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**ENSURING SOCIAL SUSTAINABILITY OF THE SUPPLY BASE**

Master's Thesis, 2020

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## TIIVISTELMÄ

**Tutkielman nimi:** Toimittajapohjan sosiaalisen vastuullisuuden varmistaminen

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Tämän Pro gradu -tutkielman tarkoitus on selvittää, millaisia vastuullisen toimitusketjun hallinnan käytänteitä yritykset voivat käyttää varmistaakseen toimitusketjujen ja erityisesti toimittajiensa sosiaalisen vastuullisuuden toteutumisen. Tutkimus pyrkii tunnistamaan, missä vaiheessa hankintaprosessia kyseisiä käytänteitä tulisi käyttää ja, mitkä tekijät motivoivat yrityksiä kohti vastuullisempaa toimintaa sekä mitä sosiaalisen vastuullisuuden riskejä yrityksen toimittajapohjassa esiintyy. Tutkimus pyrkii myös tuomaan esille niitä haasteita, jotka saattavat estää vastuullisen toimitusketjun hallinnan käytänteiden käyttöönottoa. Tutkimus on toteutettu laadullisena case-tutkimuksena, johon osallistui yhteensä seitsemän haastateltavaa case-yrityksestä. Tutkimuksessa tunnistettiin useita vastuullisen toimitusketjun hallinnan käytänteitä, kuten esimerkiksi eettiset ohjeistukset, erilaiset standardit ja sertifikaatit, monitorointiin ja auditointiin liittyvät toimet sekä toimittajayhteistyö ja toimittajien kehittäminen. Vastuullisen toimitusketjun hallinnan käytänteitä hyödyntämällä yritykset voivat varmistaa toimittajiensa vastuullisuuden ja sitä kautta parantaa omaa kilpailuasemaansa, mainettaan sekä tehostaa toimitusketjujensa toimintaa.

## **ABSTRACT**

**Title:** Ensuring social sustainability of the supply base

**Keywords:** sustainability, social sustainability, sustainable supply chain management (SSCM), SSCM practices

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The aim of this study is to examine what SSCM practices companies can use to ensure the social sustainability of their supply chains and suppliers. The objective of this study is also to identify in which stage of the purchasing process these practices should be used. In addition, the motives for sustainable business, the risks that might occur from suppliers' side and the challenges related to the implementation of SSCM practices are examined. The study is conducted by using qualitative case study method, and total of seven professionals were interviewed from the case company. The results indicate that there are several SSCM practices such as code of conducts, standards and certificates, different monitoring and auditing programmes and supplier collaboration and supplier development practices to ensure the social sustainability of suppliers. By using SSCM practices companies can improve their performance and position in the market as well as intensify supply chain operations.

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In Lappeenranta, April 5<sup>th</sup> 2020

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# 1 Introduction

Over the past two decades, increased pressure from governments, employees, customers, shareholders, and other stakeholders have challenged organizations to address the environmental, economic and social implications of their activities. As a result, organizations have adopted the concept of sustainability and its applications as an integral part of business operations. (Morali & Searcy 2012) According to Corporate Responsibility survey conducted by Finnish Business & Society (FIBS 2019), 99% of companies consider sustainability as essential and for 62% of the companies, reputation is the main reason for investing in sustainability. Additionally, majority of the companies believe that the importance of sustainability and the resources and investments related to it will increase over the next five years.

Environmental and economic dimensions of sustainability have garnered great attention in the academic literature for years while the social aspect has been less prominent. However, in recent years social sustainability has received more attention as companies are evaluating their suppliers and supply chains from the perspective of triple bottom line approach (Vahidi, Ali Torabi & Ramezankhani 2018). The social sustainability dimension is related to the embedding of social issues such as health, safety, avoidance of child labor and the improvement of working conditions to develop positive relationships with stakeholders (Bals & Tate 2016, 217). These features refer to a complex dimension as the factors cannot be directly estimated from the final product or service. The complexity of the social sustainability topic has led to ambiguity and a pluralism of definitions while the assessment of social sustainability is seen even greater challenge for companies (Missimer, Robert & Broman 2017; Popovic, Kraslawski & Barbosa-Povoa 2017). Thus, it is evident that while the social dimension is the least studied dimension of sustainability in the literature it is also the most challenging one for the companies to manage.

Sustainable purchasing is a key activity to promote company's and suppliers' sustainability in supply chains as the global competition, mass production, high customer expectations and difficult financial conditions are making organizations increasingly rely on external suppliers and their operations (Simić, Kovačević, Svirčević & Simić 2017). According to Nieminen (2016,150), every organization is only

as sustainable as its entire supply chain behind it and therefore buying companies should ensure the sustainability of their suppliers to the same extent as they assure their own. Additionally, the growing pressure from customers and the interest in the origin of the products are motivating companies to manage their supply chains in more sustainable way. As a result, many pioneering companies have found it necessary to implement sustainable supply chain management (SSCM) practices into their business operations (Vahidi et al. 2018). These practices have significant positive effect on company's performance as they help evaluating and selecting suitable and more importantly high-quality suppliers who can improve the company's sustainability across the supply chain (Li, Fang & Song 2019). Even though the theory and practice of SSCM have been evolving rapidly, many organizations are still struggling with the best ways to incorporate and implement sustainability principles and practices into their supply chains (Morali & Searcy 2012). This occurs also in the survey conducted by FIBS (2017), which states that 34% of the companies report supply chain management as their most challenging sustainability activity.

Due to the topicality and complexity of the subject and the limited literature available for research that considers socially sustainable supply chain management and its practices from the buying company's point of view, it is relevant to explore this topic in more detail. Based on the above discussed issues, the main purpose of this study is to examine what kind of SSCM practices companies can use to ensure that their supply chains and especially suppliers are operating in socially sustainable way. Additionally, this study aims to identify in which stage of the purchasing process these practices should be used and what are the challenges related to their implementation. Based on these findings, a framework that combines these stages and relevant SSCM practices is presented. This study will also consider companies' motives for sustainable business and the social sustainability risks that might occur from the suppliers' side. The empirical part of the study is conducted by using qualitative research method and more precisely a case study. The research methodology, data collection and analysis process and case company are discussed in more detail in the third main chapter.

## 1.1 Background of the study

The term sustainability has become very popular in academic research in recent years and there are increasing amount of research and literature available. The most used concept of sustainability is the triple bottom line approach created by John Elkington in the 1997. The triple bottom line concept encourages the assessment of overall business performance based on three important areas: profit, people and planet, which are referring to social, environmental and economic sustainability (Elkington 1997).

Recent studies also show that the number of publications related to SSCM have increased significantly. This can be attributed to increased awareness and concern among companies and stakeholders about environmental and social sustainability. (Singh & Trivedi 2016) Although the concept of sustainability and SSCM have emerged as major research topics, concrete sustainable practices, such as global guidelines have not been formulated (Hoejmose & Adrien-Kirby 2012). According to Pagell and Shevchenko (2014), there is a need to study how to build sustainable supply chains in the future and especially what kind of practices and processes are needed in this process. Morali & Searcy (2012) also point out that even though the theory and practice of SSCM have been emerging rapidly, most of the companies are still searching the best ways to incorporate and implement sustainability principles into their supply chains. Thus, future research is needed to examine which companies have built sustainability principles into their supply chain management practices and how they have done that.

Although sustainability is widely researched topic, the social pillar has been found to be the least studied aspect especially within the context of SSCM. The social aspect is incorporated in limited number of researches and the practice and understanding of SSCM is still heavily oriented to the environmental aspect of sustainability. For instance, in the article of Seuring and Muller (2008) the comprehensive literature review on SSCM identified that out of 191 papers, 150 addressed the environmental aspect and only 20 papers addressed the social aspect. (Morali & Searcy 2012) After a decade, the current literature still shows that social sustainability in the supply chains has not been well explored and explained.

Social sustainability as a concept has also received criticism in the academic literature mainly based on the lack of coherent definition and interpretations. Missimer et al. (2017) argue that the social aspect of the whole sustainability concept has not been sufficiently science-based and operational and therefore there is a need to further develop the whole concept of social sustainability more specifically. There are also major research gaps in the field of social sustainability. According to Popovic et al. (2017), these research gaps are mainly related to scarcity of information on social sustainability such as the lack of consensus on social impact categories, lack of quantitative social sustainability indicators and lack of suitable methods for social sustainability assessment of supply chains.

It is clear that the number of publications and overall interest in the concepts of sustainability and SSCM are increased during the past decade, but the current literature still misses concrete practices and global instructions on how to implement SSCM practices into company's purchasing operations. From the perspective of social sustainability, the task is even challenging as the research and literature that combines these two concepts is even scarcer. As the majority of research of this topic concentrates on economic and environmental sustainability there is a knowledge-gap regarding social sustainability in SSCM.

## **1.2 Objectives and research questions**

Due to the issues discussed above and especially the importance of SSCM practices in selecting high-quality suppliers and that way improving the company's performance and ensuring the sustainability of the supply chain, this study aims to examine what kind of SSCM practices companies should use to ensure that their supply chains are operating in socially sustainable way. The aim is to study specifically those practices that are focusing on company's suppliers. In addition, this study aims to identify in which stage of the purchasing process these practices should be used and what are the challenges related to the implementation. The motives for sustainable business and the risks that may occur from the suppliers' side are also examined in this study. The main research question and the sub-question of this study are presented in the table 1.

Table 1. Research questions

Main research question	
MQ1	What kind of SSCM practices companies should use to ensure socially sustainable supply chains?

Sub-questions	
SQ1	What are the motives for sustainable business?
SQ2	What kind of social sustainability risks occur from supplier side?
SQ3	What SSCM practices in which stage of the purchasing process should be used?
SQ4	What are the challenges related to the implementation of SSCM practices?

### 1.3 Conceptual framework and definitions of key concepts

Conceptual framework of this study aims to describe the theoretical perspectives and their linkage to the topic and the key concepts and their relationships. In addition, the conceptual framework illustrates the progress of the study.

The integration between the concepts of sustainability and supply chain management (SCM) has led to new scientific concept called sustainable supply chain management (SSCM). By exploring the practices and processes in the field of SSCM, the study aims to identify the most relevant activities for buying companies to ensure the social sustainability of their supply chains. The conceptual framework of this study is presented in the figure 1 below.

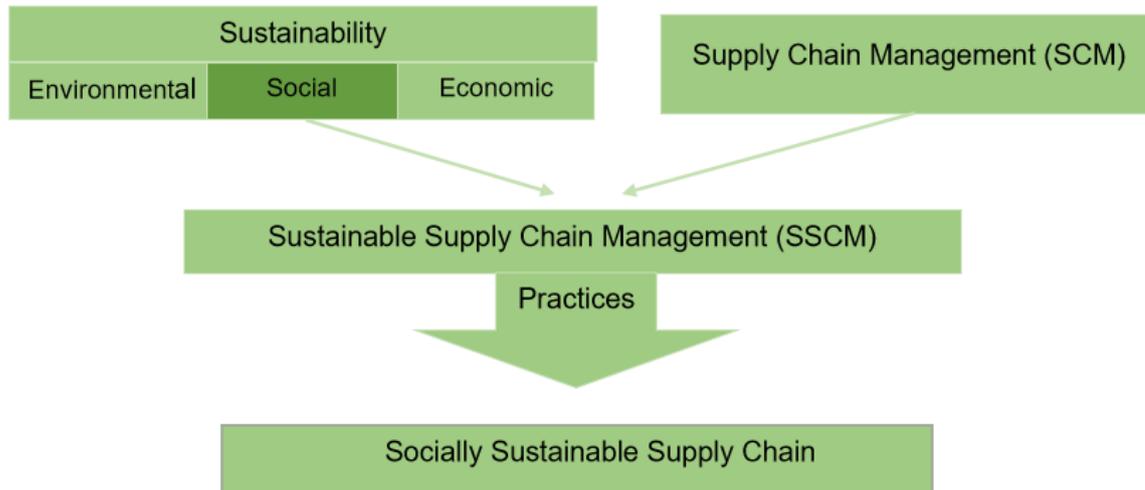


Figure 1. Conceptual framework

To understand the conceptual framework more inclusively and before presenting relevant theories and earlier literature more deeply, the key concepts of this study are presented shortly. The main concepts used in this study are social sustainability and sustainable supply chain management.

**Sustainability** is defined by the World Commission on Environment and Development (WCED) as “development that meets the needs of the present generation without compromising the ability of the future generations to meet their needs”. The most used concept of sustainability is Elkington’s (1997) triple bottom line approach, which recommends that companies are committing to focus on social and environmental concerns as much they do on profits. These three pillars are also called people, profit and planet referring to social, economic and environmental sustainability.

**Social sustainability** is a wide-ranging multi-dimensional concept, which tries to answer the question “what are the social goals of sustainable development?” (Dempsey, Bramley, Power & Brown 2011). Social sustainability can be seen as voluntary corporate activity that furthers social wellbeing and is beyond the requirements of the law and company’s interests (Alessandri, Black & Jackson 2011). Terms corporate social responsibility (CSR) and social responsibility are often used to describe the concept of social sustainability and vice versa. Even though the concepts have few different interpretations, this study uses the term “social sustainability” to describe the topic for clarity and coherence.

**Supply chain** is defined as an integrated process wherein various business entities cooperate in an effort to purchase raw materials, convert these materials into specific final product and to deliver these final products to customers (Beamon 1998). Nowadays, supply chains are perceived as networks of many different relationships, with the aim of adding value to every stage of the chain. These relationships can be formed between products, processes, companies or industries. (Acquaye 2017)

**Sustainable supply chain management (SSCM)** is a strategic and transparent integration of an organization's economic, social and environmental objectives in the systematic coordination of key interorganizational business processes to improve the long-term performance of the organization and its supply chains (Wolf 2014).

**SSCM practices** include company's internal and external strategies that are implemented to make the supply chain more sustainable from the perspective of social, environmental and economic sustainability (Li, Fang & Song 2019).

#### **1.4 Structure of the study**

This study consists of five main chapters and sub-chapters. This first chapter presents the reader the main topic and purpose by presenting earlier literature and background of the study. In addition, the first chapter introduced the conceptual framework, main concepts, objectives and research questions used in this study. The second chapter concentrate on the theoretical perspective of the study by presenting current literature related to social sustainability and SSCM. The aim of the theoretical chapter is to understand these concepts generally and identify the SSCM practices that buying companies can use to ensure socially sustainable supply base. Also, the motives and risks related to socially sustainable behavior and the challenges related to the implementation of these practices are discussed briefly.

Main chapters three and four explore the empirical part of the study. In the third chapter, the methodology, case company, data collection and data analysis process as well as the reliability and validity of the study are presented more closely. After this, the study proceeds to the main chapter four which consists of the actual analysis and results of conducted interviews. By exploring the collected data from the interviews,

the fourth chapter aims to understand what SSCM practices could be used to ensure the social sustainability of supply base. The fifth and final main chapter of the study aims to answer to the set main research questions and sub-questions and conclude the main empirical findings. Additionally, implications with suggestions for further research are presented. The structure of the study is introduced in the figure 2.

