system of external control has many potential advantages. For the external stakeholder, such a system of verification may have a higher credibility than an internal system for verification. If several focal companies use the same standard or criteria an external verification process may also reduce the number of audits as one audit report can be shown to all interested customers.[63]

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62 www.fairlabor.org

63 It is interesting to note that platforms (see for example; Fair Factories Clearinghouse at www.fairfactories.org and Sedex at www.sedex.org.uk) for sharing, for example CoC

It is also clear that verification of environmental and social aspects in the supply chain presents a real challenge on many levels. It can be a challenge in itself to find the resources to monitor processes upstream in the supply chain, in particular when the supply base is large. However, some of the reviewed literature (Dolan and Opondo, 2005; Welford and Frost, 2006) also show, that it can present a real challenge for monitors to verify compliance, as the audited companies may conceal evidence of non-compliance or actively mislead auditors. The problem of corruption and deceit on the side of the auditors should also be factored in here.

In such a situation, it is clear that any system that makes aspects easily verifiable, such as a certification system that allows the focal company to verify compliance by checking the certification documentation rather than inspecting the processes, makes a very big difference for the focal company. This is illustrated by comparing H&M's resource intensity for compliance verification in their Organic Exchange programme and in their CoC programme. If compliance with environmental or social criteria is *easily verifiable* and products/suppliers that are in compliance are *readily available* on the market, then the task of engaging with upstream CSR appears to be significantly easier for the focal company.

12.3 Consequences

In both case studies it becomes apparent that the focal company by engaging in upstream CSR enters "a whole new ball game" in comparison with the previous practices. Both companies have had to develop expertise in areas where they have not previously had to have internal competence. This relates both to the practical issues at hand; organic farming, fair labour practices etc., but also expertise in relation to interorganisational management. Both focal companies have undergone a process of continuous competence building and development in relation to methods of influence and verification. However, the H&M case of the organic exchange cotton also shows that not all upstream CSR initiatives have to require extensive internal competence and resources.

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audit data, are being developed, but at the same time perhaps surprising that it has not happened until rather recently at least in the textile sector where CoC audits have taken place for more than a decade.

Considering that the different programmes for upstream CSR differ in their nature and scope, quite considerably, it is not surprising to note that different initiatives have had different consequences for the focal company also in terms of changes in interorganisational relations and relative dependencies between the focal company and its suppliers. It is, however, important to note that Verner Frang increased its relative dependency on its suppliers, whereas this was not the case for the four different initiatives looked at in the H&M case.

The same pattern can be seen for changes in the supply chain structure. In the Verner Frang case, the change to the structure and flows of the supply chain was quite dramatic, whereas only minor impacts on the structure of the supply chain could be identified in the H&M case study.

However, in both cases, it is important to note that external verification organisations now play an important role as a service provider and is as such an important feature in the structure of the supply chain.

From the perspective of the suppliers there are of course always consequences in terms of changes in practice to meet set requirements or objectives, but there is a difference in terms of who carries the cost of such changes. In the Verner Frang case study, suppliers were rewarded financially for collaborating with the Verner Frang organic cotton programme. Where H&M paid a minor premium for garments made from the OE blended yarn, they use the threat of sanctions rather than rewards in the RSL and the CoC programme.

It is also clear that all of these initiatives have influenced, to a higher or lower degree, the agenda (decisions and practices) of the suppliers that were addressed. Wet processing mills have implemented Cleaner Production methods, farmers have converted to organic farming, and sewing factories have made changes in their personnel policies and practices etc. From the perspective of the focal company, this is of course the central purpose of their efforts. However, looking at it from the perspective of the supplier, and the societies in which the suppliers operate, we must acknowledge the possibility that there may have been other options that these companies could have chosen to spend their resources on that potentially may have generated more private, and possibly, public rewards.

12.4 Introducing a framework

Perhaps the most basic, but also absolutely fundamental insight that can be drawn from the fieldwork done within the frame of this research project, as well as the review of pertinent literature, is to note that the management of environmental and social aspects within the supply chain is a vastly heterogeneous phenomenon. The common denominator is the intention to address an environmental or social aspect that arises upstream within the supply chain, but outside the boundary of the company's hierarchical span of control. Apart from this commonality we find variations on multiple levels. We find heterogeneity with respect to the type of environmental or social issues that are addressed, this can range from trying to get actors in the supply chain to treat their waste water, to eliminating toxic input materials in components, to ensuring safe labour conditions, to tracing the origin of raw materials in order to ensure that they are from sustainably managed farms, forests, mines etc. We also find heterogeneity with respect to the drivers behind corporate action, such as regulatory requirements, industry initiatives, external stakeholder pressure, and corporate profiling and adopted values, etc. Further we find huge variations when it comes to the context in which companies are operating, and in the approaches that companies choose to address these issues.

