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**The Implication of Corporate Social Responsibility in Procurement As Part of
Corporate's Risk Management**

Kestävän hankinnan merkitys yrityksen riskienhallinnassa

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1. Introduction

Procurement is one of the biggest functions in organizations. Van Weele (1995) states that in industrial enterprises 60 percent of production value is related to procurement. There is a significant influence between procurement, profitability and company reputation. More than half of the problems related on customer and quality satisfaction are directly linked to purchased products, such as components and raw materials. Decision- making in procurement is based on profitable contracts between suppliers, and the goal is to minimize costs. (Neef, 2004)

In a modern day world, one of the most valuable intangible assets that organizations have is corporate reputation and brand equity. Problems in supply chain can influence corporate image directly or indirectly. Reputational risks are also related to actions of suppliers. The suppliers that are part of the organizations value chain are the ones, which can exposure the organization to a risk. Reputational risks are difficult to handle because they are multidimensional and can be caused by factors that are not directly related to organization's performance. (Neufeld, 2007)

Corporate social responsibility is connected to corporate performance and actions. Strategic corporate social responsibility connects corporate responsibility as part of company performance through organization. Many non-governmental organizations are demanding multinational corporations to take responsibility of their suppliers and actions. (Werther & Chandler, 2007)

All of the dimensions in corporate social responsibility (economical, social and environmental) include risk factors in procurement. Recently the importance of Corporate Social Responsibility has developed also in procurement. With sustainable procurement organizations are able to differentiate from their competitors. (Phillips, 2010) Working conditions, transparency and bribery are linked to the social aspect of corporate social responsibility. In the top-level decision-making the importance of engaging suppliers to abide the same ethical, legal and environmental principles, as the organization itself, is the main question.

1.1. Purpose of the Study and Research Questions

The goal of the study is to understand how organizations respond to responsible procurement and what kinds of risks are related to procurement and how the risks are managed. This study deals with decision-making problems in procurement function of a firm. There is controversy between principle goals in procurement and corporate social responsibility. Negative issues in organization's supply chain might expose organization to unwanted situation and influence firm's profitability. The criteria for starting collaboration with suppliers have usually been considered flexible and the issues have been related to quality of performance, price and transportation. Neef (2004) also claims that this commonly used criterion does not help organizations to ensure that suppliers' performance is legally and ethically acceptable.

The goal of the study is therefore to understand the significance of responsible procurement as part of organization's risk management. The primary research question for the study is:

1. How to protect from the corporate social responsibility- related risks in procurement?

Questions that support primary issue are:

- 1. How do the organizations positions themselves in case of socially responsible procurement?*
- 2. What kinds of risk are in socially responsible procurement?*
- 3. What kinds of methods and means are used in procurement risk management?*

In this study procurement related questions include both material and services. The scope of the study is related only to necessary issues (social, environmental and economical) depended on either risk management or procurement. The research is based on the business risks, and the risk of loss and damage is not included in the study. The research concentrates more on social and environmental responsibility related risks. There are several studies related to environmental and financial risks

and the purpose of the study is to focus more on social aspect of procurement risks without neglecting the environmental aspects of corporate social responsibility. The risen necessity to understand social aspect of business is very important, and interesting from managerial point of view. The assumption of this research is to provide new information for top-level management and concentrate on issues from another aspect, by drawing attention to triple bottom line in corporate social responsibility related issues.

1.2. Literature Review

Adopting corporate social responsibility (CSR) strategy is a first step of being socially responsible organization (Grob & Benn, 2014; Rohweder, 2004; Niskala & Tarna, 2003). The beginning the study concentrates on the CSR from its traditional point of view and defines it in a same way as Carrol (1991) who suggested that there are four kinds of social responsibilities: economic, legal, ethical and philanthropic. Globalization has forced organizations to implement socially responsibly strategies (Hoejmose & Adrien-Kirby, 2012; Lemke & Petersen, 2014; Roehrich et al, 2014). Previous studies have showed that there is positive correlation between corporate's socially responsible actions and increased profitability. Gimenez et al. (2012) provide a study where the social responsibility implementation is considered from the triple bottom line's point of view and this has given the basis for the study. The study shows that because of varying nature of organizations, which are applicable to CSR, the context of CSR can be consider either responsible or irresponsible.

Previous studies have notified social, environmental and financial issues but they haven't done the research considering the all aspects together (Gimenez et al., 2012) Liao and Kao (2011) have provided analyze based on the business literature. The study is related to the corporate social responsibility in supplier selection and it helps to understand that quality, price and lead-time are the most important factors when responsible procurement is considered.

The concepts of risk management and mitigation are included in the study. The work uses information related to the risk management, decision making and risk management's influence in procurement. The information is drawn from the work of Lemke & Petersen (2013), Verbano & Crema (2015), Hallikas et al. (2011) and

Roehrich et al. (2014). The framework draws from previous studies modeling the different kinds of risk from a CSR perspective, and their potential influence on the procurement. The study introduces traditional aspects of risk management after it moves to non-traditional factors that are related, for example, to corporate image (Lemke & Petersen, 2013; Roehrich et al., 2014).

The study draws data from Gimenez et al. (2012) and ties triple bottom line into the organization's risk management as tool to mitigate risks (Quinn, 2013; Tummala & Schoenherr, 2011; Lemke & Petersen, 2013; Maignan, 2002). Triple bottom line is also considered when the concept of collaboration is presented. The previous studies concentrate to risk mitigation and the importance of collaboration between parent company and supplier. Previous literature creates a foundation for responsible procurement by taking social, environmental and financial aspects of CSR simultaneously into consideration. (Hallikas et al. 2011; Tummala & Schoenherr, 2011; Lemke & Petersen, 2013; Verbano & Crema, 2015; Grundischi et al., 2014) The study of Tiwari et al. (2014) concentrates to CSR's benefits and competencies. The beneficial competencies for an organization are:

1. Positive influence on corporate image and reputation
2. Positive influence on employee motivation, retaining and hiring
3. Cost savings
4. Increased profitability
5. CSR-related risk reduction

The study concentrates on corporate social responsibility and the factors that have influenced to corporate's risk management. Topic is widely researched but as it was mentioned before there is a gap when triple bottom line is taking into consideration simultaneously. Recent studies (Tummala & Schoenherr, 2011; Lemke & Petersen, 2013; Hoejmoose & Adrien-Kirby, 2012; Gimenez et al., 2012; Roehrich et al., 2012) prove that significance of responsible procurement has risen in organization's risk management. Organizations have accepted CSR to be a part of their strategy in many fields of business, which has facilitated competitive advantage and influenced to proactive thinking in top-management decision making. Organizations are more prepared to meet changing consumer awareness. (Tummala & Schoenherr, 2011;

Lemke & Petersen, 2013; Tiwari et al., 2014) This influences to significance of the study and helps it to provide guidelines for top-management decisions.

1.3. Outline of the Study

The study has been divided into five chapters.

1. Introduction
2. Corporate Social Responsibility
3. Responsible Procurement and Risk Management
4. Empirical Study
5. Conclusions

In the first chapter, I have presented motivation and goals for the research. This chapter includes theoretical framework for the study, brief look to research method and question, primary research question and definitions of terms used in the research. The theoretical framework below ties all the aspects of the study together. It shows the correlation between corporate social responsibility and risk management. The risks caused by corporate social responsibility are related to reputational and supply chain risks and the study presents the risks further on. Responsible procurement's significance in corporate's risk management is presented when risk mitigation is taken into consideration. All aspect of the theory supports the empirical part of the study, which will be presented in the end of the study.

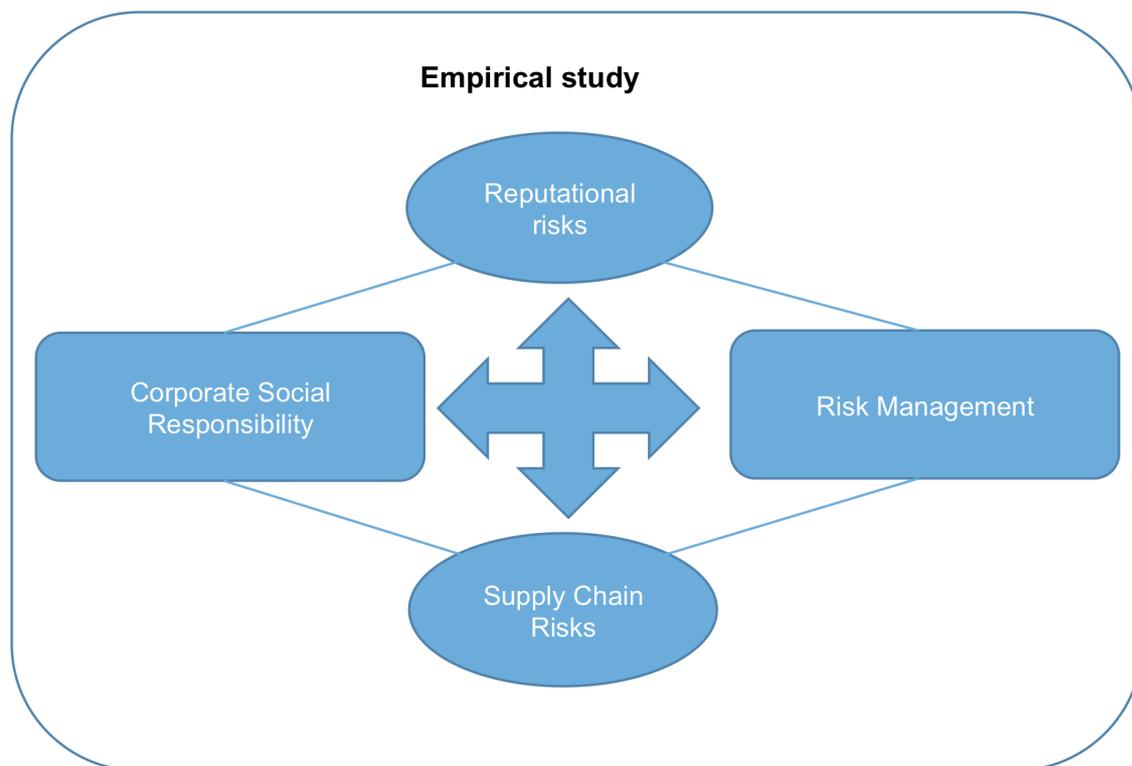


Figure 1. Theoretical Framework.

