

Control and Coordination of Suppliers in MNEs

Case: Hennes & Mauritz (H&M)

Case: Company X

Lahti University of Applied Sciences

Degree Programme in International Business

MOCHALOVA, KSENIA: Control and Coordination of suppliers in MNEs

Bachelor's Thesis in International Business, 37 pages

Autumn 2017

ABSTRACT

The aim of this study is to examine how international enterprises control their business partners and particularly their suppliers in order to manage their outsourced activities. To conduct this research the following two case companies were selected: the case company H&M and the case company X. The study aims to answer the question: how international companies control their suppliers and which way of control is the most effective nowadays.

The theoretical background will be introduced first to give an understanding of the importance of having effective control over outsourced suppliers and secondly to specify what type of control exists in MNE-supplier relationships.

The data was collected from the interview with the case company's X representative, academic books as well as the scientific articles and company's official reports.

The study shows the way of applying the effective control system and highlights the importance of having the Code of Conduct and cooperation with auditing programs.

Key words: MNE, control, outsourcing, MNE-supplier relationship, supplier control, H&M

CONTENTS

1	INTRODUCTION	4
1.1	Background of the research	4
1.2	Objectives of the research and research questions	5
1.3	Research methods	5
1.4	Research limitations	7
1.5	Structure of the thesis	7
2	THEORETHICAL PART	9
2.1	Outsourcing	9
2.1.1	The meaning of outsourcing	9
2.1.2	Advantages and disadvantages of the outsourcing	10
2.2	Control Process	10
2.2.1	Process of controlling	11
2.2.2	Establishing standards	11
2.2.3	Measuring performance	12
2.2.4	Taking corrective action	13
2.3	Three basic types of operational control	14
2.3.1	Preliminary control	15
2.3.2	Screening control	15
2.3.3	Post-action control	15
3	EMPIRICAL PART	17
3.1.1	Case Company H&M	17
3.1.2	Case Company X	17
3.2	Control Process in Case companies	18
3.2.1	Preliminary Control and Establishing Standards	18
3.3	Screening control and measuring performance	19
3.3.1	Full Audit Program	19
3.4	Post-action control and taking a corrective action	21
3.5	A partnership approach	22
3.6	Suppliers factory management system	23
3.7	Outsourced wages	24
3.8	Global Framework Agreement 2015	24
3.9	Selecting suppliers and establishing standards	25
3.10	Controlling Process in Case Company X	25

3.11	Measuring performance	26
4	DISCUSSION	27
5	CONCLUSION	30
5.1	Outsourcing and control process	30
5.2	Key findings and answers	31
5.3	Validity	32
5.4	Future research	33
	REFERENCES	34

1 INTRODUCTION

1.1 Background of the research

Nowadays, it has become a common practice for multinational enterprises (MNEs) to operate in a host country while transferring manufacturing activities to suppliers in developing countries. Foreign production provides an opportunity to benefit from low-cost skilled labour force and raw material availability and thus allows companies to focus on their core competencies and creates a competitive advantage by reducing costs and maximizing profits. (Paik, Kwon & Chen 2017, 20-23.)

When MNEs turn the management and control of production to the third parties, they are dealing with the issues of the environmental performance of their business partners. For instance, suppliers are mostly interested in making profits from the service that they provide, and may not consider the norms and values of the client organization (Spence 2017, 4). This becomes increasingly challenging for MNEs to control an environmental integrity of the third parties and to convince them to follow their values and visions. The most common issues that companies face while outsourcing overseas are related to poor working conditions, low wages, and child labour force. Consequently, the reputation of MNEs may be affected negatively if anything regarding the supplier's unethical behaviour becomes known to customers or society. (Paik et al. 2017, 46-48.)

The study area examines the ways of controlling suppliers in multinational companies. It is worth investigating as oftentimes companies are in big trouble with their suppliers because of lack of control over them. Even though outsourcing has been an area of studies that dates back over 20 years, MNEs are still struggling today with the environmental issue. People can still read in the newspapers today about MNE's that do not pay enough attention to the way their suppliers operate, and this has consequences for the MNE's when the issues are brought up in media. (Spence 2017, 4-6.)

Two successful multinational companies were chosen for the case study and one of which had some issues with their suppliers in the past. To conduct this research, the author studied the actions that case companies took towards their suppliers and examined what improved in a way of choosing and controlling them.

1.2 Objectives of the research and research questions

The objective of this thesis is to achieve a better understanding of the research topic and to examine how multinational enterprises (MNEs) can control their suppliers in order to have responsible supply chains. By investigating what are the tools companies use when they control outsourced activities in the supply chain, the author hopes to find the most effective way to manage the environmental performance.

The study aims to answer the following research question: What is the most effective way of controlling the environmental performance of suppliers?

1.3 Research methods

In order to conduct this research, the author uses case study as a qualitative research method. A case study is a method in which the researcher is able to investigate a phenomenon in natural settings. Experience of the actors involved in the case helps the researcher understand the motivation behind the actions of subjects, to analyse conditions of those actions and what specific circumstances affected these happenings. After all, it might be guidelines for others: using a case, researcher may explain the phenomenon and how it would be better to act in those specific circumstances. (Gagnon 2010, 2-5.)

For this research two multinational companies were chosen as case companies. Carrying out a research about these two organizations helped the researcher understand what kind of processes happen when

companies select and control their outsourced suppliers in an international environment. During the study, the author got a deeper understanding of the reasons why companies act in a particular way in certain situations. In the research two main questions arise: “How do they practice control?” and “Why they do so?” While studying these two case companies, the investigator was able to understand the phenomenon of what kind of problems occur and how companies act to prevent those problems.

