

CSR, Clean and Green Operations - Suppliers' Code of Conduct Revisited

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ABSTRACT

In the last several years, the operations strategy has undergone one major change namely emphasis on clean and environmental-friendly operations that also has a bearing on corporate social responsibility. Operations managers are ensuring that their operations follow strictly the guidelines of the industries and also comply with the governmental or regulatory policies and standards. Suppliers who provide the materials and items that flow through the chain also have to adhere to the basic requirements of delivering the right quantity at the right quality apart from meeting other requirements legally enforced and contractually agreed upon by the concerned parties. It is in this regard, a code of conduct becomes a vital standard that needs to be carefully established and followed by the suppliers. This paper examines the issue of clean and green initiatives taken by industries through a code of conduct to ensure a smooth and harmonious relationship with their suppliers satisfying the operational objectives of being environmental friendly across the chain. The methodology involves exploring the code of conduct prescribed for suppliers by some select companies and also emphasizing on the role of Suppliers' Code of Conduct in Corporate Social Responsibility.

Keywords: Supply Chain, CSR

1. INTRODUCTION

Historically, operations strategies evolved over several dimensions starting from volume, variety, processes, system dynamics, quality, time based competition, and of course underlining cost minimization. In the recent times, innovation, mass customization, postponement, and flexibility with respect to present and future requirements are also added as competitive priorities. Ward, et al. (1998) comment that identifying manufacturers' competitive priorities has long been considered a key element in manufacturing strategy research and have narrated comprehensively about the operations management competitive priorities indicating how changes have occurred over time. The fundamental priorities are stated to be low cost, quality, delivery time, and flexibility. These four continue to remain as the basic priorities and innovativeness has been added as the fifth priority in the recent times. Quite often the fundamental priorities are seen as equal in their importance and appear to be agreed upon by all the operations managers.

Analysis by Kathuria (2010) reveals that different groups of manufacturers emphasize different sets of competitive priorities. Among relatively small manufacturers speedy conformers are the biggest group

with 41% constituents, who emphasize delivery and quality. Apart from these priorities, the new measures of organizational competitiveness include performance assessment of the employees, productivity, and human resource management.

Operations managers traditionally grappled with quality and productivity improvement at the same time keeping the facilities and the people working with full efficiency. The obvious motive of profit making was manifested as better utilization of facilities and other resources including people. But constraints like energy crunch, material shortage, reduced availability of resources, and escalating cost of production have put additional pressure on managers to be more efficient and cost conscious. More attention is now given to elimination or reduction of different types of waste touted as the main pillar of Toyota Production System (Liker, 2004) to ensure optimum utilization of all kinds of resources.

1.1 Brief Note on Corporate Social Responsibility

A recent trend among the corporate is their awareness about and response to the social and societal commitments in the name of Corporate Social Responsibility (CSR).

Companies are becoming sensitive towards the social and environmental aspects of production as they are being held responsible for the impact of their operations on the environment. It is well perceived that companies of today not only have to be profitable, but also have to be good corporate citizens. A comprehensive definition of CSR is given by European Commission (2002) which states CSR as a model by which companies on their own consider the social and environmental concerns as a part of their business operations and other interactions with their stakeholders. Pedersen and Andersen (2006) comment that as a preventive measure in tackling societal pressure, many companies resort to introducing codes of conduct through which good practices are enforced along the entire supply chain.

Knox and Maklan (2004) argue that there is no evidence to prove CSR results in social and business improvements commensurate with the investments made. However CSR has been seen both as value adding and performance raising objective of a company although no clear picture may be drawn linking CSR with financial benefits, (Margolis and Walsh, 2003; Salzmann, et al.2005).Silberhorn and Warren (2007) comment that the first decade of the new millennium seems to be the one where CSR is coming of age after so many false dawns in past decades. The organizations are expected to demonstrate CSR among several objectives through environment friendly operations and less dependence on natural resources, strongly advocating safe and better products and services. This is further reflected in the best practices in CSR which are well documented by Kotler and Lee (2008). More surprising is the fact that there is no universally accepted or agreed upon definition of what constitutes CSR (Weber, 2008).

While, earlier notions of CSR often had a regional, person-centered philanthropic focus, the recent conceptions of CSR are broad and diverse and range over a wide spectrum of activities. This kind of rethinking is happening in the light of depleting resources, damage to environment, ecological imbalance, threat to human life, and more importantly a desire to provide a safe living environment to the people. Thus operations managers are bound to be innovative in their short and long-term actions to meet the CSR objectives.