After the introduction, Chapter 2 defines the corporate social responsibility and explains its dimensions. Chapter 2 concentrates more on the motivation and incentives that are related to CSR and its implementing to procurement strategy. Triple bottom line approach is presented, which widens the perspective for social, environmental and financial aspects of procurement. All the aspects of corporate social responsibility are taken into consideration simultaneously and more holistic aspect is taken into consideration.

Chapter 3 takes definitions that are related to responsible procurement and risk management into consideration. The Section 3.1 engages corporate social responsibility in procurement. The Section 3.2 concentrates on positive and negative outcomes as well as supplier selection. The Section 3.3 presents various risks connected to corporate social responsibility that is significant for the theoretical and empirical part of the study. The final Section 3.4 takes risk management methods into consideration and introduces mitigation methods that tie corporate social responsibility related procurement and risk management together and emerges them

into procurement risk management. There are different procurement strategies when risk management is included in the process.

The empirical part of the study is based on questionnaire and will be analyzed in the Chapter 4. Empirical study has been accomplished by using qualitative methods. Methodology is presented further on in this chapter. The empirical part is accomplished with semi-structured interview held for a procurement expert of the case company. The case company's is from the construction industry and it is considered to be one of the biggest construction companies in Finland. Since the case company is a major player in Finnish market and outsources about 70 percent of its resources, the risks presented in the previous chapter are significantly related to empirical part of the study. The study draws empirical information also from case company's annual report and other study related standards such as code of conduct. The goal of the empirical part is not to form overall picture of procurement and risk management in construction industry and the questions are mostly related to responsible procurement and its influence in corporate's risk management. The final section of Chapter 4 presents the results. Results take outcomes of empirical study into consideration and emerges it with theoretical part. The study concentrates on construction company's procurement, its corporate social responsibility and risk management. Results aim to provide practical and real picture of primary and secondary research problems and its goal is to include empirical part to theory before concluding the study. The Chapter 5 concludes the study and provides areas for future research.

1.4. Key Concepts

The definition of *purchasing performance* is as the "extent to which the purchasing function is able to realize its predetermined goals at the sacrifice of a minimum of the company's resources" (Van Weele, 2010). Purchasing is a process that includes realizing the need, supplier evaluation and choosing and price negotiations.

Procurement is more holistic and broader view than purchasing. Procurement posses buying, product warehousing, transportation, receiving and making sure that product is whole after it have been received. (Van Weele, 2005) According to Osipova and Eriksson (2011) procurement includes various variables that are related to source of

funding, partner selection method, price basis, responsibility for management and amount of subcontracting.

Corporate Social Responsibility (CSR) positions economic, legal, ethical and discretionary expectations that society has at a given point in time. In this century there has been a little change in thinking and social dimension of business have been integrated in to the definition of CSR. (Niskala & Tarna, 2003; Morland, 2006)

Risk Management is a process that prevents threats, inside or outside of an organization, and tries to minimize the losses caused by these risks (Suominen, 2003) Risk is a possibility that something might happen that slows things down and prevents an organization to achieve its goals. (coso.org)

Code of Conduct is considered to be a set of rules by an organization to its interest groups to help them to acknowledge their actions in accordance with its primary values and ethical standards. The task for code of conduct is to define acceptable and unacceptable behavior for internal and external interest groups, such as employees and suppliers. (Lemke & Petersen, 2013)

Responsible procurement consists sustainable use of resources in organizations' procurement choices. (Grob & Benn, 2014) Sustainable use of resources means that the use of resource is on the level that our and the generations after us are able to use the same resources. Responsible procurement involves more collaboration between all parties in a supply chain.

Supply Chain Management (SCM) is managing procurements' value chain. It is important for an organization to create trust, collaboration and transparency with its suppliers to maintain competitiveness in its business. SCM identifies suppliers' performance indicators and leads to measuring and selecting a supplier. Evaluation and accreditation is done through rating systems as part of sustainable purchasing policy.

1.5. Methodology

In this research the goal is to describe patterns and processes that influence to organizational procurement and their responsibility. Study method used in the research is a case study. Case study is a method that is suitable for observing current phenomenon in its own environment (Yin, 2003). The method suits for normative research, which is a basis for contributing guidelines to achieve the goals.

The research is guided as a qualitative research because of complexity of the subject. The main objective for this research is to accomplish knowledge for further researches in the field of procurement, CSR, supply chain and risk management. The conclusions and proposals for the actions of the thesis are based on the researcher's own interpretation and analysis from the collected data and external environment in the empirical section. The data for this research was collected from various platforms by using triangulations, which can be referred as using various methods at the same time. This allows acquiring a more perfect overall picture of the object of the study and this way upturns the validity of the study at the same time. (Saunders et al., 2009) The research data was gathered by using articles, press releases, domestic and foreign literature and interviews.

Empirical data of the study is gathered by semi-structured phone interview, which provides a practical grip on the primary and secondary research problems. The company introduced before is one of the biggest companies in Finnish construction industry. The person introduces is a procurement specialist and his knowledge is considered to be vital for the study and its empirical part.

2. Corporate Social Responsibility

Consumers' interest towards CSR has increased in past years. Some of the companies are acting as pioneers and investing into sustainable development. There are still obstacles influencing sustainable development and awareness of consumer. These obstacles are often related to lack of awareness, a need to pay extra for sustainable actions and lack of information. (Euroopan Komissio, 2011) Influence of various scandals and financial crisis has raised consumers' awareness and changed their thinking towards CSR and raised the importance sustainability. From ethical and social point of view financial crisis and various scandals has had influence to consumers' trust when it comes to major organizations. Many of the consumers have lost their trust towards executives of major organizations. (Euroopan Komissio, 2011) Consumers think that the executives are pursuing their own financial benefits rather than the benefits of firms' interest groups, such as employees and other stakeholders. This is based on a survey that states that 90 % of Americans and 95 % of British do not think that the executives in major companies are pursuing towards their employees interests. (Handy, 2009) Responsibility is important for business. Responsibility stretches out to procurement and supplier selection, which is ground for the whole supply chain and it creates a framework that defines sustainable development of the firm (Bai & Sarkis, 2010).

Many business decisions include social and environmental issues. In the recent years proactive responsiveness towards social and environmental issues have become more important. Organizations comprise impacts of social and environmental issues on their websites and in their annual reports. Corporate social responsibility has emerged in everyday business and become a part organization's boardroom agenda. (Montiel, 2008)

2.1. Definition of Corporate Social Responsibility

Organization's irresponsible and unethical corporate behavior has given a boost to the development of corporate social responsibility. CSR is considered to be a guideline for organizations and to clarify their responsibilities. (Lemke & Petersen, 2013) Socially responsible actions for corporations are to take responsibility of its surrounding environment and its interest groups, and modify their actions based on these assumptions. (Niskala & Tarna, 2003) The term corporate social responsibility

has existed since 1970's but there has not been unanimous definition for the term. In the most of the studies, corporate social responsibility is divided in to three dimensions: economical, social and environmental responsibility. The most important task for this three-dimensional construct is to make firms' to acknowledge that besides economical gains they have to be aware of what environmental and social benefits or damages they are causing (Morland, 2006).

CSR is also seen as a reporting tool and the three dimensions are basis for responsibility initiatives. CSR can be also used to develop decision-making and organizations' business functions to a way that economical, environmental and social aspects are taken in notice. These considerations are, for example, related to future projects, products and company actions. (Wiedmann & Lenzen, 2006)

2.2. Dimensions of CSR

Better business policies and profit margins are usually explanatory factors when adapting corporate responsibility. There are three factors that clarify corporate social responsibility: economical outcomes, ethical considerations and consequences for important interest groups. The goal of CSR is to secure sustainable development in a way that future generations have a possibility to fulfill their needs. (Gimenez et al., 2012) Figure 2 explains the simultaneous effects of triple bottom line and the significance of it leads to sustainable development.

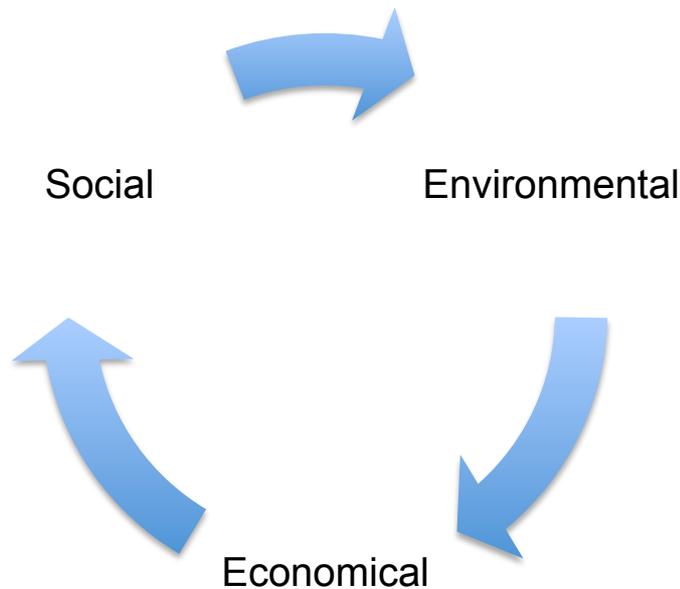


Figure 2. Three-dimensional framework for triple bottom line in CSR

2.2.1. Economical responsibility

Economical responsibility reflects direct and indirect responsibility of economical actions. It is related to profitable economic activity and risk management. Economically responsible firm is responsible of durability of vacancies, tax incomes, providing added value to its owners and providing welfare to society. (Työ- ja elinkeinoministeriö, 2013) According to Lemke and Petersen (2013), organization's sole purpose is the wealth generation, which results to profitable return on investment for its stakeholders. Direct responsibility is linked directly to financial performance and indirect responsibility is connected to economical and social performance. Indirect responsibilities are more or less related to actions of a firm and their influence to political economics. A part of economical responsibility is that corporations have to pursue growth and profitability in ethically acceptable manners. (Rohweder, 2004)

2.2.2. Environmental responsibility

Environmental responsibility pictures firm's environmental actions and their influence to an environment. Environmental responsibility includes sustainable consumption of natural resources and raw material, environmental pollution and decrease in climate change, decrease in usage of dangerous raw materials and minimizing natural disasters. Solving and preventing environmental issues and taking notice on usage of

natural resources, doing it in a sustainable way are an essential part of social responsibility of a firm. (Gimenez et al., 2012) Corporate's environmental responsibility is how firms commit to include environment in to their decision-making process by raising environmental awareness, transparency in public relations, measuring and auditing. The goal of environmental responsibility is to excel the rules set by legislators. (Mazurkiewicz, 2004) Environmental responsibility can be divided into direct and indirect responsibilities. The environmental issues that are caused by the corporation itself are understood as direct responsibilities. Indirect responsibilities are caused in corporates supply or value chain, which includes all subcontractors. For example, these issues could be caused when an outsourced partner violates environmental regulations. (Rohweder, 2004)