In order to study which way Company X controls their suppliers the author selected a semi-structured interview data collection method. Semi-structured interview means that interviewer prearranges key questions, which help to describe the areas to be discovered, but they have an ability to follow a different direction in order to explore the topic in more detail. (Gagnon 2010, 61-65.)

The investigator organized an interview with Company X supply chain managers during the internship in this organization in summer 2017. Prearranged questions were sent to Company X's representatives in advance so that they had an idea what will be asked. The conversation was recorded on an electronic device and analysed afterward. During the interview, the company's managers told the author about the process of choosing and controlling their suppliers. The author believes that this method of collecting the data about Company X is the most suitable way of gathering information as there is no available data on the Internet.

The information about the case company H&M was collected from their official website, annual reports and sustainability reports. The author figured out which year company had issues with their suppliers, analysed and compared reports before and after the accidents happened. This way of collecting and analysing data allows the author to get understanding what has changed in the way of controlling the environmental performance of their suppliers and how the case company H&M coped with the issue of lack of control over them.

1.4 Research limitations

The data collected in this work is limited to what information is found on the official website of H&M. The limitation in the research question has an impact on what information is used and excluded in the empirical findings, and since the findings are from the H&M website, there is a risk of exaggerated information.

Information about Company X was obtained by making an interview and observing the company's official website. The data collection is limited to what information company's representatives provided and what was found from the official website.

In addition, for this study only two companies were chosen and there is a risk that results would not be applicable for all other multinational companies that operate differently.

1.5 Structure of the thesis

The structure of this research study consists of both theoretical and empirical parts. Each part is followed by the relevant subchapters. The structure of the thesis can be seen in Figure 1 as follows:

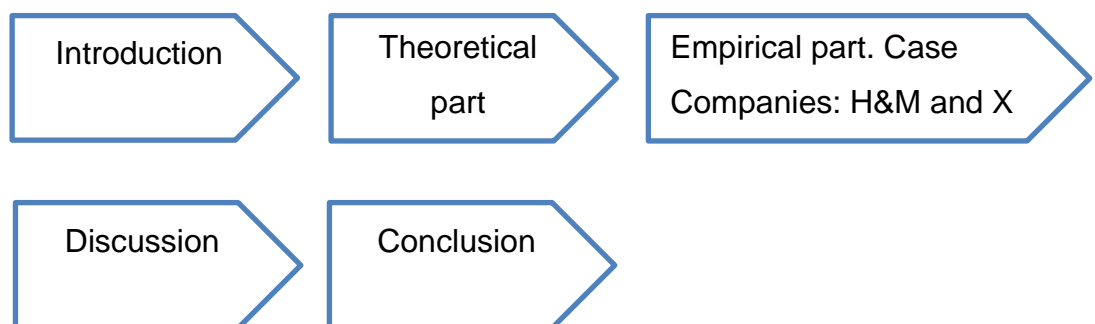


FIGURE 1. The structure of the thesis

This research study consists of five different parts. The aim of the first part is to familiarize the reader with the research background, its purpose and objectives as well as to define what a research question this study aims to answer and which research method was selected to conduct this study. The purpose of the second chapter is to explain the theory, based on which the research was conducted. It starts with explaining how outsourcing may affect the control system of the organization and what are the advantages and disadvantages of turning control of some activities to the third parties. Also, after reading the second part the reader becomes familiar with the meaning of effective control system, different types of control and various steps in the control process.

The third part consists of empirical data. The aim of this chapter is to introduce and analyse two case companies as well as to give a clear image of what kind of control the case companies apply towards their suppliers and what specific actions they take to cope with the environmental issues in their supply chain. In the fifth chapter the author gives a conclusion and answers the research question: What is the most effective way of controlling the environmental performance of suppliers? In addition, the fifth chapter presents the information about reliability and validity of conducted study as well as the suggestions for further research.

2 THEORETICAL PART

2.1 Outsourcing

2.1.1 The meaning of outsourcing

Outsourcing is one of the major business strategies that multinational enterprises actively use at present time. In order to reduce costs and maximize profits, companies transfer the production function to other organizations, which are usually located in less developed countries with low prices of raw material and cheap labour force. Despite the fact that outsourcing allows companies to cut their costs and focus on their core activities, there still exist many negative impacts on the organization. (Paik et al. 2017, 2-7.)

While MNEs turn the management and control of the production to other companies, they should be aware that their suppliers may have other standards and visions. For instance, outsourcing companies are mostly interested in making profits from the service that they provide, and may not consider the norms and values of the organization they supply. This becomes an issue as the reputation of the MNE may be negatively affected if anything regarding the supplier becomes known to customers or society. (Spence 2017, 4-6.)

Outsourcing can be defined as an important business process that provides significant help for the multinational corporations to achieve a competitive advantage. It allows reducing time and costs on production by using external suppliers' services as well as to evolve from daily routines and focus more on value-adding functions such as marketing activities. In this process, MNEs need to guide their suppliers on how to perform their business activities, by paying attention on creating and maintaining good relationships with the suppliers as well as monitoring the results of the performance. (Greaver 1999, 3-6.)

2.1.2 Advantages and disadvantages of the outsourcing

While MNEs transmit a part of the functions to the outsourcer, they gain an opportunity to concentrate more on the core business of the organization. Due to outsourcing, MNEs have an ability to distribute and invest previously involved resources of the organization into the core business activities. Usually outsourcing services are less expensive compared to the company doing the task itself. Therefore, in a competitive marketplace, success is assured to organizations that can conduct their business in the most efficient manner: reducing costs and maintaining high quality of products and services. (Paik et al. 2017, 10-12) In addition, organizations are able to reduce the number of employees within the organization and thereby save costs. At the same time companies get better performances of individual functions in the organization using specialized firms (Markeeva 2017, 3-5). However, due to the outsourcing, companies face new challenges. Since MNEs outsource in countries which have cheap labour force and less developed human rights standard, it becomes very difficult for the MNEs to control them in an appropriate way (Spence 2017, 7). Loss of management control over production and over suppliers generates reduction in flexibility and increased costs (Markeeva 2017, 4). Moreover, it becomes very difficult to persuade suppliers to operate according to MNEs standards and visions, as the suppliers are mostly interested in making profits from the service that they provide, and may not consider the norms and values of the organization To avoid the risks, MNEs should have a high standard of supplier control that prevents high dependence on suppliers' performance and help to create long term relationships with competent suppliers. (Spence 2017, 5-7.)