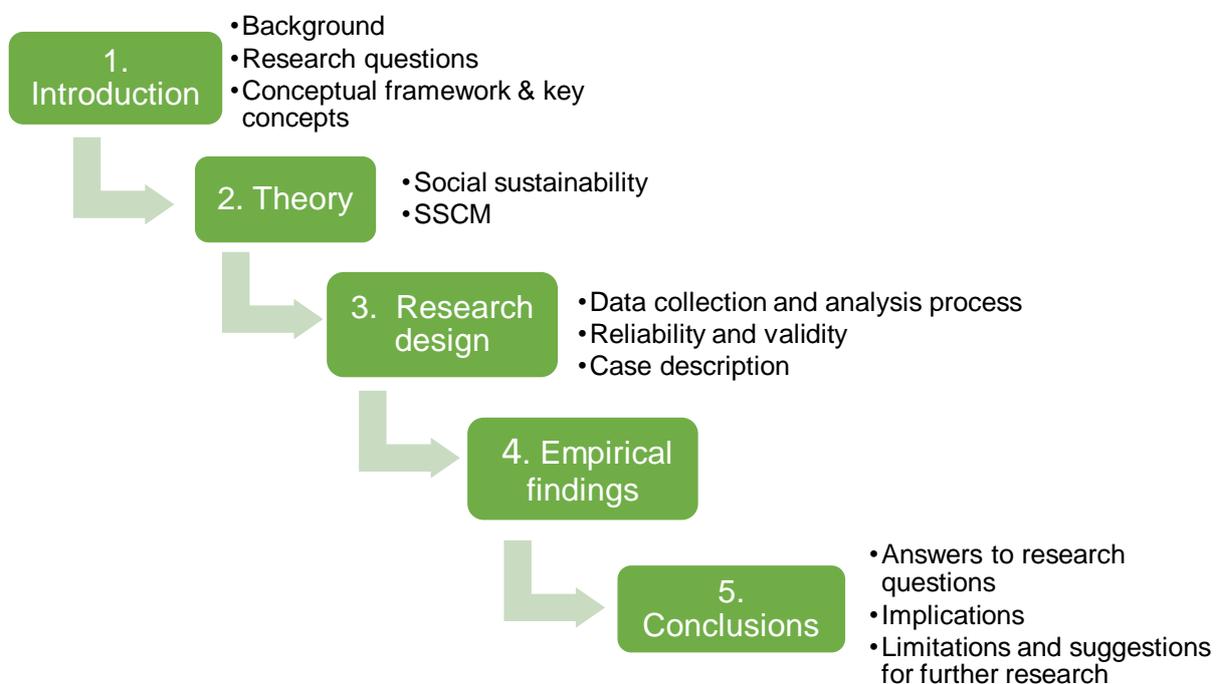


Figure 2. Structure of the study

## **2 Socially sustainable purchasing and supply management**

This chapter presents the theoretical part of the study and focuses on the literature and research of the chosen key concepts. First, the concept of sustainable purchasing and the purchasing process are briefly discussed and after that the focus shifts to social sustainability and SSCM. Lastly, the SSCM practices are discussed more detailed and also challenges related to their implementation are discussed briefly.

### **2.1 Purchasing and purchasing process**

Companies aim to run profitable operations and the overall prosperity and financial result relies strongly on company's purchasing activities. Purchasing can be seen as a broad concept since the definition can vary depending on the perspective. According to the classic definition, the main goal of purchasing is to buy the right kind of material from the right source at the right place at the right time and at the right price. (Lysons & Farrington 2006, 5-6) Therefore, purchasing can be seen related to the acquisition of the inputs used in the company's value chain. These inputs may include for example raw materials, supplies, machines or buildings. (Weele 2014, 5)

In today's global business environment, companies are facing increased pressure from NGOs and societies to ensure that their operations are sustainable. Sustainable purchasing is defined as purchasing that is consistent with sustainable development, such as living with environmental limits, ensuring a strong and healthy society and promoting good governance (Walker & Brammer 2009). Sustainable purchasing requires that each social, environmental and economic aspect are integrated into company's purchasing activities. Nieminen (2016, 150) highlights that each of these three aspects need to be taken into consideration especially in supplier selection, supplier evaluation and supplier collaboration. Suppliers are important contributor to company's competitiveness and sustainability but at the same time also a threat to them.

Although the value and role of purchasing within the companies have not fully responded to the impact that it has on the company's profitability and competitiveness, the role of purchasing as one of the company's most important activities has been

growing steadily since the early 1990s (Iloranta & Pajunen-Muhonen 2015, 177). Since the role of purchasing is already substantial it becomes even more significant and challenging when the aspect of sustainability is linked to it. In fact, the growing valuation of purchasing might be due to today's common understanding of the connection between company's sustainability and purchasing activities.

Purchasing process can be defined as a set of stages directed at achieving a required output and the sequence of processes by which required supplies are converted into final products and delivered to the end customer (Baily, Farmer, Jessop & Jones 2005, 4). According to Van Weele (2014, 28), the stages in the purchasing process are highly interrelated and the success of one step affects another one. In other words, the outcome of the first stages of the process substantially define the performance of the later stages. Many different interpretations of purchasing processes can be found in the literature but for a large part they share the same main stages presented in the figure 3.

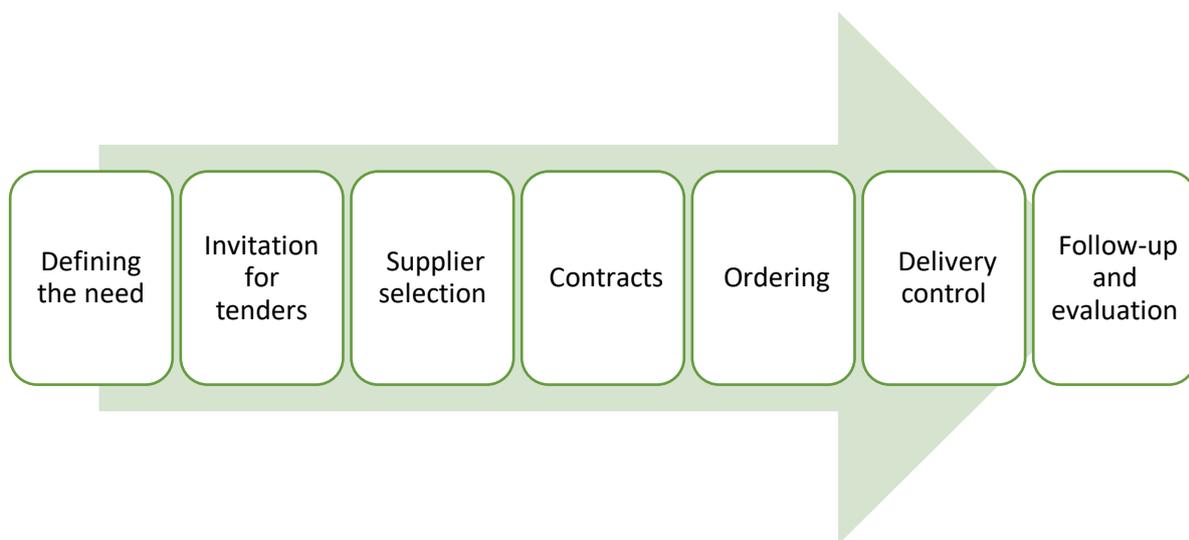


Figure 3. Purchasing process (Nieminen 2016, 53; Iloranta & Pajunen-Muhonen 2015, 62)

The purchasing process can be presented as a simple sequence as in the figure 3 above, but in practice the process is not standard as it depends for example on the characteristics, strategic importance and the value of the product or service. In addition, supplier markets, the level of risks and the impact of the purchase on company's other operations can influence the purchasing process. (Nieminen 2016,

53) Considering sustainability in the purchasing process, two stages are particularly emphasized; supplier selection and the follow-up and evaluation. According to Khan, Kusi-Sarpong & Arhin (2018), the selection of sustainable suppliers affects the overall sustainability performance of the company and the evaluation of suppliers' performance is crucial to the survival of the whole supply chain.

Next, the concept of sustainability is presented briefly followed by a more detailed presentation of social sustainability and its attributes. The concept of social sustainability is discussed from the buying company's perspective. The aim is to demonstrate how social sustainability is reflected at different stages of supply chains and what are the social sustainability risks pursuing from the suppliers' side. Additionally, the drivers and challenges related to social sustainability in purchasing are discussed.

## **2.2 The concept of sustainability**

There are many different interpretations of the concept of sustainability. The definition of World Commission on Environment and Development (WCED) has however received the most attention and according to WCED sustainability means "development that meets the needs of the present generation without compromising the ability of the future generations to meet their needs" (Portney 2015, 53). However, according to Gimenez, Sierra & Rodon (2012), this definition is difficult for the companies to apply as it provides only little guidance how companies should identify present versus future needs and determine the technologies and resources to meet those needs. Other commonly used terms to describe company's sustainable behavior are responsibility, corporate responsibility, corporate social responsibility, sustainable development, corporate accountability and social responsibility. As all these terms are in large part synonymous and therefore interchangeable, this study uses the term sustainability to refer to the topic in general. It is up to the top management of the company to decide what term is used to describe the sustainable behavior of the company. Thus, companies can decide what kind of terminology to use and therefore the terms vary in literature and between companies.

Most of the organizations have adopted Elkington's triple bottom line approach to describe and manage the sustainability of the company. According to the triple bottom line approach, companies do not need to only engage in socially and environmentally sustainable behavior since positive financial gains can also be made in the process (Gimenez et al. 2012). Carter and Rogers (2008) also agree that positive financial outcomes and competitive advantage can be achieved in the long run while paying attention to social and environmental impacts at the same time. The key idea behind the triple bottom line approach reflects that all three aspects should be achieved without sacrificing any of them. Aspects are interconnected and holistic sustainability is only realized when all three aspects are implemented simultaneously. (Portney 2015, 6) Figure 4 illustrates that the intersection of social, economic and environmental is the target area of sustainability.

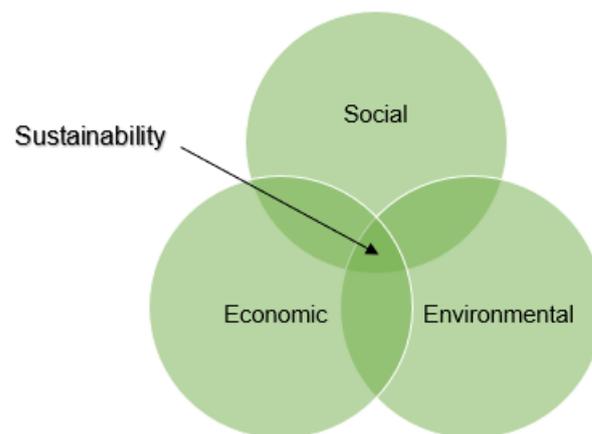


Figure 4. The concept of triple bottom line

*Environmental sustainability* refers to action and decisions which are necessary to mitigate company's negative environmental impacts (Evangelista, Colicchia & Creazza 2017). Reduction of packaging material and waste, development of environmentally friendly products and reduction of emissions in the transportation are great examples of environmental sustainability measures (Walker, Di Sisto & McBain 2008). Environmental issues are visible in many operations, but in purchasing and logistic the impacts are most prominent. Kleindorfer, Singhal and Van Wassenhove (2005) emphasize that companies should integrate environmental concerns into their

purchasing operations and in particular into activities such as research and development, quality, distribution, warehousing, logistics and transportation.

*Economic sustainability* is usually understood well and at the factory level it has been operationalized as production or manufacturing costs (Gimenez et al. 2012). In general, it means achievement of economic goals while protecting the environment and society (Varsei 2016). According to some interpretations, economic aspects can also be seen as a consequence of the two other aspects of sustainability. For instance, improvement of environmentally sustainable practices can lead to lower indirect costs and thus to greater competitiveness. On the other hand, maintaining strict environmental practices can also lead to additional costs for the company. (Gupta 2018) All in all, economic sustainability refers to owners, investors and other stakeholders expects to receive a fair return (Carroll 2015).

Although this study considers the social aspect of sustainability it is important to understand that true sustainability occurs only if all three aspects are balanced and implemented simultaneously. The concept of social sustainability will be presented more specifically next.

### **2.3 Social Sustainability**

Social sustainability is a multifaceted concept as both theory and practice seem to lack of all-encompassing definition. Polese & Stren (2000, 229) define social sustainability as “development that is compatible with harmonious evolution of civil society, fostering an environment conducive to the compatible cohabitation of culturally and socially diverse groups while at the same time encouraging social integration, with improvements in the quality of life for all segments of the population.” More simply, Mani, Gunasekaran & Delgado (2018) see social sustainability as management of social resources that comprises the skills and abilities of people as well as the relationships and social values. Instead of seeing social sustainability as management activity or development process, some authors define it as voluntary or planned corporate activity that aims to generate social wellbeing beyond the requirements of the law and company’s own interests. Social sustainability is also described to cover the satisfaction of basic needs, social justice and coherence and the quality of life.

(Alessandri et al. 2011; Suopajärvi, Poelzer, Ejdemo, Klyucnikova, Korchak & Nygaard 2016) Varying perspectives and the extent of the definitions have led to a multi-dimensional concept, which is dependent on the environment and the background of the interpreter.

Universally, social sustainability refers to the impacts that company's operations have on different people and communities. Giannakis & Papadopoulos (2016) note that social dimension refers to the delivery of responsibilities particularly towards customers, employees, business partners, societies and governments. Different stakeholders should always be taken into consideration when assessing the overall impacts of company's operations. The most important stakeholders for companies are usually employees, customers, suppliers and local communities. (Nieminen 2016, 145) Stakeholders have opportunities to guide the company's values while similarly the company has a role in shaping the values of stakeholders. For instance, the buying company can require a certain level of social sustainability from its suppliers in order to increase incentives for other parties in the same industry sectors to also acquire the same level of social sustainability in order to compete. (Hutchins & Sutherland 2008) The synergy between the company and its stakeholders is presented in the figure 5.

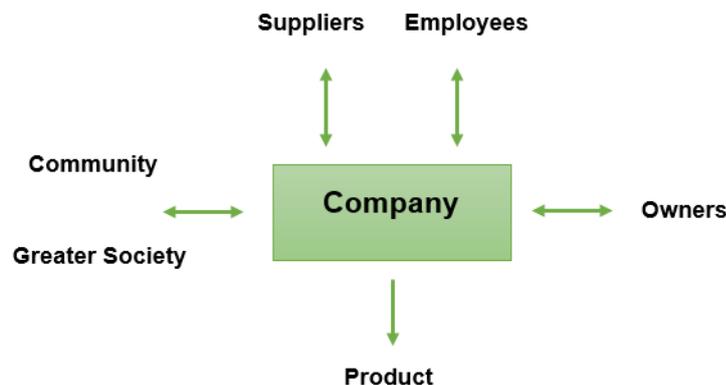


Figure 5. The synergy between company and its stakeholders (Hutchins & Sutherland 2008)

According to Bals & Tate (2016, 36), societies consist of human rights, labor regulations, education, health of customers, employees and people in general as well as people's access to different products and services. Thus, problems related to

employment, diversity, fair-trade, equality, labor standards, corruption and bribery are identified as the main issues of social sustainability. Gimenez et al. (2012) point out that social sustainability affects both internal and external communities. Companies should be able to provide equitable opportunities and encourage diversity for example at their own manufacturing plants but also ensure the quality of life and provide democratic processes and accountable governance structure in the communities they operate in. Table 2 summarizes the essentials of social sustainability classified by the most important stakeholders.

Table 2. Essentials of social sustainability for stakeholders

Internal communities		External communities	
Employees	Suppliers	Customers	Society
Fair wages Human rights Work-life balance Employee satisfaction Health & safety Diversity Equality Training Labor laws Non-discrimination	Ethical purchasing Human rights Social products Training Labor laws Prevention of child and slave labor	Affordability Product safety Business ethics Transparent communication	Accessibility Social hiring Philanthropy Local engagement Business ethics Prevention of bribery and corruption

Sustainability issues and especially the social aspects are becoming a permanent part of business environment. Companies have had quite significant role in the rise and expansion of social sustainability since majority of the companies are publishing annual social reports to disclose their performance in all sustainability aspects and to make their operations more transparent to stakeholders (Carroll 2015). Most of the authors agree that companies are reporting about social and other sustainability activities mainly to improve the image and reputation of the company. According to Hojmosse, Brammer & Millington (2013), the main reasons to share sustainability reports and activities are to demonstrate positive social image, improve corporate reputation and influence customer choices and purchasing intentions. Thus, if annual social reports are not required by the law, social sustainability reporting can be seen as a reputation management and brand protection since the competitive pressure

together with media pressure and reputation management are the main determinants of reporting (Nikolaeva & Bicho 2011).

### 2.3.1 Social sustainability in supply chains

For companies, the greatest opportunity to enhance sustainable activities lies in their own supply base since supply chains are significant part of business operations and company's growth. Therefore, companies have started to more frequently incorporate sustainable supply chains into business strategies. (Lee & Kashmanian 2013) This supports Hojmosse et al. (2013) suggest that social sustainability in supply chains should be allied with the company's strategy. Authors further argue that if the intent is to use social sustainability as a differentiator, companies need to ensure that such issues apply to the supply chains in order to protect and improve company's reputation. As suppliers and company's purchasing activities are important contributor to company's overall competitiveness and sustainability, it is necessary to review more closely the structure and elements of supply chains from the perspective of social sustainability.

Supply chains can be defined as integrated processes wherein various business entities cooperate in an effort to purchase raw materials, convert these materials into specific final product and to deliver these final products to customers (Beamon 1998). Similarly, Branch (2009, 75) describes that "supply chains embrace an overall process that results in goods being transported from the point of origin to final destination, and includes the movement of goods, the shipping data, and the associated processes as well as the series of dynamic relationships." Nowadays, supply chains are perceived more as networks of many different relationships with the aim of adding value to every stage of the chain. These relationships can be formed between products, processes, companies or industries. (Acquaye 2017) The transition from supply chains to networks is based on the idea that all different actors in the business environment are in some way linked to each other even though there would not be direct connection between every individual actor (Iloranta & Pajunen-Muhonen 2015, 339). However, the network is always consisting of individual and unique relationships between the

suppliers and buying companies and therefore the topic of this study is not ideal only for the concept of networks but also for the more traditional concept of supply chain.