Apart from these tangible variations, I have also encountered significant heterogeneity in the way people conceptualise this phenomenon. The mental models that researchers and practitioners operate after when thinking about upstream CSR seem to differ in significant ways. This is not surprising since it is a heterogeneous phenomenon, and since researchers that are interested in this phenomenon have their roots in different types of academic fields, but it is problematic, as it seems that we are sometimes comparing apples and pears. It is not a problem that different contributors highlight different aspects and questions of relevance to upstream CSR, but it is important that we can piece our understanding of different aspects together and placing it into a larger context.

When starting out on this research journey, I was frustrated with the fact that there had been so much emphasis on the question: "Why?" Why should companies engage in upstream CSR? While at the same time, it seemed that there was rather limited emphasis on the question: "How?" How, once the company has decided to go ahead and actively try to deal with a particular environmental issue in their supply chain, should they proceed to get the results they desire as effectively and efficiently as possible?

It is evident that it is not reasonable to ask: "How do I best plan and execute upstream CSR?" We need to break this concept down. Within the field of upstream CSR there are many different "how's" that need answering. When I started my research journey, this did not concern me very much. I knew that I was particularly interested in answering the question of: "How one company could influence the performance and decisions of another company when they had no direct hierarchical control over that company?" Especially in cases where the focal company was trying to influence not just its first tier suppliers, but also actors further upstream in the supply chain where there were no direct business connections.

I still believe that this is a question of vital importance if we are going to be able to capitalise on the promise of life cycle thinking and action. However, during the course of my fieldwork, the review of literature and after numerous discussions with academicians, practitioners and policy makers, I grew more and more convinced that the complexity of the concept and the lack of common frameworks, mental models or even agreed upon definitions is a significant obstruction for the progress of building a coherent and relevant body of knowledge within this field. As a result, I started to look for patterns that would allow me to create a typology or framework for upstream CSR.

Below I introduce a framework or typology for upstream CSR. This typology provides a structure that can be used by practitioners as a guide to develop strategic and operational plans for commitments and activities in relation to their supply chains, but, more importantly, it can provide a basis for both researchers and policy makers to ask better questions and to enable us to shape future research so that we can provide better answers to the question of: "How?"

I have previously argued that perspectives matter, and before introducing my framework, I want to re-emphasise that I here seek to describe the phenomenon from the perspective of the practitioner within the focal company. This does not mean that the framework is not useful for external stakeholders such as policy makers. On the contrary, I strongly believe that it is very useful for those who seek to encourage upstream CSR to understand what it entails from the perspective of those who are charged with implementing it.

Upstream CSR, or alternative terms such as environmental supply chain management or sustainable supply chain management, is often defined in a

very broad sense as a catch all term for the phenomenon where one company seeks to influence and/or verify environmental or social aspects in the supply chain. This is not problematic in itself, indeed this is also how I define the term, but it becomes problematic when such a broad term is used without distinctions. Such as when someone develops a tool for identifying critical impacts along the supply chain, but calls this a tool for environmental supply chain management. Earlier on during my research journey, I often made the same mistake. I would present my research related to influence and verification in the supply chain without discussing how this fitted into a larger context and, as a consequence I lost half the crowd along the way.

So, to fit my own research into a larger context of upstream CSR, I started by defining four general tasks associated with upstream CSR. None of these tasks are exclusive to upstream CSR, but rather must fit into an overarching CSR conceptualisation. However, many of the tasks take on an additional dimension when the issues of relevance arise in the upstream supply chain. It should be noted that I do not want to suggest that these tasks are part of a linear stepwise approach, nor that all companies will address all four tasks. They are however all common challenges associated with upstream CSR and, while distinct in their nature, they clearly influence each other.

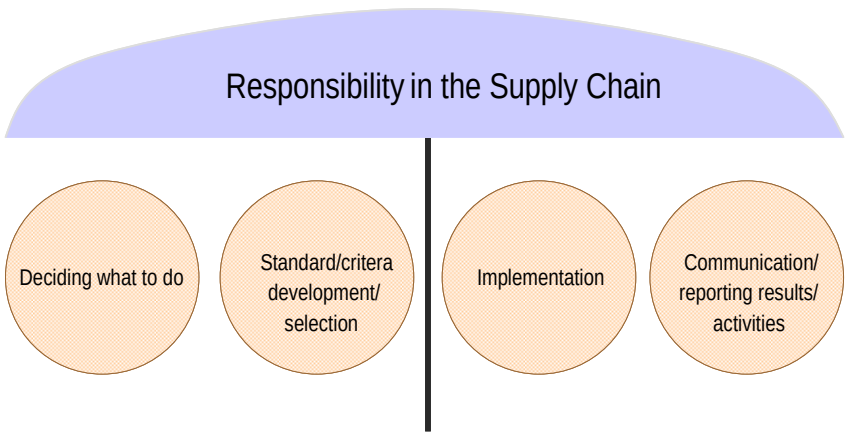

Figure 12-1: Four generic challenges associated with upstream CSR (a)

The first task or challenge revolves essentially around finding an answer to two key questions: – What issues are of relevance for my company or what is our responsibility? And – What are suitable objectives?