2.2 Control Process

There are many definitions of control or controlling, but the common feature is that the managerial function of control consists of a comparison of the actual performance and the planned performance. If the executive functioning of the object does not conform to the set standards of the

organization, the control system identifies the reasons for the errors and provides a guideline that allows managers to take corrective steps if they are not following the right path. (Aquinas 2007, 144.)

2.2.1 Process of controlling

Multinational enterprises need an effective control process in order to ensure that all activities in each key area are consistent with the organization's objectives and established standards. Often the result of using effective control system is having better quality of product or service as well as a possibility to feel confident that the resources invested abroad is used appropriately. As MNEs make large investments in different foreign countries, it is important to have a control that helps to deal with change and uncertainty in an efficient manner. Applying effective control systems allows large organizations to minimize costs and prevent possible mistakes from occurring. In fact, if the organization is in an expansion phase, and becomes larger with time, there is a greater chance of mistake, as the organization gets a huge number of employees and is in need for more raw material sources. Thus, the larger the organization is, the greater is the need of effective control and coordination, because the cost of errors is enormous. (Smit 2007, 387-388.)

However, different organizations need to apply different types of control systems. All such systems follow the same basic process that can be represented as three basic steps: establishing standards, measuring performance and taking a corrective action. (Aquinas 2007, 145-146.)

2.2.2 Establishing standards

The first step in the basic concept of control is defining certain standards that the organization desires to achieve in each key area (Aquinas 2007, 149). The control standards are used as criteria against which final results of the performance will be measured (Barnat 2014). The standards have to be clear, precise and emphasize the achievement of final results by

conforming to rules. This step in the control process enables the suppliers, or other target units, to understand what the organization expects from them. It is essential that MNEs determine the objective in a comprehensible way, so that suppliers themselves have an ability to check their performance. Moreover, established standards have to be flexible and adaptable to the changing environment (Aquinas 2007, 149-150).

For instance, the large organizations may have certain standards such as Code of Conduct, Sustainability Commitment, Working Conditions and other rules that determine the goal of organization, in which they state the way that they prefer that their products will be produced in. The main standards concern five aspects such as quality, quantity, time cost and behaviour. (Barnat 2014.)

2.2.3 Measuring performance

Measuring and comparing actual performance against established standards allow the organization to identify the degree of variation between actual performance and established standards (Barnat 2014). Measurement of the actual performance might be consisting of direct observation, reports and using special audit programs (Aquinas 2007, 150). The next step after the comparing results is determining the reasons for deviation. In this phase organizations examine whether the deviation is caused because of external or internal changes (Barnat 2014). Well organized control systems allow the MNE to quickly evaluate the actual performance of suppliers, figure out the extent of variations and immediately take the actions for correcting errors (Smit 2007, 391). But sometimes, it is very difficult to compare e.g. behavioural standards of suppliers with their actual behaviour (Barnat 2014).

2.2.4 Taking corrective action

After checking the reasons for deviation, the organization determines if there is a need for corrective action. In this final step of the controlling process, organizations choose one of the three following options:

Organizations may not take any action, or decide if there is a need to correct actual performance or revise the established standards for minimizing future deviations in the performance. The organizations maintain the status quo and do not take any action, in cases where there is no need for corrections as the performance matches the established standards and the variances between them are too small. (Barnat 2014.)

In cases, where activities of the target unit are not performed according to the organization's plans i.e. the standards are not met and there is big deviations from established standards, managers should identify the reasons for that and quickly take a corrective action. (Aquinas 2007, 150.)

Before taking any actions, managers check and ensure that the set standards for the performance are still relevant for the future and were established in a comprehensible way. If the organization identify that standards are not relevant, they revise the earlier instructions and that allow preventing the deviation in the future. (Smit 2007, 391.)

If the established standards are still relevant and the problem is in actual performance, then managers must decide on the action to take for correcting performance. Usually, the reasons for deviation must be identified before the action can be taken. The reasons for the big variances between the established standards may be that the wrong strategies were selected for the achieving organization's goals, or that the organization set unrealistic standards and objectives. (Barnat 2014.)

The general areas for taking corrective actions are:

- Revising standards. If the reasons of deviation are because the established standards are not relevant to the selected strategy. (Barnat 2014.)
- Revising the objectives. If established standards deviate because of external factors such as the changes in environmental conditions, then the objectives must be more flexible and adaptable.
- Revising the strategy. If the strategy becomes inappropriate because of external changes, the organization should take corrective action to change the strategy.
- Revising activity. In addition, managers can revise the organizational structure and activity. Revising activity is possible by providing the target unit with additional training and other incentive programs, as improved scheduling, replacement of personnel or for instance to choose other suppliers for manufacturing. (Barnat 2014.)