Usually, supply chains comprise all the actors that are involved in the process of meeting the needs and expectations of customers such as retailers, distributors, wholesalers, buyers, manufacturers and the suppliers of components and raw materials. However, when it comes to sustainable supply chains the focus should be primarily on the manufacturers and suppliers of the raw materials since they are the key players in terms of complying with the sustainability practices. (Lee & Kashmanian 2013) Hofmann, Schleper & Blome (2018) also argue that the actors in the downstream of supply chain are particularly vulnerable to social sustainability issues because they are more visible to the stakeholders.

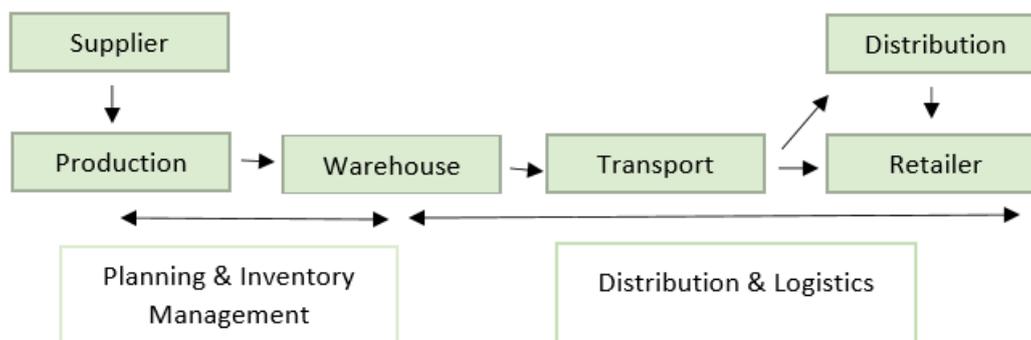


Figure 6. The structure of supply chain (Beamon 1998)

Figure 6 demonstrates an example of the structure of supply chain. Even though the structure of supply chains can vary notably between companies and industries, the figure shows that supply chains often consist of many different interconnected entities. According to Giannakis & Papadopoulus (2016), the largest part of company's social sustainability falls outside of its direct control in manufacturing, packaging and transportation. Additionally, globalization has led to very long and fragmented supply chains and even though suppliers are located far away and usually on another continent, buying companies especially leading brands are fully responsible for poor social practices even at the furthest reaches of their supply chains. Compared to past, companies can no longer appeal to the denial of knowledge or responsibility in case of sustainability issues. (Marshall, Mccarthy, Claudy & Mcgrath 2019) Thus, ensuring social sustainability throughout the whole supply chain is challenging and usually very

time consuming. Pagell & Wu (2009) remind that in reality, fully sustainable supply chains do not even exist since they would not cause any harm to nature or society, while being able to generate profit in the long run. Hence, some companies are just significantly more sustainable than others, but not completely sustainable.

Nevertheless, companies have ethical and moral obligation to ensure that all employees are safe and the work they do does not affect their human rights even though the suppliers are geographically distant. Thus, illegal or unethical practices in supplier's end can seriously damage the buying company's reputation. (Marshall et al. 2019) In addition, to prevent the reputation damages, the adoption of social sustainability in supply chain can not only improve social performance but also contribute to the competitive advantage of the whole supply chain, which can eventually reduce costs and increase market share. Furthermore, the improvement of working conditions in supplier's end benefits buying company's operational performance in the form of accident reduction, fewer disruptions and increase in product delivery time. (Mani et al. 2018) The realization of sustainability in supply chain depends on all the actors in the supply chain even though the ultimate responsibility lies in the hands of buying company. Nieminen (2016, 147) underlines that in a sustainable supply chain all actors should work closely together and ensure that everyone is profitable and the information flow in the supply chain is sufficient and clear. The quality of information that is available to stakeholders also defines the valorization of social sustainability (Bals & Tate 2016, 187).

Figure 7 illustrates social sustainability in supply chain. The supply chain has been divided into purchasing, production and distribution. Each of the phases include different practices to ensure the social sustainability of supply chain.

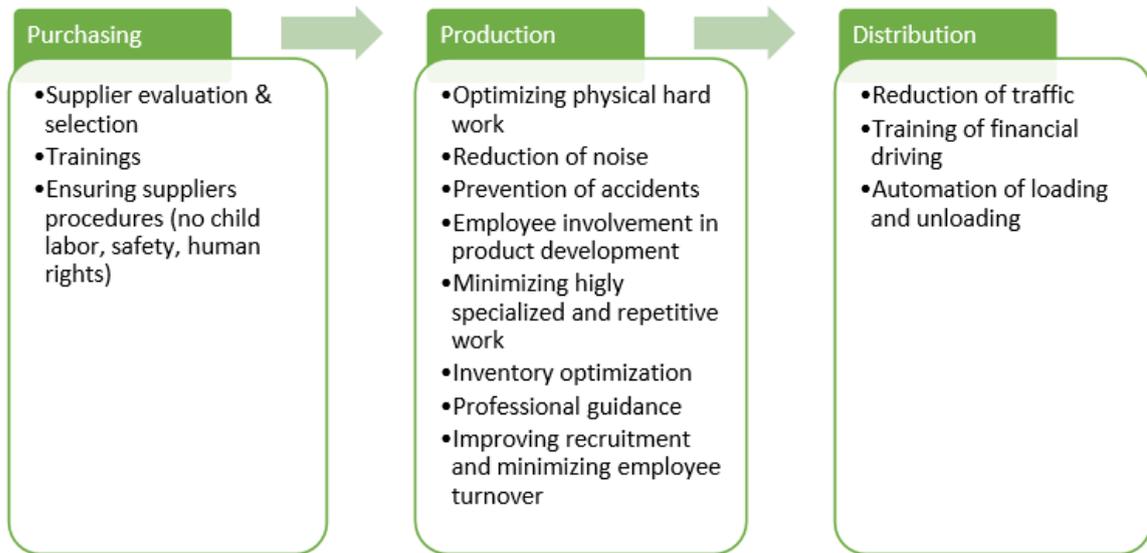


Figure 7. Social sustainability in supply chain (Nieminen 2016,148-149)

### 2.3.2 Drivers, benefits and challenges of social sustainability

Companies can have multiple different drivers to foster social sustainability in their purchasing activities, but they also face number of challenges. This chapter presents the most common drivers for companies to pay attention to social sustainability as well as the benefits they can achieve by these actions. Additionally, the risk drivers and risk as well as the challenges related to social sustainability are also discussed.

According to Lee (2017), social sustainability activities strive to meet the ethical expectations of different stakeholders by advancing social good beyond what is required by law. Thus, companies recognize that the implementation of social sustainability activities is not just a legal obligation but provides some added value to the company and its stakeholders as well. From the company's perspective social sustainability activities can foster innovation and ultimately competitiveness while from the government's point of view company's social sustainability through various policy instruments and subsidies can increase the international competitiveness and concurrently support sustainable development (Wagner 2010).

In addition to external motivation actors such as stakeholder pressure, legislation and economic competitiveness, the internal factors are also important drivers for

sustainable business. Alongside with the national and international legislation and regulations that often act as concrete drivers towards sustainable behavior, the vision and support from top management is comprised as the most powerful driver to foster sustainable purchasing activities (Nieminen 2016,151). In other words, poor misinformed managerial decisions or poor employment conditions can substantially lower the level of sustainability (Giannakis & Papadopoulus 2016). The compatibility between top management and operational level may sound simple, but within the companies the coherence between what top management desires and what are the decisions made at the operational level can vary considerably (Gimenez et al. 2012). Nevertheless, management's view and the ethical concern of social issues as well as the perception whether the external pressure is seen as an opportunity or restriction determines the level of social sustainability in company (Coppola & Ianuario 2017).

Companies are also investing in sustainability activities since they see it as risk management tool to manage and prevent possible sustainability risks. For companies it is important to understand where the risks come from and what are the possible consequences of these risks. Sustainability risk management (SRM) is an extend to traditional risk management approach, which manages a broad scale of emerging risks and non-quantifiable risks arising from sustainability issues for company survival (Aziz, Manab & Othman 2015). Giannakis & Papadopoulus (2016) have investigated in more detail the risks related to sustainability and separated them into two major categories; endogenous risks that are caused by companies' activities along their supply chains and exogenous risks that are formed through the company's interaction with external environment. Social sustainability risks and the main drivers behind them are presented in the figure 8 below.

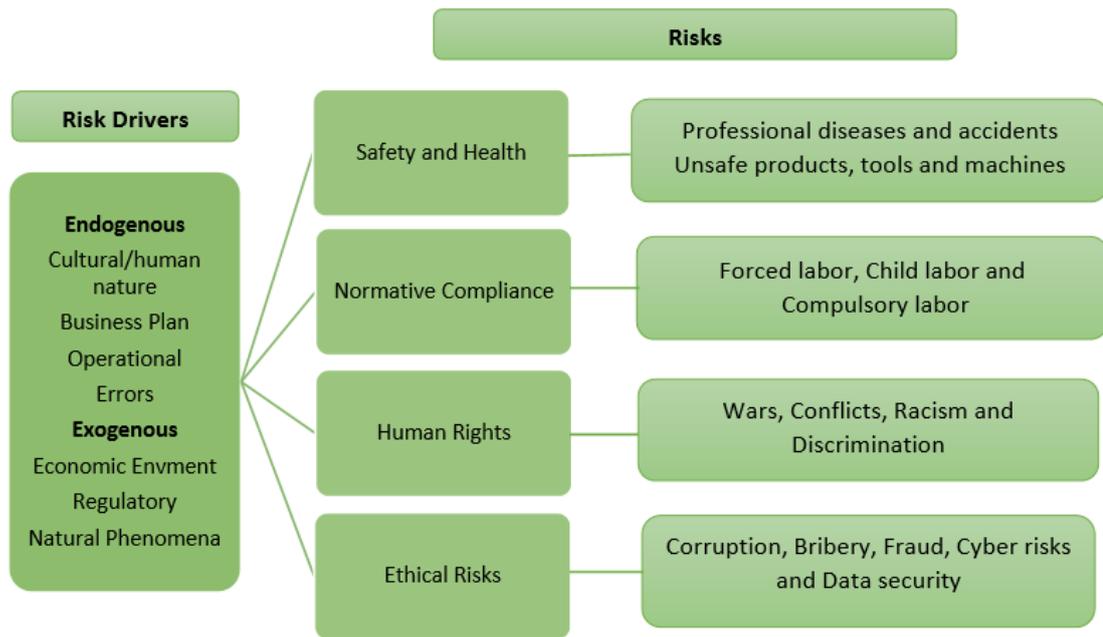


Figure 8. Social sustainability risks and their drivers (Giannakis & Papadopoulus 2016; Truant, Corazza & Scagnelli 2017)

The consequences of the risks can be damaging since they affect directly to company's operations and stakeholders. The most common consequences are boycotts and protests against company's products and services, negative press, changes in purchasing patterns and especially damaging reputation of the member actors of the supply chain, which impacts their bottom line and continuity drivers (Basta, Lapalme, Paquet, Saint-Louis & Abu Zwaida 2018). Considering the impact of possible risks, companies should pay close attention to risk management activities and identify the most harmful risks for the company. The process for supplier risk assessment and mitigation is presented in the figure 9.

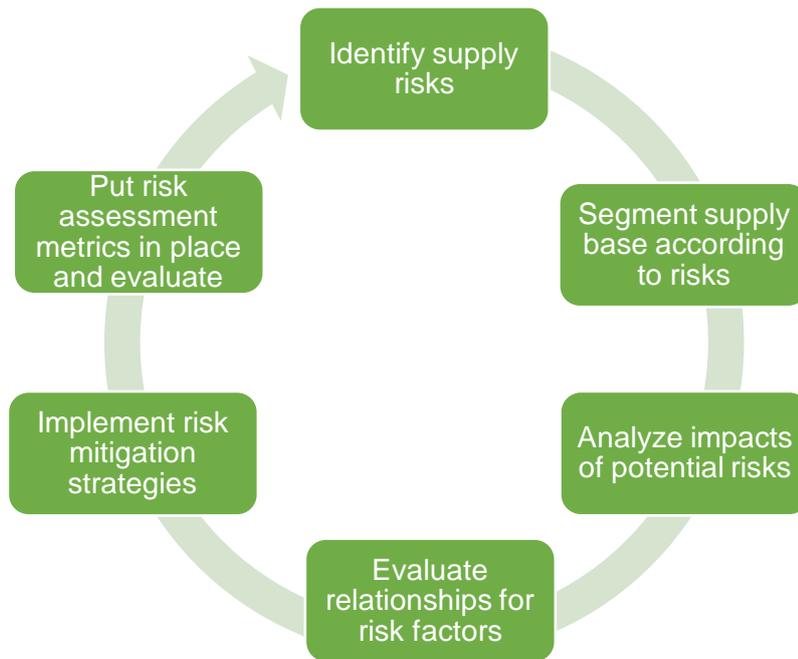


Figure 9. Supplier risk assessment and mitigation process (Gordon 2008, 176)

The largest obstacles in socially sustainable purchasing are usually cost factors and financial uncertainty as sustainable purchasing is less advanced at the practice level than in the theory (Nieminen 2016,151). Therefore, it can be concluded that there is quite significant difference on how sustainability activities should be implemented into company's purchasing operations in the practice and in theory. Additionally, the conception of social sustainability and especially issues related to it varies between different regions. The issues are based on the societal evolution of a particular region and therefore different stakeholders may have different understanding of the issues since they change and are dependent on the environment in which the company operates (Mani et al. 2018).

One of the most challenging tasks related to social sustainability is the assessment and measurement of the topic. Popovic et al. (2017) state that especially on the supply chain level the concept of social sustainability is becoming more incorporated since the assessment of social sustainability lack of consensus on the impacts which should be considered as well as their quantification. Amann, Roehrich Ebig & Harland (2014) further argue that the difficulties related to the measurement of social sustainability refers to what data to collect, when to collect it and the technical issues for collecting the data across different partners. However, in order to improve social sustainability,

companies should be able to assess their performance and therefore the problems related to determining which impacts should be considered and how to quantify them should be solved. Generally, it is accepted that at least the following areas should be explored: health, human rights, safety, community initiatives, child labor and other labor issues such as gender discrimination, bonded labor and employment benefits. All these topics are also covered by the Global Reporting Initiative (GRI), which helps companies to report about their sustainability. (Popovic, Barbosa-Povoa, Kraslawski & Carvalho 2018)

## **2.4 Sustainable Supply Chain Management**

This chapter aims first to introduce the concept of SSCM and then present different practices and tools for companies to use in order to maintain and improve the social sustainability of their supply base. After that the challenges related to the implementation of SSCM practices are briefly discussed.

Companies are utilizing SCM to control costs and enhance economic performance when facing competitive markets. However, due to emerging sustainability issues and the pressure from different stakeholders, companies can no longer focus only on economic performance since they also need to build socially and environmentally sustainable supply chains. Therefore, leading brands have already launched different kind of SSCM practices to improve their sustainability and to meet the growing expectations from stakeholders. (Hong, Zhang & Ding 2018) In other words, SSCM is a combination of sustainability and traditional SCM that concentrates equally to social, environmental and economic sustainability instead of focusing only on the economic performance.

SSCM is a topic that has been studied diligently in recent years. The definition by Seuring and Muller (2008) is probably the most used one and it describes the concept as “the management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social, into account which are derived from customer and stakeholder requirements.” Companies adopt

SSCM activities to improve social and environmental impacts of internal processes but also external initiatives to improve the impact of their suppliers' and customers' processes. Hence, SSCM refers to company's plans and activities that integrate social and environmental sustainability issues into SCM to improve the social and environmental performance of company, suppliers and customers without compromising the economic performance. (Gimenez et al. 2012) Wolf (2014) agrees that SSCM refers to strategic and transparent integration of all three sustainability aspects in the coordination of key interorganizational business process to improve the long-term sustainability performance of the buying company and its entire supply chains. These results can be achieved by developing specific relational capabilities that enable company to design incentive actions that will enhance the social conditions of upstream supply chain. Despite the quite coherent understanding of SSCM among authors, the theoretical background of the concept is according to Morali & Searcy (2012), still often found to be missing and the number of theoretical frameworks for SSCM is very low. This has led to multiple different theories in the field of SSCM. Li et al. (2019) remind that even without commonly accepted definition, different scholars agree that SSCM aims to maintain long-term social, environmental and economic sustainability.