Upstream CSR in practice is rarely about managing entire supply chains or all environmental and social impacts that arise in the supply chain. Indeed I believe that it is useful to understand this phenomenon by thinking of it on an issue level. Upstream CSR is the practice of companies seeking to influence and/or verify *specific* environmental and/or social aspects that arise in the supply chains. That is, under the scope of direct hierarchical control of the companies which are a part of their respective supply chains.

From the practitioners perspective it is therefore a distinct task to make decisions regarding what specific aspects or issues to address in its supply chain. The reviewed literature offered systematic tools that may support the practitioner in this task (See for instance: Faruk, Lamming et al. (2001), Gauthier (2005) and Humphreys, McCloskey et al. (2006)). Decision making in the reviewed cases were not, however, generally based on a systematic review of impacts. From the perspective of the practitioner, the challenge here is as much about understanding, and possibly predicting, the needs and wants of relevant stakeholders, as it is about understanding where major impacts arise.

The other challenge that is distinct from the task of defining the focal company's responsibility is the task of defining, or (if alternatives are available) select standards or criteria for relevant issues. The question companies need to answer here is: – By what criteria should we judge performance? H&M's CoC and RSL are examples of initiatives where the focal company has developed its own criteria documents (although they are based on widely accepted recommendations such as e.g. ILO conventions and input from external experts), whereas the company has used an externally developed standard for its organic exchange programme. It is important to note that even if a focal company decides to use an externally developed standard, they must make a decision regarding which standard to use. Often there are competing schemes available and the company must understand what the differences are and be able to assess these from different perspectives (for instance it can be important to understand what critical stakeholders think of different schemes, but it may also be important to understand how different schemes will impact the focal company's own organisation as well as its suppliers in terms of changes of practices, costs etc.) in order to make an informed decision.

Again distinct from the two former mentioned challenges is the challenge of implementation. Here the central question is: – What is the best way to achieve set objectives? Clearly implementation is about internal processes,

changes in sourcing procedures etc., as well as interorganisational processes. I will discuss this task more in detail below, but for now let's settle by noting that, as has been discussed above, companies may arrive at improved environmental and/or social performance in its supply chain by influencing suppliers to adapt and improve, but also by changing suppliers, re-sourcing to new suppliers that already meet desired goals or criteria.

The final distinct type of challenge or task that also is central in upstream CSR is the task of communicating or reporting results/activities. Again, here it is worth noting that the task in itself is not fundamentally distinct for general CSR communication or reporting, but the fact that companies are expected to communicate about issues that arise upstream in the supply chain adds an additional dimension to the challenge. There are two central questions here. First companies must ask themselves: – What is the best way to convey information to interested stakeholders about our work and achievements to relevant stakeholders? Second they must also consider: – How to best gather and assess relevant information regarding stakeholders in the supply chain. The latter task is of course closely related to the task of verification.

Considering that many companies have rather limited resources to devote to upstream CSR, it is interesting to note that the tasks involved are really quite different in their nature, which means that the skills needed to address them will also differ. The picture below illustrates the extent to which these challenges differ by adding an extra dimension to the framework.

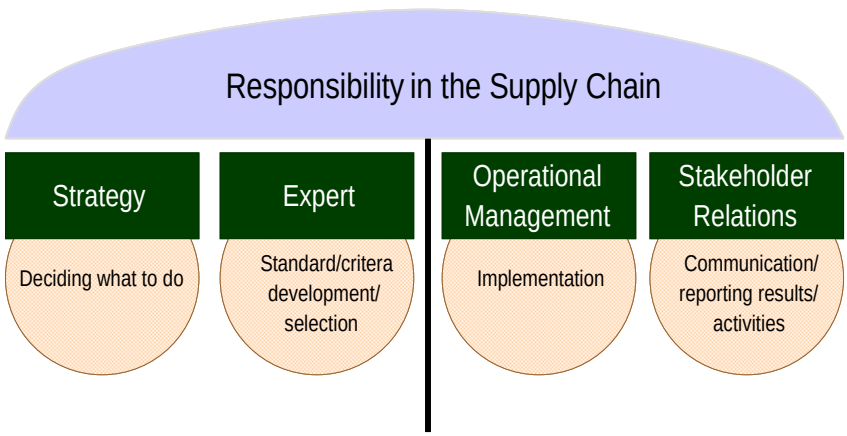

Figure 12-2: Four generic challenges associated with upstream CSR (b)

