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Socially responsible purchasing in food industry

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Due to globalization and consumers' responsible purchasing behaviour, companies are experiencing an increased pressure to act responsibly at every level of their value chain. Finnish food sector has faced pressure from stakeholders to provide transparency on the sources and operations related to their products. Globally operating Finnish food companies acquire raw materials from all over the world, social quality control is an essential part of the purchasing work and risk management associated with import purchases. Companies are asked about the social profile of their suppliers and how they treat their workers and communities in which they operate. In the globalised world, it is becoming more and more obvious that besides managing own social and environmental impacts, companies need to manage supply chain, since suppliers' performances affect the buying organisation's performance and reputation.

This research was carried out in the form of face-to-face interview. Two Case companies that operate in Finnish food sector were interviewed for the research. The aim was to find what problems are associated with the implementation of socially responsible procurement and what factors motivate firms to purchase responsibly. The results of a study show that both Case companies have similar problems, as well as motivators. Companies' own inner motivation as well as responding to expectations of stakeholders are the main motivators for responsible sourcing. The most common problem area in responsible sourcing is traceability of the raw materials which is mainly due to long supply chains. Complexity of the supply chains also complicate monitoring of human right issues in countries of origin. The results have similarities to what previous scientific studies have found.

Keywords	Responsible Purchasing, Corporate social responsibility, Social responsibility

Table of content

Key concepts

Global Compact - is a United Nations' initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. It is a principle-based framework for businesses, stating 10 principles in the areas of human rights, labour, the environment and anti-corruption
(Global Compact).

BSCI - The Business Social Compliance Initiative is a leading supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains (Foreign Trade Association).

Code of Conduct - Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations (International Federation of Accountants).

Countries' risk classification - Determine the level of risks related to Governance in sourcing countries. There are 6 dimensions of governance identified by the World Bank for example Regulatory Quality, Control of Corruption, Political Stability and Voice and Accountability (Foreign Trade Association).

Fair Trade - is a social movement whose stated goal is to help producers in developing countries achieve better trading conditions and to promote sustainable farming. Members of the movement advocate the payment of higher prices to exporters, as well as improved social and environmental standards (Brough 2008)

NGO – also known nongovernmental organization is any not-for-profit organization or group of people, both foreign and national, of religious character or not, that implements activities to improve well-being and development within the national territory, which may be financed by state funds or international co-operation resources (Galway 2012)

This thesis uses procurement, sourcing and purchasing interchangeably.

1 Introduction

Due to globalization and consumers' responsible purchasing behaviour, companies are experiencing an increased pressure to act responsibly at every level of their value chain. Like other industries, food sector faces many significant risks from public criticism of corporate social responsibility issues in the supply chain. Companies that do not meet stakeholders' expectations can see their reputation become damaged with a resulting negative impact on both market shares and profitability. As Björklund (2010,340) states, social responsibility, have become an aspect of competition, resulting in a growing interest among companies to improve their corporate social responsibility. Just as long as there have been businesses there has also been discussion of business ethics and moral of the companies. Moral concerns extend to all societies under the sphere of influence of the companies. Innovator in the arena of socially responsible corporate programs, Arnold Hiatt, addressed already in 1995 that "you can't run a healthy company in an unhealthy society for long". In today's world obeying the law does not make the company responsible. In order the company can call itself a responsible company, it must exceed the minimum requirements of the law. As Kuisma (2015, 12) states, the assurances of responsible performances are not enough, evidences and facts are required.

This thesis also emphasizes the current trend of responsible sourcing. This means that the sourcing of raw materials taken into account the various aspects of social responsibility. Responsible sourcing is the interest of a company and its stakeholders for the long term, but it is also fundamental to the success of the broader economic social environmental landscape in which everyone's operating. In order to evaluate and develop corporate responsibility and responsible sourcing, companies are expected to act openly and transparently (Harmaala & Jallinoja 2012, 20). Conditions that exist in purchase agreement and a signature of the supplier are not enough to tell whether the company and its suppliers operate in a responsible manner or not. Supply chain transparency plays nowadays a key role, not only company's financial performance. Profit shall be made, as long as it is proven to shareholder that it is made responsibly, supporting and promoting all aspects of sustainable development (Kuisma 2015,14).

1.1 Background of the research

Responsibility is discussed nowadays in the Finnish companies' annual reports, websites and responsibility reports. Investors, shareholders, and consumers are demanding increased transparency regarding companies' corporate social responsibility measures (Business and Environment 2005, 1) and consequently greater number of organizations are measuring and reporting their social performance in order to promote openness and transparency (Nguyen & Cefaratti 2016, 1). However, the practical implementation of responsible procurement is often unclear to the reader of the companies' annual report, because the text is often open to interpretation. Companies do not reveal very much about responsible procurement due to competitive reasons (Kuisma, 2012).

Social responsible procurement has been studied to some extent in Finland, for example Abdulla (2014) wrote about HKScan's commitment to sourcing responsibly produced soy to meet the expectations of stakeholders. In general, Finnish companies believe that signals from the global market are important for them in efforts to maintain their market position and reputation (Panapanaan et al 2003, 138). Since Finnish food companies acquires raw materials from developing countries, social quality control is an essential part of the purchasing work and risk management associated with import purchases.

The choice of the subject was affected by own interest in the food sector and responsibility. This thesis focuses on two different Finnish food business operators, whose largest responsibility problem area is long supply chains, and traceability of raw materials. The selection of the companies was based mainly on the size and on their noted proactive pursuit of corporate social responsibility development and responsible sourcing. This research specifically focuses on what motivates Case companies to responsible procurement and what are the biggest hindrances and problem areas in the realisation of socially responsible procurement.

1.2 Objectives and scope

The objective of the thesis was to understand how Finnish food business operators practically implement social responsibility in their procurement. This is achieved by studying two Case companies and their procurement activities.

The main research problem has been divided into two research questions:

> 1. What problems are associated with the implementation of socially responsible sourcing among Finnish food business operators?

> 2. What are the possible motivators for socially responsible sourcing among Finnish food business operators?

This thesis focuses on the social aspects of the responsible sourcing, since many researches have tended to focus on the environmental side. Seuring and Müller (2008) pointed out that there is a deficit in studies focusing particularly on the social dimension of sustainability. Zorzini et al. (2015) added that while environmental side remains an ongoing research field, the social side of sustainability is a growing topic area within the sourcing literature.

1.3 Methodology and research

This study is divided into primary and secondary data. The empirical material that the researcher has collected itself, forms a primary data. The data was collected by interviewing CSR managers. Corporate social responsibility reports and web sites of Case companies forms the secondary data for the thesis. The theoretical framework of the thesis is formed around scientific articles and books to demonstrate what kind of research on corporate social responsibility and responsible procurement is conducted.

Primary data collection plays also an important role in the thesis. Corporate social responsibility experts were interviewed for the thesis. Interviews play a key role, because it is possible to gain more information on what is thought about responsible purchasing within the company. Data gathering by interview gave useful information on personal experiences and opinions about responsible procurement. The interviews sought to obtain the most versatile and comprehensive answers to the research questions. This would not have been possible if there were only asked strict questions. On the other hand, a free-flowing discussion can lead to too wide conversation, in which case the information derived from the various interviews could be very fragmented.

Face-to-face interviews were considered to be more suitable research method for the thesis than e-mail question forms or phone interviews, because it was possible to modify and supplement questions during the interviews. Interviewees' names have been censored and name of the organizations have been changed. Below is the list of the interviews, the interviewees' areas of responsibility in the case company and timing of the interview. Questions for the interview can be found from the appendix 1 at the end of the thesis.

CSR Manager, *Company 1*, 28.12.2016

CSR Manager, *Company 2*, 18.01.2017

The empirical part of the study was carried out in the form of face-to-face interviews. List of questions were same for both companies. Each interviewee, however, was asked in-depth questions related to the activities of the company. This enabled a broader and deeper analysis of the topic. The purpose was also to get a broad overview of the company's activities and procurement work.

The interview frame was sent to each interviewee in advance, so that they had time to prepare for the questions and the opportunity to ask further questions. Questions were formulated so that they were as clear and unambiguous as possible. All the interviews were recorded and transcribed afterwards. The selection of the interviewees was affected by their position in the company and experience in procurement responsibility. The interviewees have worked in various positions in the target organization, both interviewees' employment has been over 15 years. Both interviewees had the common interest in responsibility issues. Only the other one interviewee had worked among procurement activities in the past. The interviewees were very cooperative and easy to reach. The place of interview was determined according to the interviewee's place of employment. Each interviewee agreed to use the recorder.

1.4   Analysis of the data

Qualitative research differs significantly from the quantitative research in which the researcher considers how many events included in a particular category. Qualitative research is mainly based on the researcher's own observations and interpretations. Interesting part of qualitative research is how the text describes reality. Analysis of data of Case-studies is difficult because there is no well-defined strategy and technique (Yin

2003, 109). For this thesis, interviews, companies' websites and CSR reports and scientific articles had the greatest weight in the analysis. The analysis started by re-listening the interviews. Similar themes arose from the both interviews and therefore is was clear to sum up the findings in the result section.

The data was analysed on the basis of the direct comments of the interviewees. Hence it was possible to present direct quotations from the CSR managers. Through direct comments the researcher makes the analysis visible to the reader, which increases the reliability of the thesis. It is easy for the reader to understand how researcher of the thesis have reached certain results. Transcript of citations allows reader to evaluate the reliability of the thesis and the correctness of the conclusions.

1.5   Reliability and validity

For this study, responsible procurement is mainly discussed from the perspective of corporate social responsibility managers. The results are not generalizable, as the sample size of the study was small. It can be said that qualitative research provides in-depth, but poorly generally applicable information (Alasuutari 2014, 231). However, Tuomi and Sarajärvi (2006, 87) perceive that the purpose of qualitative research is not to produce statistically generally applicable information, but to create a cross-sectional diagram for illustrating the phenomenon under investigation.

In general, it can be said that the *reliability* means, whether the collected material is reliable and truthful. The results of this study are based largely on data collected from interviews, which poses the biggest challenge in assessing the reliability of the research data. However, since all the interviews were recorded and afterwards transcribed, it enabled to return the original material if necessary. The opportunity to return to the original material increased research reliability, because the recording made it possible to review comments which supported the analysis and results of the thesis. The reliability of the thesis is supported by the fact that the earlier scientific literature has raised the same problem areas and motivators related to responsible sourcing. According to Yin (2003, 37), research reliability is good, if another researcher who approaches the same subject with the same methods, reaches similar conclusions.

Validity refers to whether the study examined the problem, which it has promised to investigate. The reader of the thesis may evaluate the validity of the research by assessing

how well the writing has answered the research questions. Between the text are direct quotes of the CSR managers. Based on the direct quotes, the reader can evaluate what kind of meanings and interpretations the author of the thesis has done to form conclusions.

2 Social responsibility

2.1 Corporate social responsibility

A couple of decades ago, a high proportion of global manufacturing shifted to emerging economies. Large multi-national companies typically outsource and subcontract the production of their goods to smaller low-cost, high-volume suppliers in developing countries. As offshore manufacturing has grown exponentially, exposés by non-governmental organizations and journalists of rampant child and 'sweatshop' labour have led to calls for greater corporate transparency and accountability within global supply chains. Following such exposés, corporations, supported by governments and international organisations, have launched corporate social responsibility (hereinafter also CSR) initiatives to position themselves as part of the solution to globalised production challenges (Lebaron & Lister 2016, 2).

Corporate social responsibility usually refers to a variety of voluntary actions, which the company has carried out on the basis of social responsibility expectations of stakeholders (Harmaala & Jallinoja 2012, 16). Voluntary actions of companies may be shaped through their Codes of Conduct where the company publicly states what ethical and moral codes it will adhere to (Cetindamar 2007, 165). Grant et al (2013, 181) describes that businesses with CSR consider the ethical consequences of their actions on the society. Even governmental agencies are involved in defining corporate social responsibility. Although the interpretation of the concept of CSR varies a lot, the European Commission defines (2011) corporate social responsibility as follows: ''it is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis''. In Finland, the Confederation of Finnish Industries has opted for the concept of responsible business operations. Ekonomi - Journal (7/2008, 12) states that CSR is understood differently in different countries. Journal adds that for some, CSR means charity and to others it appears to be observance of good business practices. In this thesis, CSR is understood especially in

terms of compliance with good business practices, which will extend through the entire company's supply chain.