2.2.3. Social responsibility

Social responsibility involves corporates' position towards its employees and their working conditions, human rights issues and on product-related responsibilities. (Niskala & Tarna, 2003) It can also be divided to direct and indirect responsibilities. In addition, social responsibility includes respecting employees' values and their cultural heritage. The degree of social responsibility varies between countries and corporations. This happens especially in multinational corporations, which are the ones that act on many different countries. Social responsibility is related to countries' culture, legislation and to corporations' ethical regulations. (Rohweder, 2004) Organizations that are socially responsible have positive influence to common welfare and further themselves by enhancing corporate image and gaining trust between internal and external interest groups. (Pullman et al., 2009)

The pressure of changing ways to work is increasing in multinational corporations (Rohweder, 2004). An increased awareness of consumers' has raised the value of social responsibility issues. Visibility through out a supply chain and the working conditions of employees in developing countries are more important for the corporations. Sustainable development is all about changing the values. CSR is based on recognizing collective ethical and environmental values and to a progress to develop them in practice. A way to recognize change in corporates' way of thinking and business is to put ethical and environmental values and goals on a pedestal right next to economical values (Grob & Benn, 2014)

2.3. Motivation and Incentives for implementing CSR

In the field of business, everything is measured with numbers. The consumers' interest towards CSR has increased and they are paying more attention for sustainable development. Modern day studies prove that properly handled CSR has positive correlation with financial performance (Lemke & Petersen, 2014). Organizations are participating more in CSR activities by contributing their societal obligations and to boost their profits and sustainability (Kim et al., 2012). There are four different factors that influence the motivation of organization to be socially responsible. These factors are related to incentives that are financial, interest group and organization related, and ethical. (Rohweder, 2004) Besides financial factors motivation can be explained through Institutional theory created by DiMaggio & Powell in 1983.

Institutional theory from DiMaggio & Powell (1983) is used to explain explicit and implicit CSR, ecologically sustainable organizations and environmentally legitimate firms. Organizations tendency to mimic each other has been an explaining isomorphism since the institutional theory was created. DiMaggio & Powell define three key constructs that are coercive isomorphism, mimetic isomorphism and normative isomorphism. Coercive isomorphism is influenced by political decision and the problem of legitimacy. Mimetic isomorphism results from standard responses to uncertainty and normative isomorphism is related with professionalization. (Grob & Benn, 2014)

2.3.1. Financial Incentives and Motivation

Consequences of responsible actions are risen demand, growth in brand value and better profit margins. Organizations that are considered to be responsible usually get better customer satisfaction and more long-lasting new customers. On the other hand, the companies that violate the terms of CSR might face boycotts or other unwanted customer actions (Kim et al., 2012).

Growth in profit margins, brand equity and corporate image are drivers for mimetic isomorphism. DiMaggio and Powell (1983) say that organizations tend to lean on mimetic actions in times of uncertainty. In this case, financial performance attracts other organizations to benchmark well performed CSR strategies and actions.

Organizations model themselves against other organizations and this causes the downside of mimicking actions. There might be poor understanding or indistinct goals. (Grob & Benn, 2014)

If organizations are acting in sustainable way, they are able to reduce production and environmental protection costs (Rohweder, 2004). Responsible and sustainable actions increase corporate reputation and enables organizations for bigger and better production. Being socially responsible benefit working conditions and also profit margins, because of the increased company reputation. (Kagnicioglu & Kagnicioglu, 2007)

CSR is necessary for organizations if they want to function in a long-term. Responsibility highlights demands of sustainable development. Profitability is related to sustainable growth and long-term planning, and it is important to recognize individual actions and their influences to bigger picture. (Rohweder, 2004)

2.3.2. Interest Group Related Incentives and Motivation

According Rohweder (2004), interest groups consist from groups and individuals that are able to influence to a firm with their own actions or are exposed to the firms' actions. On the other hand, Crane & Matten (2007) consider interest groups of being ones that either benefit or lose because of corporate actions. Interest groups can be divided to internal and external groups. External groups are the ones that are outside of the organization and they are considered to be part of supply chain, media or political operators. External actors are considered be the ones that often pressure organizations to act in more sustainable way. In procurement, management is considered to be in a key role when it comes to responsibility and sustainability. (Maignan et al., 2002.)

The incentives and pressure from external interest groups have raised interest and value towards corporate responsibility. International standards, such as EU-standards, are often related to economical, social and ecological responsibility. This creates an external pressure that is related to legislation and political actors. (Rohweder 2004) Grob & Benn (2014) explain this through coercive isomorphism, which pushes organizations outside of their core business to change their methods of

work. The pressure can be exerted from organizations interest groups such as customers, government and non- governmental organizations (NGO's).

Interest group related organizations cannot surpass moral demands and codes that external actors value. If the organizations are able to obey these demands and rules, administrators do not try to interfere to their actions. This means that there is more organizational freedom provided and organizations' are able to fulfill themselves as private actors. (Rohweder, 2004)

2.3.3. Ethical Incentives and Motivation

Globalization has had influence to firms' responsibility. Firms are considered to be more responsible and to take care that profits are divided in more equal manner. Criticism towards globalization is usually related to sustainable development and human rights. (Rohweder, 2004)

Values, principles and goals guide organizations' business and these have influence to firms' business calls and decision-making. Interest towards sustainability has grown in the past years and social expectations have become a part of legislation. This has had influence towards top-level decision-making process. Top management has to have sincerity to recognize changes in societal values. (Werther & Chandler, 2005)

Depending of context social responsibility can be seen as legislative issue or an advantage for a firm. Some companies' tend to obey the law and respect the issues just because of that. But as it was mentioned above there could also be major advantages for companies that are sustainable voluntarily. The external pressure increases continuously and just by obeying the rules and regulations is not enough for firms in long-term (Gimenez et al., 2012).

Incentives for ethical behavior are corporate values and corporates' desire to take care of the environment and people. Basis for creating ethical values is open and active communication with firms' interest groups. Sustainable actions are seen as a long-term investment to safety, education and equality issues. (Crane & Matten, 2007) Ethical incentives are related to mimetic and coercive isomorphism. Interest

group's power to change organization's methods works as a coercive isomorphism and is related to interest group's demands. The demands push organizations towards better CSR programs and pressure them to concentrate more on socially responsible matters. (Grob & Benn, 2014)

Mimetic isomorphism's presence is seen when the companies from the same field of business have similar codes and management systems within each other. Firms benchmark each other when it comes to profitable CSR systems and frameworks, management systems, programs and alliances. This creates similarity between organizations. (Grob & Benn, 2014)

2.3.4. Organizational Factors

Multinational corporations are expected to be more informative when social responsibility issues are considered. On the other hand, there might be a double standard problem that is related to ethical standards between the countries that the firm is practicing its business. Minimum requirements considering social responsibility vary between countries and legislations. In some countries, the requirements are higher or lower than in other countries. From the interest group point of view firms' are expected to obey higher standards when it comes to social responsibility. (Rohweder, 2004)

The influence of unethical actions is more drastic when organizations are bigger. Bigger corporations are expected to be more aware when it comes social responsibility. (Niskala & Tarna, 2003) Because of the globalization's unethical behavior has a worldwide influence and the issues should not be considered only from national perspective. Organizations have to take globally sustainable development in to consideration. (Rohweder, 2004) On the other hand, Grob and Benn (2014) suggest that suppliers are able to differentiate themselves from their competitors by following sustainable ways of supply, respecting social regulations and by acting responsibly, which will lead to improved financial performance.

Organizational factors can be explained via normative isomorphism. As well as universities organizations are seen as institutions. Normative pressures are rooted in educational institutions such as universities. The norms of acting rooted inside the

organizational culture defines how organizations react and act when CSR is considered. These professional institutions teach people how to react on things and because of it are influencing to peoples' normative thinking and actions. In these institutions there is a great desire to belong in to a group and this relates to various networks that have been established during the years. (Grob & Benn, 2014)

These networks influences on standards of organizational practices rooted in educational institutions. Social obligation plays major role within in driving normative forces. Appropriate behavior has been questioned in terms of social responsibility through moral or ethical understanding in these informal or formal institutions (Grob & Benn, 2014)

3. Responsible Procurement and Corporate Risk Management

This chapter presents procurement risks and risk management. It takes risk mitigations and corporate social responsible- related risks into consideration. First the risks related to corporate social responsibility are presented and after risk management methods and responsible procurement's influence to risk management are taken into consideration.

The definition of risk varies from author to author. In this study, the definition from Verbano and Crema (2015) is used because of its relevance and up to date point of view. According to Verbano and Crema (2015), from the managerial point of view risk has strategic, operative, financial and compliance related influences. These objectives are related to future and uncertainty of a risk. More traditional way to define risk is to consider it as a condition, which varies from the expected outcome. (Verbano & Crema, 2015) Every decision includes risk and risk can be either positive, negative or both. Positive risks might have negative outcomes and other way around. (coso.org) The risk might also depend of unexpected situation and it can be divided in to internal and external risks. Some risks are out of organization's reach (Verbano & Crema, 2015).

