

LAPPEENRANTA-LAHTI UNIVERSITY OF TECHNOLOGY LUT

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## **CORPORATE SOCIAL RESPONSIBILITY IN SUPPLY MANAGEMENT**

Examiners: Professor Katrina Lintukangas

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# **ABSTRACT**

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The purpose of this thesis is to examine corporate social responsibility (CSR) practices in companies' supply management activities. As international outsourcing has increased due to globalization, companies have had to focus on the ethical and sustainable conduct of their suppliers. Theories related to CSR are introduced in the theoretical part of the study. The study is performed by gathering relevant information from selected companies' annual reports. Altogether ten Finnish companies were selected based on the amount of turnover they produce. Nine of the ten companies are publicly traded companies and one is a cooperative society. The size of the companies is a decisive factor since larger companies can be seen proactive and better prepared to adopt new procedures in their everyday business operations. The study is conducted as a qualitative research and the analysis of the research data is performed using a method of descriptive analysis. The data analysis is done by comparing the data to the theoretical background presented in the theoretical section of this study. The gathered data is interpreted, discussed and concluded to find relevant answers to the research questions of the study. Companies' CSR practices relate to both company-made activities as well as international CSR initiatives provided by globally established organization, such as the United Nations. Companies are engaged with CSR in their supply management to improve people's lives and the societies around them. But also, to maintain good reputation among their stakeholders and consumers making purchase decisions, as perceptions of companies' conduct are enhanced by transparency and information sharing. Companies dealing with CSR associated with supply management, control supplier compliance using suppliers' self-assessments, surveys and audits. In addition, education and training provided by the buyer companies allow better compliance of their suppliers.

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Tämän pro gradun tarkoituksesta on tutkia yritysten yhteiskuntavastuukäytäntöitä niiden hankintatoimen johtamisen näkökulmasta. Globalisaation ja kansainvälisyvän ulkoistamisen kasvun myötä yritykset ovat joutuneet alkaa keskittyä toimittajiensa eettisiä ja kestävää kehitystä koskeviin menettelytapoihin. Yritysten yhteiskuntavastuuta koskevia erilaisia teorioita esitellään tämän tutkimuksen teoriaosiossa. Tutkimus on toteutettu keräämällä asiaankuuluvaa tutkimusainestoa tutkimukseen valittujen yritysten vuosikertomuksista. Tutkimukseen valittiin kaikkiaan kymmenen suomalaisista yritystä, niiden liikevaihdon kokoon perustuen. Yhdeksän näistä kymmenestä yrityksestä on julkisesti noteerattuja yrityksiä ja yksi on osuuskunta. Tutkittavien yritysten koko on määräävässä asemassa, sillä suurien yritysten voidaan olettaa toimivan enemmän uusia toimintatapoja ennakoiden sekä omaavan enemmän päävittäisiin toimintoihinsa tarvittavia resursseja. Tämä tutkimus on toteutettu laadullisena tutkimuksena, jonka tutkimusaineiston analysoinnissa on käytetty aineistoa kuvalevaa metodiikkaa. Analyysissä tutkimusaineisto on verrattu tutkimuksessa käytettyyn teoriaan, joka on esitelty tutkimuksen teoriaosiossa. Kerättyä tutkimusaineisto kuvallaan ja tulkitaan, jotta tutkimukselle asetettuihin tutkimuskysymyksiin löydetään olennaiset vastaukset. Yritysten vastuullisuuskäytännöt ovat sekä yhtiöiden itsensä kehittämiä toimintatapoja että kansainvälisen yhteisöjen, kuten yhdistyneiden kansakuntien, kehittämiä aloitteita. Yritykset toteuttavat vastuullisuuskäytäntöitä toimittajasuheteissaan parantaakseen ihmisten elinoloja ja yhteiskuntaa, sekä ylläpitääkseen hyvää mainetta sidosryhmiensä ja ostopäätöksiä tekevien kuluttajien keskuudessa, sillä havainnointi yritysten toimintaa kohtaan on lisääntynyt parantuneen tiedon läpinäkyvyden ja jakamisen takia. Toimittajiin liittyvän yritysvastuullisuuden varmistamiseksi, yritykset suorittavat toimittajillaan itsearvointeja, kyselyitä ja tarkistuksia. Lisäksi, ostajayritykset tarjoavat toimittajilleen opetusta ja koulutusta, jotta yritysvastuu toteutuminen voidaan varmistaa.

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# 1 Introduction

As societies have started to evolve, corporate social responsibility (CSR) has become into focus in many companies. Because of the close relationship between companies and the societies in which they operate, guidelines for doing business has been formulated, in order to ensure that all the operators follow the same general rules and cannot acquire any undeserved competitive advantage by exploitation of mutual resources. The acknowledgement and importance of CSR has increased in the last few decades, but social responsibility has existed since people started forming societies (Carroll 2008). The idea of social responsibility is that every member of the society must consider all the consequences of their actions as they affect the entire society. The importance of CSR is critical to companies because “more than 88% of consumers think companies should try to achieve their business goals while improving society and the environment” (Wu et al. 2017).

The business world has developed for generations, but not until recently the social responsibility aspects of doing business has increased to make an impact on companies. Traditionally companies were owned by a small number of owners, but as companies’ size grew and leadership was transferred to payed managers, companies’ started having more severe impacts on society, and the concept of social responsibility, the voluntary consideration of public goals, was formed alongside the companies’ private economic objectives (Mintzberg 1984).

One of the basic rules of any businesses is to do the right things and to do things right. This rule is becoming more and more important for companies, not only for internal reasons, but also because stakeholder views are focusing evermore closely to companies and their actions in societies. Today’s world has become more open regarding information sharing. Companies communicate their CSR activities evermore openly in order to improve stakeholder relations (Korschun et al. 2009). Utilizing the social responsibility standards companies have incentives of doing things right and to be successful as deviations from common standards often lead to problems. Information sharing enhances stakeholders’ perceptions of companies’ by improving trust (Bhattacharya et al. 2009).