Corporate social responsibility is nowadays often divided into financial responsibility, environmental responsibility and social responsibility and the division is better known as Triple Bottom Line (shown in Figure 1.). The Triple Bottom Line (hereinafter also TBL) posits that the company must present in parallel the results of the financial, social and environmental responsibility, and to tell their mutual relations. The term was coined by business consultant John Elkington's (1997) to describe important investment value that accrues outside a firm's financial bottom line. The TBL demands that a firm's responsibility should be to *all* stakeholders rather than only to shareholders (Grant et al. 2013,208).

Motivations for addressing Triple Bottom Line performance vary depending upon context. In some settings, the driver might be demands for better accountability and transparency, stronger investment performance, or alignment with organizational and stakeholder goals. In others, it may be an interest in brand or reputation management, cost savings, competitive advantage, innovation opportunity, or risk minimization (Hammer 2015, 5).
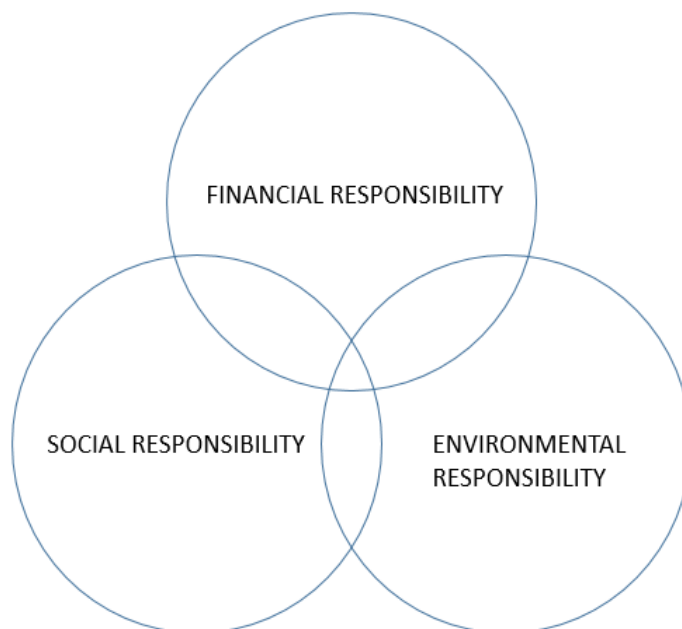
Figure 1. The 'Triple Bottom Line'

Nowadays almost all large companies are using triple bottom line division in their CSR reports. Before TBL, corporate social responsibility reporting was mainly focused on the

environmental issues rather than social aspects. Most of the big accounting firms are now using the concept approvingly and offering services to help firms that want to measure, report or audit their two additional "bottom lines" (Norman and MacDonald 2004, 2).

The company's CSR is based on the three areas covered in TBL. However, the term ''social'' has caused confusion since it is not always clear whether it is about personnel matters or company's relationship with the society. From the point of view of social responsibility, the company's activities influence in some way to all stakeholders. The company's stakeholders are entities in which the company affects or may affect through its own actions either directly or indirectly and the entities which affect or may affect the company's operations, either directly or indirectly. Company's stakeholders are divided into two groups: *internal* and *external* stakeholders. *Internal* stakeholders are entities within the business for example managers and employees and e*xternal* stakeholders are supplier, consumers, government, community, stockholders etc. (Chen & Zhang 2009, 445). By considering the needs and expectations of stakeholders, the company seeks to improve in the short term its reputation, competitiveness and stakeholder loyalty. Responsibility transparency, monitoring and verification activities play an important role in maintaining the trust of stakeholders and preserve company's profitability. However, consensus decision making which considers interests of all stakeholders is a challenge to implement. Companies strive to prioritize stakeholders into key categories based on how much the groups affect the performance of the company (Harmaala & Jallinoja 2012, 65-68). For this reason, not everyone sees the development of CSR only as a positive thing.

Frankental (2001, 23) believes that companies have adopted corporate social responsibility only to improve public image. In such cases the adoption of CSR would be just another Public Relations stunt. He concludes that CSR will remain just a PR stunt, if it does not embrace *all* stakeholders of a company, the differences between the companies cannot be compared and if CSR is not rewarded by financial markets (Frankental 2001, 23). Valor (2008, 315-322) has a similar view and states that corporate social responsibility does not mean that consumers would reward company by increased purchases and thus bring economic success. Based on the study of Valor, consumers feel that responsible consumption is time consuming, economically unviable and mentally stressful. Valor admits that certain categories of products such as coffee, tea and bananas, as well as some of the brands can gain competitive advantage through corporate social responsibility, which is reflected in increased sales. However, most of the products are excluded from this direct economic competitive advantage.

2.1.1 History of social responsibility

The motivation of companies in adopting CSR is interpreted differently, depending on whether theoreticians come from the field of ethics or economics. In economic theory, CSR is seen only as a strategic tool to achieve economic objectives and ultimately, wealth creation, where company is responsible to shareholders (Garriga and Mele, 2004). According to theories pertaining to ethics, companies are generally expected to adopt CSR practices purely to do the right things and for the good of society. As CSR refers to voluntary initiatives taken by the business community, Cetindamar (2007, 164-165) argue that social responsibility above all is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

Many researchers have studied the development of social responsibility in different decades, Carroll (1999), for example, examined the development of social responsibility in United States as well as various aspects associated with it. A modern concept of social responsibility has evolved since the 1950s, formalized in the 1960s and proliferated in the 1970s. Carroll states that companies have had social responsibility towards society for many centuries, but it is beginning to be addressed in written form in the 20th century.

Panapanaan, Linnanen, Karvonen and Phan (2003) studied implementation of social responsibility in Finland. The study was conducted among twelve Finnish companies and Figure 2 shows the factors that drive corporate social responsibility in Finland.
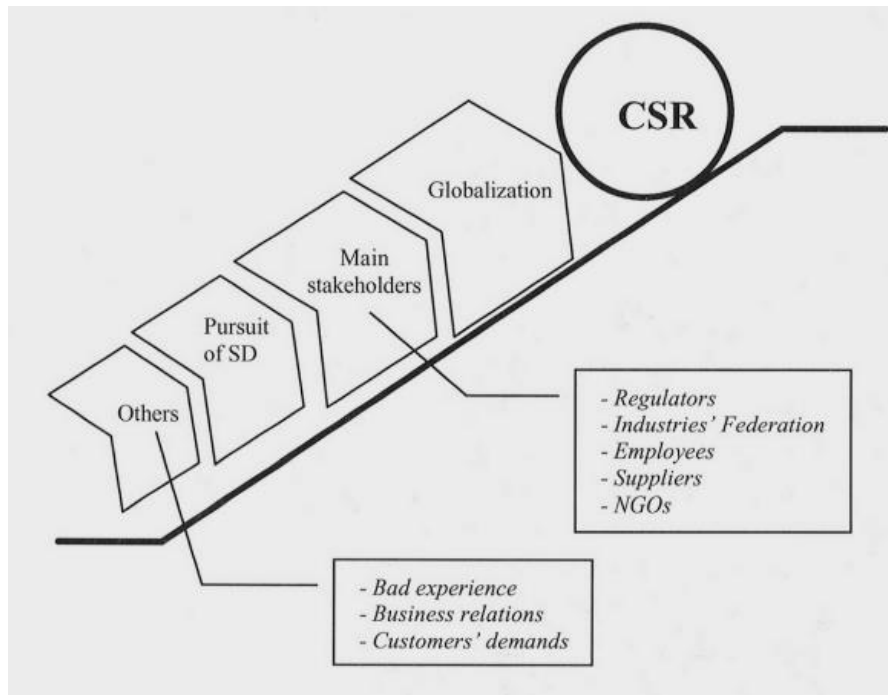
Figure 2. Main factors driving CSR in Finland (Panapanaan et al. 2003, 138).

Based on the Panapanaan et al study, social responsibility involves many meanings and cannot be limited to only one explanation. It could be as simple as compliance with the Finnish laws and regulations, as well as international declarations such as human rights and rights of the child. It could be as value-laden as a matter of doing business right based on the Finnish high regard for morality and business ethics. Panapanaan et al. (2003, 136-137) believe that such thinking is hinged on the norther European high regard for morality. In the early days of Finnish industrial history, social responsibility was viewed narrowly as the company's relationship with the community immediately sur-rounding it. With the growth of the Finnish society, this role of industries was shifted to the government which set the goal of development of social well fare community. How-ever, along with globalization, social responsibility gained considerably broader content. The growing role of businesses in public service operations can be viewed in many ways. Since globalization promotes free trade and movement of supplies and productions around the globe, it drives challenge to Finnish companies to behave in a socially re-sponsible and ethical manner.

Milton Friedman (1962, 133; Windsor 2001, 230) was one of the most famous economist who argued against social responsibility, stating that it is fundamentally a subversive doctrine in a free society. He argued that corporations have no responsibility to society beyond that of obeying the law and maximizing profits for shareholders. According

to Friedman, individuals may have social responsibility, but not corporations. Friedman would argue that executives should serve as perfect agents and should not reduce corporate profits by contributing to social causes (Lee & McKenzie 1994, 969). Paul Samuelson (1971, 24; Carroll 1999, 277) espoused an opposing viewpoint, and argued that companies need to act, regardless of the situation in a socially responsible manner. Arguing in a similar vein, from Davis' (1973, 312-313) point of view firm's obligation is to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that accomplish social benefits along with the traditional economic gains which the firm seeks. Despite the divergent opinions of researchers, Carroll (1999,292) predict that social responsibility will have a bright future because at its core, it addresses and captures the most important concerns of the public regarding business and society relationships.

2.1.2 The three dimensions of social responsibility

One of the factors contributing to the ambiguity that shrouded discussions about social responsibility was the lack of a consensus on what the concept really meant. Sahlin-Andersson (2006) divides the concept of social responsibility into three trends. Each of these trends points to certain actors, interests and relationships as being their central drivers. First trend sees social responsibility as a regulatory framework. In the wake of anti-globalization movements and more specific critiques of specific corporations or industries, there has been a need for companies to demonstrate an awareness of social issues. In the past, internationally established regulations have been one important mechanism for placing such demands on companies. OECD and United Nations (hereinafter also UN) have issued guidelines and regulations, for companies which contribute to the realization of social responsibility. The UN's Global Compact is at the centre of this evolving ''soft regulatory'' framework: it is voluntary, has no binding legal sanctions applied to those who fail to comply. The initiative encourages businesses worldwide to adopt sustainable and socially responsible policies in the areas of human rights, labour, environment and anti-corruption (Hoessle 2014, 27).

The second trend is one in which corporations are seen as complementing, sometimes replacing states as the primary structurers and shapers of the world. In other words, corporations are co-opted by states in an effort to build a global welfare state (Sahlin-Andersson 2006, 600-601). The entrance of corporate actors into the area of development aid, was driven by state organizations in their search for assistance, but it was also

supported and channelled by the many international organizations and media. Companies are called upon to become active partners with states and civil society organizations in fighting poverty and certain diseases, and in shaping civil society around the world. A company that operates internationally may have a variety legislation obligations and societal expectations. In countries where the government or non-governmental organizations do not provide for social necessities, the corporate sector tends to come under heightened requirements and expectations (Halme & Laurila 2009, 327). A company operating in a developing country, the social responsibility actions may include, for example, the development of working conditions, determination of the basic wage level and child and slave labour prevention (Harmaala & Jallinoja 2012, 20). However, some business representatives have said that the UN's guidelines transfer an unreasonable responsibility from State to companies. Kuisma (2012, 23) argues the promotion of fundamental labour rights is the primary responsibility of the State. Another concern regarding increased societal involvement of corporation is the question of skills and expertise of corporate managers in societal work. Some researchers are concerned about what kind of long-term societal development perspective there will be if societies are headed by corporations. Halme (2007, 2) questions whether corporations have long-term interest in developing societies with weaker governance structure.