According to Lee and Xie (2011) the goal of procurement is to find the ideal portfolio of possibility contracts with minimal total expected procurement cost. In procurement usual way to cut costs is to make long-term contracts that are based on fixed price. Procurement has developed from a functional task into a strategically important operation, which forms long-term supplier relationships (Tiwari, et al., 2014). These contracts usually include an inventory risk, which is on buyer. (Lee & Xie, 2011) In procurement it is important to realize the value of potential risks for the firm. The issues and risks are related to need identification, purchasing method selection and documentation, evaluation and tender selection, negotiations and procurement process evaluation (purchasing.tas.gov.au). The buyer has several procuring sources, which vary whether they are product or service related. Costs are related to flexibility, supply and demand, quantity of product and suppliers and quality. (Lee & Xie, 2011)

3.1. Corporate Social Responsibility in Procurement

In a new global environment, the firms have become more responsible of their actions. Before 1980's the task for procurement executives were to reduce and minimize the cost. This has changed significantly since then. In recent years executives have realized that procurement has significant influence to business performance. (Ciliberti et al., 2008) Managers from operations, purchasing and supply chain have noticed the integration of environmental and social issues and the issues are considered as daily tasks. (Seuring & Müller, 2008) For organizations there is a lot of external pressure that is related to corporate social responsibility. The pressure comes from various external interest groups such as consumers, local communities, civic organizations and legislators (Govindan et al., 2013)

Responsible procurement is considered to be an important issue for practitioners. Socially and environmentally responsible procurement has potential to influence in organization's reputation in negative way because interest group's demands and expectations are higher when it comes to CSR- related actions, but on the other hand it also has an ability to improve competitive performance. Socially and environmentally responsible procurement is fundamental because of globalization, broken supply chain and stakeholder pressure. Implementing responsible procurement strategies is vital not only because of organization's brand and corporate image but also because the implementation gains attention from responsible investors. Responsible procurement helps organizations to create financial incentives and understand the blurred lines that are caused by globalization of companies. (Hoejmose & Adrien-Kirby, 2012)

Corporate sustainability efforts have traditionally focused on direct impacts of organization's waste or emissions connected with its operations (Smith, 2013). Maignan et al. (2002) imply that responsible procurement is a way to manage risks related to interest groups' expectations and demands. In the context of responsible procurement socially responsible buying is mentioned often. In socially responsible buying all aspects of triple bottom line are included in purchasing process. (Maignan et al., 2002) According to the study of Roehrich et al. (2014) factors behind

implementation of responsible procurement strategy are often related to reputational risk.

When the responsibility used to be on a single employer or on government, now multinational corporations are demanded to take more action on employee rights. Even though corporate social responsibility has been known for a long time in business related literature, its implementation to procurement happened only a decade ago (Ciliberti et al., 2008). Procurement has developed to be a more responsible function. Customs and practices that organizations practices have influence for every company in a supply chain and hereby the actions create a foundation for social and environmental framework (Govindan et al., 2013). According to Tiwari et al. (2014) there are five positive outcomes of responsible procurement:

- Positive influence on company reputation and employee motivation
- Retention and recruitment
- Cost savings
- Increased revenue
- CSR- related risk reduction

This development has lead to many positive outcomes, including risk mitigations and bettered corporate reputation. Still it exposes organizations to a risk in case of non-compliance with expected norms and principles. (Tiwari et al., 2014)

To fully implement and benefit from responsible procurement strategy it requires proactive management and decision-making. A change in consumer's awareness has lead to organizations' acceptance of CSR, which leads to better competitive advantage within the field of business. Responsible procurement takes wider aspect in consideration when it is compared with traditional procurement. The reach of responsible procurement goes beyond financial and legal concerns into social and ethical considerations including community involving, diversity, health and safety, labor right issues and the environment. This increases the accountability of an

organization within its interest groups but also leads previously mentioned positive effects of socially responsible actions. (Tiwari et al., 2014)

Lately there have been discussions about Green Procurement. Srivastava (2007) describes that Green Procurement is a mix of environmentally friendly thinking, product planning, raw material purchasing and selection, manufacturing process, providing end product for an end user and controlling products' life cycle. Supply chain management in green procurement is based on a philosophy that describes how organizations take an advantage of their suppliers' processes, abilities and technologies to integrate environmental concerns in to their own benefits. (Vachon & Klassen, 2008) The amount of green products has grown rapidly in recent years and this had raised the importance of green procurement and made it more significant for companies. On the other hand the continuous growth in importance of green procurement has raised questions about green washing. Green washing misleads consumers regarding the environmental practices of a company or the environmental welfares of a product or service. In case of green procurement organizations have to pay extra attention to its interest groups and interest- group related risks. (Philips, 2009)

Companies' interest groups have become more demanding and this has had a drastic influence for the change in corporate thinking. Interest groups have forced organizations to take non- financial factors in consideration in procurement. (Maignan et al., 2002) Hoejmoose and Adrien-Kirby (2012) suggest that in previous studies responsible procurement is considered to be a reactive response to external pressure. Responsible procurement works in both external and internal environment. External drivers usually consist from organization's stakeholders and interest groups, which are for example customers, governments, NGOs, and investors. In past years responsible procurement's role has matured into a holistic and strategic business function (Tiwari, et al., 2014) According to Hoejmoose and Adrien-Kirby (2012) governmental regulatory pressure and customer pressure are the main external pressures that organizations face. The significance of pressure is more important especially when organization ethically committed to its procurement process.

Internal drivers for responsible procurement are organization related. One of the most significant factors is top management support, employees' commitment and organizational values. The managerial point of view to an issue is significant because top management's responsibilities cover decision-making, which is related to organization's practices and organization's culture. (Hoejmose & Adrien-Kirby, 2012) Employees also influence to responsible procurement but executives have also responsibilities related to firm's employees. Implementing supporting organizational culture creates an environment where employees support executives' decision-making. (Hoejmose & Adrien-Kirby, 2012)

Philipps (2010) talks about implementation of responsible procurement and states that it is hard on the wide scale. There are many things that have to be taken into consideration before implementing the responsible procurement strategy and organizations find that challenging. The reach of risks related to responsible procurement and especially to supply chain is way longer than traditional risks that are related to financial and operational performance. For organizations it is challenging to prevent risk exposures, which might be caused by second or third tier supplier (Philipps, 2010) There is dilemma in responsible procurement that has been controversial between short-term and long-term orientation. Usually in procurement the traditional way is to reduce cost, which is considered to be an option for short-term. CSR strategies are usually long-term and this creates the dilemma between savings and responsible actions.

Bounded rationality is often present when responsible procurement is considered and implemented. This means that organizations tend to be responsible on one area without notifying other aspects of responsible procurement. Previously mentioned failures are an example of engagement of bounded rationality when responsible procurement is taken into consideration. Some companies tend to obey the laws and neglect their own social and environmental initiatives, which are more valuable when the aspect of CSR and sustainable development are considered. (Roehrich, et al., 2014)

Based on Liao's and Kao's (2011) findings, they state that in the most of the literature the conclusions are that price, quality and efficiency of performance are the key

factors in supplier selection. Both environmental and social factors should be in major role when procurement is considered. Environmental durability and ecological efficiency are factors that can only be measured and observed through suppliers and their actions. (Kuo et al., 2010) Nevertheless Tiwari et al. (2014) suggest that implementing responsible procurement strategy leads to various benefits. Adapting the strategy to be a part of an organization has a positive influence on the performance, trust and cooperation of the suppliers place. Parties involved, parent company and supplier organization would understand the positive influence of responsible procurement. (Tiwari, et al., 2014)

3.2. Corporate Social Responsibility in Supplier Selection

Supplier selection is a part of procurement and often considered being one function irrational from the others even though it consists many tasks. The selection process typically begins from identifying the company needs. Afterwards procurement unit and decision-makers will draw selection criteria for measuring possible suppliers. The possible suppliers will be tendered based on the criteria. This usually continues until there are only few eligible suppliers left, and after the decision will be made. (Cousins et al., 2008) According to Carter and Jennings social aspects of procurement are considered to be highly important when supply chain covers developing countries because securing socially responsible actions is harder in developing countries. The aspects include ethicality, multiformity, human rights, working conditions, safety regulations and philanthropic activities. Figure three below helps to understand the process of supplier selection and its aspects.

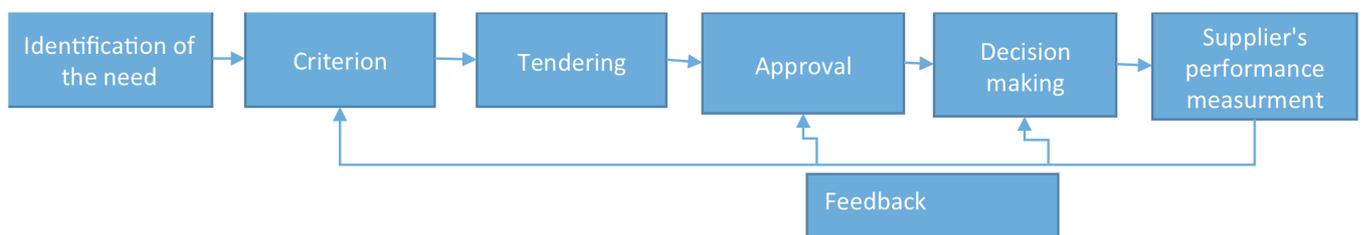


Figure 3. Supplier Selection Process (Cousins et al., 2008)

Corporations are more dependable of their suppliers and the concept of sustainable supply chain has become more common. Sustainable supply chain can be achieved through triple bottom line, which includes economic, environmental and social

aspects. Traditionally companies have taken price, quality and flexibility into consideration in supplier selection process. In modern day business sustainability is in a major role. This has made procurement process more complex within environmental and social pressure. There have been many studies and suggestions that take environmental issues into consideration but there are not many studies or suggestions that take all aspects of triple bottom line simultaneously into consideration. (Govindan et al., 2013)

The success of a firm depends more on its suppliers' performance and nowadays firms' awareness of their suppliers is on a better level. Firms' recognize the importance of sustainable development, which has pushed companies' to understand that it is not possible to perform in a sustainable way if supplier relationships are not properly and sustainably coordinated. (Bai & Sarkis, 2010) Sustainable supply chain management takes a wider set of performance objectives into consideration and deals with environmental and social aspect of sustainability (Seuring & Müller, 2008). According to Seuring & Müller sustainable supply chain management is material and information flow control with a way that takes triple bottom line into consideration from sustainable developments point of view.

So far code of conduct is the most popular way of implementing, ensuring and extending CSR practices between buyer and supplier. It is considered to be the primary way of implementing responsible procurement strategies. Code of conduct connects social and environmental buyer-supplier issues and sets out buyers' expectations for supplier's responsible behavior. Other tasks for code of conduct are to produce direction for employees, maintain uniformed standards, provide encouragement and support and better corporate's reputation in order to be a source of competitive benefit. There is a downside related to implementing the code of conduct: lack of commitment exposes organizations and suppliers to various failures. Failures are usually a consequence from lack of monitoring, supervision and firms' failures to implement their written requirements. (Hoejmose & Adrien-Kirby) On the other hand Roehrich et al. (2014) suggest that implementation process consist failures, such as negative publicity and reputation damage, which are caused because of lack in knowledge. Implementation is often constraint by limited resources, lack of information, conflicting priorities and lack of know-how and

capabilities. Bounded rationality that was mentioned above explains the possible failures in supplier selection and highlights the importance of overall knowledge that is linked to CSR- related procurement (Roehrich, et al., 2014).