From the strategic perspective, the proactive SSCM strategies identify that sustainability is an important strategic objective to a company apart from stakeholder claims. In this approach company understands its dependence upon the long-term sustainability of its resource supply but also the importance of promoting social welfare in the supply chain in order to ensure long-term access to those resources. (Wolf 2014) By applying measures and processes to gather and share relevant information on social sustainability issues in supply chains, companies are trying to increase the transparency and to gain as much knowledge as possible about their suppliers. However, companies are having difficulties to collect required information from the lower suppliers since they do not want to share it in the fear of competitive drawbacks or they do not simply have it. (Hofmann et al. 2018)

Jia, Gong & Brown (2019) note that learning concerning social and environmental activities between suppliers and buyers can lead to competitive advantage while the collaboration with primary suppliers and major customers can impact both

manufacturing and social performance of the company. Marshall, McCarthy, Heavey & McGrath (2015) agree that SSCM practices can become a unique source of competitive advantage, especially when these practices aims to solve problems, make market-oriented decisions, sense opportunities and threats and change company's resource base. However, compared to other interpretations the authors also suggest that all environmental benefits that prevent harm to the environment also benefits the population and society and therefore ultimately can be seen as social benefits. On the contrary, Gimenez et al (2012) see that the implementation of social sustainability practices can lead to improvement in environmental performance since as for example, employee's participation and training can lead to reduction of potentially damaging environmental practices. This implies that social and environmental benefits are interconnected even though the causal relationships are not always clear, and the improvement of social issues can also solve many environmental issues and vice versa. Responsibilities for achieving these results should be distributed evenly in the supply chain as the success is based on cooperation between different actors. Anyway, complex supply chains require leadership from the leading company to drive changes for the whole chain since the transformational management of supply chains is more acceptable to different actors and more likely to encourage change (Jia et al. 2019).

## **2.5 SSCM practices**

Today's literature introduces multiple different tools which can be deployed to manage and assess sustainability across the supply chain (Amann et al. 2014). Companies are using different practices to ensure the sustainability of their supply chains and all company's internal and external practices that are used to make its supply chain more sustainable in terms of all aspects of sustainability can be classified as SSCM practices (Li et al. 2019) Kähkönen, Lintukangas & Hallikas (2018) further define that SSCM practices are company's dynamic capabilities, which shape how company manages and implements sustainability in its purchasing and supply management and compared to the traditional purchasing and SCM practices, SSCM practices present a wider lens that incorporate the need to consider all three aspects of sustainability to help companies to achieve overall goals in a profitable and sustainable manner.

The intention to pursue sustainable supply chains is driven by value and policy to develop companies' sustainable efficiency, which is executed by taking measures favoring sustainable development in SCM. (Hong et al. 2018) According to Morali & Searcy (2012), growing number of global initiatives such as code of conducts, industry standards and best practices are used by companies to meet the sustainability goals and requirements. Regarding social sustainability, monitoring, social sustainability practices and procedures as well as the implementation of social management systems such as health, safety and well-being systems with suppliers are consider important (Marshall et al. 2015).

There are multiple different ways to summarize and divide SSCM practices into different categories and it seems that there are as many ways to divide these practices as there are authors and studies related to the topic. Paulraj, Chen & Blome (2017) summarize SSCM practices into four types: sustainable product design, sustainable process design, sustainability collaboration with supplier and sustainability collaboration with customers. Similarly, Esfahbodi, Zhang & Watson (2016) categorize SSCM practices into sustainable production, sustainable design, sustainable distribution and investment recovery. Hong et al. (2018) have identified five key SSCM practices; supply chain coordination and trust, supply chain learning, supply chain strategic orientation, supply chain risks management and supply chain continuity. Moreover, Marshal et al. (2015) divide the SSCM practices into process-based practices that emphasize the learning and routines between the actors in supply chain and market-based practices that generates new markets for products and supply chain. The more comprehensive categorization of SSCM practices by Beske, Land & Seuring (2018) is presented in the figure 10 below.



Figure 10. Types of SSCM practices (Beske et al. 2018)

The realization of company's sustainability is directly dependent on supplier's compliance with the standards and requirements set for them (Krause, Vachon & Klassen 2009). Thus, it is necessary to effectively assess suppliers' sustainability and ensure that all the sustainability requirements are met. Grimm, Hofstetter & Sarkis (2016) note that suppliers' compliance with sustainability requirements can be ensured through supplier assessment and collaboration. Similarly, Gimenez et al. (2012) explored that in addition to the collaboration with suppliers several companies are implementing supplier code of conducts and assessment tools to ensure the social sustainability of their supply chains. As mentioned earlier, even though the concept of SSCM has emerged rapidly, most of the companies are still searching the best practices to incorporate and implement sustainability principles into their supply chains. Thus, this study aims to next present the SSCM practices that emerge from the literature and academic research. These practices are focusing expressly on the selection and assessment of suppliers as well as the collaboration with the suppliers.

### 2.5.1 Due Diligence & Code of Conduct

Due diligence refers to versatile investigation and inspection of the supplier's financial operations and it is usually applied prior to mergers and acquisitions. However,

nowadays the concept is also applied to implement regulatory frameworks such as the UNHCR Guiding Principles on Business and Human Rights. (Hofmann et al. 2018) For instance, in 2011 the member countries of The Organization for Economic Co-operation and Development (OECD) agreed to review the guidelines promoting stricter standards of sustainable behavior, including human rights. The OECD Due Diligence guidance for Responsible Business Conduct provides support to companies to avoid and address impacts related to workers, human rights, bribery, consumers and corporate governance that may be associated with companies' supply chains, operations and other business relationships. (OECD, 2018) According to Reichardt (2006), due diligence should be conducted to identify the opportunities and risks related to potential purchase and then determine based on the findings whether the supplier should be selected or not. The most important thing is that the information from the downstream supply chain is shared all the way to the subcontractors since due diligences are based on maximum transparency and thus, goes beyond the general risk management approaches that focus on preventing immediate damage (Hofmann et al. 2018). The use and content of due diligence varies between different industries. It is usually used in the mining industry, but nowadays many other industries are also utilizing it.

Compared to due diligences, code of conducts are much more commonly used among companies. Code of conducts are used widely in manufacturing, services and agriculture and they specify what kind of behavior, practices and standards are expected to be demonstrated and complied with (Lalwani, Nunes, Chicksand & Boojihawon 2018). The purpose of code of conducts is to ensure that suppliers are complying with the laws, regulations and ethical standards set by the buying company. Code of conducts include the minimum requirements for the suppliers to comply and they can be divided into more specific categories such as work, environment, health and safety, ethical and management conducts (Lee & Kashmanian 2013) According to Turker & Altuntas (2014), suppliers' compliance and commitment to code of conducts can be seen as one of the most important SSCM practices to decrease the sustainability risks and improve suppliers' performance. Hence, code of conduct are excellent tools to set the social sustainability standards and requirements for the suppliers before any collaboration begins between the parties.

However, code of conducts should not be used as the only SSCM practice since companies need to be able to assess the reliability of suppliers and do some concrete audits to ensure the compliance with the code of conducts (Jiang, 2009). Lalwani et al. (2018) add that after auditing suppliers to see whether they are meeting the standards required in the code of conduct, the buying company needs to also act if the standards are not met and make the decision whether to continue purchasing from the supplier or not. Buying companies have the responsibility to ensure that the code of conduct is followed correctly in the practice instead of only relying on suppliers' written commitments. Hoejmose & Adrien-Kirby (2012) argues that code of conducts fails mostly because companies do not systematically monitor their suppliers and even if they do the efforts are focusing mostly on economic aspects, production time and reliability and the social and environmental criteria are left out from the monitoring procedures.

Erwin (2011) has investigated the relationship between the quality of code of conducts and the ethical performance and concluded that companies that are having high quality code of conducts are significantly more represented among top CSR ranking systems for social sustainability, public perception and ethical behavior. These findings suggest that companies should also pay attention to the content and quality of code of conducts instead of just having it as a compulsory practice. In addition, companies should require, in some extent, their suppliers to demand the same standards from their own suppliers since most serious social sustainability issues are caused by sub-suppliers rather than first-tier suppliers. However, this is very challenging for the companies since suppliers do not always have inadequate information about their lower-tier suppliers or they have very limited means to exert control over those suppliers (Wilhelm, Blome, Bhakoo & Paulraj 2016). Despite the challenges, companies should always strive to ensure that the lower-tier suppliers are also complying with the standards set in the code of conduct.

## 2.5.2 Certifications and Standards

Companies are facing difficulties in the implementation of labor regulations and other social issues in the upstream supply chains and therefore the use of global

certifications such as ISO standards are recognized as effective ways to raise awareness and change suppliers' practices more sustainable (Wrana & Revilla Diez 2018). Standardization refers to the creation of agreed ways of doing something and the purpose of standards is to simplify the work of authorities, consumers and to facilitate trade. Standards are published as documents and they can be purchased or used by anyone. (Finnish Standards Association 2020) Globally, the standards are developed and published by the International Organization for Standardization (ISO). ISO has published over 23052 international standards and related documents, which are covering almost every industry. However, ISO does not admit any certifications since they need to be applied from third-party operator. (ISO 2020) Nowadays, companies can have several global and dynamic supply chains and therefore many of them are looking for service providers that meet the related governmental or ISO supply chain security standards as a condition of being included in the supply chain (Branch 2009, 75). Table 3 below summarizes the most commonly used international standards relevant to social sustainability.

Table 3. The most common social sustainability standards

<p><b>ISO 26000 Social Responsibility</b> <b>SFS-ISO 26000 (2018)</b></p>	<p>Helps companies to clarify what social responsibility is, translate principles into effective actions and share best practices relating to social sustainability globally. This standard is suitable for all types of companies regardless of their activity, size or location. However, this standard provides guidance rather than requirements and therefore it cannot be certified to unlike other well-known ISO standards.</p>
<p><b>ISO 45001 Occupational Health &amp; Safety</b> <b>SFS-ISO 45001 (2018)</b></p>	<p>Helps companies to improve employee safety, reducing workplace risks and create better and safer working conditions. This standard emphasizes top-management support, employee participation, risk management and the integration of occupational health and safety issues into company's business processes. The standard is internationally recognized, especially in the construction and manufacturing industries.</p>
<p><b>ISO 31000 Risk Management</b> <b>SFS-ISO 31000 (2018)</b></p>	<p>This standard helps companies to create a risk management frameworks to effectively identify, evaluate and address the impact of risks on company's operations. The standard is based on the key principles of good risk management and each company can apply these principles in the way that fits the best in their operational control. It can be used by all companies regardless of industry, size or location and it is suitable for managing all types of risks. However, it cannot be used for certification purposes, but it does provide guidance for internal or external audit programmes.</p>
<p><b>SA 8000 Social Accountability</b> <b>SAI (2019)</b></p>	<p>Leading social certification standard for factories and companies globally. This standard measures social performance in areas important to social sustainability in workplaces, anchored by a management system element that drives continuous improvement in all areas of the standard. The standard reflects labor provisions contained within the Universal Declaration of Human Rights and International Labour Organization (ILO) conventions. In addition, it respects, complements and supports national labor laws and secure ethical working conditions around the world.</p>

Third-party certifications are commonly used as SSCM practice, including but not limited to international standards such as ISO 26000 (Social Responsibility) and ISO 45001 (Occupational Health & Safety) standard. Certifications are also capturing the level of SSCM and confirming which further actions and methods such as supplier development or collaboration are needed in to drive SSCM. (Amann et al. 2014) Certifications are provisions by an independent authority of written assurance that the product, service or system meets specific requirements for example ISO 45001 standard. In the context of social sustainability, certificates refer to social sustainability issues within the company's supply chain as labor rights or impact on local communities. (Lalwani et al. 2018) Hoejmose & Adrien-Kirby (2012) state that certificates are often used as alternatives to code of conducts as they are more specific, which makes it easier to compare social sustainability performance across supply chains. In addition, sustainability certifications can facilitate consumer choices for products that otherwise has minimal levels of differentiation. These standards are also seen as one of the most critical responses to the pressure for more sustainable global supply chains. (Lalwani et al. 2018)

### 2.5.3 Scorecards

Scorecards are probably the most common method of collecting and displaying supplier performance information. They are widely used and preferred since they can show many elements of performance at a glance. In addition, they typically gather quantitative information and are good way to get insights into and manage supplier performance as well as help organize supplier evaluation data. (Gordon 2008, 113) A supplier scorecard identifies the most critical performance metrics of the supplier and enables the actual evaluation against these metrics. These metrics should be based on effective and credible measures that cannot be manipulated and are timely and shared on a regular basis. (Doolen, Traxler & McBride 2006) A five step process to develop performance measures and create a successful supplier measurement process is presented in the figure 11 below.

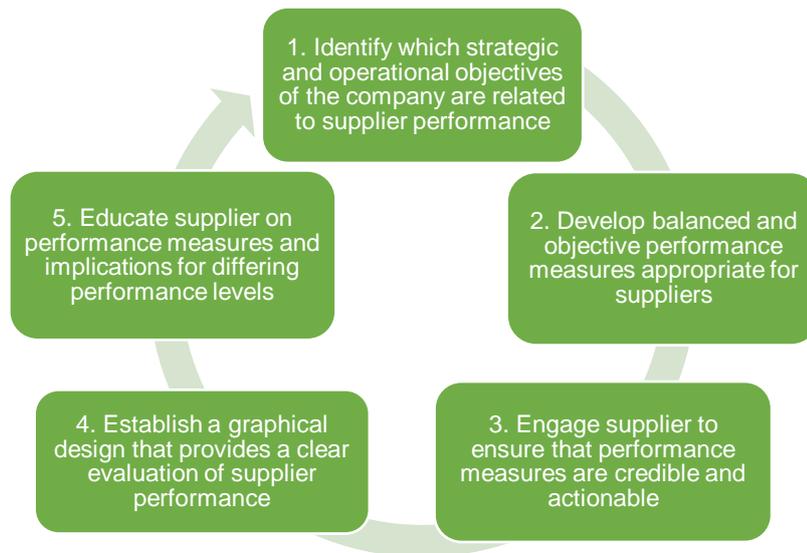


Figure 11. Design and implementation steps for supplier scorecards (Doolen et al. 2006)

According to Gordon (2008, 119-120), there are many challenges relating to supplier scorecards. First, the data collection can be time consuming and there can often be issues with the relevance of the scorecard data or the amount of too many metrics in the scorecards. Secondly, data integrity, data feeds from disparate systems and the fact that the data may need a lot of cleansing and recalculating can cause problems to companies. Author future argues that the scorecards can be great tool and part of supplier management process that help provide insight, but they do not show all the facts related to supplier and therefore cannot solve the actual problems.

#### 2.5.4 Surveys & Questionnaires

Surveys have been frequently utilized to gather information about suppliers and their performance. Supplier surveys can be used to identify current or potential performance issues but also to identify ways to resolve possible issues with suppliers. These surveys provide a structured way for buying companies to gather both qualitative and quantitative feedback without the interference of personality clashes or defensive behaviors. (Gordon 2008, 103) Supplier surveys can be utilized at different stages

before and after supplier selection. Different types of surveys are presented in the table 4.

Table 4. Types of surveys (Gordon 2008, 103-104)

<p><b>RFI surveys</b></p>	<p>Are sent to qualify prospective suppliers and can contain questions about performance metrics. Surveys can be done via telephone, mail or Internet.</p>
<p><b>Quality surveys</b></p>	<p>Are sent to gather information from suppliers on their quality planning systems and processes, third-party certifications, corrective action, tooling, test equipment, cost of quality and quality results etc.</p>
<p><b>Supplier surveys</b></p>	<p>Are sent to gather detailed information about the supplier. Surveys can be done via telephone, mail, Internet, or in-person interviews.</p>

Surveys can be used in the prequalification stage, which aims to collect general information about a supplier. Most of the companies also implement separately a preliminary request for information (RFI) and one or more follow-up questionnaires. In other words, after the RFI has been sent, more questionnaires are utilized to assess the supplier in more detail and for instance the compliance with social standards related to workers' rights and conditions can be assessed in this stage. (Luzzini, Caniato & Spina 2014) According to Fallahpour et al. (2017), there are two important issues in the sustainable supplier selection. First, the main criteria and sub-criteria that will be used for supplier evaluation should be formed and secondly, the method that should be applied for the supplier selection should be decided. Based on these findings, the authors have identified most important and applicable criteria for sustainable supplier selection through a questionnaire-based survey. This survey can be used in the supplier selection and the attributes of the social aspect are presented in the figure 12 below.