The third trend perceives social responsibility as a management trend, which is a paradigm created by consultants and researchers. Management consultants offer many kinds of models, techniques and services that are aimed at improving the management of corporations. These include, for example, how individual leaders are recruited, trained and developed, how operations are co-ordinated, how results are measured, and how environmental relations are managed. The trends and popularity of management models have been explained by the fact that they are adopted by organizations as a means of appearing legitimate, modern and attractive for potential employees, collaborators, customers and others. Certain management models become fashionable and eventually some evolve and become the expected institutionalized elements of a proper and modern organization. A few examples of management models are ILO Conventions on Workplace Practice, UN Global Compact, Global Reporting Initiative (GRI), ISO standards, including ISO 14001S, Accountability 1000S (AA1000S) and Social Accountability 8000 (SA8000). These voluntary agreements are only a small portion of all activities in the area and a fraction of the models, agendas, standards and services offered (Sahlin-Andersson 2006, 603-604).

2.1.3 Measuring social responsibility

As can be deduced, the debate on social responsibility, as well as the accompanying definitions, have a number of meanings and the content of which has varied depending on time and place. In addition to the wide range of different definitions, the researchers do not agree on how valid and accurate measurement social responsibility is. Norman and MacDonald (2004) criticize the Triple Bottom Line and believe it is impossible to find a common scale to weigh all of the social "goods" and "bads" caused by the firm. Social impacts cannot always be precisely defined, or quantitatively valued. Corporations use indicators such as dollars and carbon dioxide equivalent (Co2e) values in their economic, environmental and social inputs. However, there is no discussion of relations between the three, and the reader gets lost at the end of each report, not knowing how to interpret the data systematically (Sridhar & Jones 2013,96- 106). Even though there are obligations to report some social performance information to various stakeholders, companies tend to tell the results selectively, partly due to reputation management and competitive reasons (Norman & MacDonald 2004,5-10). Due to the absence of mandatory standards, corporations handpick those metrics that they can easily measure and disclose information on these metrics while ignoring those that cannot be measured or those that could possibly show a darker side of the corporation in terms of their sustainability initiatives. When dealing with social impacts, both quantitative and qualitative distinctions need to be made, however, social impacts cannot always be precisely defined, or quantitatively valued (Sridhar & Jones 2013, 95-109).

Kolk and Perego report that there are no generally accepted approaches to how a company should collect, evaluate, and report its nonfinancial performance data (Kolk & Perego, 2010; Lynch 2010, 37). However, over the past few years have been published various recommendations and guidelines for social responsibility reporting. The purpose is to support enterprises to create a report that combines the social, environmental and economic impacts of business activities. Dow Jones Sustainability Index (hereinafter also DJSI) was the first and robust global index formed to measure the financial performance of firms operating in a sustainable manner. It is one of the few indexes that actually remove corporations that have been unethical or found guilty of other wrongdoings. The DJSI is based on an analysis of corporate economic, environmental and social performance, assessing issues such as corporate governance, climate strategy, labour practices indicators and human rights (Sridhar & Jones 2013, 94). In addition to DJSI,

the best known and most widely used social responsibility guideline is the Global Reporting Initiative (GRI) which provides a framework for reporting on economic, social and environmental performance. GRI Sustainability Reporting Guidelines (G3) is the leading reporting standard for the TBL approach and in 2008 more than 75 % of 250 sustainability reports adhered to the GRI guidelines (Sridhar & Jones 2013, 93-95).

3 Responsible purchasing

3.1 Socially responsible purchasing

Researchers over the past several years have advocated that the role of supply chain management must expand to encompass social responsibility and purchasing managers play an important role in firm's involvement in socially responsible activities (Carter & Jennings 2004, 145). In order to produce something, manufacturers typically require many inputs from suppliers. These can range from raw materials to sophisticated components and modules. Suppliers are typically selected by the total landed cost which is the cost including transportation and custom clearance and all costs necessary to land to goods to the buyer' door. As Lindgreen et al state (2013, 144) cost is important since it influences profit and the firm must remain profitable, but additional considerations are needed such as social aspects. Taylor (2005, 20) perceive that companies are no longer able to give reasons, which allow them to not practice social responsible purchasing. Taylor seeks to highlight the importance of responsibility in purchases, supplier relations, as well as the specific role of buyers in promoting responsibility. In order to operate responsibly, the company has to manage many different things, and one of the most important is the procurement. Supply chain management and monitoring, documentation and information gathering are examples of procurement areas that companies should manage in order to operate truly responsibly in today's world.

Socially responsible organizational purchasing is that which attempts to consider the public consequences of organizational purchasing to bring about positive social change through organizational purchasing behaviour (Drumwright 1994, 1). In other words, when purchasing products or services, the company has ensured that they are made in accordance with fundamental ethical principles. Responsible purchasing is about buying goods and services that have a "sustainability premium" and avoiding those products or

contractors that have obviously poor operating practices from a Triple Bottom Line perspective (Reeve & Steinhausen 2007, 32). The increased level of concern over purchasing in socially responsible manner makes ethical supply chain issues a key factor in purchasing decisions (Allen 2006, 7).

3.2   Managing social issues in the supply chain

A corporation's supply chain may be generally defined as the series of companies, including suppliers, customers, and logistics service providers that work together to deliver a value package of goods and services to the end customer. Researchers have pointed out that the applications of social responsibility to the supply chain have emerged only in the last two decades. This is mostly because companies have begun to outsource their supplies elsewhere, especially in Asia and emerging countries (Maloni and Brown 2006, 36).

Socially responsible policies play a big role in the life of business organizations today. Weak supply chain management can cause reputation risks. When the production has been transferred from developed high-wage countries to emerging low-wage countries, the supply chain reputation risks have increased (Kuisma 2015,22). Due to advanced technology, a broader range of customers and stakeholders gain access to more information about what happens within supply chains (Amrou & Klassen 2010, 1247). Supply chain management, which previously was limited to rapid transfer of goods from one place to another, has become involved in reputation management. Reputation risk often occurs when business activity conflicts with its stated corporate social responsibility. Global corporations have been accused of taking advantage of developing countries' low wages and weak social and environmental regulation to produce low-cost goods at the expense of the local workers' welfare (Locke, Qin and Brause 2007, 4). Stakeholders perceive that there is a mismatch between what the company promises and what it does (Harmaala & Jallinoja 2012, 71). This may lead into difficulties in getting capital and liabilities. Moreover, poor brand image could lead to serious loss of market share (Grant et al. 2013,179). In the current year, Finnish companies have said that supply chain management is still the largest challenge of corporate responsibility (FIBS Corporate Responsibility Research 2016,3).

According to Seuring and Müller (2008) there are generally two different strategies to improve supply chain responsibility: either supply chain is made more responsible

through new products or the existing ''tiers'' are made more responsible through man-agement. Hau Lee, a global authority on supply chain management, claims that sustain-able supply chains are a new paradigm (Boyd et.al 2007, 341). Sustainable sup-ply chain management (hereinafter also SSCM) has emerged as a growing topic, receiv-ing increasing interest in the sustainability and supply chain management area (Seuring & Müller 2008). SCCM aims to consider all three areas of responsibility as part of supply chain management: social, financial and environmental aspects. Lindgreen et al (2002, 149) add that for a product to be truly sustainable, its entire supply chain should be sus-tainable. In the contemporary global economy, it is difficult but necessary that all supply chain partners add value in a sustainable manner, protecting the environment as well as the often-ignored human rights of all stakeholders, regardless where they live.

The majority of the company's sustainability choices culminates in procurement and fa-vouring suppliers and subcontractors who share the company's sustainability attempts (Allen 2006, 7). A firm which believes in sustainability and the Triple Bottom Line will naturally seek to do business with suppliers who are fellow believers (Lindgreen et al 2013, 145). The vital importance of companies being aware of the social practices of their supply chain partners is clear, given the adverse publicity and lasting damage to both the brand and its trading revenues that can be caused when business practices considered to be unethical emerge in the media (Zorzini et al 2015, 61).

Apparel industry has been subjected to public criticism for a long time, but the food industry faces also many significant risks from public criticism of corporate social responsibility issues in the supply chain. Taco Bell learned this the hard way when it was severely criticized for negative social behavior in its supply chains. The stakeholders were drafting resolutions to force suppliers to pay higher wages and improve working conditions. Stakeholders, such as environmental activists, labour rights groups and animal welfare supporters have forced fast-food restaurant chains to become more socially and environmentally active. In 2002, farm workers and social activists protested Taco Bell for buying tomatoes from farms where employers did not pay proper salary to workers. Workers endured rough treatment and were paid as little as 45 cents per 32-pound (14.5kg) tomato bucket (Grow & S. Prass: 2002, 10). Yum! Brands', parent of the Taco Bell, shareholders were told that tomato farmers were not paid overtime or had fringe benfits or health-care coverage. Company's officials defended themselves and said that "this is really a labour issue between the worker and their employers, and it really has nothing to do with us". The company argued that it is not in direct contractual

relationship with superiors of tomato farmers and thus cannot do anything about the labour disputes. As a result of the case, many magazines worte about the case, including The New Yorker and The Guardian, three universities have banned Taco Bell products over the tomato issue. But Yum! Brands said it is not responsible for its suppliers' actions (Prewitt 2002, 69).

Based on several publicized instances, a few ethics researchers have attempted to organize CSR elements in the food supply chain. The framework provides a basis by which food companies can gain immediate awareness of supply chain CSR issues. The framework was originally created as a tool to support food industry practitioners and researchers in the assessment of strategic and operational supply chain corporate social responsibility practice (Maloni and Brown 2006, 35-45). The categories of which food businesses have increased their attention includes, animal welfare, biotechnology, community, environment, financial practices, health and safety, labor, and procurement (see Figure 3.). There have already been fragmented examples of such supply chain CSR responses at various levels in the food industry. At a corporate level, Yum! Brands publishes annual CSR reports addressing issues such as environment, people, community,food safety, ethical sourcing and volunteerism (Yum! Brands CSR report 2015).
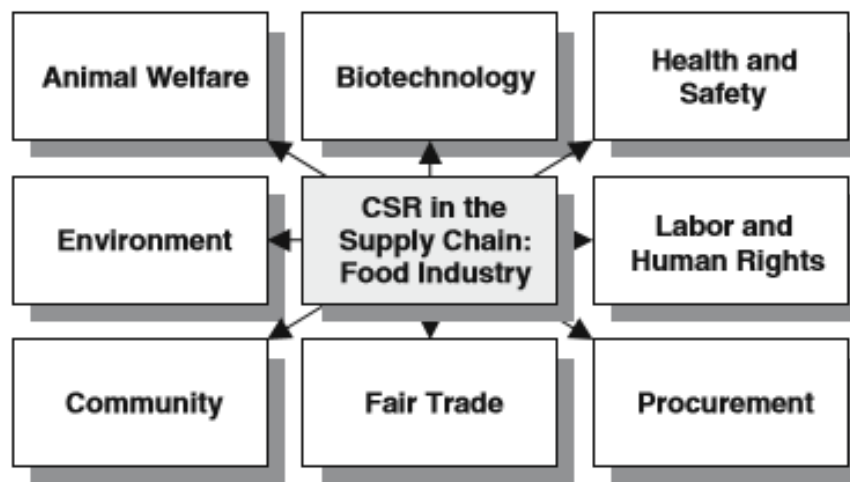

Figure 3. Dimensions of CSR in the Food Supply Chain

Locke, Qin and Brause (2007, 8) state that Nike is one of the first companies encountered problems related to supply chain responsibility. Simon Billeness, senior analyst with Trillium, noted that both fast-food sector and apparel industry are dependent on

young consumers and therefore their voice counts the most. Billeness noted that it was 18- to 24-year olds that were active in pressuring Taco Bell to force their suppliers to pay their workers a living wage (Prewitt 2002, 69). In the wake of several well-publicized scandals involving child labour, hazardous working conditions, excessive working hours, and poor wages in factories and farms supplying the major global brands, corporations have developed their own ''Code of Conduct'' as well as a variety of monitoring mechanism aimed at enforcing compliance with these codes. Several companies encourage or even require suppliers and customers to commit themselves to sustainable development, compliance with national and supranational law, respect for human rights and ethical behavior (Harmaala & Jallinoja 2012, 180).

As a result of Taco Bell's wage war, the company started to pay an extra penny for each pound of tomatoes it purchased under an agreement with a group of farm workers that had been protesting the fast food chain since 2002 (Lagorio 2005, no pagination). Yum! Brands' shareholders, in turn, sent a clear message to the company's Board of Directors by voting 35.2% of their shares in support of the shareholder resolution calling for a transparent review of Yum! Brands' policies, programs and practices related to social, environmental and economic sustainability throughout the company's supply chains (PR Newswire 2003, 1). In the Supplier Code of Conduct, Yum! Brands requires it can conduct unannounced assessments, audits and inspections of supplier facilities. The Supplier Code of Conduct sets forth the company's expectations and minimum standards for all suppliers and subcontractors. It also addresses working hours and conditions, non-discrimination, child labor and forced or indentured labor (Yum.com, Supplier Code of Conduct – Yum! Brands).

