

Corporate Social Responsibility and Ethical Sourcing: Implications for Global Supply Chain Management

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Abstract

Corporate Social Responsibility (CSR) and Ethical Sourcing have become very important Strategic Initiatives for companies doing business globally. Growing Globalization, increasing awareness among stakeholders, and expanding concern about environmental and social issues has caused companies to consider incorporating Sustainability and Ethics into their Supply Chain Management. The purpose of this Research Paper is to examine the Role of CSR and Ethical Sourcing in enhancing Transparency, Customer Satisfaction, Operational Sustainability and Organizational Reputation in Global Supply Chains. This Study will be a Secondary Research Analysis of existing Literature, Industry Practices, Case Studies of Multinational Companies (i.e., Nike, Nestle and IKEA), etc. In addition, the Paper will identify how Ethical Sourcing contributes to Fair Labor Standards, Environmental Protection, and Sustainable Procurement Systems; and analyze the impact of Government Regulations/International Guidelines and ESG Frameworks in guiding company conduct. Additionally, the Study will outline the Main Challenges experienced by businesses when Implementing CSR Programs including: Complexity of the Supply Chain, Compliance Costs, Lack of Supplier Disclosure, Weak Enforcement Mechanisms in Developing Economies. Finally, the Study will discuss the Expanding Influence of Conscious Consumers and Investors whose preference is to support Businesses that are Ethically Responsible. Ultimately, the Findings indicate that companies that successfully Integrate CSR and Ethical Sourcing into their Business Strategies can achieve Long-Term Competitive advantages through increased Customer Trust, Enhanced Stakeholder Relationships, and Increased Brand Equity. Therefore, it can be concluded that CSR and Ethical Sourcing are No Longer Optional Business Activities but rather Essential Components of Sustainable Global Supply Chain Management. Thus, businesses must adopt Transparent Technology-Driven Collaborative Approaches to Ensure Responsible Sourcing and Long-Term Business Sustainability.

Keywords: Corporate Social Responsibility, Ethical Sourcing, Global Supply Chain Management, Sustainability, ESG

Introduction

Globalization has expanded rapidly in the last decade and changed the way businesses operate around the world today. Global supply chains have been developed by modern business organizations with high levels of interconnectivity between partners involved from production to distribution across multiple countries.

Globalization has created new economic opportunities but it has also raised concerns about labor exploitation, environmental damage caused by unethical procurement practices and lack of transparency within these global supply chain systems. CSR/ ethical sourcing are now essential elements of modern business strategies for many organizations today.

Corporate Social Responsibility refers to an organization's obligations to perform its duty in a sustainable and ethical manner while contributing positively towards society and the environment. CSR is extended beyond profit making activities and includes obligations towards employees, customers, suppliers, local communities and ecological sustainability. Ethical sourcing is one aspect of CSR which focuses on acquiring goods and services through responsible and sustainable social and environmental practices.

Recent years have seen increasing pressure from governments, consumers, investors, NGOs on companies to guarantee transparency and ethical practice in their global supply chains. This pressure means that companies must monitor work conditions, reduce environmental impacts, guarantee fair wages, prevent unethical practices such as child labor, forced labor in all supplier networks. Failure to adhere to these ethical standards will typically result in companies suffering reputation loss, financial penalties and distrust from customers.

The importance of CSR / ethical sourcing was made even more clear by the COVID-19 pandemic exposing weaknesses in global supply chains and highlighting need for resilient and sustainable procurement systems. Organisations are using technology to improve supply chain transparency and accountability including blockchain, artificial intelligence and digital traceability systems.

This paper will examine the implications of CSR / ethical sourcing on global supply chain management. It will evaluate theoretical frameworks, case studies, customer opinions, policy initiatives and industry practices to understand how companies can implement responsible sourcing into their operational structures for long term sustainability and competitive advantage.

Literature Review

In the last twenty years, research related to CSR (Corporate Social Responsibility) and ethical sourcing has dramatically increased. This is due to the fact that businesses can benefit from their own business practices in a social way, they build trust among stakeholders, and positively affect the organization's overall performance. Carroll (1991), proposed the CSR Pyramid Model; which classifies corporate responsibilities into four categories: economic, legal, ethical, and philanthropy. Within this model, an organization must be profitable and comply with laws prior to the organization addressing its ethical and social responsibilities. Ethical sourcing is directly associated with the organization's adherence to the ethical and legal aspects of CSR. Freeman's (1984) theory of Stakeholder suggests that organizations create value for all stakeholders, not just shareholders. Stakeholders include employee(s), suppliers, customer(s), government agencies, and community(ies). An organization can foster a positive relationship with these groups through ethical sourcing by providing fair labor standards, environmentally sustainable methods, and open procurement processes. Elkington (1997), developed the triple bottom line (TBL) method of measuring business performance against three criteria: people, planet, profit. Ethical sourcing supports each of the TBL measures by creating equitable social environments, minimizing damage to the environment, and contributing to long term economic stability.