Because the probability for supply chain risk is considerably high, organizations weigh the importance of CSR. Organizations have to be prepared to take responsibility of their suppliers' actions. The supply chain responsibility is connected to the ways how suppliers follow environmental and product safety regulations, and labor laws. (Amaeshi et al., 2008)

3.3. Procurement Risks

Procurement managers consider supplier's ability to deliver as their main risk in terms of quality, timeliness and cost (Quinn, 2013). Exposures can cause image risks and loss in sales (Stokes, 2008). Jeynes (2002) states that organizations have to pay special attention in to their procurement process because often procurement related risks are not notified. He also states that there are two risk factors that influences organizations. There are widely recognized risks that are related to all organizations in the industry and risks that are only related to an organization itself. (Jeynes, 2002)

Procurement risks are traditionally divided into two main groups. First, ending of product or service flow is one risk and secondly the price might be higher than it was predicted. (Leenders et al., 2002) The risk is higher especially when high-end product is considered. Changes in product price might increase the volatility when procuring and this way influence to organization's profitability. Firms can avoid pricing risk by making long-term agreements with suppliers and make sure that they are buying the product with the same price. This leads to contractual risks, which includes a dilemma between quantity, inventory costs and pricing. (Nagali, et al., 2008). Disruption in delivery may be caused by external factors such as natural disasters and they are external risks. (Nagali, et al., 2008) Organizations have managed to reduce their inventory through just-in-time process but this has exposed them even more on supply chain disruptions (Quinn, 2013).

Procurement risks can be divided in many different categories. The traditional way to understand procurement risk is related to financial and cost related risks (Nagali, et

al., 2008). Quinn (2013) suggests that companies have to be more conscious about issues related to CSR, labor, fraud, litigations and supply chain disruptions. These are important issues especially from buyer organization's perspective. Often, tier one supplier does not cause the exposure to a risk but it is related to a supplier deeper in a supply chain (Quinn, 2013).

3.3.1. Supply Chain Risk

Supply chains' complexity, length and a boost in competitiveness have increased the possibility of supply chain failures. Supplier risk is usually connected with demand, uncertainty and availability of the product (Tummala & Schoenherr, 2011). According to Tummala and Schoenherr (2011) there are several (10) risk categories when it comes supply chain risks. The risks are connected to demand, delay, disruption, inventory, manufacturing and transportation. Demand risks cause longer lead times and are associated with order fulfillment errors and distortion in information. Delay risk is connected with transportation risks and includes issues such as problems between borders or changes in transportation model. (Tummala & Schoenherr, 2011)

Hallikas et al. (2011) have studied procurement and risk realization in Finnish organizations. The study is based on a questionnaire and shows that risks realized in procurement are often related to suppliers. Figure 4 includes the risks that can be prevented with procurement that are product, delivery, cost, quality and corporate image risk. From the figure it is also possible to notify that risks related to outsourcing and innovation via collaboration are considered to the hardest to prevent from procurement's point of view. (Hallikas et al., 2011)

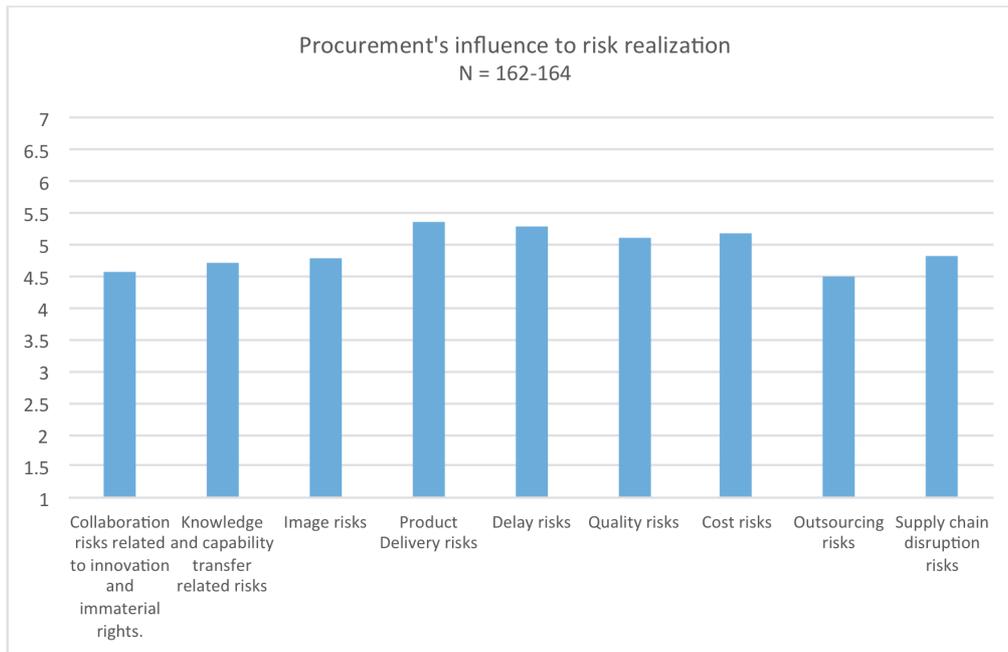


Figure 4. Procurement's influence to risk realization (Hallikas et al., 2011).

Disruption risks are the ones that are hard to prevent. The risks are caused because of natural disaster, terrorism or another unexpected event. There are several other risks related to supply chain and are all related to flexibility and inflexibility of buyer-supplier relationship. (Tummala & Schoenherr, 2011)

3.3.2. Reputational risk

Corporate reputation is a valuable resource. At the best a positive corporate reputation can ease negative impacts of a crisis, be a foundation for competitive advantage, attract capital and close contracts and influence consumer behavior. (Lemke & Petersen, 2013) On the other hand Smith (2013) states that organizations that tend to have good reputation are more often punished more harshly if there is environmental or social violations. Creating environmentally and socially sustainable reputation is beneficial as companies are more often forced to respond to labor and environmental related crises (Smith, 2013).

The definition of corporate image is based on Fombrum's (1996) study that identifies three elements: reputation is based on perceptions, it is the aggregate perception of all stakeholders and it is comparative. (Lemke & Petersen, 2013) Corporate reputation is important because it enhances the image and brand of the company,

boosts moral and has positive influence to stock exchange rate (Porter & Kramer, 2006)

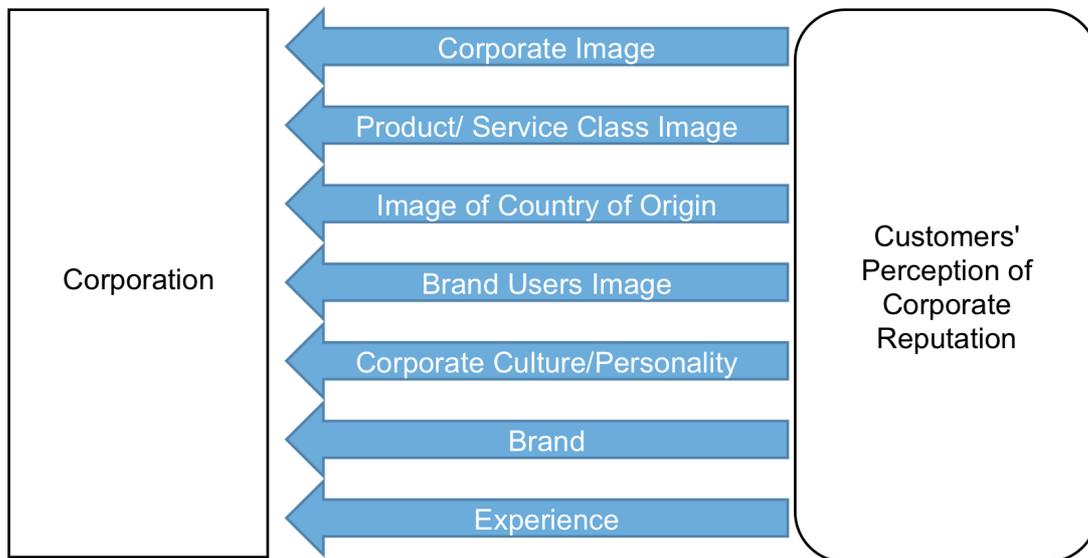


Figure 5. Dimensions of corporate reputation (Lemke & Petersen, 2013)

Figure 5 draws aspects that influence to corporate reputation together. Through the figure it is easier understand the complexity behind corporate image. Individuals base their assumption of an organization through their individual experiences and how a company manages it assets. Understanding the dimensions of corporate reputation is vital because the reputation can be easily damaged. (Lemke & Petersen, 2013) Exposure to reputational risk increases when the length of supply chain grows. Organization's face problems that are related to their suppliers and supplier's denial to follow organization's ethical guidelines, such as Code of Conduct (Quinn, 2013). Proper managing and protection are necessary to prevent exposure and violations. (Lemke & Petersen, 2013)

The importance of corporate reputation has risen because of media, development of social media and consumers' risen awareness, and need for transparency. Figure 5 helps to understand customer's relations with the brand, the image of the company, product and service experience, image of the origin country and personality of the organization. (Lemke & Petersen, 2013) Corporate reputation is primarily based on the relationship between an organization and its interest groups. By identifying needs

of interest groups, organizations are able to better their short-term reputation. Identification process leads to better reputation, competitiveness and interest group loyalty. (Könnölä & Rinne, 2001)

Interest groups form corporate image of a single firm from financial factors. Responsibility is an effective side factor and it consists business ethics, labor conditions and environmental effects. (Könnölä & Rinne, 2001) Quinn (2013) suggests that organizations are becoming more aware of disruption in their supply chain and their impacts to financial performance. Loss of brand equity, supply chain disruptions and supplier failures are all consequences, which are seen in media and have major influence to firm's profitability and shareholder value. This outcome is caused by growth and complexity in supply chains.

3.4. Procurement Risk Management

In risk management executives identify possible outcomes that may influence organizations in positive or negative way and incorporate them into the organizations' strategy (Coso.org, 2004). Lemke and Petersen (2014) state the obvious that organization's primary task for is to provide value for its stakeholders by resulting profitable return on investment. Verbano and Crema (2015) consider that risk management is a set of methods that are used for identification, measurement and to manage business risk. Properly handled risk management can be seen as a competitive advantage for a company because there are also positive outcomes in a risk (Lavigne, 2010).

Suominen (2003) states that risk management is often considered as a process, which includes five variables and stages: Recognition of a risk, measurement and analysis, controlling and finance, evaluation and calculating a cost of a risk. Lemke and Petersen (2013) compress the process into three aspects that have to be taken into consideration: The probability of event happening, the total social cost if the risk were to be realized and what slice of the liability the organization would have to acquire. The main task in risk management is to prevent the financial risks that could harm the organization and to protect a firm from losses that are caused by performing business (Verbano & Crema, 2015).