The task of deciding what to do, of setting the upstream CSR agenda, requires an understanding of corporate strategy in that the decision maker needs to be able to analyse how different environmental or social issues may generate positive or negative impacts for the company and to what extent. The task of developing standards of criteria on the other hand requires very specific expertise in the distinct areas that the criteria are developed for. Here many companies will of course rely on externally developed standards or the advice of external experts. This, however, does not mean that they do not need internal understanding of the issues, for instance, when it comes to assessing the merits of different standards. The third task of implementation again requires a different set of skills, as we have seen from the studied cases. Implementation is a question of operational internal and interorganisational management and, depending on the approach that the company takes, practical skills needed can vary dramatically, ranging from skills in auditing techniques to skills in training suppliers, to negotiating techniques etc. Generally it can be said though that it is important to have an understanding of the sourcing and procurement operations of the company and of the characteristics of its supply chain. The final task again requires a distinct set of skills from the upstream CSR practitioner within the focal company. Unless the company has a communication department that can support the practitioner with this element of upstream CSR, we may find that the upstream practitioner will also need to be skilled in developing appropriate reporting materials and in communicating with both internal and external stakeholders.

12.4.1 A framework of implementation of upstream CSR

While Figure 12.2 above helps us to sort our thinking and structure our discussion it does not tell us anything about how these challenges can be addressed.

Through my case studies, I have looked at the operational element of upstream CSR associated with how companies address the challenge of implementing environmental and social improvements upstream in their supply chains. As discussed above, the general finding is that this challenge can be addressed in a multitude of different ways. However, it is still possible to see some general patterns. Below I will introduce a framework that illustrates these discernable patterns.

It has been suggested, for example by Seuring and Müller (2008), Bowen, Cousins et al. (2001a; 2001b) and Meisner Rosen, Bercovitz et al. (2001),

that a key determinant for upstream CSR strategies is whether the initiative is focused on risk avoidance by ensuring acceptable levels of supplier performance/processes, or if it is focused on the focal company's objective to deliver "green" or "sustainable" products. My research also indicates that the product versus process dimension is relevant when it comes to methods of interorganisational verification. However, this only applies when the product-related criteria can be verified by inspecting the delivered product, and, as we have seen in the case studies, this is often not the case. Since environmental product criteria often involves process-related requirements, verification of these criteria still have to be made on-site, by the focal company and/or by a third party service provider. Therefore I cannot say that I have found significant support for the process/product focus as a distinctive factor determining the approach to upstream CSR in my case studies.

What does seem to make an important difference though is whether suppliers or products meeting desired standards are readily available on the market *and* easily verifiable or whether they are not readily available *or* easily verifiable to the focal company. This contextual factor makes a big difference, as it is the decisive factor for whether or not the focal company will need to engage in activities designed to exercise influence over other actors in its supply chain and/or to establish systems for the verification of relevant aspects. Essentially this factor makes the difference between a situation where the focal company needs to engage in interorganisational management of environmental or social aspects, and a situation where the focal company can address an impact that arises upstream by simply including compliance with environmental and social criteria as a parameter in their sourcing/purchasing decisions.

As discussed above this makes a significant difference for the focal company in terms of what it will entail to address a certain aspect. When products or suppliers in compliance with desired criteria are easily verifiable, and readily available, upstream CSR will revolve around product or supplier selection and will not need to influence the focal company's sourcing process to any larger extent. If not, the focal company will need to find methods to exercise influence and verify compliance. This may entail finding ways to motivate and enable relevant parties to change according to the desire of the focal company and it may entail establishing procedures for monitoring and inspections.

However, we must also recognise that companies can also choose a completely different approach to address negative environmental or social aspects that arise upstream in the supply chain. Companies that recognise some form of responsibility for an aspect upstream may choose to address this aspect through measures that does not involve the specific actors in its own supply chain. This is not something that I have discussed in my case studies, but one example can be taken from the work of H&M. While H&M is addressing the negative environmental impacts of conventional cotton farming in a direct way through its organic exchange programme, the company is also addressing this aspect indirectly through supporting a project called the Better Cotton Initiative[64]. When the problem that the company seeks to address is several tiers removed from the focal company, a large number of actors operate in this tier, and no external standard and infrastructure for verification is available (or a standard exists, but certified products/suppliers are not readily available), this approach surely seems logical from the perspective of the focal company. Another plausible scenario, where an indirect approach may be motivated is when the focal company has limited ability to administer rewards or sanctions in order to motivate a supplier to undertake environmental or social improvements and no alternative suppliers are readily available. Arguably, the decision to work with a direct approach and an indirect approach could be linked to whether or not products/suppliers in compliance are readily available to the focal company on the market. This is not something that I have focused on in my research but in a situation where suppliers or products in compliance are not readily available on a market, the implications of the task of exercising influence may mean that more companies will choose to work with an indirect approach.