Johnsen et al (2014, 371) perceive that standards, legislation and Codes of Conduct are important to provide the rules of the game to the suppliers in particular. Companies that operate globally and make purchases in low cost countries, often make suppliers' risk assessments and supplier audits. Suppliers can be divided on the basis of risk assessments into three risk categories (''traffic lights'') in respect of responsible operations. In most cases, companies conduct the audits by themselves or an outside company evaluates high risk suppliers. Usually suppliers are given a transition period, within which they have to improve operations to be on an acceptable level. Often the company will help its supplier to develop responsibility into the desired level. If the development does not occur, the supplier relationship may be at risk to end (Harmaala & Jallinoja 2012, 181). According to Finnwatch (2/2016, 11) the best way to verify the conformity is when

the third party carries out an audit. The least trustworthy situation occurs when a company/producer audits itself and says it meets certain social responsibility criteria. Kuisma argues (2015, 22) that better results will be achieved when the industry cooperates.

3.3   Standards for responsible sourcing

Support for responsible purchasing is provided in form of a variety of standards, of which the best known includes, for example, Business Social Compliance Initiative (hereinafter also BSCI), and Social Accountability 8000 (hereinafter also SA8000) standard. These standards are private in the sense that they are not enacted or controlled by the state but are regulatory in the sense that they promote adherence to a set of social expectations (Dean 2015, 5). As corporate responsibility standards are voluntary by nature, they can be described as soft law solutions. Both SA 8000 and BSCI define the minimum requirements for workplace conditions that need to be met by production facilities and their suppliers. These requirements include for example prevention of child and forced labour, workers' freedom of association, decent working hours et cetera (Knudsen 2013, 390). SA 8000 is the first social accountability standard for retailers, brand companies, suppliers and other organisations to maintain universally accepted working conditions throughout global supply chains. The objective of the BSCI is to improve working conditions in risk countries to meet the level required by international agreements and to ensure that customers need not be concerned about the origin of the products they buy (S Group's responsibility review 2011, 11).

In order to guarantee the reliability and transparency of the systems, inspections are always performed by well-trained and experienced auditors working for auditing companies which are accredited by Social Accountability Accreditation Services (Berzau 2011, 140). Certification organization's representatives should speak the local language and be familiar with the national law (Kuisma 2015, 23). Social audits in the BSCI are conducted in a three-year-cycle of initial audits (see Figure 4.). During the initial audit, the auditor checks the performance of a supplier against all the criteria of the BSCI Code of Conduct. The auditor and the suppliers' management agree on a corrective action plan if deviations from the Code of Conduct are found, and the implementation of these actions is checked with the means of a re-audit. Depending on the results of the re-audit, which focuses on those elements of the Code where deviations have been found before, another corrective action plan is set up (Berzau 2011, 140).
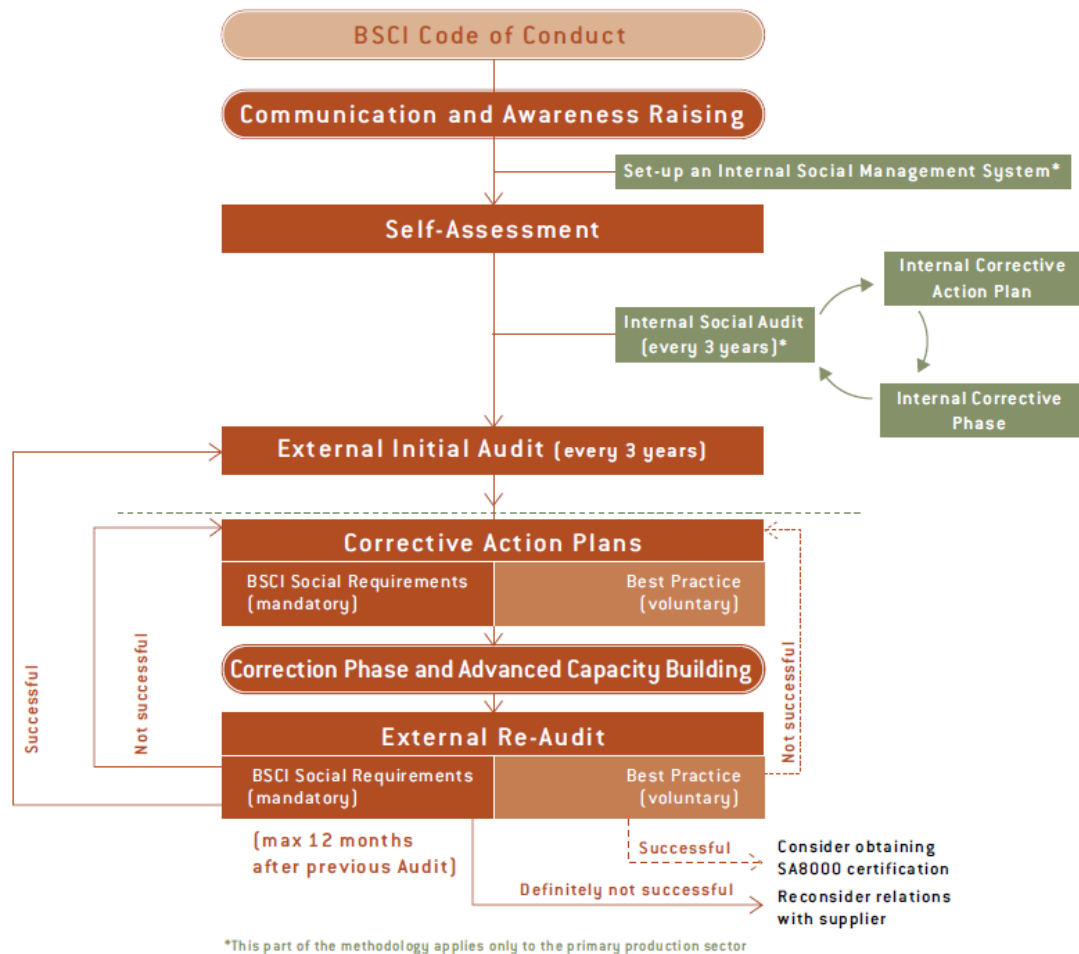
Figure 4. BSCI auditing process (certification of management systems)

The core idea is to move from being a buyer- to a supplier-driven monitoring system. Rather than all buyers having to monitor all their suppliers, the BSCI system aims to synchronise the monitoring, making only one audit per supplier necessary. The results of the audits will then be entered into a common database, in which the BSCI members can search for information regarding their current and/or future suppliers (Wahlqvist & Egels-Zanden 2007, 180). Some BSCI and SA 8000 members refer to these auditors as 'independent', since there is no direct relationship between the retailers purchasing the audits and the auditors (Wahlqvist & Egels-Zanden 2007, 180). Membership requires that the buyer commits within 3.5 years at least two-thirds of its risk country suppliers to the system (Sammeck 2012, 96).

The effectiveness of the standards is also questioned. BSCI system does not take into account a number of key criteria which would ensure human rights in the supply chain. The minimum salary to live is a key human right, which is recognized by many human

rights conventions. In risk countries, the minimum wage set by the state does not (almost never) cover the necessary costs of living. Finnwatch (2/2016, 26) notes that the BSCI does not require a living wage for workers nor actively promote. BSCI does not also promote freedom of association. Sheffield Political Economy Research Instute argues that audits are ineffective tools for detecting, reporting, or correcting labour problems in supply chains (Lebaron & Lister 2016, 1). Some firms have increasingly shifted the responsibility for meeting BSCI requirements onto their suppliers. In this way, large buyers expect to be ''off the hook'' if their suppliers are found to be violating basic labour rights (Knudsen 2013, 394). Jamison and Murdoch (2004) pointed out that at best an audit can only take a snapshot of what is happening in a supplier's business but often does not explore why it is happening or how the situation can be improved.

3.4 Socially responsibly purchasing and legislation

In many countries, procurement responsibility is governed by the laws. Regulations provide a framework of rules within which companies can operate in accordance with the social norms accepted in a region or even globally through multilateral agreements (Johnsen et al 2014, 352). Internationally recognized legislation, standards and guidelines are becoming more important in the domain of purchasing and supply chain management. As a result of this, international trade flows and, in particularly, importation into certain regions, are subject to laws and restrictions that exporters, importers and buyers need to be aware of.

Each country has its own laws and its own legal system that govern the company's responsibility. As mentioned earlier, corporate responsibility standards are voluntary by nature, they can be described as ''soft law'' solutions. While ''hard law'' refers to legally binding and enforceable obligations, compliance with soft law is voluntary and thus not legally enforceable (Rasche 2010, 283). Regulatory framework of European Union law is binding, and the Member States must comply with its requirements. In Finland, responsible business practices are driven by Finland's own laws as well as by the European Union legislation. The European Union (hereinafter also EU) in particular has developed many directives that are intended to improve environmental sustainability and social responsibility. These directives mainly focus on the importation of products into Europe, placing restrictions on chemical content and the ability to recycle products (Johnsen et al 2014, 360).

The EU, moreover, provide businesses a variety of tools in support of responsible operations. In 2014, the EU Parliament approved the proposal a non-financial reporting directive which applies to about 100 companies in Finland. Member States should adopt the non-financial reporting directive into national law by December 2016. In addition to the annual report, the company will provide information about environmental, social and workers issues (Kuisma 2012, 36).

Social responsibility is not limited to the activities of the private sector. The State also plays an important role in promoting responsibility in procurement. The Finnish government is responsible for many key tasks in a society from education to environmental care, employment and human well-being. As contracting authorities spend significant sums of money in a number of sectors on their purchases, they can exert a considerable influence on the products and services offered in the market. According to Finland's Ministry of Economic Affairs and Employment (2013, 8), socially responsible public procurement means that public sector entities also take into account extensively the impact of their procurements on society. Procurement must comply with the public procurement law procedures. Finland's Ministry of Economic Affairs and Employment is responsible for the preparation of public procurement regulations. In relation to Public procurement legislation ensures that public procurement procedures are transparent and non-discriminatory, but it does not determine or spell out how or on what terms the contracting authorities should procure goods or services or conclude contracts. Contracting authorities represent major purchasing power and influence. At the European level, public contracts account for some 17 per cent of the EU's GDP (Social Responsible Procurement 2013, 5-7) therefore it has the potential to influence markets in terms of, for example, production and consumption trends in favour of environmentally friendly, socially responsible and innovative products and services on a large scale (Amann et al. 2014, 351).

Finland's Ministry of Economic Affairs and Employment (2013, 10) believes that sharing good experiences and examples with other contracting authorities sends out a positive message of the impact and benefits of socially responsible procurement and encourages both public and private buyers to include social considerations in procurement. Although various laws and directives contribute the implementation of corporate social responsibility, it still must be noted that the responsibility begins with the company's own basic philosophy: values, vision and strategy. After all, CSR is about exceeding the minimum requirements of the law.

3.5   Barriers in socially responsible sourcing

Purchasing has emerged as an important supply chain decision in protecting the company from an unbalanced Triple Bottom Line because of its direct immediate and long-term impact on a company's total expenditures and its supply base (Goebel et al., 2012; Thomas et al 2016). However, purchasing managers are often caught in a dilemma of how logistics decision making can influence companies' social responsibility. Purchasing managers are expected to buy at the lowest possible price while also ensuring a selection of environmentally and socially sustainable suppliers (Björklund 2010, 581; Thomas et al 2016, 471). Human rights violations are unfortunately a common phenomenon in developing countries, of which the majority of companies feel they are unable to be fully responsible. ''Environmental issues may have been present for longer and are better known. Social side issues - such as subcontracting chains in a globalized world – do not have lots of effective practices yet. In these cases, companies still have room for improvement'', says Raimo Loivio from Aalto University School of Business (Kuisma 2015,67). A research made by Finnish International Baccalaureate Society (hereinafter also FIBS) in 2016 supports the same finding, environment is still the main theme of the responsibility and this view was shared by 78% of companies out of 201. Human rights issues are the least significant.