2. SUPPLY CHAIN MANAGEMENT AND SOCIAL RESPONSIBILITY

Supply chain management is one of the rapidly growing disciplines of management and has become a popular area

of research worldwide. This development can be attributed to growing demand for new products and services, emergence of new markets, availability of easier and fast modes of transport supported by information networks and also rising affluence in the developing economies of the world. This further translates to searching for efficient and responsive suppliers who can provide the necessary parts, components, consumables, and other materials required to produce the goods that are in demand. Suppliers are also looking for buyers who can support them with long term contracts, assured buying, and better pricing. With suppliers emerging from all parts of the globe, it is now a challenge to meet the demands of all the parties along the chain that too when the margins are dwindling. In the recent times due to a surge in the retail sales, companies are able to put pressure on suppliers to give them the items at the prices as decided by the big buyers. In the wake of increased demand many countries like Vietnam, Cambodia, and Taiwan are battling for their share in the international markets. However, price becoming a major factor, suppliers are also alleged to indulge in unfair and unethical practices to secure contracts and supply the items at very cheap prices. In this regard, it now imperative that the manufacturing and assembling industries are revisited to examine their systems to ascertain ethically right practices. While earlier such practices were more a matter of voluntary compliance now it is code of conduct that is contractually enforced to avoid all possible unfair and unethical practices, more so with the intention of providing protection to people as well to the environment. A well drafted suppliers' code of conduct can act as a good preventive system to mitigate the risk involved by ensuring that all the parties along the supply chain adhere to safe and healthy practices.

In the wake of increased awareness and adoption of CSR, suppliers are also expected to meet the local and global environmental standards that lead to a safe and clean environment. Amaeshi, Osuji, &Nnodim (2008) have explored the supply chain practices across the multinational companies and suggest ways of building up pressure and influence the supply chain through code of conducts. These steps taken by the combined efforts of manufacturers and suppliers are commonly referred to as "green initiatives" and are considered to be having a significant impact on corporate social responsibility (CSR). In fact many of the awards instituted by professional, industrial and government bodies have made it mandatory for the companies to innovate, improve and practice green initiatives, if they have to compete for the awards (McAdam.& Leonard, 2003: ASQ Executive Brief, 2011).

It is possible for companies to realize better margins by adopting safe and ethical business practices. The company's supply chain that encompasses purchasing, planning, and managing the use of materials along with packing, distribution and reverse logistics, needs to be reexamined to identify opportunities for cost savings through better practices. Hence it is obvious that companies have to put their best efforts and ensure that their suppliers too fall in line displaying similar efforts to minimize the damages caused by their supply chains.

3. WHAT IS A CODE OF CONDUCT?

A code of conduct consists of norms and prescribed practices for a specific application so as to ensure better working environment. Some other definitions are as follows:

- ◆ “A set of conventional principles and expectations that are considered binding on any person who is a member of a particular group”. (Definition from www.thefreedictionary.com)
- ◆ “Every organization, whether it is a company, a club or a formal group, has expectations of how its members should act among each other and with those outside of the organization”. Violation of code of conduct may lead to penalties. (Definition from www.ehow.com)
- ◆ “A set of rules outlining the responsibilities of or proper practices for an individual or organization”. (Definition from Wikipedia, the free encyclopedia)

A comprehensive definition given by International Federation of Accountants (2007) says as follows:

“Principles, values, standards, or rules of behavior 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”.

3.1 Why Suppliers' Code of Conduct?

The intensified competition among the companies to capture the markets has prompted them to explore ways and means of reducing the cost of their products. This has further put pressure on the suppliers to offer their products at attractive prices. With the sole objective of bringing down the cost of operations, it is quite likely

that suppliers might adopt practices that may not be acceptable by the scanner of ethics and fair practices. Secondly such practices if not detected may continue without any hindrance. Thus it is necessary that the suppliers follow the mandate of fair practices through a legally enforced code of conduct which the parties have to sign before embarking on business relations. Dean (1992) remarks that an efficient way of improving ethical behavior in a company towards CSRs is to establish a code of conduct and supporting it with appropriate training. In this backdrop Welford (2005) has observed an increase in the role and importance of the supply chain and Supplier Code of Conduct (SCC) within CSR. Several years ago retailers in Netherlands refused to buy carpets from India accusing that the carpet making industry used child labor. If an appropriate SCC had existed perhaps this could have not occurred.

Further Dominick (2006) comments that, while an infinite number of items can be addressed in a supplier code of conduct, the ten most commonly addressed points are pertaining to the type of labor that can be employed, age and working hours, wage laws, safety and welfare of the workers, non-discriminatory practices among the employees, and willingness on the part of the companies to allow for scrutiny and audit of their practices to verify the compliance with respect to the SCC. A properly drafted SCC can prevent undesirable social and legal implications is now well understood by the companies all over the world. Hence it is imperative that efforts should be on to voluntarily establish and follow the proper norms and guidelines so as to move towards becoming responsible corporate citizens.