2.3 Three basic types of operational control

There are three basic types of operational control which companies use. These types are presented below:

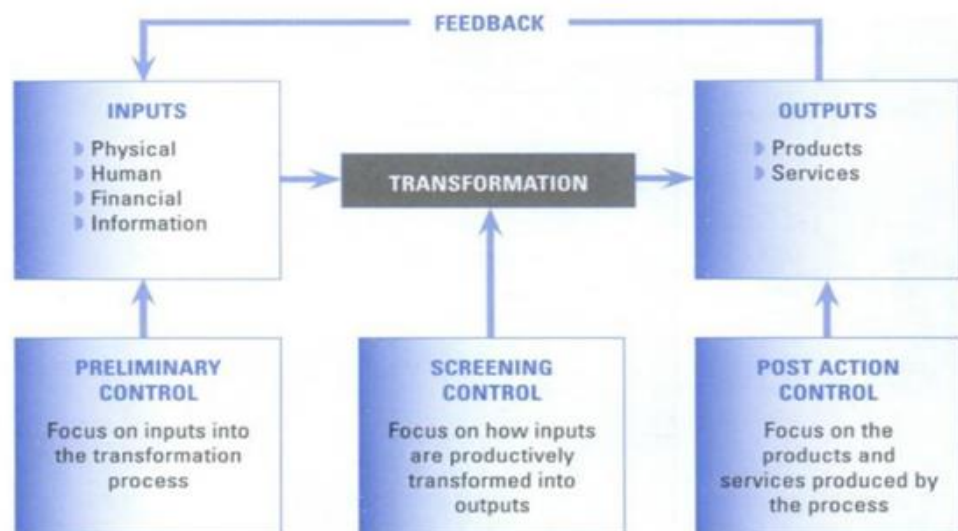


FIGURE 2. Three basic types of operational control. (Smit 2007, 404)

2.3.1 Preliminary control

Preliminary control or feedforward control is the most desirable type of management as its purpose is to prevent mistakes from occurring rather than solving them after the action is completed (Smit 2007, 403-404). Applying this type of control the organization is able to ensure that the inputs meet established standards during the transformation or manufacturing process (Barnat 2014). Therefore, it allows managers to detect deviation as well as to take a corrective action in a timely manner before the sequence of action is completed (Smit 2007, 403-404).

2.3.2 Screening control

Future-oriented control or screening control is an action taken when the activity is in progress and resources are transformed into the products or services (Barnat 2014). Using this type of control, organizations check out whether the activities give correct results and conform to the established standards (Smit 2007, 404). Therefore, it gives an opportunity for the MNE to take corrective action before the job is done. The organizations measure the results during the performance, make an analysis and foresee the problems. Future-oriented control works as a warning system and involves an analysis during the manufacturing process (Aquinas 2007, 151). Thus, the organization has an ability to decide if there is a need for taking corrective action immediately, or whether they should to continue the progress or stop producing goods (Barnat 2014) for instance, to finish the relationship with some of suppliers who does not work according to the plan (Smit 2007, 404).

2.3.3 Post-action control

Post action control is regularly used by the MNEs when the other controls are not achievable (Barnat 2014). The control process focus on measuring

results after transformation or manufacturing is complete (Smit 2007, 404). This type of control focuses on analysing mistakes or successes which are made in the past (Aquinas 2007, 151). Moreover, by using the post action control, managers have an ability to improve the planning process as they get the feedback on whether the planning process was effective enough (Barnat 2014), and how much variances there is between the established standards and actual performance (Smit 2007, 404). Thus, the MNEs can use the valuable information for future planning in more effective way as well as to develop an appropriate strategy for future behaviour with similar circumstances based on the previous experience (Smit 2007, 404-405).

3 EMPIRICAL PART

3.1.1 Case Company H&M

Hennes & Mauritz AB (H&M) is a Swedish multinational clothing company. It offers a wide selection of women's, men's and children's clothing as well as cosmetics and home textiles. The company was established in Västerås, Sweden in 1947 and headquartered in Stockholm. Since the start of the company in Västerås it has grown and now offers several brands. These clothing brands are H&M, COS, Monki, Weekday, Cheap Monday as well as & Other Stories and ARKET. H&M has a strong global presence and is now present in 69 countries with more than 4,500 stores and around 161,000 employees all over the world (H&M Group 2017, a).

The reason for choosing H&M as a case company is its strong global presence and the fact that it does not own any factories itself, but rather outsources the manufacturing in many dispersed countries, mostly in Europe and Asia (H&M Group 2017, b). Having over 1.6 million people working in the supplier factories, H&M strives to improve the human rights for those affected in the supply chain (H&M Sustainability Report 2016, 92-93).

3.1.2 Case Company X

Case Company X is much smaller than the case company H&M enterprise. It is the leading company within the welding industry. It was founded in 1949 and now has over 600 employees and subsidiaries in 15 countries. Last year the company reached 110 MEUR revenue and delivers their products to 70 different countries, which makes this company especially interesting to study because of their international experience.

In contrast to the case company H&M, the Company X produces the welding equipment itself. It has around 200 constant suppliers from whom they order components for their equipment. In addition, during the one

year they make one time purchases approximately from 350 different suppliers from whom they order just one time. Approximately 55% of their constant suppliers are located outside of Finland and 10% of these suppliers are located in Asia. Therefore, they have the same but less volume risks with low human rights standards policies in developing countries.

3.2 Control Process in Case companies

The following part explains how case companies use different types of control in practice.

3.2.1 Preliminary Control and Establishing Standards

Before starting a relationship with suppliers, H&M and Company X establish standards or so called minimum requirements based on which suppliers would be checked. If suppliers meet minimum requirements, they sign the Sustainability Commitment and Code of Ethics. (H&M Sustainability Report 2016, 99-101.)

H&M wants to act in an ethical, transparent and responsible way. It has therefore developed a special commitment with strict requirements that should be followed by the suppliers. Between 1997 and February 2016, these strict requirements could be found in the H&M Code of Conduct, but since February 2016 it has been replaced with the Sustainability Commitment. The Sustainability Commitment is a set of specific standards and strict requirements for the suppliers, and works as a basis for making the supply chain of the organization more sustainable. It is mandatory to sign the Sustainability Commitment for any supplier before starting a business relationship with H&M. (H&M Sustainability Report 2016, 99-101.)