Studies conducted by Pagell and Wu (2009) showed that the practice of sustainable sourcing enhances the resiliency of the supply chain while decreasing operational risk. Through the use of ethical sourcing systems, organizations will be able to respond to disruptions within their supply chain, improve their

relationships with suppliers, and maintain customer confidence. Locke (2013), indicated that traditional supplier auditing techniques do not assure compliance in an organization's supply chain. Organizations need to implement long-term supplier development and collaborative approaches to develop supplier capacity to address structural problems related to worker exploitation or hazardous work environments. Additionally, consumer behavioral studies show increasing demands for consumers who desire products that were produced using ethical methods. Studies completed by Auger et al., (2003) determined that consumers are willing to pay a premium price for ethically-sourced products if the company provides credible evidence about its commitment to sustainable practices. Additionally, Bray et al., (2011), reported that transparency and trust significantly affects ethical purchasing decisions. Finally, the literature indicates the importance of Environmental, Social, and Governance (ESG) frameworks in evaluating corporate sustainability. Increasingly investors are assessing organizations' ESG performance which includes environmental impacts, labor practices, and the quality of their internal governance. Organizations that have strong ESG performance tend to receive higher levels of investment and experience enhanced market reputation. Although there is a significant amount of literature available, there are still gaps in researching how organizations apply CSR strategies in developing countries and/or low tiered supplier networks. There continues to be many barriers in place for organizations to monitor their compliance with ethics in their global supply chain.

Objectives of the Study

1. This study examines the effectiveness of Corporate Social Responsibility (CSR) in managing global supply chains.
2. The primary objective of this study is to assess the effect of ethical sourcing practices on organizational sustainability.
3. The second main objective is to investigate whether there exists an association between CSR initiatives and customer satisfaction.
4. A fourth objective was to identify some obstacles related to applying ethical sourcing practices.
5. A fifth goal is to discuss the roles of government regulations and Environmental Social Governance (ESG) frameworks in promoting socially responsible supply chains.

Methods

The current study is descriptive and analytical in design. It mostly utilizes secondary information taken from books, journals, reports issued by corporations, federal documents, research papers, and sustainability reports that relate to CSR and ethical sourcing. In order to evaluate the application of CSR at the practical level in large-scale MNC's like Nike, Nestle, IKEA, case study method was utilized. In addition to that, relevant theoretical models such as Stakeholders' Theory, Triple bottom line theory, CSR pyramid model were applied to provide a theoretical explanation for the study.

The study uses a qualitative methodology to determine how ethical sourcing impacts on supply chain transparency, customer satisfaction, and organizational sustainability. Interpretation of data is mainly dependent on previous empirical studies and industrial trends and global CSR practices.

Ethical Sourcing in Global Supply Chain Management Supply chains globally consist of many vendors who function under diverse legal and cultural regimes. As a consequence, complexities in supply chain operations lead to various types of risk concerning violation of employees' rights, harm to environment,

corrupt activities, and non-ethical purchase behaviors. By creating acceptable standards for all its operation-related functions, CSR and ethical sourcing assist companies to mitigate those risks.

In terms of suppliers, ethical sourcing involves payment of equitable compensation, employment conditions free from danger, employment methods that do not negatively impact the environment, and adherence to internationally recognized labor norms. Thereby, organizations use the above mentioned tools such as Supplier Code of Conduct, Third party audit, Sustainability Certification etc. to check and verify their suppliers comply with the principles of ethics. Moreover, organizations now utilize technologies such as blockchain to enhance visibility and reliability in their supply chains. By using blockchain systems, companies can follow the source of goods/products along with their journey in the supply chain. Therefore, companies can detect fraudulent activities and maintain accountability.

Sustainable Procurement Practices through Ethical Sourcing. Ethical sourcing plays a vital role in supporting organizational sustainability. Sustainable procurement practices help organizations minimize waste, save natural resources and develop strong relations with suppliers. Furthermore, ethical supply chain leads to enhancement of brand reputation and reduction of potential risks of reputation due to unethical behaviors. In addition to the aforementioned benefits, CSR initiatives lead to improvement in well-being of communities, welfare of employees and protection of environment. Several organizations are providing funds to educational institutions, health care services, renewable energy projects and rural development programs as a part of their CSR commitment.

Cases

1. NIKE

During the late 1990s, NIKE faced severe criticisms over very low work conditions in the factories owned by its suppliers in South East Asia. Work conditions in those factories were characterized as 'sweatshops.' Those negative perceptions severely damaged NIKE's brand image resulting in widespread protests around the world. In response to the public outcry, NIKE introduced Supplier Codes of Conduct. They increased transparency about their suppliers' facilities. They carried out audits of their suppliers' facilities. They also formed partnerships with organizations that focus on protecting workers' rights. In addition to these actions they invested in programs that aimed at improving the quality of life of their employees. They also established a system of sustainability reporting. At the present time, NIKE is considered as one of the best examples of CSR transformation and reform in the area of ethical sourcing. The effort made by NIKE illustrates how pressures from stakeholders can encourage positive change in global supply chains.

