Implementing Corporate Social Responsibility (CSR) in upstream supply chain of French SMEs: opportunity or constraint?

PRINCIPLE TOPIC

According to Friedman, M. (1970), Nobel Prize winning economist in 1976, “The sole purpose of the corporation is to maximize profits for its stockholders”. Profits do matter. However, more and more companies integrate social and environmental concerns into their businesses to develop Corporate Social Responsibility (CSR). Initially, Bowen (1953) introduced the concept of CSR in business management, arguing that companies have a moral duty to act in socially responsible ways toward society and future generations (Capron and Quairel-Lanoizelée, 2004). Subsequently, Carroll (1979) defined CSR as a set of obligations toward society: economic (to maximize profit, to create value and quality products), legal (to respect the laws and regulations), ethical (to act according to moral principles shared within the company) and philanthropic (to be charitable). The definition of Carroll is considered to be the foundation of theoretical approaches.

In the 1980s, CSR then underwent further transformation. The notion of stakeholders proposed by Freeman (1984) became central to implementing CSR. A stakeholder can be defined as “an individual or group that may affect the fulfillment of the objectives of an organization or who is affected by the achievement of the objectives of an organization” (Freeman, 1984). For Carroll (1991), stakeholders are the owners, customers, employees, the community in which the company fits, its competitors and suppliers, activist groups, society in general, and any group or person affected by the activities of the company. Thus, a socially responsible company is one that takes into account its stakeholders when it comes to making

decisions. Wood (1991) elaborated Carroll's (1979) approach by detailing three levels of corporate social responsibility: responsibility at the institutional level, the activity level and the individual level.

Over the last few years, CSR has benefited from a renewed interest in supply chains. In fact, in addition to the impact of production on the natural environment (Pedersen, 2009), some companies are also facing social issues in particular child labour scandals (Lavastre et al., 2008). Large companies have sub-contracted their activities requesting their suppliers to avoid child labour but are without control on second rank or third-rank suppliers. Due to a lack of control in upstream supply chain, externalisation can lead to excesses in supply chain management. In this context, CSR in supply chain need to be in the agenda of companies in order to avoid such scandals.

In this chain, SMEs are usually seen as suppliers of large firms which diffuse CSR to SMEs (see, e.g., Lavastre et al., 2008; Quairel et al., 2007; Ayuso et al., 2013). Representing 97% of French companies, SMEs are a relevant field of study for implementation of CSR practices in French economic landscape. SMEs' CSR practices differ from those of large companies due to their own specifications. Santos (2011) and Levy et al. (2001) report that main practices of SMEs are informal and are included in their day-to-day management. SMEs have their own norms and culture focalized around their managers-owners who decide to implement CSR or not. Ayuso et al. (2013) define SMEs as "transmitters" of CSR requirements of customers to their own suppliers. Large firms use motivation or pressure to diffuse CSR among their SMEs suppliers; however, formalized practices need to be analyzed in upstream supply chain (Jorgensen and Knudsen, 2006). Also, Nawrocka (2008) studied SMEs' CSR practices from both buyer and supplier perspective and concluded that weak

position of SMEs on supply chain hampers the influence they can have on their own suppliers concerning CSR practices.

Moreover, Ayuso et al. (2013) and Pedersen (2009) argued that SMEs have lower bargaining power than large companies. In fact, their low purchases' volumes hinder them exerting pressure on their suppliers contrary to larger corporations (Pedersen and Andersen, 2006; Jenkins, 2006). Jenkins (2006) stated that SMEs have to be imaginative to diffuse CSR requirements to their suppliers in order to convince them, through actions such as CSR promotion.