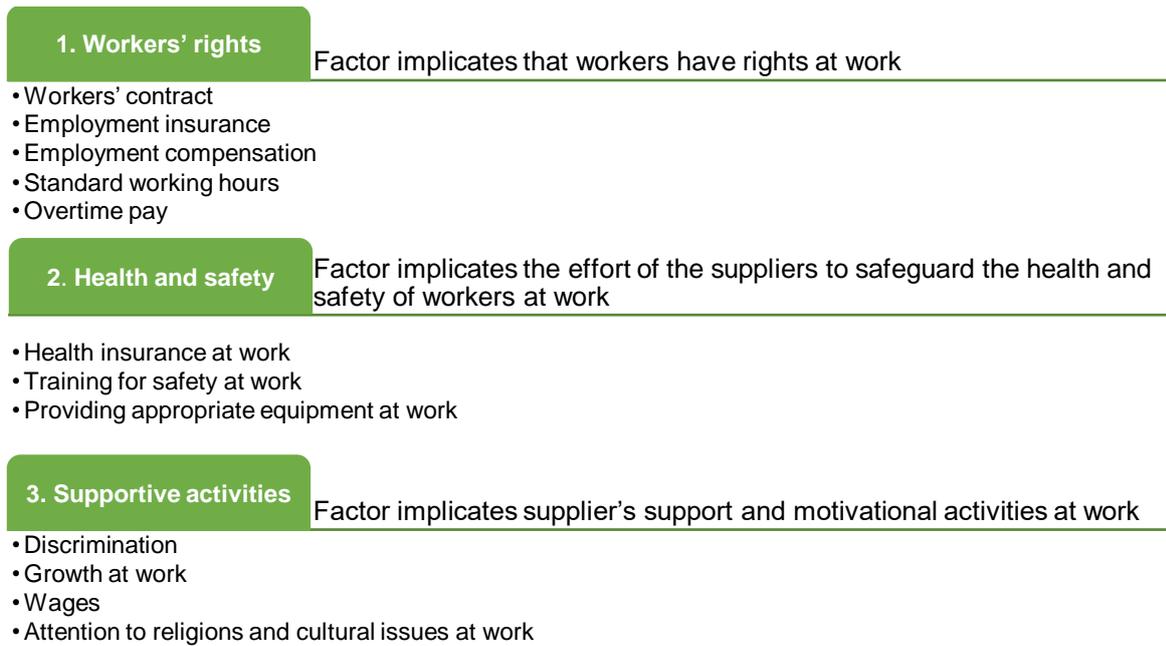


Figure 12. Social sustainability attributes in a supplier selection survey (Fallahpour et al. 2017)

### 2.5.5 Monitoring & Auditing

As a result of global suppliers, companies' supply chains become geographically fragmented and the need for supply chain control increases. This control requires the implementation of different kind of monitoring and auditing systems to ensure that suppliers are complying with the required sustainability standards. (Andersen & Rask 2003) According to Turker & Altuntas (2014), monitoring and auditing activities are the most important SSCM practices and suppliers should be constantly monitored and audited as these activities help avoid risk, improve supply chain efficiency and set clear standards for suppliers.

Monitoring is often more informal control which aims to constantly observe supplier performance and development. Monitoring can be executed in many different ways and there has been a lot of variation in the methods used by companies. Monitoring can be executed for instance in the form of questionnaires, inspections, various evaluations and audits. (Morali & Searcy 2012) This also indicates that auditing can be seen as a form of monitoring instead of a parallel activity. According to Marshall et

al. (2015), monitoring can include practices that ensure suppliers' compliance with health and safety requirements such as child and forced labor avoidance or working practices as well as the audits. Moreover, for the companies whose demands may go beyond legislation, monitoring activities can include the diversity in the labor force, fair wages and voluntary overtime. Similarly, Morali & Searcy (2012) have investigated that the methods of supplier monitoring varies considerably including CSR audits, social impact assessments, site visits, assessment guides, questionnaires and some unidentified activities.

Site visits involve deploying a survey at the supplier end and they can be brief visits of several hours to assess specific issues or more comprehensive business reviews that are conducted by a cross-functional team and can last several days. Site visits are best suited to critical or strategic suppliers, supplier who represents high level of spend or suppliers who are sole-source, single-source or for whom the switching cost are high. (Gordon 2008, 109) Lee & Kashmanian (2013) add that also suppliers that are particularly vulnerable to sustainability risks or are located in risks countries that have weak regulatory systems should be also monitored regularly. However, making site visits to entire supply base is not practical since they can be very time consuming and costly for both buying company and the suppliers and therefore companies should carefully choose which suppliers to monitor more intensively. Gordon (2008, 111) has listed prerequisites for a good site visits, which include a good, easy-to-use survey or site visit instrument, a well-trained site visits team, advanced preparation, good advance communications with the supplier about what to expect, information about how they will be evaluated and the impact of the results of site visit on suppliers status and an effective post-visit follow-up plans and actions.

In many cases, suppliers are monitored through various audits to ensure that they comply with the code of conducts and laws. Audits can be based on various surveys, inspections or site visits and usually suppliers have only little power to negotiate how audits are conducted since they are expected to meet the requirements set by the auditing company. (Helin & Babri 2015) Audits are normally very quality-oriented reviews of suppliers' operations, which involve a set of standards or certifications. The purpose of audits is to verify business requirements on-site through inspections, interviews and review of objective evidence such as documentation, data, records and samples. (Gordon 2008, 110) As site visits, audits should also be conducted in cross-

functional teams, where each member is able to evaluate supplier based on their own expertise. According to Lysons & Farrington (2006, 381), auditing team should include at least one experienced buyer as well as experts from the quality and production department. Additionally, when assessing sustainability, the team should also include someone who has experience and knowledge with sustainability practices such as working conditions or compliance with other social sustainability standards.

The greatest challenges in auditing suppliers' social or environmental performance is the lack of generally accepted global auditing or reporting standards or the difficulty to find resources to audit the suppliers (Epstein 2008, 236; Leire & Mont 2010). Additionally, Jiang (2009) note that too often after the audit is completed, the inspectors leave the factories with a long list of problems, but no effort is made to resolve these issues with suppliers by providing assistance or support in making necessary changes. This implicates that the importance of appropriate and feasible post-audit follow-up plans and actions is very high. Due to multiple challenges related to auditing, companies can also utilize external actors to audit suppliers. In fact, companies are generally using internal and external auditors or the combination of both to audit their suppliers (Leire & Mont 2010).

#### 2.5.6 Supplier development & Collaboration

As companies are extremely relied on their suppliers to deliver sustainable product and services, it is obvious that companies need to also pay attention to its suppliers after they have been selected and evaluated. In cases where supplier's performance or sustainability does not meet the requirements of the buying company, the company have few different options. First (1) option is to replace the supplier with other alternative one. Second (2) is to produce the activity or purchased item internally and third (3) is to support and develop supplier to achieve the requirements. The fourth (4) option is to combine the options mentioned above. (Krause, Scannel & Calantone 2000) Although companies have several options, they are usually preferring supplier development for multiple reasons. Firstly, the cost of switching supplier can be very high and secondly, there may not be alternative supplier on the market. Lastly, starting to produce the item internally can require significant investments from the company

and contradict with the strategy of focusing on the core competences. (Wagner 2006) Due to these reasons, companies are investing more and more resources to different supplier development activities to ensure their sustainability.

Krause & Ellram (1997) defines supplier development as “any effort of buying company with its suppliers to increase the performance and/or capabilities of the supplier and meet the buying company’s short and/or long-term supply needs”. Nieminen (2016, 118) emphasizes that the buying company has extremely strong role in supplier development as the aim is to achieve benefits for the buying company in short and long term, while at the same time strengthen the competitiveness of the supplier. Supplier development practices that pursue towards more socially sustainable suppliers include evaluation of the supplier’s social performance, supplier trainings in terms of health and safety as well as sharing and developing the existing technology, providing financial solutions and innovation of new solutions (Sancha, Longoni & Gimenez 2015; Nieminen 2016, 118). Krause, Handfield & Scannel (1998) have established a strategic supplier development process for the companies to follow. This process is presented in the figure 13.

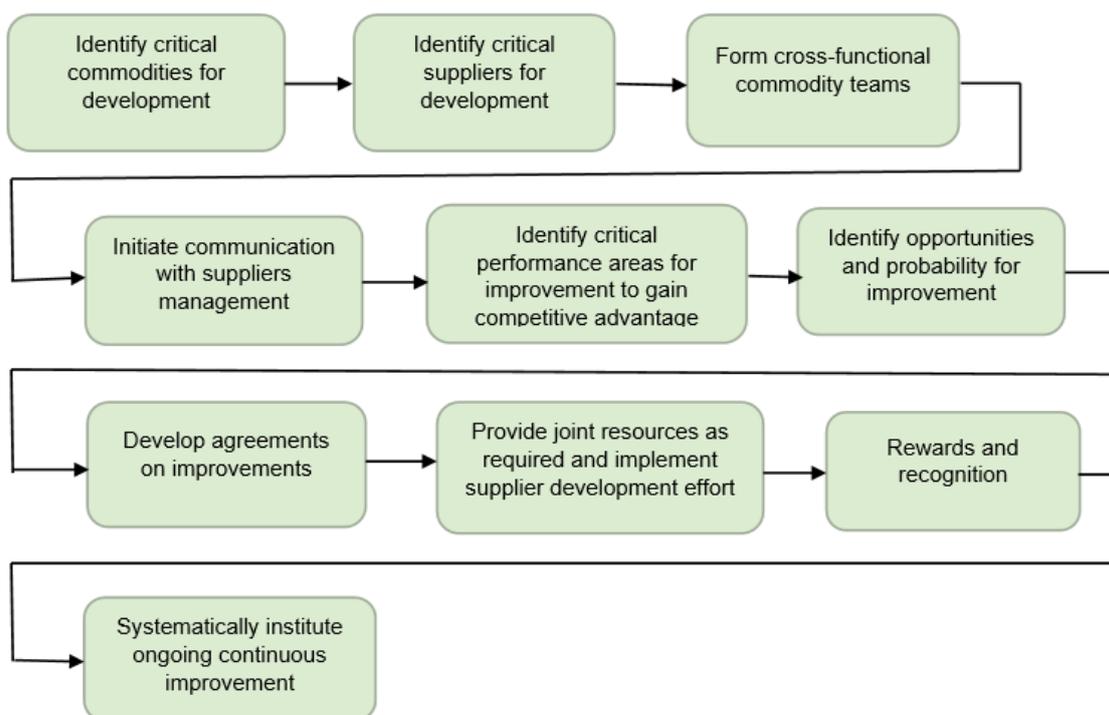


Figure 13. Strategic supplier development process (Krause et al. 1998)

In order to successfully implement supplier development process and achieve benefits, particular element should be taken into consideration. Krause & Ellram (1997) indicated in their study that two-way communication, cross-functional teams and top-management involvement are the most crucial elements when developing suppliers. Supporting these claims, Nieminen (2016, 119) also highlights the close collaboration, which requires guidance and support from the buying company to successfully develop the supplier. Additionally, Beske et al. (2014) note that the quality of shared information is in high importance even with the goal of a transparent supply chain.

According to Sancha et al. (2015), in order to build more sustainable supply chains, companies need to conduct audits and collaborate with the suppliers. Lalwani et al. (2018) refer to collaboration as those companies that realize the importance of working together in order to solve mutual problems and achieve desired goals, which means that the actors in supply chain are engaged in the coordination of activities, which go beyond the boundaries of their company. It has been proved in the scientific literature that collaboration with suppliers can have a positive impact on social and economic performance of the company. However, these positive outcomes can take time to surface and materialize and therefore the collaboration with suppliers should not be seen as a short-term practice. (Haleem, Farooq & Waehrens 2017) Eventually, the supply chain should consist of the interconnection between environmental, social and economic sustainability. The key for improving the social sustainability is to transfer knowledge and technology efficiently between different actors, which can ultimately contribute to larger increases in individual labor incomes, productivity and better working conditions and further impacts other aspects such as job security and satisfaction. As a result, the buying company can have less supply disruption, lower costs and higher quality. (Lalwani et al. 2018)

## **2.6 Challenges related to SSCM implementation**

Companies are implementing SSCM practices to comply with government regulations, to meet the pressure and expectations from customers and other stakeholders, to improve company's reputation, to gain competitive advantage, to improve supplier

management for risks and performance and to support environmental and social development (Morali & Searcy 2012). The implementation of SSCM practices can lead to multiple benefits. It can for example enable companies to maintain leading position in the markets and increase market shares and profits. Additionally, by implementing SSCM practices companies can fulfill their responsibilities to stakeholders, environment and society. (Hong et al. 2018) Beske et al. (2014) comply that the implementation of SSCM practices helps companies also to achieve a higher efficiency in logistics and resource usage. However, it is not conceivable for companies to adopt every SSCM as companies should choose which practices to implement by identifying which of these practices are most important and influential (Kähkönen et al. 2018).

Despite the various benefits described above, there are multiple challenges that prevent the adoption of SSCM practices. These challenges can be divided into two categories; internal and external challenges. Internal challenges refer to company-related issues while external challenges refer to factors occurring from external environmental that have negative affect on company's potential to implement SSCM practices. (Sajjad, Eweje & Tappin 2015) Challenges related to the implementation of SSCM practices are presented in the figure 14 and discussed more detail after that.

Figure 14. Challenges related to the implementation of SSCM practices

Internal Challenges	External Challenges
<ul style="list-style-type: none"> <li>• Lack of financial opportunities</li> <li>• Lack of capabilities</li> <li>• Lack of consistency in the corporate strategy</li> <li>• Low readiness for changes</li> <li>• Lack of top-management support</li> <li>• Lack of supplier collaboration</li> </ul>	<ul style="list-style-type: none"> <li>• Distinction between customers' opinion about sustainability</li> <li>• Customers' real purchasing behavior</li> <li>• Lack of government' support</li> <li>• Industry and context specific challenges</li> </ul>

Most companies are recognizing the need for implementing SSCM practices but have no financial capabilities to proceed as some practices requires major investments while they may not be profitable at least in the short-term perspective. In some cases,

the implementation of SSCM practices is done due to sustainability regulations, which may affect to supply chain's competitiveness and profits as the production or service methods and systems are changed. (Pereseina, Jensen, Hertz & Cui 2014) Luthra, Garg & Haleem (2014) agree that the main issue regarding financial capabilities is the fact that companies are considering the costs of SSCM practices in a short-term perspective and therefore it might be difficult to justify the costs of implementation. Both suppliers and buying companies consider the financial costs as barrier to implement SSCM practices (Giunipero, Hooker & Denslow 2012). Hence, companies should consider the implementation of SSCM practices as a long-term investment rather than a short-term solution to increase profit and change suppliers' operations.

Other internal challenges are usually related to company's own strategy, top-management's support and the capabilities company owns. The importance of top- and middle management's support in the implementation is very high as if these parties lack of moral and ethical values or willingness to adopt sustainability practices, the implementation would be almost impossible to carry out. However, poor readiness to change in the organization's lower levels can also cause problems in the implementation even though the top-management supports the change. (Pereseina et al. 2014; Sajjad et al. 2015) This implicates that the implementation of SSCM practices requires the readiness to change throughout the whole organization as well as clear sustainability goals and suitable initiatives to achieve these goals in the corporate strategy.

Additionally, the lack or low level of supplier collaboration can negatively affect the implementation of SSCM practices. The use of many SSCM practices can require detailed information, openness and high level of collaboration but at the same time suppliers might find the information related to sustainability issues confidential and are reluctant to share the information with the buying company (Walker et al. 2008; Igarashi, Boer & Fet 2013). If the suppliers in the supply chain are not involved in the sustainability activities or are reluctant to cooperate with the buying company, it can pose a serious barrier for the implementation of SSCM practices (Luthra, Kumar & Haleem 2011).

The distinction between customers' opinion about sustainability and their real purchasing behavior can also pose challenges for the implementation of SSCM

practices. These are external challenges as they cannot be managed inside of the company. According to Sajjad et al. (2015), the expectations of community and customers are highlighted as the prime external triggers for SSCM implementation. Implementation challenges can also vary depending on the context and industry in which the company is operating. For instance, the number of potential sustainable suppliers, culture and the market situation can significantly affect the challenges in particular industry, region or business context (Walker et al. 2008).