Finally, another important distinction to make is to note that the focal company may choose to address the challenge of interorganisational management of environmental and social aspects independently or in collaboration with competitors. Here it should be noted that collaborative approaches are generally set up for developing common standards and systems for verification and that an underlying motivation for such initiatives is generally to create a situation where the products/suppliers meeting criteria are easily verifiable for the focal company and readily available on the market.

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64 The Better Cotton Initiative is a collaborative project initiated by projects such as the WWF with the aim reduce the negative social and environmental effects of traditional cotton growing.See www.bettercotton.org

In practice there may be many pragmatic reasons for a focal company to choose to work alone rather than in collaboration with competitors and, possibly, other stakeholders. One such reason is that a collaborative process may take longer time to launch than if the focal company act independently, as negotiations over standard formulation and similar aspects may drag out over time. Another reason is reluctance to share information with competitors. However, in theory I can only think of one compelling reason for developing individual approaches to upstream CSR, that is, of course, if the focal company wishes to be unique in its environmental and social claims.

Figure 12.3 below provides a graphic illustration of the discussion above. It shows different generic approaches that focal companies may apply to address environmental and social aspects in the supply chain, and the implications that different choices entail in terms of tasks that needs to be solved. It is important to stress that we can expect that many focal companies will work with more than one approach, as contextual factors, such as whether or not products/suppliers that meet the focal company's environmental or social requirements are readily available will always be case specific for each aspect/product that the company seeks to address.

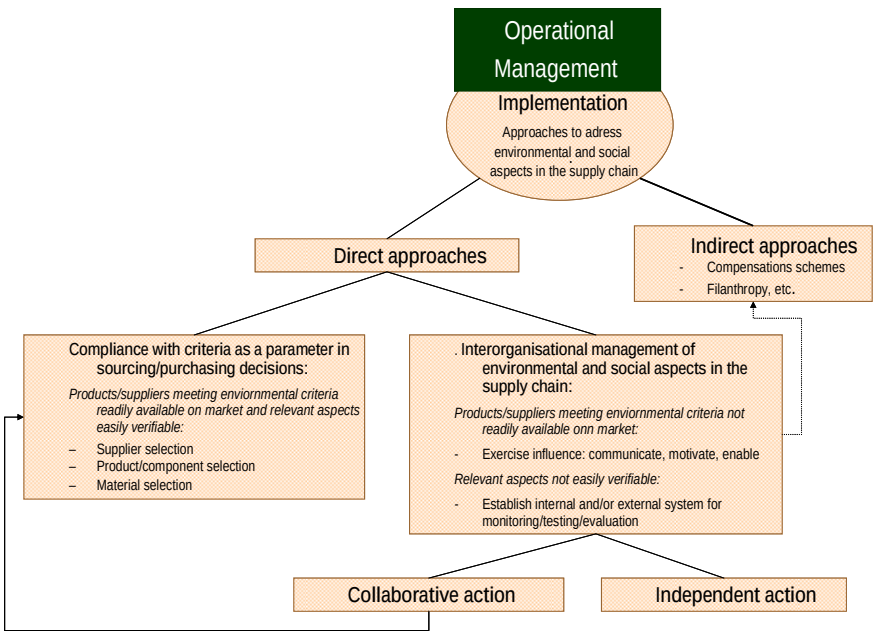

Figure 12-3: A framework to conceptualise different approaches to implementation of upstream CSR

12.5 Concluding remarks – key learnings to take away

At a general level corporate social responsibility entails a wide range of challenges for corporate decision makers and practitioners, including dilemmas such as:

- How to, effectively and efficiently, *identify* negative environmental or social impacts that may be associated with a company;
- How to *prioritise* between different stakeholders' needs and wants;
- How to *define* what responsible behaviour is; and
- How to *communicate* corporate responsibility to key stakeholders.

In addition to these types of challenges, primarily related to assessing, defining and reporting CSR, companies must also determine the most effective and efficient strategy for *implementation* and *monitoring* of established standards or requirements for responsible behaviour. In this context, *implementation* may involve reducing negative environmental and social impacts, providing a *remedy* for an environmental or social problem that can be associated with the company, as well as taking measures to *prevent* problems from occurring in the future. Often this task requires some form of *change* to take place. The type of change needed depends on the nature of the problem, and it may affect aspects such as; product design, equipment at production facilities, production processes, policies, management practices, administrative routines, etc. *Monitoring* generally involves establishing a systematic approach for verifying that certain preset requirements are met. In the context of CSR, the system for monitoring often needs to provide verification at a level of certainty that is acceptable not just to the company, but also to external stakeholder groups such as authorities, customers, investors etc., depending on their respective demands and expectations related to the issue at hand.