Laws and regulations have been generated in order to dictate to companies what is legal and what is not. In addition to legal regulations, CSR often focuses more on the voluntary actions of a company. As involuntary actions are regulated by laws, voluntary actions of a company are scrutinized and controlled by public perceptions. In the business world, companies are apprehensive about their company's image. CSR is a vital issue for companies, especially for their supply management, as misconduct of suppliers can affect company image and damage its reputation and sales (Wu et al. 2017). Often a bad image can influence the company's economic performance in an undesired way. Although, there are also indications that desirable CSR performance and a good image does not necessarily manifest themselves in the purchase decisions consumers make. Öberseder et al. (2011), have discovered that positive attitudes toward a socially responsible companies do not always transfer into actual purchase behavior. On the other hand, there are also evidence to the contrary. Consumers are willing to buy more expensive products, if they think that the company providing these products are environmentally friendly (Moir 2001).

One of the most influential function companies have, regarding their CSR, are the supply chains they manage. Supply chains include all the operators that are influencing to the process of manufacturing the end products, including the raw materials, original manufacturers and the end customers, as well as the transportations between every operator which contribute to the process by enabling lean deliveries. Collaboration between different members of the supply network delivers potential performance benefits to the entire supply chain (Pibernik et al. 2011). Companies are often perceived to be responsible for their entire supply network including suppliers, co-operators and clients on the down-stream of the supply chain, but on the up-stream as well. Therefore, supply decisions and the management of the supply network are affected by CSR.

The growing interest for CSR has also been influenced by information sharing and transparency. Information sharing and transparency are both vital aspects in stakeholders trust. Stakeholder trust can be earned by exposing relevant information for the use of companies' different stakeholder groups. Companies that are engaged with superior CSR performance are likely to share their CSR policies (Dhaliwal et al. 2011). Openness about CSR activities helps with improving their transparency and accountability. Transparency is commonly viewed to be a static process, where information sharing and transparency are based on legal requirements, rather than implementing a dynamic two-way transparency

process which is related to CSR and can improve stakeholder engagement and dialogue (Vaccaro & Madsen 2009).

The purpose of this Thesis is to study practices that companies have regarding their approach to the concept of corporate social responsibility. Moreover, the aim is to find out how CSR is implemented in their supply management. Corporate social responsibility has become one of the biggest topics in business in the last few decades. Social conduct has influenced people's lives for a long time and has provided a framework for a desired behavior. Undesired behavior has resulted in exclusion from the community as desired behavior has been rewarded. Business world can be seen to operate in a similar manner. Companies that try to exploit opportunities without applying the social responsibility framework in their actions are easily considered to be somewhat rogue operators and are usually targeted by public scrutiny. The public is often concerned with any actions companies make. Corporate social responsibility can be compared to philanthropical behavior of a company. The reason for philanthropical behavior is not always just to do good, but there are often some alternative motives for such actions. Ailian Gan (2006) suggested that corporate philanthropy is just another duty among others that companies must take part in to be regarded as an upstanding corporate citizen. Social responsibility can be regarded in the same manner. Even though its ethically and morally right, companies are not doing it as a charity, rather than as a strategical business decision. If companies are neglecting the expectations of the public, often exposure is all that is needed to ensure these rogue companies to correct their behavior as it is the public opinion which has the most severe impact on any business (Cross 2017). Although public opinion, regarding company politics concerning CSR is a factor when it comes to consumer decisions, it does not always relate to the purchase decisions consumers make. Öberseder et al. (2011), have discovered that positive attitudes toward a socially responsible companies do not always transfer into actual purchase behavior.

This study concentrates on the motives for implementing corporate social responsibility policies in supply management practices, its benefits and the disadvantages. The aim is also to focus on the beneficiaries of corporate social responsibility policies and to find out who benefits from them and who do not. Consumers role to corporations' social responsibility and its effects on supply chain management in corporations is also at the interest of this study.

## 1.1 Research problems

All companies apply some CSR practices in their business, but every company vary from another with the level of CSR they use. Some of the CSR practices come straight from legislation which makes it mandatory for all the companies, but there is also a grey area which allows companies to come up with their own ways to deal with CSR.

The importance of this study is generated from the fact that corporate social responsibility is gathering a growing interest in companies, but in other stakeholders as well. Stakeholder interests often underline companies' reactions to current trends in business. Furthermore, this study is focused to find how companies implement CSR practices in their supply management activities. As a result of globalization, the importance of supply management has increased in businesses worldwide. Because circumstances vary between countries and businesses, a need for comprehensive rules are required to ensure ethical and sustainable operations for companies doing business. Supply management activities are a logical focus when dealing with such problems. For the purpose of this Thesis the following research questions have been formed to study the use of CSR in companies.

### **The main research question of this study is:**

*"What types of corporate social responsibility practices are companies implementing in their supply management activities?"*

### **The first sub-question is:**

*"Why are companies engaged in corporate social responsibility in supply management?"*

### **The second sub-question is:**

*"How are companies managing their suppliers' compliance regarding corporate social responsibility in their supply management?"*

## 1.2 Research methodology

This study is performed as a qualitative research, where the research data is analyzed by using a descriptive methodology. After acquiring the research data, it is interpreted by comparing it against different theoretical concepts associated with corporate social responsibility, in order to produce answers to the research questions. Hirsjärvi et al. (2008, 156) describe a qualitative research as to allow the subject at hand to be approached with several different kinds of questions and to be described using preferable angles and with individual understanding of the same matter. A clear definition of qualitative research is difficult, because it cannot be attached to any particular theory or paradigm (Metsämuuronen 2005, 198).