The commitment is based on two levels of performance: fundamental and aspirational. The fundamental level focuses on compliance with the law

that includes protection for workers, the environment and animal welfare. The aspirational level of performance shows that H&M wants to go beyond compliance with legal requirements and focus on continuous improvements. (H&M Sustainability Report 2016, 99.)

After signing the Sustainability commitment, suppliers have full training days where they learn how to work with H&M and follow its visions and values. During the training H&M provide their suppliers with detailed information about the sustainability policies, issues and requirements. (H&M Sustainability Report 2016, 103.)

3.3 Screening control and measuring performance

In the Sustainability Commitment H&M provides the suppliers with information about the performance evaluation. For an effective measuring the performance, mutual trust and transparency are critical in their relations with business partners. In the Sustainable Commitment, H&M describes the way of evaluating the performance of the suppliers. In order to have an effective performance evaluation, H&M retains the right to request the performance data from suppliers and to visit the production facilities without notifications. Also, the organizations of which H&M is a member of have the ability to check the performance of the suppliers. To enable the performance evaluation be an effective, business partners should inform H&M of locations of the facilities where goods and services are produced. (H&M Sustainability Commitment 2016.)

3.3.1 Full Audit Program

H&M uses external companies for screening their outsourced factories. Suppliers have to agree with and sign the sustainability commitment and live up to the H&M values. Before accepting a new supplier factory as a business partner and during the working process, auditors visit the places where their products produce and investigates whether or not the requirements are lived up to. (H&M Sustainability Report 2016, 103-105.)

Monitoring of the suppliers helps to ensure that they are following the standards set in the sustainability commitment. Besides regular monitoring, H&M tries to help the suppliers further. In the commitment there are minimum requirements that new and existing partners have to commit to. Some of these regard:

- Forced, bonded, prison and illegal child labour and young workers
- Working hours
- Fair living wage and benefits
- Use of chemical
- Health and safety

(H&M Sustainability Commitment 2016).

The existing suppliers are also monitored and evaluated based on their sustainability performance. H&M can give all the suppliers a score, which can help them to improve their performance (H&M Supplier Compliance 2017). As an example, suppliers with a trade union representation are being rewarded with higher scores (H&M Group 2017, c).

By the Full Audit Program (FAP), H&M does head audits and follow up audits via the production offices. More than 100 employees work with the monitoring to ensure that the suppliers live up to the Sustainability Commitment. The head audits involves evaluation of the factory, management, interviews with workers, examination of company files, like timetables and wage records. When the evaluation is done, the results are discussed with the factory management and the factory has to come up with a correction plan that will later be checked on by follow up audits. The follow up audits are to make sure that the improvements set up are being followed and to make the supplier understand the importance of implementing the changes necessary. An audit cycle usually lasts for 18-24 months and involves one head audit followed by three follow up audits. In FAP, the H&M presence in the factories also involves activities like workshops and training. (H&M Sustainability Report 2017, 99-105.)

FAP is conducted with the help of 200 questions in addition to physical inspection of the factories, interviews with the top managements and simple employees as well as documents checks. The audit program not only concerns the first tier suppliers' factories but also the second tier suppliers' factories such as fabric and yarn mills. Even though H&M does not have direct business relations with the latter, they still judge it necessary to examine their environmental performances and encourage them to improvements of their performances. (H&M Supplier Compliance 2017) They demand full transparency of the source and information about the fabric and yarn that are involved in at least 50% of their production (H&M Sustainability Commitment 2016). The organization was accounted for one the first in fashion industry to publicly expose information about their suppliers, they furthermore decided to disclose that of their second-tier suppliers and believe that transparency is the key to encore their partners to improve their performances in terms of sustainability. (H&M Sustainability Report 2017, 102.)

3.4 Post-action control and taking a corrective action

H&M puts a lot of effort to make sure that its strategy is implemented and the performances of their suppliers conform to established standards. Checking the performance of established standards requires different follow-up methods. When non-compliance of suppliers were discovered and their activities are not performed according to the organizations plans, The Global HR Team or local business function react immediately by taking a required action and checking the implementation of the action. (H&M Sustainability Report 2016, 90-92.)

H&M Company set a responsible manager per each policy or standards who checks the implementation and relevance of these standards. If it was figured out that the policy or standards are not relevant, they revise them for making sure that there is not deviation between set standards and performances in future. (H&M Sustainability Report 2016, 90.)

H&M believes in strong long-term relationships with the suppliers. This means that although a problem with a supplier occurs, H&M want to remain the business partnership. But only if the supplier is willing to offer an action plan in order to improve its performance. This approach is said to allow the suppliers to be more open with H&M and increased their ability to help the suppliers make improvements and better understand the benefits of being a good employer (H&M Sustainability Report 2016, 90). H&M also puts a lot of effort and resources to improve the working conditions in the manufacturing chain. It makes investments to strengthen the workers' rights and to make sure that the suppliers have a dialogue with their workers. Wages are one of the challenges in the supply chain as it affects the entire industry. H&M often handle this issue by cooperating with other stakeholders. Among others the Fair Wage Network, an organization that monitors wage levels globally in this industry. (H&M Sustainability Report 2016, 103-106.)

3.5 A partnership approach

As mentioned above, H&M believes in long-term relationship with their suppliers and make sure it's based on mutual benefits. They are aware that the standards and conditions that they establish and fix to their suppliers can sometimes be hard to accomplish, especially when they are dealing with new suppliers. However, they think that ending the relationship because of non-compliance from their suppliers is an easy fix. They would rather help them understand what the rules and regulations are prior for them to sign the commitment and then help them develop how they can live up to it. H&M promotes to educate their suppliers, and do so by showing the example. They do not only expect their supplier to be in tune with their sustainability commitment but they help them achieve it by setting standards to themselves. "We need to ensure that our purchasing practices enable our suppliers to live up to our demands, for example, by providing reasonable lead times, fair pricing, timely payments and transparent communication" they explain that in doing so they allow their

suppliers to better plan their production and use of capacity and therefore avoid any rush that could result in overtime hours for workers which is one of the issues that H&M wants to solve through their sustainability commitment. (H&M Sustainability Report 2016, 84-87.)