In my thesis I have focused on CSR initiatives that are directed at aspects that arise upstream in the focal company's supply chain. In the literature review I have explored the phenomenon as a whole whereas in my case studies I have described a range of different upstream CSR initiatives showing how companies address these challenges associated with upstream CSR, primarily the challenge of exercising influence and verification of environmental and social aspects in the supply chain. It is important to note that I have not assessed the environmental or social improvements that have come out of these initiatives. It has not been my intention and not within

the realms of my study to do such an assessment. Nor has it been my intention to provide a formula for how to work with upstream CSR for practitioners. What I have tried to do is to contribute to our understanding of what it entails for companies to address environmental and social issues in the supply chain, what types of tasks must be solved, what challenges can be encountered and what generic approaches are used to address these tasks.

In addition to the frameworks introduced above there are a few key learnings that one can also draw from the studies that I have done. It is clear that exercising influence can be a complex challenge for small, as well as large focal companies. Consequently, it makes a significant difference for the focal company if the desired qualities in a product/component, or in supplier processes/performance, are readily available on the market.

The process of verifying compliance with set objectives or criteria can also represent a considerable challenge, in particular when process monitoring is required. It therefore also makes a big difference if external, generally accepted systems or methods of verification are available along with an appropriate verification infrastructure.

The case studies illustrate the fact that size of the focal company does not necessary correlate to degree of coercive power over suppliers. This is particularly relevant as we travel upstream along several tiers of the supply chain. Being a large focal company and being a small focal company both holds advantages and disadvantages in this context. The advantage of being large includes the fact that the size of the purchasing volume may serve as an incentive in itself for the supplier, but also that large organisations have more scope, or organisational slack, to absorb costs for required specialist competence and functions within. The disadvantages for a large focal company relates to it being less flexible and agile in moving towards sourcing from more progressive suppliers due to the size of its supply base, but also that it may take longer to align internal management systems and procedures to achieve internal goal congruency.

Conversely the advantage of being small is related to its higher degree of flexibility due to a smaller supply base, and a smaller internal organisation that may facilitate swifter change in achieving internal goal congruency. A small company may, however, find it more difficult to bear costs of required competence and specialist functions in-house, and they may also find that suppliers are less interested in accommodating requirements from buyers who place comparatively lower order volumes.

While the size of the focal company can be linked to its ability to administer rewards and sanctions for the suppliers it seeks to influence, it should be noted that the exercise of influence in the supply chain is not only about sanctions and rewards, but also, it appears, very often about contributing to the development of relevant competence and the changing of attitudes.

It should also be noted that different issues are managed differently. We have already established that it matters whether the products/suppliers matching the needs of the focal company are readily available and whether aspects are easily verifiable, for instance through a commonly accepted certification or labelling scheme. However, a range of other factors also appear to play an important role as determinant for the approaches focal companies select. This needs to be studied further, but from my case studies it seems that the focal company's motives and the value that they perceive to be linked to the achievement of improvements play a role here. Another factor is the nature of the aspect that they seek to address and how it can be verified, e.g. by process or product control. Another factor that appears to be of importance is the nature of interorganisational relations between the focal company and its suppliers and the tier of the supply chain in which the aspect arises. Finally it may also be relevant to look at the way the focal company has formulated its objectives for an initiative; is it important for them to show results in terms of full compliance or is it important to show that they are addressing the issue?

Finally it appears as if the devil may be in the details, also when it comes to upstream CSR. To really understand this phenomenon at a level where we can provide specific advice to corporate practitioners, it seems as if we need to get down into the nitty gritty of operational practice. To illustrate this last point we simply need to look at the evidence of my studies, and others, that clearly have shown, for instance, that there are good audits and there are bad audits, and there are good Cleaner Production reports (that suppliers use to implement improvements) and there are bad Cleaner Production reports that suppliers find useless, incomprehensible or unconvincing.

CHAPTER
THIRTEEN

13. Final reflections

In this final chapter I reflect upon my research from the perspective of three different interest groups; corporate practitioners, policy makers/ practitioners and researchers.

13.1 Reflections of relevance for corporate practitioners

For me the academic discussion of whether or not it pays for a company to engage with CSR, has always been a little puzzling. The reason for my bemusement is that I can not see that there would be a general answer to such a question. It may of course be possible to find that on average it pays or it does not pay, but how does this help the individual corporate decision maker? Surely the reward must be related to the specific context of every company and the approach that they employ to address the issue. If the company has important stakeholders that are willing to reward it for actively addressing environmental and social problems in its upstream, or conversely if the focal company has customers or other stakeholders that will sanction it for not taking action, it seems reasonable to assume that it will be a good idea to engage in upstream CSR providing the cost of compliance is lower than the rewards of compliance, or alternatively that the cost of non-compliance is higher than the cost of achieving compliance. I also believe it is important for the corporate practitioner to note that there are many different ways of addressing upstream CSR and I'm sure that some companies achieve results more efficiently than others.