One of the crucial components of any study, is the gathering of the research data, which is used in the study. Studies like a thesis comprehend empirical data, which is studied against a theoretical background. As the empirical data links the theoretical basis to reality, the theoretical basis is used to confirm the validity of the empirical data. The empirical data for this study is gathered by exploring annual reports of selected companies. The selection process of the companies used in this study, is based on defining suitable candidates according to the information they share in their annual reports. Companies annual reports consist more formal reporting standards as well as voluntary information for the use of their stakeholders and for the use of the general public. For this reason alone, companies with a wider scale of information are better suited for this study. The companies used this Thesis are large Finnish companies. The size of the companies is measured by the size of their annual turnover. Although, the selected companies do not represent the actual top ten companies based on their annual turnover, they are all positioned at the very high end of that list. Large companies are selected because businesses generate turnover mainly based on their good reputation. As reputation among potential clients and customers are at the center of success, social responsibilities become crucial in maintaining previously established good reputation. For this reason, large companies are well suited for the use of this study. Often larger companies also have better resources to adapt new ways to address emerging new concepts like social responsibility. On the other hand, larger companies are also often more under scrutiny by their stakeholders and the general public, which persuades them in achieving excellence.

The companies used in this study were selected by focusing on the turnover they generate. As mentioned, larger businesses can be considered to have better resources and therefore excel as pioneers in the field of CSR. Larger companies are also required to give more detailed information of their actions due to higher reporting standards, which allows more in-depth analysis of their engagements regarding corporate social responsibility. The annual reports of the companies utilized in this study are as follows:

**1. Fortum Oyj**

**2. Neste Oyj**

**3. KONE Oyj**

**4. Finnair Oyj**

**5. UPM-Kymmene Oyj**

**6. Outokumpu Oyj**

**7. Nokia Oyj**

**8. YIT Oyj**

**9. Kesko Oyj**

**10. S Group**

**List 1.** Companies selected for the study.

Although, company number ten is not a publicly traded company rather than a cooperative society, it made the list because it is the largest retailer of groceries and daily consumer goods in Finland and generate a third largest turnover of all the Finnish companies operating in Finland.

### **1.3 Limitations to the research**

The companies used in this study are publicly traded companies, but one, located in Finland. In this respect, the findings of CSR activities and information sharing practices are only valid and compatible against other Finnish companies operating under the same laws and cultural background. Of course, similarities between Finnish companies and companies with different nationalities can be found especially in the voluntary CSR information shared by the companies.

The findings are valid as long as the data is viewed to be comprehensive presentation of the CSR practices of the companies. This study does not rely on any background research on the target companies, but merely extracts informational data concerning CSR practices focusing on supply management activities. The CSR practices are presented as companies' self-assessments on the matter, and no real-life certainty of actual CSR practices can be obtained. As corporate social responsibility is under public scrutiny, companies are somewhat forced to implement CSR practices in their operations. This study does not editorialize to the real CSR practices of the selected companies, but merely takes the available information as it is presented in the research data. In this regard, the data is reliable only as it is presented in the annual reports of the selected companies.

Future development of corporate social responsibility is an interesting business research topic. CSR undoubtedly evolves from present practices as knowledge and experience around the matter accumulate. The viewpoints of CSR are in some extent time bounded, as approaches to justice and fairness are in constant state of change. The study at hand presents current practices reported to be used in the selected companies. Current practices can create a focused assessment of how these selected companies operating in Finland are implementing CSR practices in their own businesses but cannot be used to form a comprehensive understanding to describe all Finnish businesses.

## 1.4 Structure of the thesis

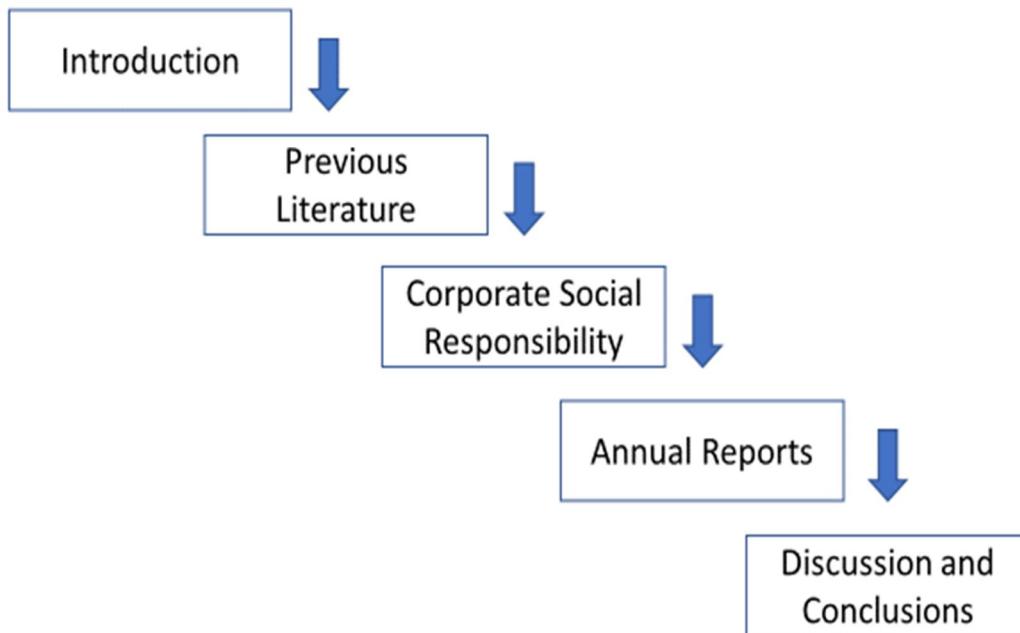
This thesis consists of five main chapters. Each chapter has its own purpose and makes the data more accessible and easier to read. The structure of the thesis is portrayed at the end of this chapter. The opening chapter introduces the study and represents the background for the research. In the introduction chapter the relevance of this research is discussed against recent developments in the field of CSR. In the introduction chapter, the research problems, which are at the center of this study, are presented. Also, the research methodology is revealed in the introduction. Limitations to the research are also discussed, as this study is focused on a small sample of businesses in a limited geographical area. The last section of the introduction chapter is subjected to explain the structure of the thesis.

In the second chapter, a previous literature on the topics of CSR and supply management is introduced. As both CSR and supply management are widely studied scientific topics, literature according different effects of CSR in supply management practices in companies can be found. In this literary review, effects of CSR practices in supply management are presented and discussed.