3.6 Suppliers factory management system

H&M focuses on how they can help their strategic suppliers those they know they can develop a long-term relationship with to avoid or overcome their non-compliance with their sustainability commitment. They do so with what they call their “suppliers factory management system” that consist of training sessions and workshops to improve the factories sustainability performance. H&M believes they would need to go beyond just monitoring their suppliers and their factories in order for these improvements to happen and what is needed for that is a sense of engagement. The organization wants for their suppliers and the employees in the factories regardless of if they are owned by the suppliers (first-tier) or subcontracted (second-tier) to be engaged in the inquiry of sustainability performance. “In the long run, we want our suppliers to take charge of their own sustainability” H&M encourages their suppliers to develop their own management system and capacities compatible with the sustainability commitment. They call it the “supplier ownership”. They also ensure that they raise awareness among factory employees by educating them on their rights and how they can claim if not respected. They as well advocate for better wage structure and engage governmental bodies and trade unions to help them influence the public policy in regards of minimum wage level. The organization have seen improvements in their suppliers’ performances since taking these monitoring and support measures and admit it helped them in their auditing processes: “We have seen many supplier improvements resulting from these efforts and we have now audit stages of our products’ life cycle further back in our value chain”. (H&M Group 2017.)

3.7 Outsourced wages

Since the manufacturing is outsourced, H&M does not own any factories and is thereby not in charge of paying wages to the workers in the factories. In the Sustainability Commitment, H&M has set standards regarding minimum wages that the factories they do business with have to sign in order to ensure that the workers get paid. The issue of wages is also handled by H&M cooperating with other stakeholders. Among others, the Fair Wage Network, an organization that monitors wage levels globally in this industry (H&M Group 2017) and the Fair Labour Association performs reviews of wages in 200 H&M factories around Asia (i.e. in China, India, Cambodia and Bangladesh). By cooperating with other large clothing companies in Bangladesh, they work together to persuade the Bangladeshi government to increase the minimum wages for the textile workers within the country. H&M also cooperates with the International Labour Organization (ILO), to improve the working conditions in the global garment industry (H&M Group 2017).

3.8 Global Framework Agreement 2015

In November 2015, H&M signed an agreement with Industrial Global Union, the world's largest trade union organization, together with the Swedish trade union IF Metall. It is an incentive that will help improving the rights of the workers in the supply chain of H&M. In the press release, Karl-Johan Persson, the CEO of H&M, states that industrial relations like collective bargaining are of great importance in order to improve the working conditions in the H&M supply chain. Although H&M already has an ongoing work with such issues, he says that H&M believe that this collaboration will help to create stable sourcing markets (Industrial 2015).

The agreement includes promoting dialogue at the factory level, meaning that the employees and employers are to handle conflicts peacefully where they arise in the supply chain. (H&M Sustainability Report 2016, 74.) Additionally, it will also set up national committees that will monitor and

ensure that the agreement is followed. The national monitoring committees will act in countries like Cambodia, Bangladesh, Myanmar and Turkey (Industrial 2015).

A global framework agreement is negotiated between trade unions and companies. The aim is to set standards on workers' rights from trade unions regardless of the current standards in the particular markets. In this agreement the parties will put an effort into making employers and employees sign collective agreements and H&M will ensure that its direct suppliers respect human rights and allow trade union rights in the factories. The workers will have the right to refuse unsafe work and workers' representatives will not be discriminated. Finally, they will educate management and union representatives in workers' rights, employers' responsibilities, and collective bargaining agreements as well as in conflict resolution. (Industrial, 2015.)

3.9 Selecting suppliers and establishing standards

The Company X focuses on the long-term relationship with their existing suppliers. Therefore they select their suppliers very carefully and not often. As the supply chain manager said: There should be an important reason for choosing new suppliers. It might be a technological need or a huge cost pressure.

3.10 Controlling Process in Case Company X

The Company X's manager highlights the importance of having Code of Conduct and Purchasing Agreement when cooperate with their constant suppliers. They established a common standards according which they could evaluate their suppliers and take a corrective action when is needed. Their Code of Conduct consists of common requirements about sustainability performance of suppliers. However, when it concerns one-time buying, the Code of Conduct is no needed as there is no need for the long relationship.

When Company X has a potential supplier, it sends the managers to make the supplier evaluation. Those dedicated people check the facilities, environmental performances and all the required certificates. In addition, it is very important to see the references from the bigger customers of the suppliers as bigger companies have more sources for evaluating them.

If the supplier fulfils all of the criteria, they sign a purchasing agreement and Code of Conduct.

3.11 Measuring performance

They monitor suppliers by checking quality numbers, number of reclamations as well as supply performance and cost efficiency. But also one of the important things is the ease of cooperation. In case if they have suppliers in markets with big national differences, they ask dedicated persons to be responsible for monitoring the facilities of suppliers and their performances.

Even if the Case company X has long term cooperation with its suppliers, they check the agreements once a year and reclamation level every week.

4 DISCUSSION

As it can be seen in the findings, H&M approaches its suppliers in terms of controlling in different manners and mainly according to what they want the outcome to be. It is clear that the organization seeks for long-term business relations with the suppliers that is explained by the fact that they outsource their manufacturing activities entirely, and therefore rely entirely on them. It's in their interest to develop business relations that are based on mutual benefits and trust.