In the past decade risk and risk management have evolved. Organizations have pushed themselves to be quicker when it comes to identifying risk and created more effective ways to manage it. But all the risk is not manageable by the organization itself. (Lavigne, 2010) According to the study of Hallikas et al. (2011) the most important procedures in procurement risk management is collaboration with supplier, usage of multiple suppliers, contractual obligation and avoiding certain suppliers. Organizations are expected to obey the law and regulations for example in human right and environmental issues. This creates minimum requirements for an organization. (coso.org, 2004)

Supply disruptions are a concern for procurement managers and mitigating the risk is their main task (Lemke & Petersen, 2013) The risen complexity of the supply chain has increased the value of acting responsibly throughout the supply chains. Supply chain failures have significant influence to corporate reputation and financial performance. Organization's decision of implementing socially and environmentally responsible procurement management increases reputational risk as a business driver. Organizations are often aware of the risks that are related to failure in implementing responsible procurement actions, such as negative publicity and reputation loss. Main reasons behind the risks are lack of know-how, limited resources and controversy between priorities. (Roehrich et al., 2014)

Grudinschi et al (2014) show that collaboration between buyer and supplier is needed for fluent and improved procurement. The study indicates that the higher understanding in relationship risks creates greater trust, better communication and better quality of collaboration management between the parties. In risk management top-level decision makers should concentrate more on notifying the risks involved in partnerships. With better understanding of risks creates a better platform for successful risk management. With collaboration and greater transparency organizations are able to manage procurement risk with better grip. Enhancing trust and collaboration leads to successful partnerships, mitigates risk and eases the level of communication. (Grudinschi et al., 2014)

Allen (2010) states that organization's behavior in one part of the world can have huge impacts for its reputation and brand in another. The exposure to a risk grows

when organizations are sourcing their products from long-distance suppliers. Corporate reputation and brand damage is a major concern for organizations operating in a global market. Global supply network creates threats related to CSR and supply chain. Parent company's responsibility reaches out to its suppliers and the organizations are not able to divorce themselves from supply chain failures, even though the failures would not happen with first tier suppliers. Properly performed auditing is a good way to prevent risk exposures. Parent company has to be aware of how the supply facilities manage and reduce their labor, social and ethical, environmental and health and safety risks and how the information is shared between parties. (Allen, 2010)

Corporate image risks are beyond basic risk management practices. In procurement firms have to be extra careful when they are dealing with issues that might cause environmental or social risks. Environmental catastrophes or human right issues can be avoided through properly handled CSR. This helps to retain better brand value and corporate reputation. (Lemke & Petersen, 2013)

Lii and Lee's (2012) study reveals that CSR is viable tool for managing supply chain's reputation and to mitigate to risk connected with it. Social responsibility and reputation interactions influence to stakeholders perceptions and this raises the value of CSR in procurement risk management. CSR principles and connected deeds related to products, services, communication and action are suitable for easing long-term reputational risk in the supply chain. Risk mitigation is performed through ethical and environmental sourcing and engaging suppliers to obey ethical guidelines of the organizations. It is important to engage the suppliers to organization's code of conduct, which defines acceptable and unacceptable behavior of suppliers. There is no universal definition or guideline for corporate ethicality and every organization decides their level of ethicality by themselves. Another tool for risk management is to develop CSR throughout the supply chain. Corporate's transparency contributes to reputation building through CSR. CSR in supply chain guides suppliers with incentives and tools. (Lemke & Petersen, 2013)

For supply chain risk management Lemke and Petersen (2013) suggest a six-step management process. The process includes member-orientations, risk analysis, risk

management options, decision, implementation and evaluation and feedback. Member orientation is all about committing suppliers into organization. For completing the first step it is important to create requirements that are related to supplier's responsibility, make an analysis of supplier's policies and procedures and gather information of their connections to other parties, such as second tier suppliers. The procedure is based on knowledge sharing and is a significant tool for more transparent supply chain. (Lemke & Petersen, 2014)

Risk analysis is a characterization of possible risks. It takes probabilities, impacts, social burdens and costs to the organizations into consideration. In center of risk analysis is risk ranking, which is determine which risk should receive most attention. This is considered to be a great tool for better decision-making process. Based on risk analysis is a risk management option, which indicates the management methods for ranked risks. Different kind of a risk needs different style of management. (Lemke & Petersen, 2014)

Decision, implementation and evaluation are all related choosing the best method based on the option that leads to reducing or eliminating the risk. Properly implemented strategy involves development of the appropriate methods and responsibilities. Measuring the management option is a critical part of properly implemented strategy. Continuous evaluation ensures that practices are correctly chosen according to a risk. Feedback clarifies the results of the strategies and is an outcome of evaluation. (Lemke & Petersen, 2014)

To mitigate corporate image risk, product risks and supplier risk it is important for organizations to commit all members of the supply chain to the same CSR policies (Lemke & Petersen, 2014).

4. Significance of Responsible Procurement in Finnish Construction Company's Risk Management

This chapter presents the empirical part of the study. Empirical data has been gathered by phone interview, and from organization's code of conduct and annual report. The interviewee is a procurement expert from Finnish Construction Company. I have used semi-structured interview methods, which presents accurate and theme related questions (Saaranen-Kauppinen & Puusniekka, 2006). The questions can be considered to be open and it has influenced to interviewees answers. The questions are attached to the end of the study (Appendix 1).

Skanska is an internationally recognized company and it is one of the biggest construction companies in Finland. Skanska is established in Sweden and its origin is in Sweden, and it is also a publicly listed company in Finland. In this case the concentration is in Finnish department of Skanska Oyj and the study investigates Finnish markets. Skanska Oyj is parent company and it has been divided into various departments. Every department has their own goals and they are responsible of their actions. The departments are Skanska building, Skanska homes, Skanska infra, building technology, project development, Skanska asphalt and Skanska equipment. Procurement unit works under the parent company of Skanska Oyj. In this case I am concentrating on material and service purchasing in the case company. Skanska is well known for its corporate social responsibility in Finland and the company is considered to be a trailblazer in its field of business.

4.1. Corporate Social Responsibility in Skanska Oyj

Corporate social responsibility is one of five basic principles in the company. Skanska provides ethical guidance in their code of conduct. Code of conduct establishes foundation for Skanska's business in environment, business ethics and human rights related issues as well as in its relationship concerning employees and partners in cooperation. Other factors are related to triple bottom line (Gimenez et al., 2012) and are economical, social responsibility and safety, and environmental responsibility. The main task for economical responsibilities is to make sure Skanska's competitiveness and stable economical position. The responsibilities reach to personnel, clients and partners in cooperation.

Social responsibility and safety are the most important factors in Skanska Oyj. Organization's commitment to eliminate fatalities, serious and lost time accidents and all harm at its worksites is seen in everyday business. Skanska collaborates with its suppliers to better safety at work in its all construction activities.

Environmental responsibility draws attention to sustainable use of resources and company's commitment to continually improve the environmental credentials in their projects, products and services. Reducing negative impacts of environmental life cycle through collaboration with suppliers is a key to achieve eco efficient and safe products goals.

Skanska improves its responsibility continuously. Responsibility can be seen via their interest groups and especially in negotiation situation. Environment, social issues and safety at work regulations are always attached in supplier's requirements. Ethicality can be seen as a resource that goes out from the company into supplier's action through collaboration. The latest improvement in Skanska Oyj was to take a policy of zero presents. These regulations that both suppliers and personnel face, create equality and highlights the theme of social responsibility.

Since Skanska highlights corporate social responsibility, it is important to acknowledge how they integrate the efforts within their personnel and suppliers. Integration culminates into the code of conduct. Ethical guidance is given to all of the employees, suppliers and subcontractors. Every staff member have to approve and sign that they are committed to obey the rules of code of conduct and the staff also have to take a code of conduct course, which they repeat every two years. Skanska also offers CSR related guidance to its suppliers and subcontractors, as well as its employees. They enable an Internet platform for all interest groups that provide schooling and helps them to understand social and safety, environmental and economical aspects that are valued in Skanska. This web-based school is open to everyone and is also mandatory for personnel in the case company. The questions vary from safety at work to environmental and social issues and they cover the whole business of Skanska, from offices to construction sites.

Before people are allowed to enter to construction site it is mandatory to provide an introduction. Introduction is done every time when a new person enters the construction for every new person entering the site and without introduction persons are prohibited to work or enter to the construction site. The regulations include all the staff and it is obligatory even for top management. The goal of the introduction is to present Skanska's values, ways of work, social and environmental issues and the most importantly safety at work regulations. After introduction persons are aware of the behavior in this specific construction site and are committed to obey the regulations and rules. Personnel are under continuous supervision and if misbehavior is recognized it is reported and noted. Depending of misbehavior it can lead to expelling from construction site and even from the company.

Corporate social responsibility is in line with Skanska's strategy. Responsibilities are divided within different departments, which are responsible for fulfilling the requirements. Functions are risk management, environmental, safety at work, procurement and part of legal department. Every department is responsible of fulfilling all the aspects of CSR. Legal department is partly responsible of contractual parts of social responsibility. Skanska also has an ethical committee. The committee deals with ethical issues and policies. There are personnel through out the organization in the committee, from top-management to employee's representative. According to company's code of conduct there have to be an ethical committee in every country where Skanska is performing its business. The company also has risk committee in, which works both in Finland and Sweden. Risk committee evaluates the risks related to certain project. The biggest projects that influence to whole Skanska group are sent to Sweden to be evaluated by the risk committee.

4.2. Engagement of Interest Groups

Interest groups can be divided into internal and external interest groups (Ameshi et al., 2008; Bai & Sarkis, 2010; Ciliberti, et al., 2008). When interests groups are taken into consideration, code of conduct is again in center of issues. Code of conduct defines the rules for internal and external interest groups.

Internal interest groups such as employees are committed to obey the ethical rules in Skanska Oyj. Every staff member is advised and required to inform of any violation

against Skanska's social, environmental and economical rules and standards. In case of violation, the level of reporting had been made easy. It can be done via "hot line" or straight to the ethics committee. "Hot line" is an anonymous phone line, which provides reporting platform for employees. Since the name is not needed the level of reporting is smaller for staff members. This enhances employee's level of informing. Every observation of internal violation goes straight to the ethical committee and it takes the violation into consideration and has a quick response.