The third part of the study introduces the theoretical background in which the entire research is based. The theory part of this study is based on five different theoretical frameworks which influence CSR practices in companies. The first is the stakeholder theory, which examines the company regarding its stakeholders. Secondly, the CSR-pyramid is used to explain the forces effecting companies' CSR formulation. The third theoretical framework is the triple-bottom-line. It focuses on the impacts a company have on itself, but also on the society in general. In addition to these three main theoretical frameworks, also the business ethics theory and the shareholder value theory are introduced and discussed as they are considered to affect CSR practices.

In the fourth chapter of this thesis the empirical data of the study is presented. Focusing on the information about CSR practices gathered from the annual reports of the selected companies. The fourth chapter is the most important of the whole study because it provides the empirical evidence for this research and allows the theoretical background to be scrutinized against the reality. After displaying the empirical data, the gathered data and relevant findings are discussed in the fifth and final chapter of this thesis. The final chapter

is augmented with the conclusions answering the research questions. In addition, future research on the topic of CSR in supply management is discussed. Also, explanations for why these questions around CSR are important to study in the future are to be disclosed.



**Figure 1:** Framework of the study.

The structure of this thesis follows the framework displayed in Figure 1 and aims to achieve a clear reading experience, and to allow different sections to be coherently separated from each other.

## 2 Previous literature

The field of CSR is widely studied within the last few decades. The interest of improving CSR is also increasing among companies, as better CSR performance is becoming a requirement for managing stakeholders' interests. This study focuses on CSR, but also on its use in companies' supply management activities. In this section of the study a review of the previous research on the topics of CSR and supply management are presented in brief as a background information for the upcoming chapter consisting theories involving CSR.

### 2.1 Aspects of Corporate social responsibility

CSR is perceived to have an influence on many aspects of a company. The most important aspect for a company is the one that influence its financial status. As many actions of a company are evaluated by perceptions of the stakeholders, companies are axiomatically focusing on the key components that have the most effects on their economic performance. Although economic performance is often considered the bottom line of companies' operation, many activities involved with CSR are affecting this bottom-line economic efficiency.

#### 2.1.1 CSR and company finance

Companies are often dependent on borrowed capital. The cost of capital can have severe impacts in profitability of investments or the overall economic performance. The cost of capital is greatly influenced by a company's credit rating. Companies with good CSR are likely to receive a better credit rating, which helps them to acquire more affordable finance and helps the companies in an economic downfall (Attig et al. 2013). With better CSR performance, companies can influence in obtaining lower capital constrains and be able to acquire more affordable capital from capital markets (Cheng et al. 2014). As discussed earlier, transparency and open information sharing influence significantly in stakeholder

perceptions and trust towards the company. Desirable CSR performance is combined with better stakeholder engagement (Choi & Wang 2009).

### **2.1.2 CSR and Corporate Governance**

The relationship with between CSR and corporate governance (CG) is evident. As companies are always trying to influence their economic situation, CG is at the center, because it influences every decision a company makes. Superior CG leads to better CSR and their relationship often affects companies' economic bottom line. Jo & Harjoto (2011a) have also discovered a link between company's better CG – CSR – company value relationship. This association exposes that stakeholders trust, especially shareholder trust, can be improved with superior CG and CSR. Investments in company's CSR create better shareholder value (Attig et al. 2013). Moreover, companies CSR investments in community, environment, diversity and to its employees affects positively in company's financial performance (Jo & Harjoto 2011b). Although, investments in company's CSR require resources and consumes company's funds, enhanced CSR performance is eventually accompanied with improved company financial position.

Corporate governance is usually driven from top-to-bottom, which translates to the fact that all the most important decisions are made at the highest level of executives. The chief executive officer (CEO) of a company is often responsible for the guidelines as well as for the most essential decisions that a company makes. As the CEOs are the ones who lead the companies, some despot like characteristics can manifest themselves as decisions are determined. Tang et al. (2015) suggest that CEO hubris relates negatively to company's social responsibilities and positively to its socially irresponsible activities. Therefore, companies with highly concentrated leaderships, should benefit from shared leadership when dealing with social responsibility issues. As previously mentioned, companies have been engaged with CSR activities for a few decades and increased CSR involvement is becoming a new standard. Ormiston & Wong (2013) have discovered that CSR is positively related to CSiR (corporate social irresponsibility) and also that the relationship is greater for company leaders who are high on moral identity symbolization rather than with those company leaders who are low on moral identity symbolization.

### **2.1.3 CSR in Perception and Trust**

Increasing number of companies are communicating their CSR activities for the benefit of enhancing stakeholder relations (Korschun et al. 2009), and to validate stakeholders' perceptions (Bhattacharya et al. 2009). Corporate social responsibility is guided by perceptions of numerous stakeholders which have different expectations in how businesses are managed. Any signals deviating from these expectations raise questions and may change stakeholders' perceptions. Therefore, responsible actions and transparent communication of these actions create trusting environment between companies and their stakeholders.

## **2.2 CSR and Supply Management**

Corporate social responsibility is to be considered when companies engage in outsourcing their operations to an outside supplier. Supply management (SM), also referred as supply chain management (SCM), is a company activity which focuses on managing the flows of products and services in a desired manner when it comes to outsourced activities manufactured by suppliers. It controls the company's network such as supplier relations, purchasing and material flow management. Just over a decade ago, supply management was referred as both an emerging field of practice as well as an emerging field in academic studies (Storey et al. 2006). Also, in recent years, supply management has been gaining an increasing research attention (Feng et al. 2017).

Traditionally companies are considered to manufacture their products internally. Transaction cost theory has challenged this view, as it is often beneficial for a company to collaborate with another company or companies in order to achieve competitive advantage. Transaction cost theory focuses on transaction costs and is often used in companies' decisions of make-or-buy. As companies are expected to concentrate to their core competences, it is useful to outsource unessential activities from outside the companies. Supply management is becoming a vital function to any company dealing with multiple suppliers in order to manage these relations. Companies usually have a few suppliers which are more important than the rest. In these cases, a strategic partnership is a powerful

tool in achieving a competitive advantage (Ketchen and Giunipero, 2004). Closer relations and interdependency between companies create trust and synergy benefits for all companies involved in a strategically managed supply chain. Robert Strand (2009), in his study of Scandinavian supply chains, found that trustworthy companies are more likely to be more favorable partners to do business with. Collaboration with the members of the supply chain often lead to more creative solutions which are due to a link between mutual understanding and shorter cycle time (Hult et al. 2004).