### **3 Research design**

After the theoretical discussion of social sustainability and SSCM, the empirical part is presented. The aim of the empirical part is to get in-depth understanding of what kind of SSCM practices are used in the case company regarding social sustainability in supply chains. Additionally, the empirical part aims to respond to the set sub-questions of the research. This study uses qualitative method as a research methodology due to the nature of the study. This chapter presents the methodology, case description, data collection and data analysis process and the reliability and validity of this research.

#### **3.1 Methodology**

The empirical part of this study is conducted by using qualitative research method and more precisely a case study. The qualitative method was chosen as the study aims to get in-depth understanding of the SSCM practices used to ensure the social sustainability of supply chains. Qualitative research focuses on practice rather than any logical concept and therefore it is usually seen as the contrary to the quantitative research method, which is based on measurement of numerical data (Koskinen, Alasuutari & Peltonen 2005, 30-31). Case studies are usually used to answer questions “how” and “why” and in cases where the investigator has little control over events and when the focus is on contemporary phenomenon within real-life context (Yin 2003, 1). Case study is one of the most commonly used qualitative research method in the field of business & economics as it investigates one or few intentionally selected cases, usually a company or a part of a company (Koskinen et al. 2005, 154). According to Yin (2003, 2) by utilizing case study as a research method, investigators are able to retain the holistic and meaningful characteristics of real-life events such as managerial processes and international relations.

The data for case studies can come from many sources and for this study interviews are utilized as primary data and documentation and other textual data as secondary data. Interviews are conducted as semi-structured interviews which consist of list of themes and questions to cover the research topic. In semi-structured interviews the questions and the order of the questions may vary depending of the flow of the

conversation and additional questions can be asked during the interview (Saunders, Lewis & Thornhill 2009, 320). This way there remains a lot of flexibility to follow up individual points even though in general the same questions will be asked from each interviewee (Lee & Lings 2008, 218). The secondary data includes both quantitative and qualitative data, which can include raw data that has been processed only little or not at all or compiled data that have received some form of selection or summarizing. Secondary data is used also very often in the case studies. (Saunders et al. 2009, 258) The data collection and analysis process are presented next.

### 3.2 Data collection and analysis

The primary data used in this study is collected through semi-structured theme interviews, which present the empirical part of this study. Semi-structured interviews were chosen as an interview type because they are guided by a more detailed theme guide, which contains some fairly specific questions to ask and likely ways of probing examples to ask for. Additionally, semi-structured interviews enable the interviewer to follow up individual points even though the same questions will be asked from each interviewee. (Lee & Lings 2008, 218) In this study a total of seven employees were interviewed from the case company and all were willing to participate to this study. The interviewees were chosen from different corporate functions to get a wider perspective of the topic. The anonymity of the interviewees will be preserved in this study in order to achieve open and in-depth discussion during the interviews. In order to improve the reliability of the study the positions of the interviewees are presented. The interviewees and their positions are presented in the table 5.

Table 5. List of interviewees and their positions

<b>Interviewee</b>	<b>Position of the interviewee</b>
Interviewee A	Chief Procurement Officer
Interviewee B	Director of Development (Sustainability & Technology)
Interviewee C	Procurement Manager
Interviewee D	General Counsel
Interviewee E	Procurement Manager
Interviewee F	Vice President (Sustainability & Environment)
Interviewee G	Senior Vice President (CTO & Sustainability)

The interviews were conducted in March 2020 and each interview lasted about an hour. All the interviewees were approached via email to settle a face-to-face interview. The interviews were based on the topics stemmed from conceptual framework and the research questions of this study and were formed beforehand. Despite the beforehand formed questions, the interview aimed towards open discussion between the parties. The interview questions were separated into two themes. The first theme was related to social sustainability and the second one was related to SSCM. All the interviews were recorded with the permission of the interviewees and partially transcribed after the interviews. The interview questions are presented in the appendix 1.

According to Yin (2003), multiple data sources should be utilized in case-studies as it strengthens the validity and reliability of the study. Therefore, this study is also utilizing secondary data to supplement the interviews. The secondary data is mainly consisting of pre-existing data such as documents and other textual data from the case company. All the secondary data were also provided by the case company itself. The list of secondary data used in this study is presented in the table 6.

Table 6. List of secondary data used in the study

<b>Data</b>	<b>Type of Data</b>
Case company's website	website
Annual report 2018	pdf document
Responsibility report 2018	pdf document
Procurement Policy	pdf document
Supplier Code of Conduct	pdf document
Spend by suppliers	excel document

The first step in the data analysis process was to collect the data by concluding the interviews. After the interviews were held the analysis process involved organizing the interview answers from each interviewee. An excel table was used to organize the data. For example, when the interviewee was describing the motives for sustainable business, the answer was placed in the row with the label "motives". After the answers were placed in specific rows some editing was done to summarize the data. Finally, the data was analyzed row by row and similar answers were combined and written in the final form.

### **3.3 Reliability and validity**

The research reliability concerns the manner in which the raw data is transformed into more analyzable form for example by transcribing (Lee & Lings 2008, 237-238). In other words, it related to the possibility to repeat the same case study multiple times and end up with same results by utilizing the exact research methods. On the contrast, the validity of the research refers to how well the conclusions reflect the collected data and how justifiable the conclusions are (Lee & Lings 2008, 237-238). Overall, it implicates the ability of chosen research method to measure what it is intended to measure.

In order to increase the reliability of the study, multiple interviews were conducted, and the positions of the interviewees were provided. In addition, all the interviewees are professional in the fields of purchasing, supply chain management, sustainability or in the purchasing categories utilized in this study, which provide a wider perspective to the research topic. The interviews were recorder to the audio form for later analysis, which allowed the researcher to repeat the interviewees' responses. However, the interviews were held in Finnish and then translated into English, which may affect to the reliability of the study. In turn, the use of interviewees' native language in the interviews provided more in-depth discussion.

The study also described the research process and data collection in detail so that the reader would have better understanding of all the stages in the research process and therefore make personal evaluation of the reliability and validity of the study. However, the study considers only one case company and therefore the findings cannot be directly generalized to other companies, industries or countries. In addition, the researcher's interpretiveness must also be taken into account when assessing the reliability of the study.

### 3.4 Case description

Finavia is a public limited company owned by Finnish Government responsible for maintaining and developing Finland's airport network. The main purpose of the company is to develop and maintain passenger terminals and the infrastructure required by air traffic. Finavia's airport network consists of 21 airports across Finland. 19 of these airports serve primarily passenger transport and two serve solely military and general aviation operations. The main business unit for Finavia is Helsinki Airport and primary customers are airlines, other operators in the sector and the passengers. The operating environment of the company is not very conventional as airport operations are subject to strict regulations and legislation concerning safety and environment and the international and national authorities have a particularly significant impact on company's cost structure, investments and operations. Additionally, the air traffic is very global industry, which requires cooperation of thousands of operators across the world. (Finavia 2020a)

Finavia purchases goods and services both locally and nationally. In 2018 the total amount of purchases was 499 million euros and majority of the goods and services were purchased from Finland. The company had total of 3 917 suppliers in 2018 of which 293 were involved in contract projects. (Finavia 2019a, 12) The company has ten purchasing categories, which are presented in the figure 15.

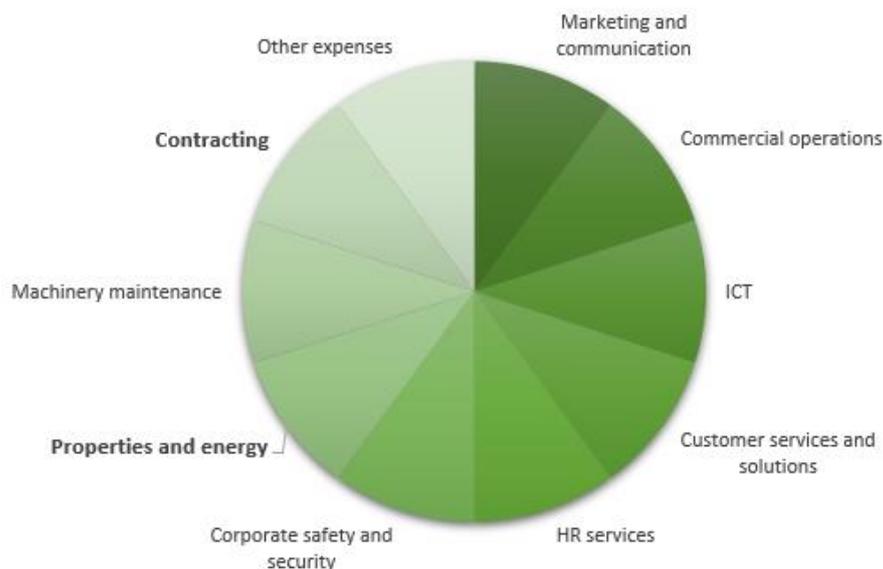


Figure 15. Finavia's purchasing categories

This study concentrates only on two of these categories: Properties & Energy and Contracting. In the 2019, the spend of these two categories was around 340 million, which is almost 70 % of the total purchasing amount. This indicates that these two categories have significant impact on the overall success of the company but also on the sustainability and SSCM.

## 4 Empirical findings

The aim of this chapter is to present analysis and results of the study based on the interviews and secondary data. Firstly, the analysis concentrates on how the interviewees consider sustainability and social sustainability risks in their company and more precisely in the supply chains. Secondly, the SSCM practices are reflected with the purchasing processes and supplier assessment activities used in the company. Finally, the role and issues of social sustainability and SSCM practices in the future are discussed from the case company's point of view.

Before analyzing the main topics, interviewees were asked to describe the role of sustainability in the company and what are the motives behind sustainable supply chains. During the interviews, it came clear that sustainability is considered as one of the cornerstones of the company's operations and overall existence. Sustainability is also seen as an interconnection between social, economic and environmental aspects, of which the environmental aspect is the most prominent one. Finavia has set the next three goals in their current strategy:

- 1) *Best flight connection in the Nordic area*
- 2) *Unique customer experience*
- 3) *Sustainable growth as a basis for further expansion (Finavia 2019b, 15)*

The company is updating its strategy in 2020 and based on the interviews the role of sustainability will become even more prominent in the updated strategy. However, as now the focus will be mainly on the environmental issues and the social and economic aspects will stay on the background. According to several interviewees this does not mean that social or economic sustainability would not be important or noticed as the company also experiences that these two aspects should be improved. One interviewee also made a point that for example safety, which is part of social sustainability, should always been realized even though it is not mentioned separately in the strategy. Another interviewee stated that:

*“Regarding social sustainability connectivity has been one of the basic tasks for the company as it aims to improve the air traffic connections but also other forms of mass transportation. Additionally, safety at work has become more present in the company since previously it has been seen as part of HR but nowadays it is considered as part of social sustainability.”*

Some of the interviewees thought that the social aspect of sustainability is not well enough observed in the company and the company should aim to be more sustainable not just only in the environmental aspect but in social and economic aspect as well. One interviewee pointed out that the content of sustainability is not well understood in the company as the term is vague especially for the laypersons. The interviewee continued that usually the term is associated with the reduction of carbon emissions, even though it is only one part of environmental sustainability not to mention social and economic sustainability.

Interviewees pointed out several motives for sustainability. These motives are presented in the figure 16 below. The three most prominent reasons to operate in sustainable way were related to competitive actors, reputation and the prerequisite for operation. One interviewee mentioned that in particular, sustainability is a competitive factor not only in Finland between different modes of transport, but also internationally between different airport operators.

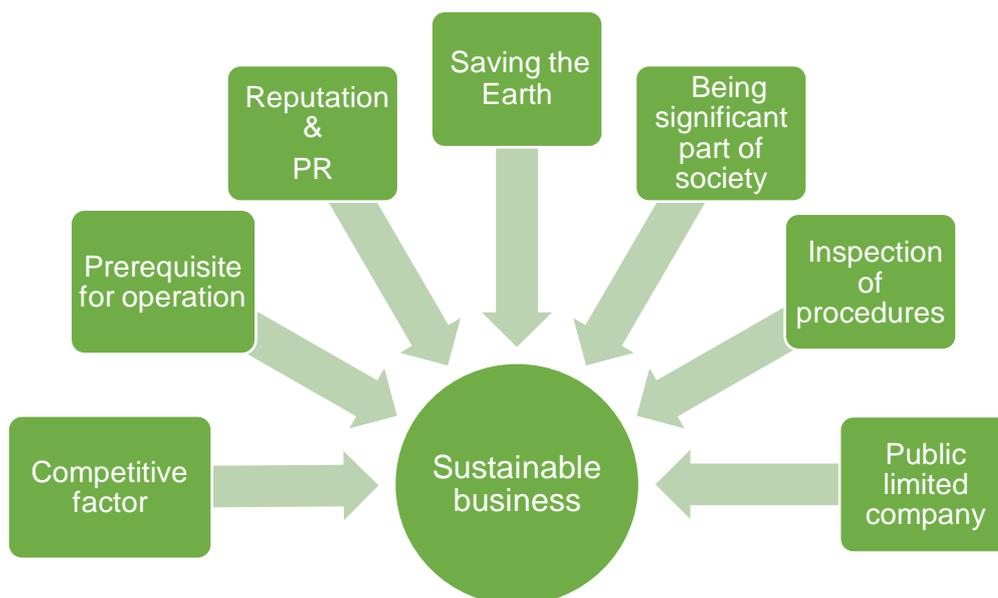


Figure 16. Main motives for sustainable business

It was also highlighted that as the companies operating in the air traffic are criticized rather hard in the media it is important to focus on good public relations and highlight company's sustainability. Airport operators have been blamed on air traffic emissions for years and as a result the operators have been active in environmental issues. It is also seen that the emphasize of sustainability is necessary for public limited companies and it is not enough just to act in sustainable way but also show and demonstrate it. In summary, one interviewee stated that:

*“It isn't no longer an alternative to pay attention to sustainability – it is necessity.”*

#### **4.1 Social sustainability risks in supply base**

Finavia has specified its purchasing responsibilities and procedures in the Procurement Policy. The resources and methods related to purchasing are developed in a target-oriented manner so that the different aspects of social sustainability and their applicability to supply agreements can be ensured. Additionally, the procedures prescribed in legislation governing purchasing guide company's competitive tendering processes. (Finavia 2019a, 9) The aim of sustainable purchasing in Finavia is to buy products and services that are produced in socially, environmental and economic sustainable manner. In the company's purchasing process, it means following elements:

- *Economic, social and environmental factors are taken into account already in the purchasing planning stage*
- *Suppliers and partners are encouraged and challenged to become familiar with environmentally friendly products and solutions on the market*
- *Sustainability criteria are taken into account in all purchasing activities (Finavia 2019c)*

Regarding social sustainability, Finavia concentrates especially on the safety and risk management and has defined distinct roles, responsibilities and practices. These factors are assessed by means of self-monitoring. Additionally, the company is working to ensure non-discrimination treatment and fair pay for its employees. Equality, wellbeing at work, more balanced gender distribution and ability to combine work and family life are also important factors for the company concerning social sustainability. (Finavia 2019a, 30-38) Sustainability is also a guiding principle in Finavia's collaboration with its suppliers and the ethical guidelines for suppliers combines the principles and practices of correct and sustainable actions. These ethical guidelines include the minimum requirements for sustainable development and social sustainability and are essential part of the collaboration between Finavia and its suppliers. According to Finavia (2019a, 12), the aim is to constantly work to expand the scope of sustainable purchases and to apply more specific sustainability criteria to its purchasing activities.

At the moment Finavia is categorizing its suppliers based on their importance and value to company. Company aims to also evaluate its suppliers based on possible sustainability risks even though it has not yet defined specific categories solely for them. Thus, the supplier categorizing is mainly based on operational level. Different supplier categories are presented in the table 7.

Table 7. Supplier categories (Finavia 2019c)

Supplier Categories	
<b>Strategic suppliers</b>	Supplier with whom Finavia has a strategic and long-term partnership, including sharing confidential information
<b>Tactical suppliers</b>	Suppliers with significant financial value to Finavia, for example, significant annual purchases
<b>Operational suppliers</b>	Suppliers who provide Finavia services and products to maintain operational activities
<b>Commodity suppliers</b>	Suppliers who provide Finavia easily accessible services and low value products

Even though the company does not have specific categories for different sustainability risks, it has made some evaluation based on possible risk countries in which the suppliers operate. However, purchases from abroad represents very small amount of the overall purchases. Indeed, the spend to foreign countries in 2018 was only 4,8% of all purchases as 95,2% of goods and services were purchased from Finland. (Finavia 2020b) This implicates that most of the company's suppliers are located in Finland and therefore the risks related to social sustainability issues are much lower or at least different compared to issues in developing countries or countries with low level of government regulatory.