Actions of external interest groups influence more on Skanska's performance and especially from the aspect of CSR. The risks associated with external interest groups, such as suppliers, is bigger than with internal interest groups. External threat is vital from Skanska's point of view and it is considered to be the most important aspect of Skanska's risk management. Skanska's concentration is on external threats and all aspects of the threat, and Skanska also provides continuous guidance towards its suppliers and subcontractors. Previously mentioned policy of zero presents is an example of provided guidance, which creates equality between parent company and supplier. The policy works both ways and enables both parties to obey the regulations.

Every year Skanska deals with at least with 8000 suppliers and subcontractors. The supplier base is considerably large but only about 600 suppliers or manufacturers cover 80 percent of all purchases. This explains why Skanska considers external interest groups to be the highest risk for a company because violations within the supply chain might have drastic influence towards the company. In buyer-supplier relationships Skanska usually has an authority and power in decision-making. Skanska has various requirements that are related to purchased materials and services from economical, social, environmental and ethical aspects. Requirements are often considered in negotiation situation, especially if negotiation process ends without a contract being made. Ending the negotiation process is often Skanska's decision and it is related to supplier's incapability to obey or fulfill required standards.

Skanska involves its interest groups to its business process. Skanska's way to engage and manage interest groups can be considered to be proactive. Ethical committee evaluates all of the bigger buyer-supplier contracts that are made with

external interest groups. Top-management is engaged and committed to supplier process and two persons, employee and his manager, verify all the contracts. This creates pressure and increases the responsibility of top-managers, and also increases transparency of buyer-supplier process because even the small suppliers are given an even chance to contribute and deliver for Skanska. Ethical and risk committee works in Finland as well as in Sweden. The biggest projects, that include the whole corporate group, are sent to Sweden to be evaluated. Other aspect of proactive actions can be seen in everyday business through construction site introductions.

4.3. Principles of Procurement

The values of code of conduct flow through the organization. In procurement process responsibility is a key factor and sets up the demands for procurement. The principles of procurement consist the practices that guide company and staff into direction, which is in line with Skanska's vision: "To understand procurement as a function that plays a key role in winning projects". Since a big percentage of purchases mainly concentrate to material and services it is important for the company to concentrate on responsible actions because transparency is a key factor when it comes to procurement unit. The principle goals for Skanska can be put into five zeros:

- 0 accidents at work
- 0 mistakes
- 0 environmental offence
- 0 ethical offence and
- 0 adverse work.

All the purchases have been advised to perform with procurement system. Procurement system develops transparency because every transaction will be documented. Suppliers are ranked inside the system into four groups by colors: green plus, green, yellow and red. Supplier's performance is accepted in both of the green classes and the purchase can be made from them. Yellow class means that there is some disruption in supplier's documents or the supplier hasn't updated its contracts, agreements or regulatory demands, and the purchase cannot be done before the disruption is fixed and approved. Red class is one that is prohibited.

Suppliers in red class are considered as a threat for Skanska because of their environmental, social or financial violations. Personnel in procurement unit are advised and educated to follow Skanska's principles. For the personnel it is obligatory to attend code of conduct classes and repeat them every two years. Skanska also provides education for responsible negotiation behavior and invitation to tender. Tender related education concentrates on transparency and correctly done documentation. The goal of the education is to ensure that the personnel is aware of Skanska's principles, know how to behave in different situation, to acknowledge the influence of biased supplier selection and most of all engage employees to Skanska's values.

Principles for procurement are ethicality, transparency and contracts. Primary objective for procurement is ethicality and driver for procurement unit is 0 ethical offence. Since the procurement unit works in a way that highlights responsibility and sustainability it is highly important to act ethically.

Transparency is related to proper documentation of the data and creating fair platform for competition between suppliers, which equals comparing suppliers based only on their economical metrics. Transparency is also important in securing competition to avoid biased decision-making when it comes to supplier selection. Since all the contracts are reviewed and verified by at least two persons, it can be presumed to be a foundation for proactive approach to transparent and unbiased action.

Third principle is contract. Every purchase that is related to service or material has to be done with documented contract. Contracts include economical, social and environmental demands and ethical guidelines. Contract is basis for successful relationships and proper collaboration.

Supply chain compliance means that a member of the supply chain commits to needed requirements of accepted practices, legislation, prescribed rules and regulations, specified standards, or the terms of a contract (Businessdictionary.com). Supply chain compliance is also one goal for the procurement unit in Skanska Oyj

and they follow compliance by measuring of how many purchases have been made from pre-accepted suppliers.

The risks considered in procurement are mostly related to social aspect of CSR and are considered to be corporate image risks. The most important procurement risks are bribery, illegal labor and environmental risks. All of the most threatening risks are considered to be reputational risks. Environmental risks are taken into consideration within the construction sites by proper waste management, and reducing and measuring waste through sorting. Corporate image risks are connected to both material and service purchases. Material has to be procured in responsible way and Skanska has to be sure of the origin of the product. Disruptions, such as child labor and unethical working conditions, influence to Skanska's reputation for being responsible partner and company.

The probability of procurement risk is predicted and evaluated through principles of responsible procurement. Bigger purchases has to be approved by a third party and top-management always revise contracts and approves them with signatures, which means that responsibility trickles more on their responsibility. This is considered to be preventing and proactive action to avoid procurements risks.

4.4. Risk Protection

Risk management has been included into Skanska's CSR- strategy. Risk and ethical committee evaluate potential risks from economical, environmental and social point of view. Triple bottom line is included in every aspect of project and in risk management the company evaluates projects by putting responsibility as a key factor. Even though every department has their own responsibilities, the responsibilities are in line with Skanska's business strategy and are linked to whole organization's CSR- strategy.

Procurement risks are usually considered to be supplier risks, and are the most important risks from the organization's point of view. Skanska is a major firm and they outsource about 70 percent of their business. Production and building functions are pretty much outsourced but Skanska always provides supervision in a construction site. Because of company's size Skanska often has hegemony towards

its suppliers. All the suppliers are divided into categories and every category has different labels. In some categories there might be only one supplier, which has negative impact on Skanska's supremacy and negotiation power towards supplier.

Skanska Oyj has proper risk strategy and mitigation is done through out the company. Mitigation in supplier risk is performed through pre-evaluation. Pre-evaluation means that before partnering with a supplier they have to show Skanska that they are financially, environmentally and socially prepared to obey Skanska's code of conduct and work of safety regulations. Pre-evaluation happens with form that engages supplier to obey the regulations mentioned before. Risk identification is important when it comes to mitigation. Risks are identified by external risk committee, which helps Skanska to mitigate risks. Ethical committee makes sure that all the projects are properly prepared and helps the company to mitigate and avoid reputational risks.

Previously mentioned web-based procurement system is also a tool for proper risk management. The goal is that all the purchases are done with the system and it is not possible to add suppliers in the system without pre-evaluating them. Supplier selection and management are seen as a way to manage risks. Procurement risks are avoided by contracts. Properly prepared contract protects Skanska against possible risks and violations, and creates regulatory pressure towards suppliers. Every contract includes attachments connected to ethical, social and environmental rules, and legislation. By signing the contract supplier agrees to follow the contractual terms.

Even though contracts are considered to protect Skanska against violations and supply chain disruptions, the line between the parent company's responsibilities towards its supplier is volatile. Skanska has responsibility of its suppliers throughout the whole project. Since Skanska provides supervision to construction sites ensures this that company's own supervisors make sure that subcontractors follow the company's guidelines. According to interviewee contract is the first step but responsibility flows on Skanska until the project is finished. Skanska as a parent company has to make sure that there are only allowed personnel in construction site. Every employee is documented in construction site's web database and Skanska

provides nametags for everyone allowed to come and go within the construction site. Skanska only uses first tier suppliers so other than subcontracting company's employees are not allowed to let in to construction site. By using only the first tier suppliers Skanska avoids lengthening of the supply chain and ensures that the company is in charge when it comes to its suppliers.

4.5. Influence of CSR in Risk Management

In this study procurement and risk management is researched through CSR and the study concentrates on CSR's influence to procurement and risk management. Since the procurement is done with attitude that highlights responsibility it influence to Skanska's risk management is significant. Skanska follows the principles of sustainable and responsible procurement. Safety is the most important issues for the company. Skanska's goal is that every employee is able to go back home safely and healthy.

Since Skanska strives to be responsible company and has attached CSR into its procurement the outcome of responsible procurement is that supply chain disruptions have negative impacts to Skanska's corporate reputation. Disruptions and violations in supply chain are vital to Skanska's reputation. Skanska deals with issues that include a lot of planning and risk because after every project there will be people inside the buildings. This creates risks that include the origin of the material and the use of labor. Corporate reputation is considered to be the most important issue when the case company is taken into consideration. The worst-case scenario is that major disruptions that influence corporate reputation might even bankrupt the company because it has influence towards its external interest groups such as clients and customers. Skanska's reputation of being responsible company is an advantage for them when negotiating new projects. The corporate reputation is seen as a strategic tool that helps the company to close future projects because both clients and customers risen awareness in CSR- related issues.

Responsible procurement has direct impact on Skanska's risk management. One of the key aspects is that Skanska only deals with first tier suppliers. This influences especially to sub-contractors that are not allowed to make the supply chain any longer. Practically it means that sub-contractors are not allowed to hire second tier

suppliers to work for them. Skanska only makes the contract with one supplier and they are the one to partner with for the whole project.

Even though Skanska only deals with first tier supplier it has to be extra cautious when the company is procuring material. Origin of the material is considered to be one of the disruptions that have influence towards corporate image. Green washing in manufacturers actions is common and the company mitigates the risk by auditing manufacturing companies. Skanska personnel always perform auditing and the goal of it is to make sure that labor conditions, environmental regulations and work force meet the Skanska standards.

Other influence of responsible procurement is collaboration with suppliers. Skanska provides education for its suppliers. The education includes safety at work card, introduction to construction site and open web-based platform for Internet school. These educational efforts are seen as proactive risk mitigation tools and have been proven helpful when it comes to increasing the knowledge of suppliers.

Skanska also concentrates on development cooperation with its suppliers. The development cooperation is focused to supplier development and collaborative innovations. Skanska aims to develop collaborate innovations and solutions with its long-term partners and suppliers. The goal for solutions and innovations is to enhance the performance and to create more trust between the parties.

A strategic partnership through collaboration is one of the most important tasks from procurement's point of view when risk management is taken into consideration. Since the goal is to create trustful partnerships and collaboration, and to aim strategic partnerships to secure the quality of products and services, highlights this the vitality of responsible procurement in the collaboration process. Strategic partners have similar approach with Skanska and provide equal, well-known and proven quality for the company. Collaboration is seen as the most valuable asset in Skanska's risk management.