# 3 Corporate social responsibility

CSR practices have evolved over time, but companies have always been a part of societies. Societies and companies doing business form a symbiosis which benefit each other. They are also dependent on one another. Companies provide societies with job possibilities for people in order for them to support themselves financially. Companies usually also generate a financial surplus which is taxed by societies providing them the means to improve the society by ensuring skilled workforce, standard legislation, operational infrastructure and secure operational environment.

Corporate social responsibility is fundamentally based on the idea of doing things right. Companies have different stakeholders which dictate what kinds of actions are preferable to a company. Stakeholder perspective is at the center of any business decision a company makes. Every actor that has an interest in a company is a stakeholder. A company is a combination of various value streams which are affected by many different stakeholders. From suppliers, to the focal company, to the end users, every stakeholder is an important part of the business process. As CSR is becoming better recognized, failure in adopting it can lead to problems with stakeholders who have their own interests to protect (Jamali 2008).

Different theoretical approaches to CSR can be found. As mentioned before, the main theories used in this thesis are the Stakeholder Theory, Legitimacy Theory, Institutional Theory, the CSR Pyramid and the Triple Bottom Line. Also, the Business Ethics Theory is introduced and considered to affect CSR practices.

## 3.1 Stakeholder interests

Corporate social responsibility has many different aspects which allow multiple interpretations on the same matter. CSR is seen to be affected by the four following theories. Stakeholder theory views CSR by the eyes of anyone who has interests in the company, legitimacy theory looks at companies by the way they fulfill legal requirements,

and institutional theory focuses on processes that exists in creating different structures of the company. Business ethics theory concentrates on the ethical conduct associated with companies engaged in business.

### **3.1.1 Stakeholder Theory**

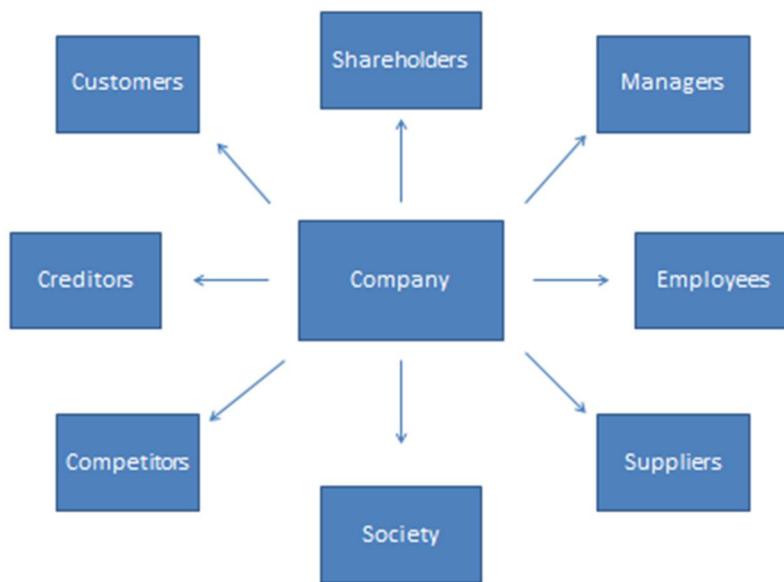
Stakeholder theory was initially introduced by R. Edward Freeman (1984). According to this theory, a stakeholder of a company is anyone who has an interest in the company. The idea behind the stakeholder theory is that companies have responsibilities to all who affect or are affected by the companies' actions. Companies are considered to have multiple stakeholder groups. Every group has their own special interest in the company, and every member of that group has their individual agenda of interest. Several stakeholder groups can be identified to have interest in the company.

Shareholders have an interest toward the company, as they are the ones who own the company. When the company succeeds with its objectives, the shareholders have an economical interest because any surplus the company makes is returned to them. Managers of the company have an interest in the company, for they are often compensated for the success of the company. Managers can also be interested in promoting their own value as decision maker. Company's employees have an economical interest in the company, as companies provide them with work and pay them salary. Having a payed job allows employees to support themselves financially without society's intervention. Suppliers are a stakeholder group who can have either a loose connection with the company or they could even be involved in a partnership like collaboration that increases the amount of interest they have in the company.

Society is considered to be a stakeholder in any company that is doing business within its administrative territory. Companies create jobs for workers and pay taxes which both benefit the whole society. In return society provides companies with educated workers and active infrastructure. Business competitors have an interest in the company as every action of a competitor affects them and vice versa. Companies doing business and making investments usually borrow capital from creditors. Creditors as stakeholders are interested in the companies' ability to return the borrowed capital along with interest. One of the

biggest stakeholder groups is the customers of the company. Customers, whether they are other companies, governments or individual consumers, are the ones who enable the existence of any business, as customers are the ones who pay money to companies for their services.

Identifiable stakeholder groups:



**Figure 2:** Stakeholder groups.

The model of stakeholder groups (Figure 2), was initially portrayed by R. Edward Freeman (1984). The stakeholder map, as it was called, had several other interest groups, such as unions, activist groups and political groups. The model portrayed here is a simplification of that original model, since any group associated with a company could fit into the map of stakeholder groups.