4. IMPROVING CSR THROUGH SUPPLIERS' CODE OF CONDUCT

The motivation to achieve CSR in the supply chain, along with the suppliers' code of conduct (SCC), is multi-faceted: first of all, there is an ethical responsibility to address social issues not only in one's own company but also along the entire supply chain (Carter & Jennings, 2002). Role of suppliers in CSR has been examined by several researchers who have investigated such factors like kind of support given by suppliers, aligning the strategies with the company, enabling successful meeting of multiple objectives, and of course maintaining ethical standards to the extent required so as to bring credibility to the main company. Researchers have also analyzed

SCCs to ascertain how well it enables CSR providing a moral and legal support for the company's products and services.

Emelhainz and Adams (1999) have investigated the textile industry and report that the codes of different companies are not uniform, lack substantial detail and are lax in the area of monitoring and enforcement. Schwartz (2004) has analyzed the general factors that make codes of ethics successful. Among these are the provision of examples, relevance, senior management support, training and enforcement. How codes of conduct help in protecting CSR initiatives in global supply chains is described by Pederson and Andersen (2006). Maloni and Brown (2006) focus on the food industry and develop a framework for CSR in the food supply chain that addresses animal welfare, biotechnology, environment, fair trade, health and safety, labor and human rights. Their goal is to support the assessment of strategic and operations supply chain CSR practices. In a review of content of SCCs in electronics industries, Oehmen, et al. (2010) comment that the five categories of issues revolve around labor standards, health and safety, environment, ethics and compliance. This review analyzed the content of SCCs based on the website disclosure of the Forbes Fortune 2000 (Technology Hardware & Equipment) companies.

5. OVERVIEW OF EXAMPLES OF SUPPLIERS' CODE OF CONDUCT

Now it is clear that suppliers play a major role in maintaining clean and green supply chain to enable CSR through operations management by developing proper guidelines and norms in Suppliers' Code of Conduct. To understand and appreciate the initiatives taken by companies this section provides an overview of SCCs adopted by international companies. For conserving space only ten companies well known for their products are listed here. The information is taken from the respective company's websites.

5.1 Apple

"Apple is committed to ensuring that working conditions in Apple's supply chain are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally responsible. Apple's suppliers ("Suppliers") are obligated, in all of their activities, to operate in full compliance with the laws, rules, and regulations of the countries in which they

operate. This Supplier Code of Conduct ("Code") goes further, drawing upon internationally recognized standards, in order to advance social and environmental responsibility. In addition the code mentions about the management information systems being a part of the procedures". (Reproduced from: www.apple.com/supplierresponsibility/code-of-conduct/ - United States)

5.2 Avon

This company through their Supplier Code of Conduct, vendor audits and product compliance testing, seeks to hold their suppliers accountable for compliance with all applicable local and national laws and regulations regarding product safety and quality, environmental performance and human rights. Through monitoring, ongoing engagement and, if necessary, termination, they seek to ensure that all suppliers of Avon non-beauty products sold in the United States comply with their Supplier Code of Conduct. They have engaged several third-party auditing firms to monitor suppliers' compliance with the Supplier Code of Conduct. They are currently reviewing the effectiveness of supplier monitoring program, in particular as it applies to suppliers of products sold in countries outside the United States. (Reproduced from: www.avoncompany.com/documents/.../Supplier Code of Conduct)

6. CISCO SYSTEMS

Cisco Systems, Inc. is committed to the highest standards of product quality and business integrity in its dealings with Suppliers and ensuring that working conditions in our supply chain are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally and socially responsible. The Code is made up of five sections. Sections A, B, and C outline standards for Labor, Health and Safety, and the Environment, respectively. Section D outlines the elements of a minimally acceptable system to manage conformity to this Code. Section E adds standards relating to business ethics. (Reproduced from: www.cisco.com/.../CiscoSupplierCodeofConduct.)

6.1 Dr. Reddy's Laboratories

The Dr. Reddy's Supplier Code of Conduct is modeled on and contains language from the Pharmaceutical Supply chain initiative report. Recognized standards such as International Labor Organization Standards (ILO), Universal Declaration of Human Rights (UDHR),

Social Accountability International (SAI), and the Ethical Trading Initiative (ETI), Global Reporting Initiative guidelines (GRI) were used as references in preparing this Code and may be useful sources of additional information. (Reproduced from www.drreddys.com/media/pdf/Supplier_CodeofConduct.pdf)

6.2 McDonald's

McDonald which has spread its outlets outside USA in many countries has also included most of the clauses used in other companies' code of conduct. These include compliance with applicable laws and standards, employment practices, and inspections. Further the company insists that an agreement be signed by the suppliers in acceptance of this code of conduct. (Reproduced from: www.aboutmcdonalds.com/.../AboutMcDonalds/.../code_of_conduct..)