H&M is one of the leading companies in fashion industry that offer affordable clothes and retail in over 3,900 stores. If good quality and affordable prices were once customers only criterion, they are also aware of the importance of environmental sustainability and tend to be careful when purchasing and thus put pressure on retailers such as H&M. MNEs outsource most of their activities to foreign markets located for the most in countries that are not well informed and aware of the significant concern around the inquiry of sustainability, so that MNEs need to initiate their suppliers to it.

The company, H&M, has since 1997 established rules and regulations in accordance with the respect of environmental sustainability. It has first developed the so called code of conduct and then improved it and replaced it with the sustainability commitment. As explained in the theory section, the sustainability commitment is sets of restrictions and standards that any business partners, in particular suppliers, of H&M has to adhere to if they intend to do business with the organization. H&M from the beginning exposes its standards to every supplier and makes sure that they understand what are the exact standards the organization has set and how important it is to respect them and perform in accordance to them.

Suppliers can find these set of standards in the sustainability commitment, the standards consist of minimum requirements that every supplier has to confirm with absolutely no exception. It includes absence of child labour,

non-usage of certain chemicals, full communication and information about factories to name a few. Suppliers take a look at it and decide whether or not they can follow these standards. If they think they can, H&M runs a series of inspections at the suppliers' factories and checks if the standards can be accomplished or not by the supplier (preliminary control). Once the company's auditors evaluate the supplier "apt" they are able to sign the sustainability commitment and enter into a relation.

By establishing standards, H&M determines its objectives and goals. In this case, the company lets the supplier understand their sustainability concern from the start, and thus only accept to enter a business relation with those they think can live up to their objectives. The company selects its suppliers depending on whether or not it has the characteristics that H&M demands (control on suppliers characteristics). At that stage, H&M knows it shares the same objectives and goals with the suppliers and that helps the company to eventually influence the behaviour of the suppliers by setting support and incentive programs to improve their sustainability performance.

In this case, H&M develops many of these programs with its suppliers depending on what is needed to be improved. The company promotes programs that can improve suppliers to manage their factories effectively and helps these factory workers to be aware of their rights. Through these incentives, suppliers improve their performance overtime, which can result in trust and better information flow and transparency, which in turn, can help the company control and monitor them easily and in further processes, which the company itself admitted in their report. (See above)

Once a supplier begins doing business with H&M, they are constantly monitored via a performance measurement program. The program is called Full Audit Program and consist of questionnaires as well as physical inspection. With this program the company measures the level of compliance of the suppliers with the sustainability commitment, meaning

how well suppliers perform according to the standards. It is measured with the ICoC index and takes on a scale of 1 to 100.

The company often finds that some of the suppliers do not reach the level of compliance that is needed. Its response to the non-compliance is often analysing reports, interviewing managers and employees of the suppliers factories and other documents that suppliers have communicated to understand where the mistakes are coming from and looking for ways to take corrective actions so that they can upgrade their suppliers level of compliance in the future (screening and post action control).

By setting precise standards and monitoring the compliance level and rewarding the good performance the company is able to avoid any uncertainties coming from the supplier's side that would have likely occurred. In fact if these standards are not in place, suppliers would probably act opportunistically and therefore care less of the other parties' interest. But now that the organization made sure that there is minimum requirement test, they can avoid any uncertainty about entering into business relation with an outsider.

5 CONCLUSION

This chapter concludes the findings and results of the research providing key points and answers to the research question. The author evaluates the reliability of the study and gives recommendations for future research.

- Theoretical framework proposes preliminary control as the most desirable type of management in MNEs
- The study highlights the importance of having preliminary control and establishing standards before starting working with suppliers (supplier selection based on minimum requirements, signing Code of Conduct, various trainings)
- Screening control and measuring performance by using Audit Programmes, visiting facilities of suppliers during their performance, suppliers self-evaluation of their performances and suggestions for the improvement
- Post action control and taking the corrective action to analyse the performance of suppliers and to figure out what has to be changed in establishing standards

5.1 Outsourcing and control process

Outsourcing has now become a popular and useful way for multinational enterprises to operate in foreign markets. Foreign production provides an opportunity to benefit from low-cost skilled labour force and raw material availability and thus allowing companies to focus on their core competencies and creating a competitive advantage by reducing costs and maximizing profits. (Paik et al. 2017, 20-23.)

In some cases outsourcing can bring issues to the companies because of lack of control and coordination on the company's behalf. Mostly companies are dealing with the issue of environmental performance of business partners and face problems like poor working conditions, low wages, and child labour force. So the main research area was to figure out

the ways of controlling suppliers in order to avoid the before mentioned problems. The purpose of the thesis was to answer the main research question, which was: What is the most effective way of controlling the environmental performance of suppliers?

5.2 Key findings and answers

Outsourcing and control process were studied in the theoretical part. It was possible to get a good understanding of outsourcing, its advantages and disadvantages. Also, theory about control processes has given a great base of knowledge which helped to understand and analyse case studies.

Measuring and comparing actual performance against established standards allow the organization to identify the degree of variation between actual performance and established standards (Barnat 2014). Measurement of the actual performance might be consisting of direct observation, reports and using special audit programs (Aquinas 2007, 150).

According to the empirical part of the research, the case companies have dedicated people who visit facilities of their suppliers and evaluate their performances. H&M has used external companies and special audit programs for evaluating their suppliers and reacting on deviation between actual performance and established standards. The Company X also has highlighted the importance of checking the references from bigger customers of their suppliers as they have more resources to evaluate suppliers.