### 3.1.2 Legitimacy Theory

Legitimacy theory encompass legal aspects of a company. Legal requirements are extended to all actors of a society. Laws are all-inclusive agreements between every member of a society, which form the basic guidelines for all operating in the realm of a certain jurisdiction. For the purpose of legitimacy theory, society is considered as a whole, whereas stakeholder theory looks at society as many different intertwined stakeholder groups (Deegan & Blomquist 2006). Where stakeholder theory focuses on the relationships between companies and their stakeholders, legitimacy theory's viewpoint is on the relationship between companies and societies (Fernando & Lawrence 2014). Legitimacy theory is based on the concept of organizational legitimacy determined by Dowling and Pfeffer (1975) as: "*a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.*"

### 3.1.3 Institutional Theory

Institutional theory has many similarities with legitimacy theory but focuses more on the connection between different organizations and their environment. (Chen & Roberts 2010). Institutional theory includes a concept which predicts that all companies are likely to resemble each other over time. This concept of isomorphisms can be divided in three groups. Coercive isomorphism occurs when companies are forced to adopt a law or regulation which applies to everyone unifying their actions. Mimetic isomorphism occurs due to coping of competitor's competitive strategy. Normative isomorphism occurs when companies start to follow specific professional guidelines. As institutional theory's isomorphisms are in effect, companies start to resemble the surrounding environment in which they operate. Institutional theory focuses on explaining why different organizations tend to be homogenous (DiMaggio & Powell 1983).

### **3.1.4 Business Ethics Theory**

Business ethics are considered as companies are making managerial decisions. Business ethics as ethics themselves are contemporary and applicable in situations where questions of right or wrong are considered. Business ethics is an amendment to ethics and can be used in situation where different business actions are concerned to be affected by issues of ethical nature. As companies are traditionally considered to maximize profit by doing business, this sort of “means to an end” kind of thinking possessed also explicit difficulties. Wagner-Tsukamoto (2007) referred this type of self-interest driven business a “level-one” morality of a company. The “level-two” morality of business ethics comes with the idea that the realization of business ethics require a strong legal framework for businesses to follow, whereas the final level of morality consists of creation of ethical capital that exceeds even the legal requirements for business ethics (Wagner-Tsukamoto 2005, 2007).

## **3.2 Outside Forces Affecting CSR (Carroll's CSR-pyramid)**

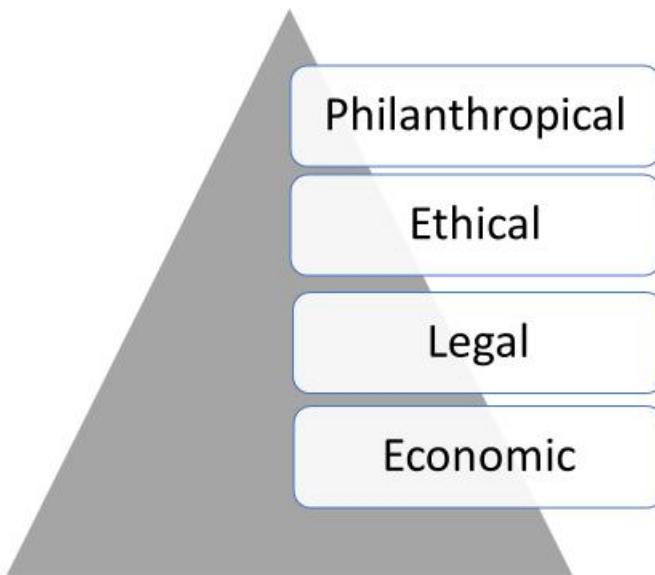
According to Archie B. Carroll (1979), corporate social responsibilities are constituted by four separate factors, which are economic, legal, ethical and philanthropical responsibilities. All these perspectives of responsibility have influenced businesses a long time, but not until recently, the ethical and the philanthropical functions have started to have more significant impacts on doing business (Carroll 1991).

Carroll formulated a visual representation called the CSR-pyramid (Figure 3), which illustrates the importance and general priority of each perspectives. On the bottom of the pyramid, working as a foundation for everything else to be built upon, lays the economic requirements for companies. Without the economic basis, companies would have difficulties in implementing any other of the remaining three perspectives. Legal requirements for companies form a compelling approach to how to establish and operate a company within a specific legal paradigm. Even though legal requirements usually dictate the basis for economic requirements for companies, legal requirements come to be applied only when a company has enough finances to be established. Although, the economic perspective of the CSR-pyramid focuses on the idea of profitability. (Carroll 1991)

At the second layer of the CSR-pyramid is the legal perspective, which focuses on the requirement of obeying the law (Carroll 1991). At this layer, the society dictates the minimum requirements it imposes on companies for them to do business inside its jurisdiction. Legal requirements also level the business field for different companies operating in a same area, for them to be treaded in the same way and not be able to require unwarranted competitive advantage.

The third layer of Carroll's pyramid entails an ethical perspective of social responsibility. Economic and legal perspectives are fundamental requirements for companies. The ethical view focuses on the obligation of doing what is considered to be right, just and fair, but also urges to avoid inflicting deliberate harm to others. (Carroll 1991) The fourth and final layer of the CSR-pyramid involves with the philanthropical perspective of social responsibility. The philanthropic view is designed to encompass all that is good with the company. It embodies the companies' voluntary actions in contributing their resources back to the community for improving quality of life (Carroll 1991). Philanthropical behavior is seldom based on pure altruism. In a research of strategic-CSR, Fernando (2007) discovered that "Strategic-CSR philanthropy can have a moral basis but is channeled in the direction of sustainable reputation, advantage, and return".

The approach to the four different steps of the CSR-pyramid seems logical. Despite this, revisiting his previous study, Carroll (1999) have stated that the steps are not designed to be approached sequentially, rather than to be adopted simultaneously. In (2003), Schwartz and Carroll concluded that the pyramid framework can create misunderstandings within the priorities concerning the four layers of the CSR-pyramid. Carroll (1991) propose, that companies adopting CSR practices "should strive to make a profit, obey the law, engage in ethical practices and be a good corporate citizen."



**Figure 3:** Carroll's CSR-pyramid.

### 3.3 Impacts of CSR (Triple bottom line)

Corporate social responsibility has different levels which are influenced by various factors. Corporate social responsibility can be examined by the impacts it produces. Three main groups can be identified to be influenced the most by corporate social responsibility. Traditionally companies have concentrated on their bottom-line result, which is the economic performance they produce. New dimensions have been attached to this approach, as social and environmental factors are introduced. Compared with the traditional bottom-line thinking, these new dimensions increase the focus of companies by including non-economic measures to the process. After the deployment of the sustainable approach, social and environmental dimensions of the triple bottom line have been shown to be affected by executive pay structures which are focusing on short-term financial

performance that relates negatively to sustainability initiatives (Berrone & Gomes-Mejia 2009).