Some research argues that even if the company would do its best, particularly in favor of the realization of labor rights, still the influence of an individual company is very limited in countries where human rights are not realized as required by the law. Primary production control is often very difficult, if the factory/farm is located far away from a developing country, especially when production is often highly networked and there exist plentiful of subcontractors and their subcontractors. When a single company tries to determine its suppliers' or contract partners' working conditions, resources for this work are inevitably limited due to a lack of know-how and unfavorable negotiating position (Kuisma 2015,22). Buying companies are struggling with how much pressure they should direct to their suppliers. Many purchasing managers do not know how to embrace the new trend towards social responsibility and researchers have identified several problems associated with managing CSR with a global scope which have led some companies to manage CSR without a clear structure and insufficiently (Björklund 2010, 341).

As Friedman (1962) stated that businesses are in the business of making money, he also argued that ethical and discretionary considerations are irrelevant, and that decisions that include these considerations may even harm a firm's financial performance. Empirical research into the relationship between sustainable purchasing behaviour and firm performance has resulted in disparate and contradictory findings. According to some researchers, socially responsible initiatives result in additional costs that put a firm at an economic disadvantage as compared to other less socially responsible organizations. These additional costs could stem from activities such as employee welfare programs, charity, community development, maintaining plants in economically depressed locations, and establishing environmentally friendly policies (Carter 2005, 180). In Allen's (2006, 7) point of view, the company cannot be expected to take on a voluntary basis costs like this, if it is possible to operate more cost-effectively. Companies concerned with CSR may spend large amounts of money to audit overseas supply facilities. Suppliers frequently change, compliance auditing teams have limited time at each facility, and self-audit finding may be viewed with skepticism. Attaining a high level of environmental and social ''performance'' is no less difficult from the suppliers' side. A supplier may have numerous buyers, and typically each buyer has its own company-specific CSR requirements and auditors' questions to answer (Allen 2006, 7).

Furthermore, some companies lack top management commitment, or the commitment ends when resources are needed for implementation of the code of conduct (Maignan et al., 2002; Mont & Leire 2009, 394). There is always need to justify the social responsible activity and its cost to the board of directors in terms of business benefit or profit, since neither private nor public organizations are run as charity institution. The level of top management commitment therefore is decisive for purchasing managers to decide to what extent socially responsible purchasing is to be implemented in the company and how proactive they may be with introducing social responsibility to their supply chains. Audits for socially responsible practices require significant input of time and financial resources from focal organizations. In order to comply with code of conduct, the company may need to choose better performing and therefore more expensive suppliers (Mont & Leire 2009, 394). A general problem for social and ethical issues is that both company and its suppliers have difficulties with imposing changes or checking the performance beyond the first tier suppliers. This does not mean that organizations do not recognize the possibility of problems upstream in the supply chain, but that they lack resources to address these potential problems (Welford and Frost, 2006; Mont & Leire 2009, 394).

3.6   Drivers in socially responsible sourcing

Although some researchers have experienced that the responsible procurement will increase the company's costs, others have found no relationship between CSR and firms' performance (Carter 2005, 180). Researchers found social responsiveness to be positively related to an organization's stock market performance. Possible explanations offered by the authors for these findings include improved relationships with important stakeholders such as banks, investors, and government agencies which can result in increased investments in these firms by shareholders. According to a FIBS corporate responsibility study (2014), 42 per cent out of 201 Finnish companies said they saved costs through responsibility and 40 per cent said they had increased sales by sourcing responsibly. Some studies have found that a company committed to socially responsible sourcing practices tend to perform significantly better than those companies which have not yet committed to socially responsible sourcing practices with a concern over increased purchasing price (Seong-Jong et al 2010, 490). Better supplier relationship may also occur through socially responsible purchases. Socially responsible considerations in the purchasing process have been shown to have a direct and positive impact on supplier performance measured by lead time, quality, flexibility, productivity, and efficiency (Björklund 2010, 344). Carter and Jennings (2002) study provides an interesting glimpse into the positive effects of purchasing social responsibility, showing that those firms which do this enjoy more fruitful buyer-supplier relationships and deeper commitment from the suppliers. Existing research has shown that supplier development efforts can result in improved supplier capability performance along the lines of improved quality processes and manufacturing process capabilities.

Social accountability in procurement stems also from the company's own values. According to Carter (2005; Mont & Leire, 2009,392), companies engage in socially responsible purchasing because "it is the right thing to do", but with the thought that these activities might not benefit organisational performance. Socially responsible purchasing is often presented as morally correct and as an activity linked to organisational pragmatism with regard to future benefits. In spite of free will, however, consumers are undoubtedly an increasingly important force that shapes the social responsibility of organisations. Also, an increasing number of business consumers – retailers – are also shifting their buying preferences towards suppliers that have proven track records of corporate social responsibility (Vassallo et al., 2008; Mont & Leire, 2009,391). United Kingdom being one of the example; since 1999, there has been three times more ethical shopping by UK

consumer. Sales in "ethical" food and drink, including organic, fair-trade, free range and freedom foods rose to £8.4 billion in 2013, 8.5% of all household food sales (see Figure 5.).
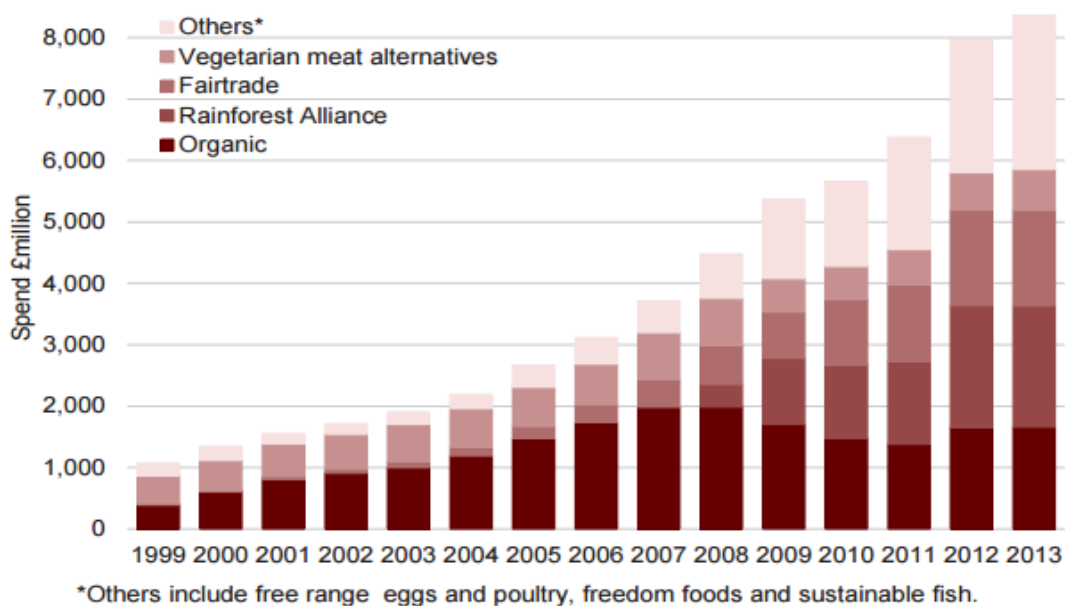

Figure 5. UK trend in sales of ethical produce (Food Statistics Pocketbook 2015, 21).

Following this change in consumer awareness, some companies have started to see socially responsible purchasing and CSR activities as a competitive advantage. The competitive advantage may also be translated into the possibility to improve supplier performance or find alternative suppliers, and thereby also find new sources of innova-tion, new marketing opportunities and improved production processes (Maignan et al., 2002; Mont & Leire 2009, 392).

In addition to the direct economic benefits, several companies have experienced that social responsible practices and strategies can provide competitive advantages such as improved employees' loyalty, motivation, and commitment to work (Fossgard-Moser, 2005; Schiebel and Pochtrager, 2003). Corporate commitment to certain values can help employees to find a meaning and purpose in their work, which can motivate em-ployees and increase the ability to attract and retain top talented employees. Employee satisfaction is also often strongly correlated to productivity (Björklund 2010, 582). Panapanaan et al. study found (2003, 139) that young Finnish professionals who are becoming more concerned about the performance of the company they would like to work with. It is therefore becoming hard for a company to attract talented people if the

company has a bad image and poor CSR performance. Similarly, Marsden (1996) pointed that socially responsible companies are much more likely to attract good recruits, grow and retain loyalty, be preferred suppliers, and be given the benefit of the doubt when things go wrong. Another key internal driver for all organisations is to maintain reputation (Fombrun in Doh and Stumpf, 2005; Mont & Leire 2009). They can do this by developing and implementing social responsible purchasing practices that help avoid risks to brand names and reputation, which are key intangible assets of organisations (Roberts, 2003; Mont & Leire 2009). This risk-averse behaviour of organisations has been classified as an internal driver for organisations, even though it is very much influenced by external forces such as stakeholders. One of the growing forces that shapes how organisations and companies do business is NGOs. Another group is the media which is increasingly gaining importance as a driver for including social issues in ongoing efforts of companies and organisations to improve existing purchasing practices (Mont 2009 & Leire, 392).

Avoidance of negative effects may motivate procurement to be "more sustainable" in many ways. Many studies indicate that legislation and public policy are major motivations for companies' sustainability efforts. Government legislation may include elements that will be sanctioned if they are not complied with (Gyöngyi et al 2011, 4). As noted earlier, Finnish companies are obligated to comply with the regulatory requirements set by the authorities. The Confederation of Finnish Industry and Employers is also seen as a driver that promotes the development of social responsibility in Finland. The Confederation has drafted a corporate responsibility agenda to its member industries (Panapanaan et al 2003, 139).

It is highlighted that the role of individuals is important (Gyöngyi et al 2011, 4). The company's management and owners are largely affected by the implementation of responsible purchasing through their own values. Managers at all levels play an important role in promoting social responsible purchasing by developing policies that explicitly outline the firm's desire to engage in CSR (Carter and Jennings, 2000). Senior managers can be turned on by a number of factors. Reducing risk, motivating the team, developing a good public image and improving performance in investors' eyes can all be as strong an attraction as bigger profits (Taylor 2005, 22). A study of drivers of social responsibility conducted by Salam (2009) suggest that top management leadership, individual values

of purchasing employees, and employee initiatives are all positively related to social re-sponsibility in purchasing. According to FIBS (2015) study, the most effective players in the implementation of responsible activities are the owners of the company.

3.7   Success factors leading to responsible sourcing

Researchers and practitioners have studied and implemented a number of reactive and proactive strategies to help corporations increase their social responsibility. Björklund's (2010) study shows different activities of how to improve corporate social responsibility in purchasing. Mentioned methods include, for example, usage of Code of Conduct, good communication between the parties, continuous evaluation of responsible operations, monitoring, reporting and documentation of the chain as well as rejection of irresponsible suppliers. Socially responsible logistics principles and practices are already to be found within large companies all around the world. Examples of such practices are the promotion of industry cooperative efforts, the rejection of suppliers who ignore issues that are concerned with social responsibility, and the promotion of socially responsible personnel.

Although reports related to corporate responsibility are voluntary, but if a company is engaged in responsible purchasing is absolutely important to periodically report about activities. Harmaala and Jallinoja (2012, 222) claim that reporting helps to reduce repu-tation risks as it allows a company to report important matters for each stakeholder group. Audit reports, or even the publication of the results is the most central way for stakeholders to get information about the functionality of systems, as well as to highlight any irregularities or inconsistencies in the business of communication with consumers (Finnwatch 2/2016, 14). As Berzau (2011, 139) claims, the dialogue with stakeholders is seen as an essential element of the CSR.

4   Socially responsible purchasing in food industry

Social responsibility appears to be gaining importance in the food supply chain due to not only the nature of the product as animal/plant based consumables that are required for existence but also the complex, labour intensive nature of food supply chains (Maloni and Brown 2006, 38). Food and grocery market is also one of the most competitive and customer focused in the world. Strong competition, coupled with a passion to delight the consumer, inevitably leads to intense pressure on all parts of the supply chain to perform

more efficiently, drive out unnecessary cost, add value, innovate and offer competitive prices. The pressures, issues and opportunities vary, and some overlap, depending on where in the supply chain companies are positioned (Bourlakis & Weightman 2008, 10).