One interviewee pointed out that in public procurement cases the focus is on EU-countries and the economic aspects such as the prevention of unreported employment is highlighted more than social aspects. Other interviewee underlined that even though the company does not have systematic supplier categorization regarding social sustainability it should still be taken into account in every purchasing category and especially in particular categories. Critical categories are Contracting and Properties & Energy as supply chains in these categories include many sub-suppliers. Risks related to working conditions are also particularly highlighted in these two categories.

Interviewees were asked to describe in which purchasing categories it is most difficult or easiest to ensure social sustainability and few different points of views were highlighted. Firstly, those purchases that Finavia is buying directly to itself are easier to monitor compared to, for example, the purchase of restaurant operator in the airport terminal. In these kind of service purchases Finavia does not have direct control over the operator and its supply chain. Thus, it is also difficult to monitor suppliers' social sustainability. It was also pointed out that companies that are providing staff leasing services to Finavia do not always work ethically and these operators should also be evaluated. Secondly, it was clear to those categories or purchases that have long supply chains or have manufacturing activities outside Finland are much more difficult to evaluate and thus ensure their social sustainability. Proper working conditions in the facilities and the avoidance of child labor are the most critical points in these cases. For instance, the purchasing of machinery and equipment, services and chemicals are especially highlighted. Therefore, instead of focusing on particular category the focus should be on the country of origin. Thirdly, it was pointed out that the importance of social sustainability is not that prominent in the purchasing of goods as Finavia has

very few suppliers of goods that have significant sustainability risks. However, these risks can occur and those are usually related to construction projects.

The social sustainability risks in Finavia's supply chains and supplier base are related to unreported employment, child labor, unethical working conditions, unfair wages and the use of forced labor. However, over 90% of the company's suppliers are located in Finland and therefore the risk of having child or forced labor is very low. Most of the social sustainability risks are related to construction in which the supply chains can be long and multiple sub-suppliers are used. Thus, the risk in construction are mostly related to working conditions, safety and licensing and tax-payment.

Overall, long supply chains with multiple sub-suppliers are causing difficulties for the company and ensuring social sustainability in the downstream of supply chain is seen as challenge. Economic violations are checked in the company's current tendering process, but the aim of the company is to develop more practices to monitor supplier's social violations after the supplier has been selected. In other words, social violations are already monitored in the planning and tendering stage of the purchasing process, but more practices are needed for later stages as well. The measurement of economic and social aspects is of course very different, but one interviewee pointed out that different organizations, associations and third-party actors have a significant role as they have capabilities, knowledge and power to monitor different actors regarding social sustainability and because of these actors, violations regarding human rights have been highlighted and brought up in media increasingly.

## **4.2 SSCM practices in purchasing process**

Finavia has two types of purchases: those who are not subject to the procurement legislation (the threshold is not exceeded) and those who exceed the threshold and must comply with the procurement legislation. However, this study does not focus on the difference between these two options as the focus is on more general level to study the social sustainability and SSCM practices used to ensure it. The thresholds are still presented in the table 8 below.

Table 8. Thresholds (Ministry of Economic Affairs and Employment of Finland 2020)

Contract type	Threshold (euros)
Supply and service contracts	428 000
Public works contracts	5 350 000
Design contests	428 000
Safety contests	1 000 000

The purchasing process in Finavia is presented in the figure 17. The figure also illustrates the main department responsible for each phase. The need for purchasing usually arises when some business unit in Finavia recognizes a need for a product or service for which there is not already contract supplier or the current contract period is going to expire. As seen from the figure, the procurement department participates in the tendering preparation, actual tendering and supplier selection phases. In addition, procurement department assists and advises on purchasing matters, supports the decision-making and advises the legal department when necessary. The main responsibility in the contract monitoring phase lies in the hands of business units, which are communicating with the suppliers on a practical level. Thus, the role of procurement department in the monitoring phase is relatively small as business units are responsible for the operational actions. However, if problems related to for example social sustainability occur the procurement department should be always contacted. Since most of the SSCM practices are expressly targeted to the monitoring phase of the purchasing process, it is important that the company defines the responsibilities so that there are common and preferably centralized way to monitor supplier's social sustainability successfully in the last stage of purchasing process as well.

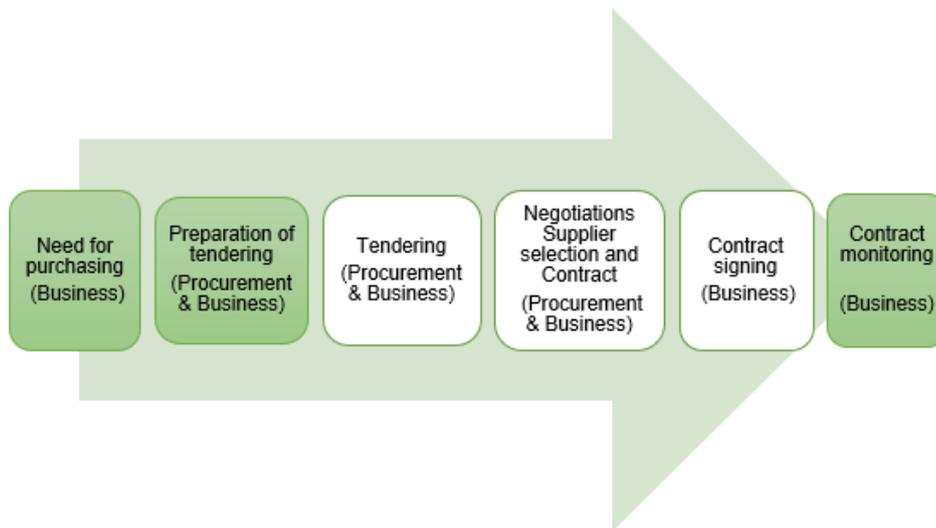


Figure 17. Purchasing process and responsibilities (Finavia 2019c)

During the interviews, it came clear that certain phases are much more critical regarding ensuring supply chains' and suppliers' social sustainability. These phases are marked as green in the purchasing process in figure 17. All most every interviewee agreed that the most critical phases in the purchasing process are the planning and preparation of tendering. The preparation phase is important because at this phase the company can determine what kind products or services it wants to purchase and what are the minimum requirements for this purchase. In other words, the social sustainability requirements are finalized already in this phase as changes to these requirements cannot be done in the later phases. This requires that the company is aware of what it is purchasing and what are the social sustainability risks related to particular purchase. It is also crucial to ensure that in the contract signing stage all requirements or information related to social sustainability are defined.

Finavia can determine if there are some kind of requirements regarding social sustainability and whether suppliers are able to take part in the tendering process if these requirements cannot be met. Obviously, the law is requiring some certain basic requirements, but the company has also chance to demand some requirements beyond the law. However, in public procurement the buying company should be very careful not to discriminate any actor based on certain requirements. Thus, for example certificates can be required, but these requirements cannot exclude for example

supplier from particular EU countries. All in all, this phase in the purchasing process requires special care and knowledge of what is being purchased.

It was also highlighted that the documentation received from tenders should be carefully reviewed. However, the documentation does not guarantee that the supplier is actually acting in a sustainable way and one interviewee stated that some kind of auditing should be conducted at least in the most suspicious cases. On the other hand, the question who and how to audit is a difficult given the quality of the company's supply chains.

Few of the interviewees also brought up that the contract monitoring phase is critical regarding social sustainability. The main argument was that after the contract has been signed it is also Finavia's responsibility to ensure that suppliers are operating as agreed. In turn, it was also pointed out that the elements of social sustainability are so manifold that they cannot be considered only in certain phases. Thus, social sustainability should be considered in all phases, but naturally some phases need to be highlighted more specifically. One interviewee stated that:

*“The good side of public procurement is that it supports the beforehand planning of the purchase so that the buying company needs to know what it wants to purchase and from what kind of supplier”*

All in all, the success of the individual purchase and the realization of social sustainability are strongly dependent on the planning phase. In other words, poorly determined or unclear requirements can jeopardize the entire purchase and thus lead to a low level of sustainability.

In general, Finavia aims to ensure the social sustainability of its suppliers by complying with the laws related to sustainable purchasing. However, the company aims to also find practices that are not required by law and provide some added value for the company. Most of these SSCM practices have not been yet established as systematic practices. The only established practice is the code of conduct, which was published in 2018 to improve the transparency of the competitive tendering phase. The code of conduct for suppliers is an integral part of collaboration between Finavia and the

supplier and it will be included in all tenders and new contracts between the parties. Finavia set a goal for 2019 that the code of conduct for suppliers will become a standard part of competitive tendering process. (Finavia 2019a, 9; 2019c) The social sustainability elements included in the Supplier Code of Conduct are summarized in the table 9.

Table 9. Social sustainability elements in Supplier Code of Conduct (Finavia 2019d)

Social sustainability elements in Supplier Code of Conduct
<i>“The purpose of the Supplier Code of Conduct is to define the minimum sustainability and corporate responsibility placed of Finavia’s suppliers. The supplier is expected to comply with the requirements set out in the Code of Conduct, which Finavia also adheres to.”</i>
Anti-corruption
Human rights
Freedom of association
Forced labor
Non-discrimination
Health and safety
Child labour
Employment conditions
Harrashment
Supply chain – (sub-suppliers’ compliance with the Code of Conduct)

In addition to code of conduct Finavia does require some certifications from suppliers but they depend on the type of purchase. One interviewee said that he is trying to use certificates in his purchases every time it is possible and other interviewee also said that if proper certificate suits for the purchase it can be used. However, other interviewee pointed out that the certificates and be falsified and therefore these certificates should be also audited if they are used in the tendering process. As mentioned earlier, it is also important to consider if the certificates violate the principle of non-discrimination. As a conclusion, it seems that certificates are not used regularly

in the tendering process as the assessment of social sustainability is focused on the documentation of the obligations defined by legislation and international agreements during the tendering process. Thus, it is considered that the compliance with existing laws and regulations ensures the social sustainability and additional certificates might not be needed.

As the use of certificates audits have not been systematically executed either by the company. Some “spot-check” styled audits have been done by Finavia by itself, but any third-parties have not been involved in these audits. According to one interviewee, in order to start carrying out audits more systematically, the company should determine what should be audited (certificates or standards) and who should be doing it. The company has started to categorize the suppliers into different risk categories but as over 90% of the suppliers are located in Finland there has not been that much interest towards audits. However, most of the interviewees still thought that it is necessary to also audit the suppliers in order to verify that the suppliers are also acting as they have promised.

Regarding collaboration with the suppliers Finavia has had only few individual cases here and there, which has been focusing on a dialogue between Finavia and supplier and gentle pressure towards the supplier to become more sustainable. However, one interviewee saw that this kind of activity has been for now very project-like activity. In addition, the procurement department does not take part of these collaborations with supplier as the main responsibility lies with the hands of business units. Since the procurement department is not systematically involved in the collaboration with suppliers the company needs to ensure that the business units, responsible for the monitoring phase, are familiar with the chosen SSCM practices and more specifically about the assessment of social sustainability and SRM activities such as supplier collaboration and development activities. This is crucial since multiple different authors have identified these activities as one of the most important SSCM practices to ensure that suppliers are complying with the requirements set by the buying company and thus ensure the overall social sustainability of suppliers.

For some interviewees the idea of collaboration with suppliers sounded like a nice idea, but the main challenge is that it is time consuming. Furthermore, the interviewees agreed that in the situations in which the supplier is violating agreed sustainability

standards or regulations the first thing is to discuss with suppliers about the problems and provide them reasonable time to correct the problems, which is usually also agreed in the contract. However, this is also dependent on the type of the problem. It was also pointed out that in cases where the legislation or directives are changing, the collaboration with suppliers may be needed. One interviewee saw that better collaboration with the suppliers could also ease auditing activities. Another interviewee summarized that:

*“I have got the impression that good purchasing is based on frequent communication and if not based on partnership than at least on open communication. The more Finavia gets information about its suppliers’ activities, the easier it will be to ensure that different elements of sustainability are realized. However, it is not possible to align partnerships with every supplier, but Finavia should keep contact during the contract period at least with the most important suppliers”*

In summary, it can be concluded that in the beginning of the tendering process it is important to set the bar high regarding social sustainability and during the contract period the collaboration with suppliers should be more innovative and ideational that improves products and services.

### **4.3 Challenges and future development**

Interviewees were asked to describe possible challenges and barriers to implement SSCM practices into company’s existing purchasing operations. Additionally, the future development and topics were discussed. At this point, the company has one goal related to social sustainability and its implementation to become a part of company’s everyday operations. One interviewee summarized that:

*“The most important thing would be to make sustainability activities and practices natural part of the purchasing process. These activities should be systematic part of the operations and not only talk about what should be done.”*

Most of the interviewees agreed that the top-management of the company supports sustainability activities and recognize the need to pay attention to subjects related to it. This support is also highlighted in the company's strategy and will be increased in the future. This is important as all major changes and their implementation require the support from the top-management. However, it was concluded from few interviewees that even though the support is available, financial capabilities can cause challenges.

It was also pointed out the employees do not have time to invest in SSCM practices such as auditing or supplier development and collaboration activities. These kinds of practices could be random checks as the company needs to be able to trust the suppliers. Another interviewee agreed that audits are resource-dependent, and the most important thing is to prioritize which suppliers are targeted with auditing activities. One interviewee saw that there are no particular challenges in the implementation of SSCM practices as the practical barrier is that these practices have not been yet comprehensively implemented. Similarly, other interviewee stated that the estimate of the social sustainability risks is so small that it is not supported to direct more resources to ensure these issues. On the other hand, the company is not yet so oriented to the topic that it could determine the level in which it wants to operate. This indicates that the first challenge company needs to deal is to determine the strategy of what SSCM it should implemented and how.

Every interviewee agreed that the importance of social sustainability will increase in the future even though it is difficult concept to understand. It was also pointed out that the emphasize of social sustainability in purchasing can foster company's reputation. In addition, the whole concept should be seen as a positive topic instead of risk as the existing law and regulations enable that social sustainability can be taken into account in the supplier selection criteria and in minimum requirements. Thus, the realization of social sustainability is more dependent of company's own internal intention rather than the lack of regulations and laws regarding social sustainability. One interviewee said that

*“Before implementing new SSCM practices they should be tested and piloted in the test environment. At this point these practices are not part of the purchasing process and routines and this needs to change. However, there must be flexibility as the implementation of these practices cannot be an obstacle to the successful completion of the existing purchasing process.”*

In summary, even though the importance and topicality of social sustainability is realized in the company the main focus in the future will remain on the environmental aspect due to the special characteristics of aviation industry and its strict regulations regarding safety and environment. However, social sustainability cannot be excluded from the company’s goals since true sustainability requires equal concentration on all three aspects of sustainability.

## 5 Conclusions

Pressure from different stakeholders and NGOs has challenged companies to address their sustainability more comprehensively and companies have realized that their purchasing activities comprise a significant role in this process. By focusing on sustainable purchasing companies can foster not only their own but also their suppliers' sustainability. This is important as nowadays buying companies are fully responsible for their suppliers' sustainability as the issues in the supplier base can lead to financial and reputational damage not only for the buying company but for all the actors in the supply chain as well.

Both literature and empirical parts of this study implicate that companies are considering sustainability through the triple bottom line concept in which sustainability can be seen as a intersections of social, economic and environmental aspects. Moreover, the social aspect of sustainability is the most difficult one for the companies to understand and integrate into operational activities. On the other hand, the awareness and importance of the aspect has increased and companies, including the case company in this study, have recognized the need to invest more in this aspect. The empirical part of the study also supported the claim in literature that social sustainability is challenging for the companies due to the pluralism of the concept and multi-dimensional aspects related to it. Additionally, the understanding, assessment, measurement and implementation of the concept create challenges for the companies. Overall, the social sustainability is considered as either voluntary or planned activity to generate social wellbeing and support different stakeholders beyond the requirements of the law. As in the literature the most important stakeholders for the case company were its suppliers, customers, employees and the society in which it operates. Moreover, the role of society is highlighted more in the case company since it is a public limited company owned by Finnish Government.