The triple bottom line (TBL) was first introduced as an accounting framework by John Elkington (1994). The key idea behind the concept of the triple bottom line is to be able to quantify measures such as social and environmental in nature, whereas traditional measures focused on profits, return of investment and shareholder value. These new kinds of measures were not used to be treated as quantifiable measures. Sustainability was the key focus of Elkington's new research, as he integrated dimensions of profits, people and the planet to the equation of performance (Slaper & Hall 2011).

### **3.3.1 Economic Perspective**

The first of the three factors of the triple bottom line is the economic perspective in which CSR can be measured with the impact it has on society's financial sector. The impact on financial sector can be divided into four stakeholder groups which share the economic utility of the company. The first beneficiaries are the owners of the company who extract economic gain from a company via dividends but also through increased value of the company. The second group of beneficiaries are all the collaborators which are all the different suppliers and buyers on the other end of the value chain. These collaborators extract value from the company through a value chain that benefits all its participants. The third group of beneficiaries are the workers of the company who are paid for their contributions to different company activities. The fourth group of beneficiaries is the entire society which benefits from the company through taxation, although the benefits to society are much greater than gained by taxes alone. The economic contributions that a company makes throughout the entire field of different stakeholders which are involved with a company, are often larger than the sum of its parts. This is, for example, because a company generates jobs which pays money for the workers that can support themselves without transfer payments from the society. Companies contribute to the economic value creation for entire society.

### **3.3.2 Social Perspective**

Social perspective is the second main group that is impacted by corporate social responsibility. As the very name suggests the social responsibility is at the heart of corporate social responsibility. In addition to economic benefits of CSR, social perspective also includes perceptions of fairness and justice. Although the economic value companies produce is distributed to its shareholders, societies have come up with ways to broaden the distribution of economic value companies make to a larger number of recipients in order to improve the social aspects of the society in general. For example, workers of a company have rights to a fair salary which is controlled by legislation. Also, as societies tax companies they can channel that economic value to critical operations, which benefit all the participants of the society, such as healthcare and law enforcement. Gimenez et al. (2012), studied how social programs effect the triple bottom line. Social programs seemed to improve performance in social and environmental aspects, but effected the economic performance the other way around, as the amount of manufacturing costs increased. Although, social programs can lead to enhanced company's social reputation and have a positive effect on sales.

### **3.3.3 Environmental Perspective**

The third perspective of the triple bottom line which is affected with CSR is the environmental perspective. Closely intertwined with economic and social perspectives the environmental aspect of CSR focuses on that companies doing business do not exploit nature more than necessary. The environmental part of CSR is the most contradictory because most businesses exploit nature to some extent. Business decisions regarding the sustainability of the natural environment have four distinctive drivers: economic opportunities, legislation, stakeholder pressure and values of the decision makers (Bansal & Roth 2000). Often, values of the managers making decisions are perceived to be at the heart of motivated choice (Judge & Bretz 1992). Managers' values unarguably affect the approach to all three perspectives.

The aim of CSR is to find equilibrium between unnecessary and accepted environmental activities. The environmental aspect of CSR is growing as societies, and people in general, are becoming more conscious about the consequences of the actions that are imposed on nature. Studying the impacts of different environmental programs, a positive connection between all dimensions of the triple bottom line was found, indicating that implementation of environmental actions induces improvements in the company's economic, social and environmental performance (Gimenez et al. 2012).

## 4 CSR in supply management practices

As companies are recognizing the importance of CSR and developing new practices to implement it, the growing interest is focused on how corporate social responsibility relates to the information companies are sharing with their stakeholders. Companies have different motives for the use of corporate social responsibility. Sustainability in companies and their supply management activities is often a result of external expectations and incentives induced by various stakeholders, which steer companies to a certain path (Beske 2012). According to this view, sustainability seems to be merely a result of outside perceptions and expectations, as companies try to uphold their reputation and to gain financial benefits. Social responsibility and sustainability in supply chains, can enhance companies' reputation if they focus on reciprocal benefits of both members of the supply relationship, the company itself and its suppliers (Gualandris et al. 2014).

During this study and in analyzing the empirical data, motives for social responsibility and sustainability are searched to answer why companies engage in social responsibility and sustainability. Companies have different agendas when executing their business activities. Social responsibility and sustainability are among many other business functions that companies apply in their operations. Interesting is to find out whether companies disclose any of these motives for utilizing CSR or sustainability. Openness and transparency of information affect companies and their responsibility practices as stakeholders are ever more interested in the different values that companies adduce.

Legislation dictates the standards companies use in their financial reporting. Countries have formed domestic accounting standards which are usually used by smaller enterprises. Accounting refers to quantitatively measurable economic figures whereas a qualitative dimension is designed to focus on data such as sustainability and social responsibility. Financial reports are usually intended for investment purposes for shareholders, investors, financial analysts and lending institutions whereas sustainability and responsibility reports are prepared for the use of a larger range of stakeholders, such as company's management and employees, customers, suppliers, shareholders, NGOs and for the wider use of the general public (Tschopp & Nastanski 2014). Nowadays international reporting standards are used as companies are becoming more international. Companies release annual reports

in order to reveal their economic situation to their stakeholders as well as to explain their different approaches to companies' socially relevant responsibilities. Various internationally recognized standards are used in companies dealing with responsibilities and sustainability.

### **United Nations Global Compact**

United Nations' Global Compact is an international standard many companies comply with. The UN Global Compact is a bundle of ten principles developed as a basis for companies' value systems applied in corporate strategies. All ten principles are affiliated with sustainability and are to be approached as minimum requirements for each responsibility. The UN Global Compact comprehend requirements in human rights, labour, environment and anti-corruption. The ten principles are a combination of "*the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption*" (United Nations 2020). The ten principles of the UN Global Compact are as listed below.