6.3 Siemens

This Code of Conduct defines the basic requirements placed on Siemens' suppliers of goods and services concerning their responsibilities towards their stakeholders and the environment. Siemens reserves the right to reasonably change the requirements of this Code of Conduct due to changes of the Siemens Compliance program. In such event Siemens expects the supplier to accept those reasonable changes. The supplier declares herewith Legal compliance, Prohibition of corruption and bribery, Respect for the basic human rights of employees, Prohibition of child labor, Health and Safety of employees, and Environmental protection. (Reproduced from: www.siemens.lv/pool/latvia/folder/codeofconductenglish.pdf)

6.4 Sony Corporation

As stated in their web site, the Sony Group Code of Conduct declares that Sony Group's policy is to comply with all applicable laws and regulations of the countries and regions in which it operates and to conduct its business activities in an honest and ethical manner. Simultaneously, the Sony Group Code of Conduct declares that Sony Group expects its suppliers to uphold the policies of Sony Group concerning compliance with all applicable law, respect for human rights, environmental conservation and the safety of products and services.

The Code is made up of five sections: First three sections deal with Labor, Health and Safety, Environment,

respectively. Section 4 outlines the elements of a minimally acceptable system to manage conformity to this Code. Section 5 adds standards relating to business ethics. (Reproduced from: www.sony.net › About Sony Group › CSR › Responsible Sourcing)

6.5 Staples

Staples Company known for quality office supplies in USA and many other countries has included most of the commonly quoted clauses. The code of conduct specifies about 1. Forced Labor, 2. Child Labor, 3. Harassment and Abuse, 4. Nondiscrimination, 5. Health and Safety, 6. Freedom of Association and Collective Bargaining, 7. Wages and Benefits, 8. Hours of Work, and 9. Overtime Compensation. (Reproduced from: www.staples.com/.../staples-supplier-code-of-conduct.pdf)

6.6 UN Supplier Code Of Conduct

The values enshrined in the United Nations (UN) Charter, respect for fundamental human rights, social justice and human dignity, and respect for the equal rights of men and women, serve as the overarching goals that suppliers to the UN are expected to achieve. The code specifically addresses labor, human rights, bribery and corruption and environment. (Reproduced from: www.un.org/Depts/ptd/pdf/conduct_english.pdf)

6.7 Whirlpool Corporation

This Whirlpool Corporation Supplier Code of Conduct ("Code") formalizes the key principles under which suppliers to Whirlpool Corporation and its global subsidiaries ("Whirlpool") are required to operate.

In selecting suppliers, Whirlpool works hard to choose reputable business partners who are committed to ethical standards and business practices compatible with those of Whirlpool. Suppliers are required to comply with this Code and to have and maintain practices similar to those in the Whirlpool Code of Ethics (available at whirlpoolcorp.com). The code further includes details about Laws and Regulations, Child Labor, hours of work, wages, working conditions, and the handling of certain materials. It also cautions about Forced Labor, Harassment, Health and Safety, Nondiscrimination, Women's Rights, Freedom of Association and Collective Bargaining. The company further insists on communication of the code, and Monitoring and Compliance. (Reproduced from: www.

whirlpoolcorp.com/.../supplier_code_of_conduct.aspx)

The above list of companies is not based on any specific criterion but the companies are selected based on their popularity and brand value to emphasize on SCC in meeting their goal towards CSR.

7. CONCLUSION

CSR is now seen both as an essential requirement for setting an example of corporate citizenship and also as a major step towards ensuring healthy and safe practices that minimize the damage caused to the society in particular and the world in general. While price and availability may be seen as prime factors for selecting the suppliers, their role in supporting the companies' CSR cannot be belittled. In this context, the suppliers' code of conduct plays a vital role by making the fair and ethical practices mandatory and legally enforceable. It also helps to establish better relationship between buyers and suppliers and paves the way for further improvement in product designs and manufacturing. The examples illustrated here demonstrate the importance given by the international companies in promoting CSR through ethical behaviors and practices. It can be noticed that there are many similarities across the codes and certain elements like labor, working conditions, safety and health of the employees, are commonly addressed by these codes. While this paper has taken a limited sample number of companies, definitely a detailed study that includes many companies across the world is well warranted. Indian companies have also demonstrated their concern and responsibilities towards better environment by adopting the good practices through SCC. A separate study of Indian companies is worth the effort to promote the concepts through all sectors and sizes of operations. Thus further scope exists in this type of work. This paper however has not attempted to find out the comparative merits and demerits by a detailed examination of the SCCs which of course involves a much deeper study which is beyond the scope of the work done here.

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