The origin of food from growers, the purchase from brokers or food processors by distributors, wholesalers, retailers and consumers, the product itself, and customer demand all together create a complex supply chain (Chiang 2014, 42). As Figure 3 shows the food industry meets various challenges in implementing CSR. Non-Governmental Organizations and labourers have pressured companies such as Taco Bell to improve wage conditions among produce farmers (Prewitt 2002a, b; Terry 1983; Maloni and Brown 2006), while some food retailers have been targeted for issues with ''fair trade'' prices to suppliers. MacKenzie (2004, 43; Maloni and Brown 2006, 42) mentioned that many coffee bean growers are poor and even bankrupt because of the low supply price. These cases show that even though CSR aspects receive more attention, situations still occur in which companies fail to behave responsibly.

Just ten years ago, there was only a few examples of public reaction to supply chain CSR concern in the food industry, for example ''mad cow disease' 'and terrorist tampering that occurred due to a food retailer's lack of attention to a supplier's safety and security practices (Maloni and Brown 2006, 36). Now the growing concerns about CSR have motivated food industry to move beyond offering products and services with good value and to address social issues. The food industry is highly visible and important part of economy in many countries, and therefore social responsibility appears to be gaining importance. On a global scale, Finland is a small player in the food sector, but part of a big market area. The share of food industry of Finland's GDP was 13.2 billion in 2014 (Talouselämä 2014). More specifically, the food industry is the fourth largest industry in Finland (Finnish food and drink industries' federation). Like other countries, Finnish food retailers face challenges from many quarters. Finland's food industry enterprises' supply chains operate in a complex, dynamic, time-critical environment where product integrity is vital. There must be a high degree of certainty that foods will be of a certain quality. For many food business operators, responsibility is part of normal day-to-day work and management. Companies have been working to develop responsibility of the products and responsible purchasing for several years. Procurement includes a number of sustainable sourcing policies, inter alia, non-discrimination, as well as product-specific quality work and respect for human rights in risk country purchases. Figure 6 illustrates an example of a food supply chain. Finland's food industry supply chains consist of many

interrelated components for instance food producers, food processors, wholesalers, warehousing facilities, retailing, transportation and customers (Tuominen et al 2009, 41).
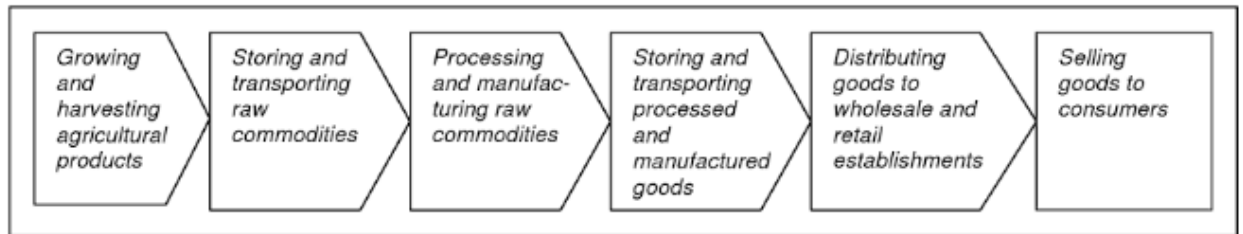

Figure 6. Example of a food supply chain (Levinson 2009, 2)

5 Results of Case studies

5.1 Role of CSR

CSR work plays an important role in all aspects of business development and it has been part of the *Company 1* and *Company 2* since the founding era. CSR manager of *Company 1* perceives that sometimes it is hard to distinguish responsibility from the entire business, because it is a built-in feature. In both companies, CSR is divided into different themes that create a structure for the responsibility work. These themes are for example customers, employees, environment and product safety. Responsible sourcing is only one of the areas of CSR and it has evolved over time, especially during the last decade. In Case companies, systematic development of CSR activities contributed to the creation of CSR communications, which began after the 2000s. CSR communication also includes informing about supply chain responsibility. Today, *Company 1* and *Company 2* have the need to address that they acquire responsibly respecting human and labour rights. CSR manager of *Company 1* believes that responsibility is not necessarily more important today than before, but the need for information has increased among company's stakeholders.

> Global news broadcasting has made people more aware of the living conditions of the developing countries. Now, people speak more about responsibility issues. *Company 1* is part of society and we have to be responsible of where raw materials are produced and by whom and under what conditions. Our obligation is to make progress in areas

> where we can. It is important that we are able to demonstrate that we act responsibly.

Responding to the expectations of stakeholders has contributed to the development of responsibility work throughout the value chain, including responsible sourcing. Companies' most important stakeholders include consumers, employees, suppliers, media and NGOs. Stakeholders are demanding traceability as well as actions to improve it. CSR manager of *Company 1* also emphasizes that their business customers face increased pressure from their customers.

> For our business customers (companies in wholesale trade), requirements for the implementation of responsible procurement are set by their customers. Their customers are interested in what products are purchased and from whom. When they are experiencing the pressure to act responsibly, obviously it has directed link to our responsibility actions.

Consumers are increasingly important force that shapes the social responsibility of organizations. Company 2 perceives that its responsibility is to ensure that products correspond to consumers' perception of responsibility. CSR manager of *Company 2* pointed out, that less than a decade ago, it was found that demand for responsible products had increased among consumers. On a large scale the importance of the origin of the product sold was understood, and the importance of accountability throughout the supply chain was understood. Due to increased demand, *Company 2* strives to provide consumers with the most responsible products and to be a pioneer for other companies in the industry. The company has increased the number of certified products and collaborated with Fair Trade.

> Sales of certified products has increased year by year. However, I do not know about the business benefit since we do not have indicators that ''responsibility'' increases sales/consumption. Our mission is to provide the most responsible products which corresponds to the consumer's perception of responsibility. The consumer may feel confident that we have a system which aims to improve supply chain transparency and human rights issues.

In order to ensure the growth of the business, companies have a desire to understand stakeholder expectations and respond to them. *Company 1* and *Company 2* must be at the cutting edge; where they should concentrate on responsible sourcing in the future. *Company 2* endeavor to participate in events organized by non-governmental organizations.

> We always try to participate in the events organized by non-governmental organizations. Opinions of NGOs are important. We have had a supplier workshops, involving non-governmental organizations, who told, among other things, what the company and its suppliers (who sells their products in Finland) should know about their supply chain. Events like this are important, our suppliers understand that it is not *Company 2* that requires responsibility criteria. Various stakeholders expect from our activities certain things, and we must be able to respond to their expectations. NGOs are one of the stakeholders. We are trying to bring the NGO perspective to suppliers, telling where these responsibility standards come from.

Companies take into account what kind of responsibility aspects arise in public discussion, for example in social media and in events organized by NGOs. Dialogue between organizations and stakeholders promote open communication and it enables companies to know where they have room for improvement. Another way to increase stakeholder dialogue is to conduct materiality survey. Materiality analysis is done on the basis of the survey, which enables companies to identify key CSR issues to stakeholders (see Figure 7.). A few years ago, both companies conducted comprehensive materiality survey, aim to find out what is expected of the company's CSR activities and in which area the company should focus within its responsibility activities. Based on the results of the materiality analysis, *Company 1* updated its responsibility work. *Company 2*, in turn, had already focused on the correct aspects of responsibility within its strategy.

> The survey was a good confirmation that we have focused on the right things within our strategy that are important to our stakeholders, too. We had not forgotten anything essential. One of the themes which emerged from the survey was human rights issues in responsible sourcing.
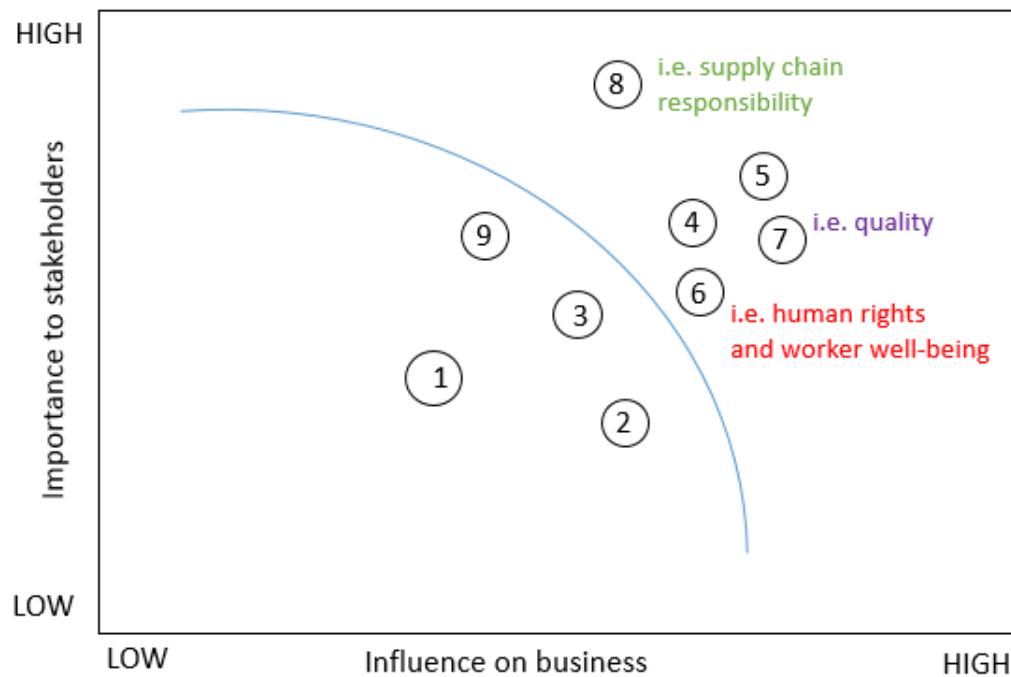
Figure 7. An example of the results of the materiality analysis, modified from Kuisma (2015, 176) diagram

Corporate responsibility activities are the sum of many factors and the pressure to act responsibly comes from many directions. Behind the acquisition of organic raw materials, however, is also company's own concern for the well-being of the environment. Environmental responsibility is important as it has a direct link to the company's opportunity to succeed in the future. CSR manager of *Company 1* mentions combating climate change is one of the motivators in responsible sourcing. The company's goal is to reduce carbon footprint in their own operations and also in the supply chain. In many regions, climate change has complicated the cultivation as well as everyday life of the farmers. Yields have fallen due to risen temperatures and unpredictable rains and drought. The most significant part of the environmental impacts arises at various stages of the supply chain of products, such as primary production of raw materials. The cultivation of raw materials generates emissions that increase global warming. From the perspective of *Company 1* CSR manager, responsible business practices ensure continuity and success of the company's operations in the long term. Responsibility is also an investment target, the aim of developing farmers' vocational skills. The objective is that farmers learn

to cultivate in good and sustainable methods, so that communities become stronger.

> When cultivated in sustainable methods, farmers produce a good harvest. A healthy environment and the community produce a good harvest. If a farmer works in a sustainable manner, usually also the quality of raw materials is better, thus farms are more profitable.

The CSR managers of *Company 1* perceives that the companies' values and way of working has been built from the beginning to provide products that are produced in a professional manner. *Company 1* has a strong brand image which consumers trust. Therefore, it has always been important to maintain consumers' confidence. In the past, quality of the raw material was the most important concept because in the past the company had no direct links with the countries of origin. Later, the company's staff began to visit the countries of origin, and pay attention to the working conditions of primary production when sourcing materials.

> Tracing the origins of the raw materials is important in order to prevent labour right problems, but it is also essential in terms of quality control. Problems of quality of the raw material usually indicates the production process problems, which in some cases may be due to poor production conditions and the shortage of professional skills. We cannot buy low-quality raw materials that do not meet the company's quality standards.

Traceability is part of both quality control and monitoring of ethicality. CSR manager of *Company 2* believes also, that there is a direct link between quality and responsibility. The manager perceives that the matter is not industry specific; in general, responsible companies produce higher quality products (than non-responsible companies). When the company's operating model becomes more responsible, product quality will also increase.

The most important motive for responsible sourcing and CSR is based on the *Company 2's* own desire to act responsibly. Needs and expectations of stakeholders have taken the responsible operation of the company forward, but *Company 2* has inner motivation to be responsible and act responsibly.

> We are the company that wants to act responsibly, and it is the starting point for responsible procurement. If we want to act responsibly in this sector, responsibility is an area in which we want to invest. In this industry, our role is to be a procurement company, because we do not have our own production. Since all products sold are purchased from external suppliers, supply chain responsibility is highlighted in our operations.