After checking the reasons for deviation, the organization determines if there is a need for corrective action. In this final step of the controlling process, organizations choose one of the three following options:

H&M establishes minimum requirements before starting the relationship with its suppliers. Then the dedicated people evaluate the suppliers in

terms of requirements and decide if they are met. If suppliers meet minimum requirements, they sign the Sustainability Commitment and Code of Ethics. After signing the Sustainability commitment, suppliers have full training days where they learn how to work with H&M and follow its visions and values. During the training H&M provides their suppliers with detailed information about the sustainability policies, issues and requirements. (H&M Sustainability Report 2016, 103).

The first step in the control process is defining certain standards that the organizations desire to achieve in each key area. The case companies set rules and minimum requirements for their suppliers by using Code of Conduct or Sustainability Commitment. Those requirements which are mentioned in the Code of Conduct are used as criterias against which final results of the performance are measured. By Signing a Code of Conduct suppliers have an ability to understand what the organization expects from them.

It is essential that MNEs determine the objective in a comprehensible way, so that suppliers themselves have an ability to check their performance. According to the investigation, MNEs have dedicated people who are responsible for establishing standards for their suppliers as well as monitoring the implementation of these standards and making them relevant.

5.3 Validity

To conduct the theoretical part of the research, the information was gathered from books, journals and trusted digital sources. The empirical part is based on both primary and secondary data, which gives credibility to the work. Also some of the information is taken from official companies' reports to support the theoretical part. In addition, notes were taken during the interview and the author recorded interviews in order to be able to provide the correct data. Thus, the results of the research can be applied

to other multinational enterprises which consider improving their control systems.

The research study is reliable as the information is actual and truthful, and it is possible for future researchers to describe the phenomena in a similar way. The findings of the research study are generalised and are applicable for the similar cases.

5.4 Future research

The study focuses mainly on suppliers in fashion industry. The author suggests to examine what are the tools of controlling suppliers exist in other industries.

REFERENCES

Electronic sources:

- Aquinas, P. 2007. Principles of Management and Organizational Behaviour. New Delhi: Bharathiar University [accessed 26 October 2017]. Available at: <http://www.scribd.com/doc/23267475/Principles-of-Management-and-Organisation-Behaviour#scribd>
- Barnat, R. 2014. Strategic Management: Formulation and Implementation [accessed 20 September 2017]. Available at: <http://www.strategic-control.24xls.com/en100>
- Gagnon Y. 2010. The Case Study as Research Method: A Practical Handbook. The University of Quebec [accessed 1 November 2017]. Available at: https://books.google.fi/books?id=ouTW4b7WInUC&printsec=frontcover&source=gbg_summary_r&cad=0#v=onepage&q&f=false
- Greaver, M. 1999. Strategic Outsourcing: A Structured Approach to Outsourcing Decisions and Initiative. New York: AMACOM [accessed 1 July 2017]. Available at: <http://web.b.ebscohost.com/aineistot.lamk.fi/ehost/ebookviewer/ebook/bmxlYmtfXzMxNjFfX0FO0?sid=b63b787f-0b77-438c-a7bc-365380ff772f@sessionmgr101&vid=0&format=EB&rid=1>
- H&M Group. 2016, a. H&M Group Sustainability Commitment [accessed 13 October 2017]. Available at: https://sustainability.hm.com/content/dam/hm/about/documents/en/CSR/Sustainability%20Commitment/Sustainability%20Commitment_en.pdf
- H&M Group. 2016, b. H&M Group Sustainability Report [accessed 12 November 2017]. Available at: http://about.hm.com/content/dam/hmgroup/groupsite/documents/masterlanguage/CSR/reports/2016%20Sustainability%20Report/HM_group_SustainabilityReport_2016_FullReport_en.pdf

H&M Group. 2017, c. H&M Group at a Glance [accessed 10 August 2017]. Available at: <http://about.hm.com/en/about-us/h-m-group-at-a-glance.html>

H&M Group. 2017, d. How we report [accessed 1 November 2017]. Available at: <http://sustainability.hm.com/en/sustainability/downloads-resources/about-our-reporting/how-we-report.html>

Industrial Global Union. 2015. Industrial Global Union and H&M sign global framework agreement [accessed 19 November 2017]. Available at: <http://www.industriall-union.org/industriall-global-union-and-hm-sign-global-framework-agreement>

Markeeva, G. 2017. Dilemma of a Choice of Outsourcing and Insourcing in Practice of International Business [accessed 23 October 2017]. Available at: <http://nf-innovate.com/content/files/sn/cn1-13/cn4-13/%D0%9C%D0%B0%D1%80%D0%BA%D0%B5%D0%B5%D0%B2%D0%B0%20%D0%93.pdf>

Paik, Y., Kwon, J. & Chen, D. 2017. Global Business: Connecting Theory to Reality. Routledge [accessed 18 November 2017]. Available at: https://books.google.fi/books?hl=en&lr=&id=mzIIDwAAQBAJ&oi=fnd&pg=PP1&dq=Global+Business:+Connecting+Theory+to+Reality&ots=djZl0fy6jI&sig=ZiU2X9t4nryS7-3CHQTdAsO8JCK&redir_esc=y#v=onepage&q=Global%20Business%3A%20Connecting%20Theory%20to%20Reality&f=false

Smit, P. 2007. Management Principles [accessed 19 July 2017]. Available at: https://books.google.fi/books?id=rInm6bNmn9AC&printsec=frontcover&dq=A+Contemporary+Edition+for+Africa+management+principles&hl=en&sa=X&ved=0ahUKEwjv0vGx5N_XAhXMHJoKHaFeBp0Q6AEIJzAA#v=onepage&q=preliminary&f=false

Spence, M. 2017. No more excuses: responsible supply chains in a globalised world. The Economist Intelligence Unit Limited [accessed 19

November 2017]. Available at: <http://growthcrossings.economist.com/wp-content/uploads/sites/47/2017/07/EIU-SCB-RSC-WP.pdf>

Oral references:

Supply Chain Manager. 2017. Company X. Interview 12 July 2017.