4.6. Results

The purpose of the study was to research how corporate social responsibility and responsible procurement influence to corporate's risk management. The goal was to study the subject with one of the biggest construction company in Finland and to find out what kind of methods they use in responsible procurement and to knowledge the influence in organization's risk management. The study also aimed to understand how do the standards of responsible procurement and corporate social responsibility influence to supplier selection, risk prevention and how the case company is able to influence its own actions with responsible behavior.

The primary research question formed to be:

1. "How to protect from the corporate social responsibility- related risks in procurement?"

Supporting questions for primary research question were:

1. "How do the organizations positions themselves in case of socially responsible procurement?"
2. "What kinds of risk are in socially responsible procurement?"
3. "What kinds of methods and means are used in procurement risk management?"

The person interviewed for the research is a procurement expert in his field and his position in the case company is Development Manager. As the study shows Skanska is one of the leading companies in Finland when it comes to corporate social responsibility. Skanska includes its responsibility goals into its annual report and exploits global standards such as UN's Universal declaration of human Rights, EU-, ISO- and OHSAS- standards in their procurement process. Theoretical part of the study supports empirical part as it clarifies the same dilemmas, solutions and risks, which were also mentioned during the interview.

The theoretical part of the study shows that terminology of CSR consists various different opinions and definitions. Some studies state that social responsibility is

included to corporate social responsibility and works as a synonym for socially responsible actions. The study concentrates and provides terminology of triple bottom line, which has been used to understand corporate social responsibility in practice. Triple bottom line takes social, environmental and economical aspects into consideration simultaneously and in the study it has been included to corporate social responsibility.

The interview concentrates mostly on corporate social responsibility, responsible procurement and their influence to Skanska's risk management. Most of the interview is based on suppliers, their actions and supplier risk's influence towards the company. Interviewee tells that suppliers are number one priority in Skanska and also the main concern from risk management's point of view. Skanska only uses direct, first tier, suppliers, which influences organization directly. The most of the material disruption happen in beginning of supply chain and because of topic's complexity they are hard to be managed.

Interviewee mentions that Skanska has hegemony towards most of its suppliers and Skanska is able to choose its suppliers by setting up regulations that are related to company's policies. The company is able to influence working conditions, safety at work, ethicality and environmental issues by engaging its suppliers to follow company's ethical standards and requirements, which are written in code of conduct. Skanska's direct influence can be seen through strategic partnerships, collaborations, development cooperation and auditing performed in manufacturers factories. Auditing process takes social and environmental aspects of corporate social responsibility and concentrates on issues such as human rights, workforce conditions and child labor.

Skanska's corporate social responsibility culminates in to their code of conduct. The vision and goal of code of conduct is to engage internal and external interest groups to obey, follow and value the ethical, social, environmental and economical values and regulations that are highlighted in code of conduct. For Skanska it is highly important that all interest groups identify the meaning and value of code of conduct. With code of conduct Skanska ensures that its standards are valued throughout the organization, from its employees to its suppliers.

When responsible procurement is observed from the Finnish construction company's aspect, it is acknowledgeable that based on the interview Skanska concentrates mostly on external interest groups, especially its suppliers and social aspects of the risks related to suppliers. Environmental aspects are taken into consideration in every day business and especially in the construction sites. Waste reduction is a goal and sorting is measured with information provided by national partner company. Corporate social responsibility issues concentrates mostly on social aspects of triple bottom line and Skanska ensures ethicality by committing its suppliers to obey company's code of conduct and safety regulations.

5. Conclusions

The purpose of the study was to understand how organizations respond to responsible procurement and what kind of corporate social risks are in procurement. Simultaneously the study provided information how responsible procurement influences to risk management and what kind of practices and methods are used in risk management to avoid or mitigate corporate social responsibility related risks. Case company was used to understand the issues in practical framework.

As it turns out in the study, definition of corporate social responsibility and what it consists is considered to be controversial. The responsibility issues have divided into groups that either consider that corporate responsibility influences whole society and societal well-being is on organization's responsibility or others that thinks that the responsibility is on governmental actors and they should set requirements, limitations and practices that organizations have to obey. Previously mentioned increases the role of government in case of sustainable development. Organizations have to be aware of their production and take responsibility of their potential social and environmental harms, especially if natural resources are used in the process. Corporate social responsibility is long-term strategic planning. Organizations that take the aspects of CSR into consideration are probably exceling minimum legal requirements at the moment but in long-term it is different because legislation requirements are evolving in this business field. Theoretical part demonstrates that social and environmental aspects of CSR related regulations are increasing and tightening towards supply chain. The theoretical part takes motivation and implementation of CSR into consideration and explains it via study from DiMaggio and Powell (1983) and through pressure from internal and external interest groups. Pressure from governmental parties, media and consumers are the most important external pressure that influence to implementation of CSR. (Bai & Sarkis 2013; Ciliberti et al., 2008; Govindan et al., 2013; Kuo et al., 2010; Grob & Benn, 2014; Rohweder, 2004) Empirical part shows that Skanska is well aware of the situation and it has already taken these aspects of CSR into consideration. Since supply chain risks are seen as the major risks against Skanska and its reputation the company has already concentrated to these issues and are enhancing their corporate responsibility actions continuously.

Skanska also faces pressure from external interest groups and especially from governmental actors. Skanska obeys legislative requirements such as ISO and OHSAS that define social and environmental issues. Since corporate social responsibility is one of the main issues taken into consideration in Skanska they have created their own ethical rules and regulations. The most valuable external interest groups for Skanska are its suppliers and since the company has hegemony towards suppliers they are able to require them to follow Skanska's ethical, environmental, social and economical requirements. Skanska is considered being a trailblazer in its industry in Finland and the company is enhancing its CSR strategy continuously.

Other part of the theoretical study concentrated on responsible procurement and corporate's risk management. The goal was to find out influence and engagement between two factors. Risk management is seen as a competitive advantage for organizations and it can be compressed into three main variables. Variables are probability of event happening, total social cost of the risk and share of liability that organizations have to acquire. Risks and risk management procedures were studied from procurement's point of view and the concentration was on responsible procurement's influences to corporate's risk management. The main risks that were presented in theoretical part of the study were supply chain risks and reputational risks. Traditional supply chain risks are related to timeliness, quality and costs but the study digs in deeper and presents various risks that are related to supply chain disruptions and their influences. Corporate reputation is seen as a foundation for competitive advantages and its importance reflects when properly managed corporate reputation enhances image and brand, boost employees' moral and has positive influence on stock exchange rate. Risk management practices presented in the study prevent risks through collaboration, multifirmity, supply chain failures. Few topics were lack of know-how, limited resources and controversy between organization's priorities, which were the most important issues that prevented organization's procurement risk management functioning in the best possible way. (Lavigne, 2010; Lemke & Petersen, 2013; Quinn, 2013; Stokes, 2008; Fombrun, 1996; Smith, 2013; Roehrich et al., 2014; Hallikas et al., 2011) The empirical part of the study determined that responsible procurement has significant influence to corporate's risk management strategies. The most important risks that are related to

Skanska's procurement are reputational risk and supply chain risk. Skanska enhances collaboration with its suppliers and aims to strategic partnerships with its suppliers. Skanska's risk management methods are considered to be proactive and preventive and as the interview shows Skanska's aims to transparency through documentation, and fair competition in organization's procurement is also a key for sustainable and responsible actions. Strategic partnering, collaboration and development cooperation strategies with their suppliers prevent traditional risks related to quality, timeliness and costs and also enhance company's procedures towards ethical and sustainable actions.

Since the study shows the positive influences of CSR- related procurement and actions, the further research could concentrate on a subject that studies CSR and its marketing to top-tier supplier's interest groups. Study proves that CSR- related awareness has risen, which has created a market for sustainable businesses. The further study could take corporate reputation influenced by CSR into consideration and concentrate on an issue that draws information of its benefits to parent company. The foundation of the further research could study reputational effects and involve suppliers, sub- suppliers, customers and stakeholders. By concentrating on marketing of corporate responsibility it can be fruitful to discover the benefits of CSR- related actions because CSR- related supply management practices influence the reputation of top- tier suppliers in business- to- business markets.

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Appendix

1. Organizations and Corporate Social Responsibility:

- How your company takes CSR into consideration in its business?
- How CSR is integrated to be a part of different functions in Organization?
- How are CSR-related issues positioned within the organization?

Organization's Interest Groups:

- What are the most important interest groups that have influence towards organization's business and CSR- related actions?
- How does the organization get information of its interest groups demand and how these demands influence to organization's business? (Proactive or Reactive means)
- How are the demands of interest groups taken into consideration?

Risk Management:

- In your opinion, how is risk management and CSR related to each other? Do they have a connection? If yes, what kind of connection?
- How is risk management linked with CSR in your organization?
- Is the risk management and CSR integrated function in your company? Are RM and CSR related to each other? How?

Procurement:

- What kinds of purchases are made in your organization?
- What kind of CSR- related incentives is in procurement?
- How many suppliers does you organization have?
- How do you position your company compared to its suppliers?
- Are the aspects of CSR included in your procurement strategy? How?

Risk management and procurement:

- What kinds of risks are related to your purchasing process and what kind of CSR- related risks are in your procurement/ supply chain?
- How do you forecast the probability of procurement risks?

- What kind of CSR- related goals you set for your procurement unit?
- What are the factors that create the biggest threat to your CSR- related procurement process?
- What means you have for CSR- related risk recognition? How do measure and inform it?
- Hpw do you react to CSR- related in procurement risks?
- Do you think that procurement risk management is in good level at your company? If not, what should be done differently?

Corporate Social Responsibility and Procurement:

- Do you obey methods of responsible procurement in your process and how it influences to your business?
- What is the most valuable aspect of CSR in procurement? And less valuable? (environment, supplier multiformity, human rights, voluntary actions, safety)
- Are procurement personnel aware of CSR- related issues?
- Where would you draw the “line of responsibility” when it comes to relationship between parent company and suppliers?
- How do you trail ecologically and socially responsible actions of your suppliers?
- Do you think that disruptions in procurement will influence to your corporate reputation? How?

Supplier Selection:

- How is the supplier selection performed when new suppliers are considered? What are the most valuable criterions in supplier selection?
- What kind of rules, demands and regulations are set to suppliers? CSR- related regulations?
- How do you negotiate with new suppliers?
- How are the suppliers ranked in your organizations? (e.g. first tier, second tier..)
- How do you measure supplier performance and how is it monitored?
- What kind of cooperation you have with your suppliers??
- Does your company participate to supplier’s training?