For *Company 1,* CSR is also important from an internal company perspective.

> If things are done well, it strengthens the company's image and it increases people's motivation to do their work well. In our recruitment, it has been noted that it is important for employees to work in a responsibly operating company.

5.2 Long supply chains complicate responsible sourcing

The meaning of responsible procurement practices and product origin information are increasingly important for the various parties involved in the companies' value chain. Long supply chains have created a challenge to the definition of responsibility; who has the responsibility to monitor the production chain of raw materials. As previously revealed, the companies task is to take responsibility for the surrounding societies in which their business activities affect. However, Case companies are small players in the industry and cannot alone change the world for the better. According to CSR manager of *Company 1*, monitoring of all parties involved in supply chain is impossible for one company. Supply chains extend to every continent, making monitoring time-consuming project. However, company rely on its suppliers.

> Alone we cannot do anything therefore we must cooperate with suppliers and other companies. It is the only way to promote responsibility.

Long-term supplier relationships are based on honesty and open communication. Suppliers are required to monitor the chain and inform if irregularities occur. Both *Company 1* and *Company 2* have a long history with their suppliers and the aim is to develop partnerships and thereby guarantee a good business environment for all parties involved.

Since supply chain monitoring is difficult for a single company, it is important to strive towards long-term supplier relationships. Other parties are also involved in taking responsibility message to the countries of origin. CSR manager of *Company 2* perceives that opportunity to influence (in terms of supply chain responsibility) is largest in their ''inner circle'', inter alia supplier collaboration.

> It is challenging to take the responsibility message as a single company to the countries of origin. In concrete terms, human resources are limited when there are hundreds of suppliers and producers. Food business operators from Nordic countries will go to present responsibility objectives and principles the countries of origin. By co-operating with other companies, NGOs and embassies we organize events addressing our responsibility targets. When the countries of origin sell their products to the Finnish market, our job is to tell what kind of expectations consumers have with regard to social/environmental responsibility. Through this type of projects, sending the responsibility message is possible.

In addition to cooperation with NGOs and other companies operating in the industry, supplier collaboration is also part of *Company 2*'s Purchase manager's everyday work. The personnel responsible for the acquisition will discuss the responsibility during producer visits.

> We seek to make responsible procurement as part of the everyday work of the contracting entity. When the contracting entities meet suppliers and producers, the goal is that the responsibility issues are a natural part of the conversation. This is the work that we do constantly, which will never be completed.

The main promoter of the discussions is the company specific Code of Conduct. The Supplier Code of Conduct is the foundation for both companies' purchasing practices sets minimum requirements that suppliers must respect and meet within their own operations and within their supply chain. These requirements are usually based on ILO Conventions on Workplace Practice and UN Global Compact. Companies suppliers have signed Supplier Code of Conduct, and Case companies require that suppliers control their supply chain. Suppliers also undertake to ensure that the principles are complied with. They should have practices to ensure that policies are followed in practice

> All suppliers are required honesty and open communication. All suppliers have signed Supplier Code of Conduct and they have a duty to tell us if problems occur and what corrective procedures are done. But if we find deficiencies, corrective action plan is developed and its implementation is monitored, explains CSR manager of *Company 1*.

There may be may have hundreds or thousands of farmers in the countries of origin. Therefore, companies strive towards long-term supplier relationships. In co-operation with other companies, *Company 2* began to consider whether there was a model or an organization within which the company could start to develop sustainable sourcing. After lengthy negotiations, it was decided to join the BSCI Community. Both Case companies evaluate Human rights risks related to procurement through BSCI's Countries Risk Classification and audits, but only *Company 2* is a BSCI member. According to BSCI Countries Risk Classification, ''high-risk countries'' include several countries from Africa, Asia and South and Central American and certain European countries.

Companies audit their suppliers themselves or third parties conduct the audits. *Company 1* and *Company 2* focuses especially on high-risk countries, but also ''low-risk countries'' which include Southern European countries such as Spain and Italy, which are known to use migrant labour. The audits include identifying what methods suppliers have when monitoring responsibility in its operations. The CSR manager of *Company 1* explains that the company's own employees audit suppliers, with the purpose to increase company's understanding of the responsibility. If the audits were carried by third-party representatives, *Company 1* would miss out a lot of information regarding responsibility work. In the future, however, the purpose is to increase third-party audits, because company's own resources are limited for audits. CSR manager of *Company 2* perceives that audits made by the company's staff are not comparable to accredited auditors' audits. Purchasing manager's visits in primary production can give a general indication whether there is something to worry about. However, on the basis of staff's observations, purchasing relations will not break even though there would be a proper reason. A third-party perspective is mandatory.

> Supply Chain Mapping defines certain targets that are audited. The target may be a farmer or a supplier. Since we are a member of BSCI community,

auditing firms decide without the effect of *Company 2* where audits are carried out. Generally speaking, there is always room for improvement, even if the results of the audits are in accordance with criteria (BSCI). The monitoring plan is reviewed with producers and suppliers, and during the following year follow-up audits are made. On case by case basis, the auditing firms decide whether to conduct new audits or not, depending on the results of follow-up audits.

5.3   Labour and Human right issues

The less familiar the company is with the primary production, the more difficult it is to intervene in the human right issues. Due to an increase in the global food trade, food companies must consider the complexity of the food supply chain to ensure responsibility. *Company 1* and *Company 2* monitor human right issues in their supply chains through audits and by visiting supplier's facilities and farms. Audits examine whether the suppliers and producers are truly committed to the company's Code of Conduct. Despite some advances, companies still have many labour issues which make the realization of socially responsible sourcing difficult. Most common labour problems include low pay, poor working conditions, labour migration and child labour which stems from weak supervision of national law and the attitude of the local communities. There are many underlying reasons for the usage of child labour, but CSR manager of *Company 2* points out that cases have decreased. CSR manager of *Company 1* mentions that they have observed the use of child labour. Although company's code of conduct prohibits child labour, purchasing relationship between supplier and *Company 1* has not ended despite the use of child labour.

> Children of farm workers' do not always have the opportunity to go to school or organized day care, explains CSR Manager of *Company 1*. However, even if farm workers have been offered the possibility of day care, they may fear that their children will be kidnapped. The safest option is to keep children with their parents in the farm. Sometimes the problems are related to the traditional culture of the countries and attitudes of people. Parents do not necessarily want that their child become wiser and, therefore, do not invest in their children's education.

CSR manager of *Company 2* mentions that they have not come across cases of child labour, but they cannot guarantee that it does not exist in their supply chain. The company visits regularly human right organizations and local producers in countries which are known to utilize child labour, for example Southern African countries.

> What we have heard, child labour may occur so that the whole family is involved in the cultivation work, explains CSR manager of Company 2. The industry is, however, highly competitive and price sensitive in the world, to which is invested a lot. As a result, producers have a financial interest in ensuring that they have things in order. If the reputation is ruined by child labour issues, brand image cannot be repaired. Failures can have negative impacts on the companies' reputation and therefore have financial effects.

Interviewees pointed out, that most typical human and labour right issues are related to occupational safety, working conditions and salary matters. When discussing about examples, CSR manager of *Company 2* mentioned chemical substances is not treated properly, or if damage occurs, first aid is not available. Sometimes during high season it is typical that employees work over the maximum weekly working hours. As a result, a reasonable compensation for the work done creates a challenge. The CSR manager of *Company 1* mentioned that sometimes problems are whether all employees have the employment contracts. During rush time heavy objectives have been found in front of the emergency exit. Due to these reasons, auditors visit farms during harvest time because problems are known to occur most commonly at the time of urgency. Also, during the rush time farms are known to utilize outside labour the most. The use of seasonal workers is not prohibited, but they need to be guaranteed the same rights as permanent employees. Both companies have noticed the trend of the use of temporary labour.

> CSR manager of *Company 2* explains that when it comes to salary matters, the trend is the use of recruitment agencies. Seasonal workers have to some extent replaced producers' own employees. For this reason, it is essential to guarantee seasonal workers the same rights and benefits as the producer own employees.

The question arose whether the purchase relationship has ended because of possible detections, CSR managers said yes. In both companies, however, these cases have concerned producers who have refused to audits. Often, cooperation is used to solve

problems. CSR manager of *Company 1* notes that there are less problems in big farms, where also the law is obeyed and farming is a technology-intensive.

Companies are trying to accomplish an improvement of working and living conditions in developing countries. One way to promote the realization of human rights is through certificates, which impose certain environmental and ethical standards for producers. The certificate is awarded to producers and cooperatives which operates in accordance with the certification standards. Since both Case companies have increased the number of certified products, the question arose whether a certificate guarantees better conditions for farmers than non-certified products. The CSR manager of *Company 2* noted that the matter is controversial. Even if the certificate is not necessary, *Company 2* wants an external objective opinion, and thus the credibility and support. It is important to be able to tell customers that the company makes an effort on behalf of i.e. human right issues.

> There is no right answer, depending on how critically you examine. We, however, perceive that certifications are made by a third party. Certificate indicates that everything is proven to be all right and therefore we can tell it to our customers with a good reason. When purchasing certified products, consumer can feel confident that this product has been produced responsibly.

Company 1 has also increased the amount of certified and organic products in product portfolio due to increased demand. CSR manager perceives that certifications are one of the best way to increase social responsibility in primary production, but there is no "foolproof system". Certification does not guarantee that everything would be in a perfect condition. Confidence in a third-party monitoring has led to disappointment, since audits and certification systems' criteria have not always guaranteed the decent working conditions.

> We have sourced raw materials from certified farms and subsequently NGOs observed the use of child labor. We thought that things were all right, because those were certified farms. So, certification does not guarantee that everything is in order. We appreciate the objectives of the certification systems such as Fair Trade. However, when we talk

about poor countries where people do not have anything, in despera-
tion, they make all kinds of things. Therefore, we cannot turn a blind
eye in such cases, CSR manager of *Company 1* explains.

5.4 Raw material traceability

Traceability of raw materials is also essential in terms of human rights issues. In order to
intervene any violations, one must know where the raw materials come from. Raw ma-
terial traceability throughout the supply chain has become a major issue for both *Com-
pany 1* and *Company 2*. When raw materials are purchased outside of Europe, supply
chains are inevitably very long. Both companies explain that not only length of supply
chain creates challenges for the realization of responsible procurement but also frag-
mentation of farmers and their large number.

> Traceability is foundation of all our activities; if we do not know where the
> raw material comes from, we do not have any chance to make a difference
> in working conditions of primary production. If we are able to trace, we can
> take appropriate action whether it is about quality problems or human right
> issues. If our supplier operates in Europe it is not enough for us, because
> the origin of the raw material extends to i.e. Africa. Our main objective is
> that all the raw materials are traceable. However, logistics chains are long
> which bring difficulties. Tracing raw materials is still a challenge, because
> raw materials are mixed with each other in the production chain. Final prod-
> uct may consist of 10-15 different raw material components, explains CSR
> manager of *Company 1*.

Although *Company 1* traceability figures are high and the company is proceeding on
schedule, there is still work that needs to be done. The company's aim is that all the raw
materials are traceable in the future. Traceability is a part of risk and quality management
in the supply chain. The company has its own interest to know better where the raw
material comes from, inter alia, in order to avoid quality risks. Poor quality, such as
mouldy raw material, generally tells problems in primary production. The more compa-
nies know about the origin of the raw materials, the easier it is to ensure the functionality
of the supply chain, and to solve any problems in it. However, due to long supply chains,
identification of raw materials may be difficult. For both companies interviewed, the in-
vestigation process is very laborious and requires time and resources, but the work is

proceeding. Tracing is still a challenge, because the finished product's raw materials are mixed in the production chain. In some cases, this may be due to trading methods since raw materials can be sold at auction, where the raw materials are mixed with each other.

> In certain product groups, the fragmentation of the supply chain makes the traceability almost impossible. The final product may consist of hundreds of raw material components. It is not always possible to trace the origin of a particular raw material and for this reason it is also impossible to trace the working conditions, CSR manager of *Company 2* explains.

Company 1 CSR manager wonders whether that even makes sense that the raw material is traced up to the level of cultivation.