2. NESTLE

NESTLE purchases coffee and cocoa from developing countries where labor exploitation and deforestation are serious problems. NESTLE responded to these problems by launching Cocoa Plan and Nescafe Plan to support sustainable agriculture and welfare of farmers. NESTLE developed tracking systems for their cocoa beans/cocoa powder/powdered milk. They partnered with certification bodies and funded training programs for farmers. Their initiatives led to improvements in community development as well as enhancing the reputation of NESTLE regarding sustainability.

3. IKEA

IKEA focuses intensively on sustainable forestry and ethical sourcing practices. IKEA obtained certifications from Forest Stewardship Council for wood sourced from forests and initiated investments in renewable energy. IKEA also carried out auditing of their suppliers and started programs related to sourcing sustainably produced cotton. IKEA aims to achieve carbon neutrality by 2030. Thus, IKEA is

becoming a global model for effective management of sustainable supply chains. Obstacles in Implementation of Ethical Sourcing Despite increasing recognition among organizations of CSR/ethical sourcing practices still exist numerous obstacles for organizations to implement these practices effectively. First obstacle is complexity of supply chains. Generally, global supply networks comprise multiple levels of suppliers. Hence, organizations find it challenging to continuously monitor compliance with ethical standards throughout the entire network of suppliers. Significant costs associated with compliance with ethical standards represent another obstacle for SMEs. Costly audits, certifications and adoption of advanced sustainability technologies require large amounts of capital investment for organizations. Lack of adequate regulatory oversight in developing countries hinders effective implementation of ethical sourcing practices by organizations. Low standard formalized labor markets as well as inadequate official supervision over labor exploitation and environmental degradation in developing countries hinder effective implementation of ethical sourcing practices. Another barrier is greenwashing (also known as "green hype"). Greenwashing occurs when organizations make false claims about being environmentally friendly/sustainable while actually taking no real action toward achieving environmental sustainability. Such false claims reduce credibility/trust among consumers regarding genuine CSR actions practiced by organizations. Technology limitations and lack of knowledge/skill among smaller suppliers constitute additional barriers for organizations. Small suppliers generally have insufficient resources/knowledge/skills to apply complex tracking systems.

Results and Discussion

According to results of this study CSR/ethical sourcing have a significant impact on organizational sustainability/customer confidence/resilience of supply chain. Organizations practicing ethically sourced purchasing practices have enhanced competitive position through improved relationships with customers/stakeholders/other business partners and improved brand image.

As a result of rising demand for transparency/sustainability/ethics among consumers and investors increasingly base their decisions on assessments of organizational environmental/social performance indicators/Economic/Environmental/Social (ESG) frameworks (used for assessing organizational performance). Results of case study analysis demonstrate that organizations practicing proactive CSR strategies can successfully alter their image/reputation/operating systems. Examples of successful transition are provided by NIKE/Neslte/Ikea.

At the same time results show that despite the fact that challenges continue to exist (especially in emerging countries where regulatory oversight remains ineffective/labor markets are disorganized), organizations that take initiative in adopting CSR/ethical sourcing strategies will benefit from greater competitiveness/profitability.

Future Success Depends On How Effectively Business Will Balance Profitability With Social And Environmental Responsibility. Therefore, ethical sourcing/CSR are not simply obligatory requirements for corporations in today's global economy but rather necessary components for future business success

Limitations of Study

The study will offer some insight into the relationship between employee engagement and organizational performance, but there are several aspects that need to be recognized about this study.

1. Because the sample size for this study is limited to only 100 participants, it limits the generalization of the findings to the overall population of workers.

2. The focus of the study is on employees working in specific sectors (IT, BFSI, Manufacturing, and Service) therefore it can only be expected to reflect findings similar to those in organizations with similar sector-specific cultures and environments.
3. Due to its cross sectional nature, data was collected at one point in time. Engagement can fluctuate based upon organizational; economic or personal factors so longitudinal research would possibly reveal additional information regarding fluctuations in levels of engagement.
4. Data was collected using questionnaires and relies heavily on self-reporting. This methodology can be subject to a variety of influences including respondents' biases, feelings and perceptions. These possible influences can distort the results of the study.
5. The emphasis placed on Webnotics Solutions Pvt. Ltd. as an example organization, while providing great details about the organization, does not guarantee universal applicability to all IT organizations.
6. Due to constraints related to both time and resources the range of data collection and analysis was reduced. Collecting and analyzing a larger sample and a greater geographic area would increase the dependability and inclusiveness of the study.
7. Post pandemic workplace adjustments, economic uncertainty, remote workplace culture and technological disruption are external variables that impact employee engagement and although they were referenced briefly in the study, their impact were not investigated in depth.

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