Suppliers' relationship is a key success factor for SMEs. Thus, in order to stabilize supplies and avoid risk, SMEs build strong relationship with their suppliers (Ellegaard, 2006) which can help them when the customers demand varies (Fawcett et al, 2008). Contrary to large companies, SMEs' CSR is internally focused (Perrini, 2006), and SMEs search mainly eco-efficiency gains, a better social climate or a higher profile in local businesses toward partners. SMEs cope with difficulty to communicate CSR practices to external stakeholders (Murillo and Lozano, 2006; Ciliberti et al., 2008) and they are not always aware about CSR regulation. Thus, they usually are "vulnerably compliant". SMEs also search simple practices which can easily be applicable and not expensive. Due to their particularities, they have to deal with different constraints as financial and human resources to implement CSR. These constraints hamper their supply chain management which is often restricted to logistic management.

Most of studies about diffusion of CSR through supply chain focus on large companies to the detriment of SMEs. According to Jenkins (2006), the term itself of CSR focused on large

companies and on its needs. As noted earlier, SMEs are usually seen as transmitters of CSR requirements of their customers to their suppliers but not as companies who decided to diffuse CSR to their suppliers. Thus, little is known about the impact of SMEs' CSR requirements on their suppliers and how they are implemented. In this way, the European Expert Group explains these considerations in the European Commission of 2007: “There is a need for more research across different EU countries regarding the nature, extent and real impact of CSR buyer requirements on SME suppliers. There is also a need for more research into when and how SMEs themselves make CSR requirements on their suppliers, and how this can best be encouraged bearing in mind the capacities of SMEs.” Also, Ciliberti et al. (2008) argued that SMEs use strategy of compliance and capacity building to diffuse CSR to their suppliers. Pedersen (2009) adds that larger SMEs are more willing than others to manage CSR in collaboration with their suppliers. To our knowledge, very few studies focus on diffusion of CSR in upstream supply chain of SMEs (Ciliberti et al., 2008; Pedersen, 2009). This paper aims to fill the gap in this field. Thus, we focus on French SMEs to study the interest of CSR diffusion in upstream supply chain from an SME perspective.

METHODS

To analyze the implementation of CSR in upstream supply chain of French SMEs, we collected qualitative data. We selected 5 French SMEs and up to 3 of their suppliers. These suppliers included large sized companies as well as SMEs. We interviewed CEOs about CSR practices in their company in terms of opportunity or constraint. Supply chain managers and buyers were also questioned in order to study if CSR is a determinant and influential criterion in their practices with suppliers and how they implement it. Concerning suppliers, we interviewed direct interlocutors of SMEs to study if they perceive a CSR influence on their

requirements from SMEs buyers and how it impacts their practices. Semi-structured interviews were conducted by phone or face-to-face and were completely transcribed. The number of interviews was defined by the principle of information saturation (Strauss, 1987). A grid of questions was presented with a free expression response to the respondent in order to obtain a maximum of information. We used NVIVO 10 for a content analysis of data.

RESULTS AND IMPLICATIONS

Implementing CSR in upstream supply chain is an opportunity for SMEs to build long-term relationships with suppliers. CSR enables SMEs to monitor their supply chain by trust and establishment of sustainable partnerships. Thus, CSR can be source of logistical performance, as argued by Lavastre (2008). Nevertheless, SMEs are not always aware of these opportunities due to a lack of CSR obligation and legislation towards their suppliers.

In this study, we included both large and small suppliers. CSR practices are rather formal with the large ones. SMEs who are engaged in CSR rely on criteria of certification to choose large suppliers. Due to their lack of financial resources, we notice that SMEs usually can't afford to obtain certifications as ISO 14001 but base their selection of suppliers on certification criteria. SMEs are more willing to build informal communication and "capacity building" with local suppliers as Ciliberti et al. (2008) stated. Local suppliers are often small companies and CSR enables them to come within the scope of long-term relationship with the SME buyer.

However, diffusion of CSR to suppliers is not the priority for SMEs unless the CEO is committed to ethical principles. Murillo and Lozano (2006) argue that adoption of CSR practices by SMEs is closely related to the commitment of CEOs. SMEs are flooded under constraints and managers have a tendency to emphasize operational issues. They lack time in

the short term to focus on CSR concerns due to daily unexpected incidents and lack of human resources to manage these events.

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