> Sometimes it is difficult to reach farm because of poor infrastructure. Countries, where farmers are organized and the cultivation farms are large, traceability work is easier. But the question is: does it even make sense that the raw material is traced to the growing level when we talk about small farms from whom we buy small volumes? Raw materials can be easily traced to a particular geographical area, but sometimes at the area of 50 kilometres may have thousands of small farms.

However, CSR manager adds that in a large scale, which includes all the companies in the industry, *Company 1* has a very good situation in terms of traceability due to long relationship with suppliers. However, even if the companies commit the supplier to act in accordance with the Code of Conduct, in practice, there is always room for improvement. Internal cooperation of the industry and audits are a step forward, but they do not solely guarantee product responsibility. In order to ensure accountability of raw materials, *Company 1* and *2* concentrate their purchases with responsibility verified and certified raw materials and products. *Company 2* perceives that awareness of responsibility has increased and simultaneously understood how much more needs to be done. Within the company is now discussed whether Company 2 should provide additional benefits for producers that operates particularly in a responsible manner. However, CSR Manager emphasized, that responsibility work will never be finished, it is a continual development work.

6   Conclusion

The aim of the study was to find out what are problem areas associated with social responsible procurement, and what factors motivate businesses to purchase responsibly. Based on the thesis results, companies have many tools for supply chain bottlenecks reduction, but CSR work priorities and objectives vary between companies. Businesses are expected to operate legally as well as responsibly. While society expects businesses to obey the law, social responsibility goes beyond legal requirements (Grant et al. 2013,183). Earlier literature has identified number of factors affecting implementation of responsible sourcing (Carter 2005; FIBS 2014; Björklund 2010; Mont & Leire, 2009) and what problems rises with it (Thomas et al 2016; Kuisma 2015; Mont & Leire 2009). Panapanaan, Linnanen, Karvonen and Phan stated already in 2003 that Finnish companies are progressively managing social responsibility. Economic and environmental dimensions have been explored extensively in many business cases and academic researches. On the other hand, the social dimension has not been as widely discussed. The growing interest in the social dimension of business sustainability have constituted a new area of concern in many Finnish businesses.

The study identified number of drivers affecting adoption of socially responsible practices in purchasing. One of the key drivers for companies to source socially responsibly is to meet the expectations of various stakeholders. The importance of responsibility has grown globally; consumers now have increased visibility into supply chain practices through digital media. Purchasing from the developing parts of the world has increased stakeholder interest in corporate social responsibility activities. Companies have the responsibility of labour and human right issues as well as health of the environment. Consumer purchasing behaviour has changed towards more responsible behaviour. Both Case companies mentioned the growing consumer interest in ethically produced products. Other Finnish companies have also noticed the increased sales by sourcing responsibly (FIBS 2014). The demand for ethically produced products has also grown in other countries, for example in UK (see Figure 4.). Both Case companies have accepted responsible sourcing also as a precondition for their business activities. For *Company 1*, responsibility has been fundamental part of the business since the founding era, although responsible sourcing as a concept has changed its shape over time. Responsibility is not only essential to external stakeholders but also to internal stakeholders, namely the company's own staff. Employees are increasingly interested in working responsibly operating

company. The same finding is supported by Panapanaan et al's study (2003) which addressed that it is becoming hard for a company to attract talented people if the company has a bad image and poor CSR performance. *Company 2* also highlighted its own internal desire to be responsibly acting company, and thus lead the way for other companies.

Although scientists have not reached a consensus on what social responsibility means, Case companies understood the concept as taking care of the surrounding communities. Companies' sphere of influence extends far beyond and their task is to take care of i.e. farmers in the countries of origin. It seemed, however, that responsibility as a concept is challenging in the sense that it is difficult to measure. Neither of the CSR managers could not say whether the companies have achieved competitive advantage or other business benefits through responsible procurement. As CSR manager of *Company 2* noted that it is difficult to say what reasons have increased the sales of certified products. *Company 2* does not have any indicators that tell whether responsibility increases sales / consumption of consumers. Increased consumption of certified products is probably the result of many factors. The previous literature has also found some similar observations as Korhonen noted (2003) that responsibility is a difficult concept due to one can never really measure it. Companies engage in socially responsible purchasing because it is the right thing to do, but they also understand that responsible sourcing, might not benefit organizational performance (Carter 2005; Mont & Leire, 2009,392). It seemed that it is also difficult for Case companies to measure and quantify responsible sourcing efforts, since most factors in this area are qualitative; the farmers live a better life when human rights are guaranteed. CSR manager of *Company 1* noted that responsible sourcing is an investment objective, the purpose of which is to develop farmers' skills which ultimately result in better quality of raw material. Therefore, *Company 1*'s business advantage is the improvement in the quality and thus avoidance of quality problems which, ultimately, reduces costs.

Together with drivers, internal and external motivators, was also identified barriers that make the implementation of socially responsible purchasing difficult. Both companies interviewed for the thesis are struggling with the same problem areas when discussing implementation of responsible procurement. Main problems identified in the field of responsible sourcing were related to traceability of raw materials which are due to long supply chains. For Case companies the traceability of raw materials is not only important in terms of health and food safety, but also to verify the level of primary production working conditions. Aspects and impacts of entire supply chains need to be managed, since

suppliers' performances affect the buying organization's performance and reputation. Business activity in high-risk countries is overshadowed by the fact that in these countries is known to infringement of rights at work, mainly due to minimal supervision of national legislation. The research shows that it is difficult to ensure that all suppliers in the supply chain confirm to the code of conduct. *Company 1* mentioned certifications have not guaranteed decent working conditions for farmers. Certificated farm was thought to be most responsible option until the non-governmental organizations indicated otherwise.

It can be concluded that even the best organisations with a fully-fledged system for socially responsible purchasing are not immune against negative media attention. Nevertheless, companies still rely on their supply chain partners. Interesting finding was that, even though *Company 1* Supplier Code of Cunduct sets out conditions for suppliers to promote responsibility, purchasing relationship has not ended, even as a result of the detection of child labour. Based on this it is possible to conclude that the use of responsible standards is still not effective. CSR managers of *Company 2* said that they have not encountered child labour cases, but they cannot guarantee that such cases do not occur in their supply chains, even though the company is a member of the BSCI. Interviewees explained that child labour may not occur as a physical work, but it may be that children are accompanied by their parents in the crop fields. A separate challenge is in those countries where the social responsibility issues, such as child labour, is provided for in the law, but people tend to act differently than what is stated in the law. Outlining the components of child labour, some researchers have noted that agriculture has the largest child labour force, and with compensation often based on productivity, many children will work alongside their families in the field (US General Accounting Office, 1992; Maloni & Brown 2006, 43.I).

As previous scientific studies have revealed, primary production control is often very difficult, if the farm is located far away from a developing country. The problem is not only typical for Finnish food business operators. When operating globally, resources are not always enough to monitor all parties in the supply chain. Lack of resources is a contributing factor why supply chains are not yet fully responsible. As the interviews showed that both companies do not have enough time and resources to monitor all parties involved in the supply chain. Companies would like to engage in a high level of acquisition but they are not always able to do so. The lack of resources makes it difficult to acquire

information from upstream processes (raw material producers). In addition to child labour, most typical Human rights issue are problems with remuneration and collective bargaining.

According to the interviews can be regarded as positive and encouraging signs that the understanding of the importance of corporate responsibility in today's business is at a good level and they also intend to make practical steps in this regard. It is clear that companies have many issues to manage in order the supply chains are one hundred percent responsible. Purchasing relations with suppliers changes as well as suppliers' working conditions cannot be monitored around the clock. As the Case companies cannot self-monitor all raw material producers, they have outsourced responsibility monitoring to different types of certification and verification system. For responsibility to be truly effective, entire supply chain, not just individual partners, must operate in a responsible manner. Implementing responsibility strategies requires firms to have a sound understanding of social impacts of the production as well as consumption of their products and services. For this reason, *Company 1* conduct the audits by themselves in order to increase own understanding of responsibility. *Company 2* believes a third-party audit are the best way to verify the responsibility in the supply chain. Some researchers believe that companies cannot guarantee that the farms meet the requirements of the international Labour Organization, unless the companies make their purchases in a third party certified/audited farms. In order to supervise the working conditions of primary production, the company must act in cooperation with other companies in the industry. Lindgreen et.al (2002,148-150) believes that responsibility could not be achieved by the actions of a single firm. The same opinion was shared by the CSR managers of *Company 1* and *Company 2* who recognize the limitations of their impact on a large scale.

Companies are involved in collaborative projects with the aim to take responsibility messages the countries of origin and thus improve supplier collaboration. CSR managers were unanimous that responsibility work is overall a process which will never be ready. In order to create true responsibility, all functions within a firm must operate in such a way as to ensure the wellbeing of employees of primary production. Traceability of raw materials can be influenced by better management of the supply chain, to raise the quality and safety of products and product differentiation in a competitive market. Additionally, consumers will benefit from increased information of retail products, and food companies can gain from enhanced supply chain capability, reduced recall costs, and specialized

marketing of food with subtle differences (Golan et al., 2004; Maloni and Brown 2006 42).

6.1   Development proposals for responsible procurement and future research

When examining the problems of the social responsibility procurement, the question arose; how Finnish food sector could improve the current state of responsible procurement? On the basis of this research, even for people working with the issue the question is difficult. Companies must constantly develop their responsible activities. CSR manager of *Company 2* mentioned implementation of IT systems that allow the utilization of data collected from supply chains as efficiently as possible. Development of information systems could improve responsible behaviour and at the same time reduce costs.

Companies should also focus on how to encourage suppliers to act more responsibly. The UN's Global Compact initiative encourages businesses worldwide to adopt sustainable and socially responsible policies, companies' task is to encourage suppliers to adopt same policies in their operations. *Company 1* and *Company 2* should consider whether it would be appropriate to provide an additional advantage for suppliers who operate especially responsibly. However, if the companies have committed to guarantee non-discriminatory criteria for all their suppliers, this may be difficult to implement in the short term. If the added financial benefit would increase supply chain responsibility, this would be worthwhile to consider. The States can also contribute responsible sourcing by adopting laws. As Kuisma (2012, 23) stated that promotion of fundamental labour rights is the primary responsibility of the State. Public sector entities represent major purchasing power and influence, especially in Finland (Finland's Ministry of Economic Affairs and Employment 2013, 8).

Companies who are not yet engaged in a systematic development of responsible sourcing, should come up with incentives to make firms embrace social responsibility in their supply chains. As more firms embrace responsibility, it will become even more difficult for firms to resist, if supply chains are made entirely transparent in this regard. However, there is still a long way to go before the concept of sustainable purchasing becomes mainstream concept within Food sector.

In future studies, the problems of responsible sourcing should be analysed in more detail, as this study focused only on two food business operators in Finland. Further research

is needed to consider how effectively overcome barriers related to responsible sourcing. It would still be necessary to make the same kind of research and scientific study on a wider scale with a bigger sample size. Interviews could also include the purchase managers' opinions in order to obtain the broadest possible spectrum of opinions when determining problem areas. Also, the extension of the investigation to another industry would create an interesting comparison between two industries. By comparing the results of this study and the study from other industries, it would be possible to find ways to promote a responsible way of thinking and course of action.

As problem areas, motive factors for responsible sourcing should be examined on a larger scale, too. When it comes to motivators, companies have more than one reason why to commit responsible sourcing including both ethical and economic ones. Since the study, however, did not find whether the companies gain any business benefits from responsible sourcing, it would be an interesting subject for further research. If there would be a clear evidence of business benefit of responsible sourcing, this would affect in a positive way the implementation of a responsible procurement on a large scale.

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8   Appendix (1)

Interview structure to the case companies

1. How social responsibility is reflected in practice in your company's purchasing work?

2. What do you think are the biggest challenges of responsible procurement today from the perspective of your company?

3. What kinds of challenges do you think relates to trace the origin of the raw materials and the responsibility certification?

4. How does your company in practice trace the origin of the raw materials?

5. What social accountability certification does your company use and why?

6. What are the factors that set requirements for the implementation of responsible procurement?

7. What factors motivate your company to act responsibly in procurement?

8. To whom sustainability reporting is aimed at and why?

9. Has the company achieved business benefits through responsible procurement?

10. Has the purchase relationship to the supplier never broken as a result of the detection of possible instances of maladministration?

11. How does your company aims to increase the transparency of the supply chain?

12. What are the responsible procurement areas that your company has still room for development?

13. How does your company intends to develop the responsibility of the procurement in the future?