I do not believe it is my task to argue for or against the need to engage in upstream CSR, but simply point out the need for companies to assess this need themselves.

For corporate actors it becomes relevant to understand that managing environmental and social aspects in the supply chain may entail a wide range

of challenges that the company must address. My research highlights these challenges and also shows potential alternatives for operational action and key factors to consider in determining what approach to apply.

I believe that it is useful for practitioners to conceptualise upstream CSR as a comprehensive management challenge that is comprised of several, quite different tasks, which all can be solved in different ways, rather than talking about it in form of specific initiatives such as codes of conduct implementation or stakeholder dialogues. My advice to practitioners would be to not start with the approach but rather with the problems and design/select the appropriate approach based on the nature of the problem, their specific supply chain context, ambitions and internal resources and competences.

13.2 Reflections of relevance for policy makers/practitioners

For policy actors the frameworks that have been introduced in this thesis can be a useful starting point when analysing what barriers are present that may deter companies from taking an expanded scope of responsibility for environmental and social aspects in the supply chain. The results of such analysis can be used to identify appropriate policy measures that can support, enable and/or motivate more companies to assume responsibility in the supply chain. Understanding the nature of the challenges faced by corporate practitioners is of vital importance when designing policies in this context. For example, if unwillingness to act is rooted in companies not knowing what environmental and social requirement to place on suppliers, then the development of eco-labels or environmental standards may be a relevant policy action. But if instead the problem is to verify or control specific performance, then perhaps policy makers should work on an international level to support and encourage the establishment of an infrastructure of reliable independent audit organisations.

When it comes to firm characteristics, the findings of several studies indicate that there is a correlation between firm size and uptake of upstream CSR. Bowen et al. (2001a), Hall (2000), Holt (2004) and Min, Hokey & Galle (2001) all found indications that larger firms are more active with regards to upstream CSR than smaller firms. Bowen. Cousins et al. (2001a) argue that this could be explained by the fact that larger firms often have more organisational slack, or alternatively that larger firms are more visible in

society and thus prone for pressure for environmental improvement. Hall (2000) and Holt (2004) also points to the explanation that larger firms are more visible in the public eye and Hall (2000) argues that as a consequence: "smaller, lower profile suppliers, an integral part of any industrial system, lack incentives to change their environmental performance" (p. 456). This line of argument suggests that regulation will be of particular importance to get small and medium sized companies to act. Here probably both enabling and motivation measures are needed.

However, regardless of size, the fact remains that upstream CSR frequently requires the focal company to acquire competence that is not directly addressed to its area of business. It is also shown that verification of environmental and social aspects in the supply chain carries with it substantial challenges on many levels. Government can facilitate this process by supporting development of common standards and systems of verification that reduces the need for the focal company to engage in such activities. Motivation through rewards and sanctions is a normal feature in many procurement situations, but enablement, and on-site verification of social or environmental processes is not. Policy initiatives designed to develop common standards, such as eco-labels, along with tools and infrastructure for reliable verification can relieve focal companies of the latter tasks and thus significantly facilitate the process of addressing environmental and social aspects upstream for both large and small companies.

However, here it is also worth stressing the difference that it makes, from the perspective of the focal company, if products or suppliers that are certified according to an eco-label or a standard are readily available for the focal company or not. Two things have a significant impact on whether we can describe a product/supplier as being readily available on the market. One is the number of certified products/suppliers. The other is whether or not the focal company needs to engage with its first tier supplier or whether it needs to engage with actors further upstream in its supply chain to ensure that all aspects are in compliance with the criteria. Producing an eco-labelled blouse may not be a very daunting task, if I know a supplier that can deliver eco-labelled fabric. However, it may be perceived as much more of a challenge, if the focal company must engage in convincing a fabric supplier to follow the eco-label criteria, and a yarn supplier that follows the criteria for this stage etc. Measures designed to enable actors in of each step of the chain to certify the product up to its level, could also be a step to facilitate for the buyer who is at the end of the chain.

When discussing standards it is, however, crucially important that the systems for external verification are reliable, issues associated with local adaptations must be appropriately addressed and problems associated with corruption must be vigorously counteracted through measures such as shadow audits, etc.