The environmental aspect was highlighted in the case company over the social aspect since the operational environment of aviation is very competitive and therefore creates economic pressure for companies to generate profit while at the same time comply with the strict environmental and safety regulations. Anyway, the recommended aspects of social sustainability presented in the literature could be also seen in the case company's practices. These aspects are related to safety and health, human

rights, child labor and other labor issues such as proper working conditions, gender discrimination, bonder labor and employment benefits in general. Due to empirical findings, proper working conditions and fare wages were especially highlighted in the construction and facilities categories.

The shift from focusing purely on the economic aspect to focus on environmental and social aspects too has emerged a new concept called SSCM. To ensure sustainable supply chains, companies are using different SSCM practices in their everyday operations. The use of these practices can lead to improvement in environmental performance but also in economic performance while at the same time they can become a unique source of competitive advantage. In addition, the use of SSCM practices can foster social wellbeing and affect positively for instance on the working conditions, equality, health and safety. SSCM practices are especially visible in supplier selection, supplier assessment and supplier collaboration and therefore these practices should be taken into account in the company's purchasing and SRM operations in order to truly achieve sustainable supply chains.

## **5.1 Answers to the research questions**

This chapter summarizes the answers to the set main research question and sub-questions. The answers are comprising findings from theoretical and empirical part of the study.

*MQ1: What kind of SSCM practices companies should use to ensure socially sustainable supply chains?*

Multiple different SSCM practices have been identified in the literature and most of these practices are related to supplier assessment and the evaluation of suppliers' sustainability. The supplier assessment happens in all stages before, during and after the supplier has been selected. The SSCM practices that can be used to ensure socially sustainable supply chains are presented in the figure 18.

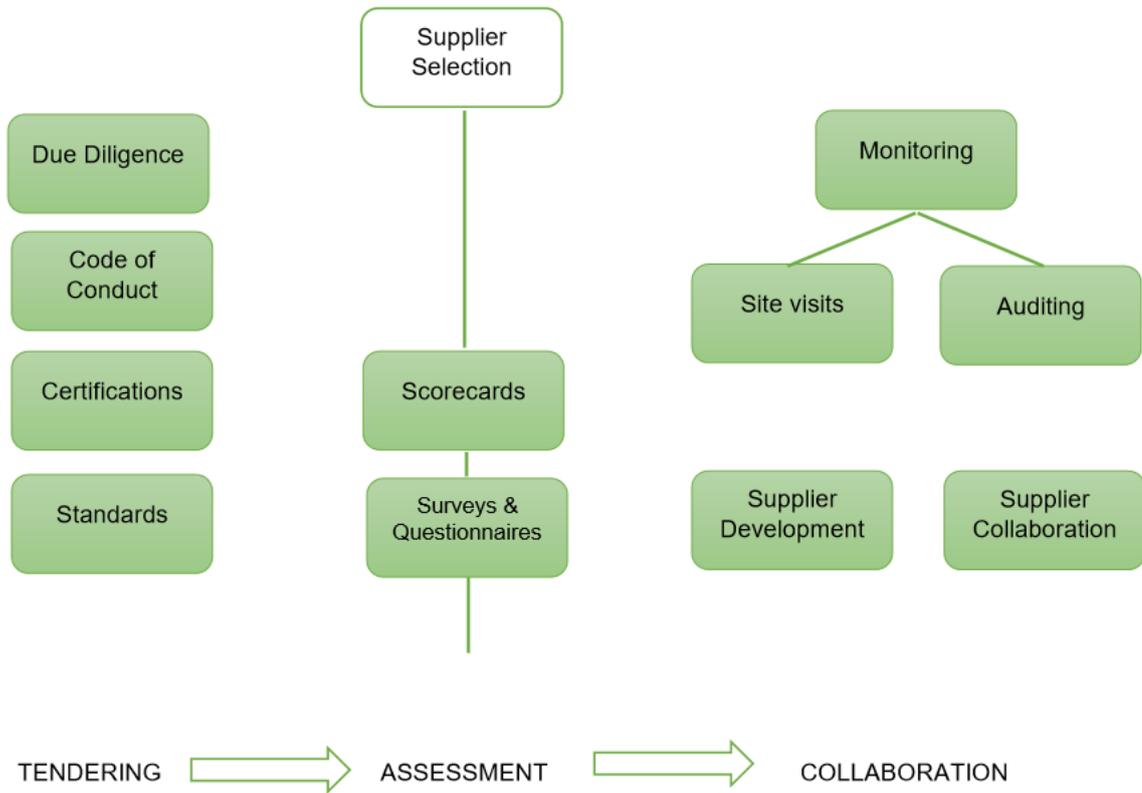


Figure 18. SSCM practices

Most of the SSCM practices related to supplier assessment occur before supplier selection. In turn, the collaboration with suppliers and different monitoring activities are the most prominent SSCM practices after the supplier has been selected and the relationship between the buying company and supplier has been already formed. It can be concluded that different type of practices are related to different stages of the purchasing process. For instance, in the tendering and assessment stages the SSCM practices are mostly related to different sustainability requirements set to the suppliers and the assessment of the realization of these requirements rather than in exclusive monitoring and collaboration systems, which are in turn visible in the later stage of the purchasing process. Additionally, activities related to monitoring, supplier collaboration and supplier development are usually targeted to specific suppliers or supplier groups instead of utilizing them in the whole supplier base. Thus, the movement from left to the right in the figure 18 reduces the amount of the suppliers who are targeted with the SSCM practices. In summary, the compliance with the buying company’s code of conduct can be required from every single supplier but supplier collaboration can only appear with a smaller group of suppliers.

As Kähkönen et al. (2018) stated, it is not conceivable for companies to adopt all SSCM practices as they need to choose which practices should be implemented by identifying which of the practices are most important and influential. This process is ongoing in the case company and the only practice that has been systematically implemented in the company is the use of supplier code of conduct. The use of certificates, standards and monitoring programmes is very occasional. These findings also support the fact that code of conducts, certifications and standards are the most used SSCM practices in the companies. Regarding supplier collaboration and supplier development empirical findings reveal that these practices are seen more as a supportive or separative activities rather than practical SSCM practices as highlighted in the literature. For instance, Grimm, Hofstetter & Sarkis (2016) noted that the suppliers' compliance with the sustainability requirements can be ensured through supplier assessment such as code of conducts, certificates, surveys etc. but the supplier collaboration should be also part of SSCM practices and utilized alongside with the assessment practices. The importance of supplier collaboration and supplier development in sustainable supply chains in case company is noticed but the use of these practices is not systematic and as mentioned it is seen as a separate activity compared to other SSCM practices. As the use of code of conduct is the only systematic SSCM practice in the company at the moment, it also conflicts with Jiang's (2009) state that code of conduct should not be used as the only SSCM practice since it does not give the buying company any tools to assess the reliability of the supplier.

*SQ1 What are the motives for sustainable business?*

Companies are having multiple different motives and drivers to foster sustainable business and pay attention to suppliers' and supply chains' sustainability. The most substantial motive for sustainable business arise from the increased pressure from customers and other stakeholders to meet their ethical expectations. Furthermore, sustainable business is considered to improve the image and reputation of the company and to create additional value that can be realized as a competitive advantage to differ from competitors. In the broader concept, sustainable business can also foster innovation and influence customers' choices and purchasing intentions.

Empirical part of the study highlighted that sustainability is nowadays considered as a prerequisite for operation and important aspect of competitive advantage. In other words, companies can no longer choose whether to invest in sustainability or not as it is mandatory if the aim is to succeed and to cope with intensifying competitive. Additionally, it can be concluded that by operating in sustainable manner the company fulfills its part as a responsible actor of society.

*SQ2 What kind of social sustainability risks occur from supplier side?*

As the concept of social sustainability is quite complex and multi-dimensional the risks related to it are also diverse and open to interpretation. However, the major social sustainability risks are generally identified and accepted. These social sustainability risks are summarized in the figure 19.



Figure 19. Summary of social sustainability risks

In the case company and more precisely in the properties & energy and contracting category the most likely social sustainability risks are related to unsafe working

conditions, unfair wages and illegal working hours. Child labor was identified as possible risks in the risk countries but not in Finland.

*SQ3 What SSCM practices in which stage of purchasing process should be used?*

The answer to the MQ1 already described the different stages in which particular SSCM practices should be used, but to clarify the order and purpose of the SSCM practices in different stages, more extensive framework for SSCM practices was created. This framework is presented in the figure 20 above. The framework illustrates which SSCM practices should be targeted in which stages of purchasing process to different supplier groups, that were formed based on the existing categorization in the case company.

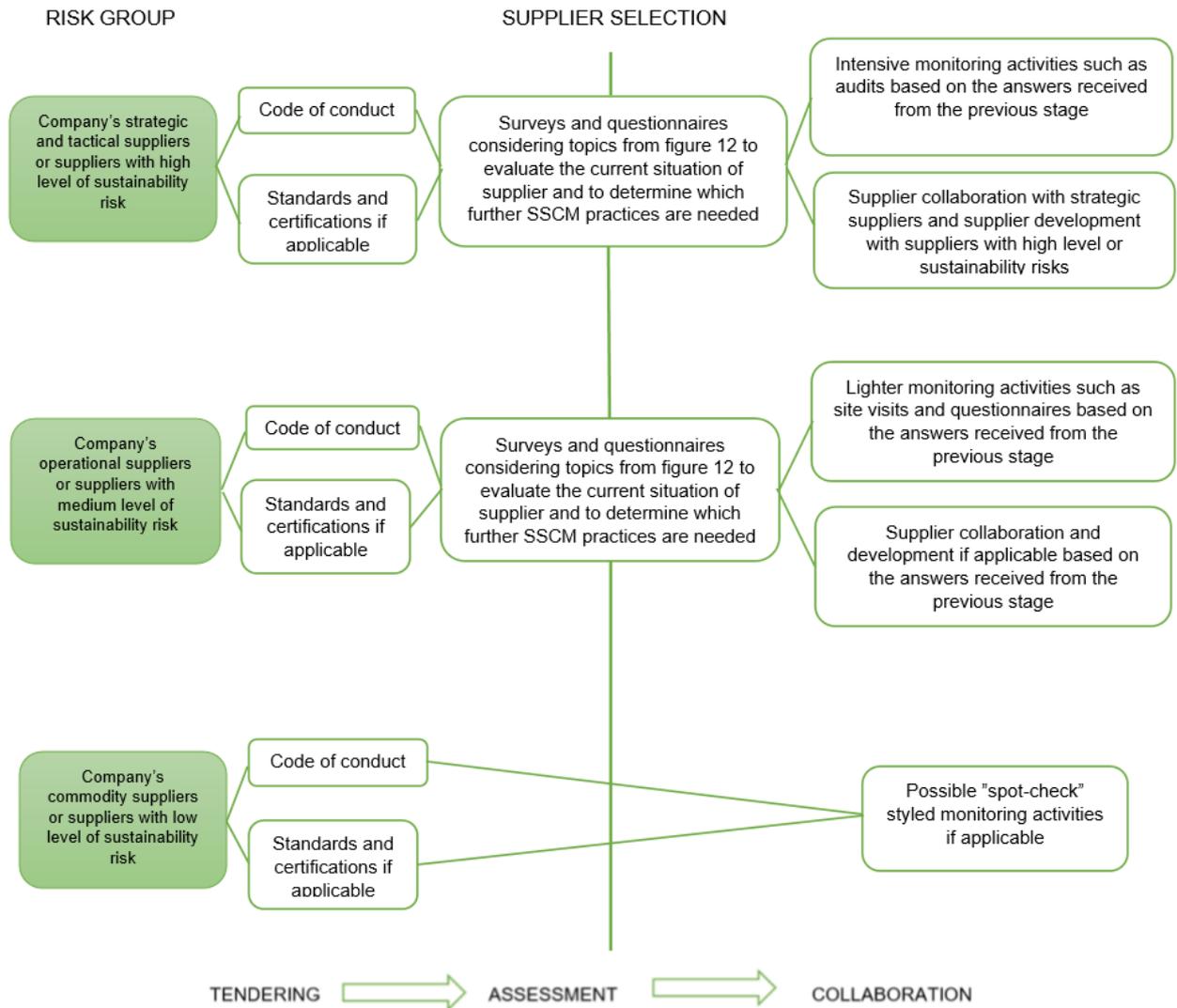


Figure 20. Framework for SSCM practices

*SQ4 What are the challenges related to the implementation of SSCM practices?*

As already presented in the figure 14 the challenges related to the implementation of SSCM practices can be categorized into internal and external challenges. The internal challenges that refer to company-related issues contain the lack of financial opportunities and capabilities such as skilled people, the lack of consistency in the corporate strategy and low level of supplier collaboration. In addition, the employees' readiness for change and the lack of support from top-management can harm the implementation of SSCM practices. In fact, the lack of top-management support is

classified as the most influential internal challenge in the implementation of SSCM practices. The empirical study recognized the challenges mentioned above but did not consider these as current or conceivable challenges in the company. However, it was stated that the lack of right kind of knowledge about social sustainability among company's employees and the lack of time and financial opportunities can cause some challenges.

External challenges refer to factors occurring from external environmental that have negative affect on company's potential to implement SSCM practices. Most of these challenges occur from the customers' side since there can be distinction between customers' and company's opinion about sustainability and at worst the customer's real purchasing behavior can differ from their own perceptions and opinions. Companies can also face other challenges they cannot affect such as the lack of government's support and industry and context specific challenges. However, the empirical findings demonstrated that in Finland these challenges are very minimal.

## **5.2 Implications**

The results of this study provide multiple implications for supply chain managers and purchasing professionals about social sustainability and the use of SSCM practices. The study introduces multiple different SSCM practices for companies to use in order to make their supply chains and suppliers more sustainable. Managers and purchasing professional can reflect these practices on their own operations and thus, avoid potential risks related to social sustainability. This study can also help professionals to identify social sustainability risks more effectively and understand in which stage of the purchasing process particular SSCM practices should be implemented. In addition, this study presents common challenges related to the implementation of these practices so that companies could identify and solve these challenges beforehand.

Overall, the findings of this study can help companies to realize the importance of SSCM and how SSCM practices impacts the sustainability of the company and its supply chains and suppliers. First, companies should allocate more resources for these practices and secondly, categorize strategically most important or risky suppliers and target these practices to them due to the limited resources available. Even though

this study focuses on one case company the implications can be exploited in other industries as well.

### **5.3 Limitations and suggests for further research**

This study has several limitations. First, the study focuses only on the social aspect of sustainability and the environmental and economic aspects are excluded. However, true sustainability only occurs when all of these three aspects are balanced and implemented simultaneously. Thus, focusing solely on the social sustainability issues does not guarantee completely sustainable supply chains. Secondly, this study explored the issues from the buying company's point of view and for instance excluded suppliers' perspective. In addition, the concept of public procurement and more precisely the procedures related to it are not highlighted in this study even though the case company is owned by Finnish Government. Social sustainability risks and SSCM practices are commonly established regardless of the method of purchasing. It should be also noticed that the empirical part of the study focuses on one case company and particularly on two purchasing categories.

As the research considering socially sustainable supply chain is relatively new and rare, studies examining the impact of socially sustainable practices on companies' performance should be concluded. In addition, the impact of sustainability practices are usually combining the social and environmental aspects and therefore a separate analysis is difficult. Thus, studies related to the assessment and measurement of social sustainability should be concluded. As the implementation of SSCM challenges includes multiple challenges, studies related to the implementation process and especially the factors that enable successful implementation should be concluded.

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## **APPENDICES**

### Appendix 1: Interview questions

#### **General questions:**

1. What is your position in the organization?
2. What are your main responsibilities?

#### **THEME 1: Social sustainability**

3. How is sustainability considered in your organization for example in the strategy? Do you have any goals related to sustainability?
4. What are the motives for sustainable supply chains?
5. What do you think social sustainability means?
6. Do you categorize or assess your suppliers? If yes, how?
7. Are there certain categories in which the ensuring of sustainability is easy / difficult or in which the risks are playing particular role?
8. What kind of social sustainability risks may occur from supplier side especially in the facilities & energy and contracting categories?
9. Do you support or your suppliers to be more sustainable? If yes, how?

#### **THEME 2: Sustainable Supply Chain Management**

10. What do you think Sustainable Supply Chain Management is?
11. Can you briefly describe the regular purchasing process in your company?
12. What are the critical points in the purchasing process regarding social sustainability?
13. How does sustainability appear in supplier selection?
14. What kind of SSCM practices your organization uses to ensure socially sustainable supply chains?
15. What kind of role supplier collaboration has in SSCM?
16. What are the barriers or enablers for the implementation of SSCM practices?
17. What is the role of socially sustainable supply chains in the future and is there some specific issues that will be highlighted?

Do you have anything to add?