Finally from a policy perspective it is worth noting that the proliferation of private environmental and social standards, (in addition to the concerns discussed earlier under section 6.4.1 related to fairness and justice in the development of criteria), is sometimes perceived as a threat or a barrier to exports in particular by developing countries.[65] Having the WTO or any other regulatory institution setting limits for what criteria a company may employ for product or supplier selection seems to me just as wrong as trying to limit the criteria that a private consumer wants to include in his or her decisions regarding what products to buy and what stores to go to. However the worries of developing countries, both with regards to the power distribution in the process of criteria development and with regards to the potential of standards becoming an obstruction to trade, should of course not be taken lightly. Personally I believe that if governments worry about standards having adverse effects, they need to get onboard as active stakeholders and influence the process. The challenge will of course be to find agreement on standards that are strong enough, for the key stakeholder groups to endorse it, yet practically achievable for enough suppliers to make a difference and actually be put to use. Another challenge is to ensure that the process of developing standards is not so slow as to make companies leave the process and develop their own alternatives. These are certainly significant challenges, and I am afraid that I offer no answers as to how they can be managed, but if successful then we could perhaps find a situation where standards are harmonised, yet locally adapted, and verification infrastructure is widely available at reasonable cost for all interested parties. From a corporate perspective such a situation would also be positive as strong, widely accepted, environmental or social standards paired with an infrastructure that can provide reliable external verification that is accessible

[65] In 2007 the head of WTO, Pascal Lamy was reported to have said that he was worried that the proliferation of agreements of green and other product standards between large western retailers and consumer groups could spark a new spat with developing countries that fear new barriers to their exports. He feard that such concerns could push developing countries to seek new legislation governing privately agreed safety standards, which would lead to another lengthy and difficult trade negotiation (Minder, 2007).

in all regions, would relieve the focal company of a heavy chunk of the challenges associated with upstream CSR.

13.3 Recommendations for future research

While there is still much to understand about upstream CSR as a phenomenon, I believe that research needs to move into the details of each specific task identified in the framework suggested in the previous chapter, as well as different types of approaches to solving these tasks, in order to provide useful and comparable knowledge for corporate and policy decision makers. We need to learn more about the operational nitty-gritty, as it is at this level we will be able to understand what issues really presents a challenge. My study also suggests that differences on this level make a real difference for the outcomes of upstream CSR initiatives. It would therefore be very interesting to see studies focusing on comparing and evaluating specific tools and methods such as e.g. different methods for social auditing or tools for supplier development in the area of, for instance, environmental management.

For all future research, in this area I would also like to stress that perspectives are important when studying this phenomenon. It matters whose perspective we are taking in a research endeavour and it is important to acknowledge this when we as researchers provide advice.

Based on a comparison of case studies made of environmental initiatives with supply chain implications in the textile sector, Seuring (2004b) argues that: "All five cases show that bringing together the right actors along the supply chain is of great importance. In contrast to the traditional mode of operation in the textile chain, all cases show that for reaching the environmental objective in integrated chain management, a close co-operation of all companies is needed. The focal companies have to engage in a timely process to acquire access to all partners and form partnerships with them" (p. 1086). My findings from the H&M organic exchange initiative suggests that integration is not always a necessity to address impacts even though such impacts arise several tiers upstream. In my research I have identified the factor of the availability and verifiabilility as importance in this context, but it would certainly be very interesting to see more research regarding what distinguishes different approaches and the determinants that drives these differences.

Finally, I believe that researchers, who are interested in understanding how companies address environmental and social aspects in the supply chain, need to look more closely at the role that environmental and social standards play for the operational practice of focal companies, as well as their respective suppliers. Conversely I also believe that those researchers, who are interested in understanding why many environmental and social standards still have a rather limited, or patchy, up-take on the market, will find it useful to include the perspective of individual actors in the supply chain, and their operational reality related to sales, sourcing, and supply management, in their analysis.

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Coordinator, organic farming NGO, personal interview, Peru, 19 July 2001

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Employee, local farmers training centre, Peru, 17 July 2001

Environmental consultant, employed by Verner Frang in Peru, personal interview, Sweden, 22 January 2001

Farmer in transition, personal interview, Peru, 10 July 2001

Farming technician, ginning mill, personal interview, Peru, 10 July 2001 and 17 July 2001

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Beatrice
Kogg

Responsibility in the supply chain

Interorganisational management of environmental and social aspects in the supply chain

This thesis is about the intersection between Corporate Social Responsibility and Supply Chain Management. I call this upstream CSR, the phenomenon that arises when an issue on a company's CSR agenda becomes an issue for its sourcing and supply management operations.

Upstream CSR as a phenomenon is not without controversies, but it also holds an important potential for reducing negative environmental, and social, impacts associated with production and consumption. Companies' ability to manage, and assume responsibility for, environmental aspects upstream in their respective supply chains is in fact critical if we are to realise the promise of life cycle thinking. A deeper understanding of this phenomenon is therefore of relevance not just for corporate practitioners but also for policy makers and any other group of stakeholders who seek to reduce the environmental impacts of products in a life cycle perspective.

Through the means of two in-depth case studies in the textile sector, each covering several tiers of a specific supply chain, this thesis provides a deeper understanding of how companies may address the task of influencing and verifying environmental and social aspects that occur upstream in the supply chain. By combining the findings from the empirical research with an in-depth review of pertinent literature this thesis also provides a framework through which this complex phenomenon can be understood and further explored.

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