### Human Rights

**Principle 1:** *Businesses should support and respect the protection of internationally proclaimed human rights; and*

**Principle 2:** *make sure that they are not complicit in human rights abuses.*

### Labour

**Principle 3:** *Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;*

**Principle 4:** *the elimination of all forms of forced and compulsory labour;*

**Principle 5:** *the effective abolition of child labour; and*

**Principle 6:** *the elimination of discrimination in respect of employment and occupation.*

## Environment

**Principle 7:** *Businesses should support a precautionary approach to environmental challenges;*

**Principle 8:** *undertake initiatives to promote greater environmental responsibility; and*

**Principle 9:** *encourage the development and diffusion of environmentally friendly technologies.*

## Anti-Corruption

**Principle 10:** *Businesses should work against corruption in all its forms, including extortion and bribery.*

## List 1. The principles of United Nations Global Compact (United Nations 2020).

The United Nations Global Compact aims to standardize and enhance ethical conduct in ways that allow the companies to develop their business operations to match commonly shared values concerning ethical conduct. As a globally recognized operator, the United Nations is a credible Avant-guard in the field of business ethics.

## Amfori Initiatives

In some companies, initiatives developed by the amfori association were used to approach the ethical issues related to responsibility and sustainability. The amfori association provides its members with clear standards of both social and environmental perspectives. The amfori Business Social Compliance Initiative (BSCI) focuses on the social compliance of a company and contains the following eleven initiatives:

**1. The rights of Freedom of Association and Collective Bargaining**

**2. No Discrimination**

**3. Fair Remuneration**

- 4. Decent Working Hours**
- 5. Occupational Health and Safety**
- 6. No Child Labour**
- 7. Special Protection for Young Workers**
- 8. No Precarious Employment**
- 9. No Bonded Labour**
- 10. Protection of the Environment**
- 11. Ethical Business Behaviour**

**List 2.** The amfori BSCI initiatives (amfori 2020a).

Alongside with the BSCI initiatives amfori provides the Business Environmental Performance Initiative (BEPI) which is focused on the environmental aspects of responsibility. The amfori BEPI initiative is a combination of the following eleven initiatives:

- 1. Environment Management System**
- 2. Energy Use, Transport and Greenhouse Gases**
- 3. Water Use**
- 4. Wastewater / Effluent**
- 5. Emissions to Air**
- 6. Waste Management**
- 7. Pollution Prevention and Chemicals**
- 8. Major Incident Prevention and Management**
- 9. Contaminated Land / Soil and Groundwater Pollution Prevention**

## **10. Land Use and Biodiversity**

## **11. Environmental Nuisances**

**List 3.** The amfori BEPI initiatives (amfori 2020b).

The members of the amfori association receive continuous recommendations regarding political, legal and technical landscapes. Amfori also provides its members with experts' insights, recognition in a global scale and support for their business, in a pursuit of sustainable trade. (amfori 2020c)

## **ILO**

The International Labour Organization (ILO) is an organization pursuing social justice, human rights and better working conditions for employees worldwide by promoting international labour rights. According to ILO's mission statement: "*social justice is essential to universal and lasting peace.*" The organization aims to fulfill this mission by focusing on work related rights, encouraging employment opportunities, enhancing social protection and by establishing better dialogue concerning work-related issues. (International labour organization 2020) The work-related initiatives designed and developed by ILO, are embedded in the United Nations Global Compact's ten principles of labour rights.

## **4.1 Target companies**

In this chapter of the study, research data from selected companies is displayed, analyzed and discussed. The data is extracted from the companies' publicly accessible web pages. The annual reports are usually displayed in the information page for investors, in which companies disclose relevant information for the use of their stakeholders. Some companies publish a sustainability report alongside with their annual report, but usually it is just separated from the actual annual report to allow easier access. In other words, the sustainability reports are embedded in the companies' annual reports.

#### **4.1.1 Fortum Oyj**

Fortum is a Finnish energy company operating in many various energy production fields, such as oil, gas and nuclear power from which the company manufactures primarily electricity and heat. Fortum is a substantial procurer of products and services. Fortum recognizes the importance of responsible supplier selection in achieving successful business activities and in obtaining goals in sustainability. The company's acquisition volume is focused in Europe, and more than 60 per cent of its procurement is purchased from Finland, Sweden and Norway. Fortum differentiates its suppliers by using sustainability risk assessments. European suppliers are considered to contain low risk, whereas non-European suppliers are seen to have increased risks. Fortum perceives that this supplier risk is often due to likeliness of misconduct against workforce and human rights. The classification of countries by the risk they induce, is based on International Labour Organization's (ILO) Decent Work Agenda, United Nation's Human Development index, and the Transparency International's Corruption Perceptions index. In 2019 Fortum had approximately 14 000 service and product suppliers. Countries which were considered to have elevated risk had about 1170 of those suppliers, Russia being one of the biggest of these. Russia can be considered a substantial supplier to Fortum as it provides the company much of its natural gas, coal and uranium.

Fortum is following the United Nations' objectives of sustainable Development Goals. These goals contain global objectives concerning economic, social and environmental issues. Fortum is determined to extend the successful implementation of these goals throughout its entire value network. Sustainability and responsible actions are emphasized in coordination with different stakeholders. The company appreciates collaboration and openness between its stakeholders, in order to induce mutual understanding. Fortum recognizes that the company adds value throughout its stakeholders by producing taxes, salaries and dividends, but also by making investments and purchases.

In 2019, Fortum made purchases with just over 3 000 million euros. As a major purchaser, it induces its suppliers to act responsibly. Fortum has a code of conduct for its suppliers to follow. The code of conduct is a foundation to the company's ethical policy. Supplier Code of Conduct includes basic sustainability requirements for service and product suppliers. Supplier Code of Conduct is based on the principles of United Nation's Global Compact

initiative, which is divided in four separate sections: anticorruption, human rights, working life standards and the environment. Fortum extends the Code of Conduct for suppliers to include all its suppliers, worldwide, with supply agreements of 50 000 euros or above.

Fortum controls its supplier networks with qualification processes and supplier audits. The qualification is done when a supply volume of a certain supplier exceeds the value of 50 000 euros. The qualification process is designed to evaluate the procedures of the supplier. The evaluations include assessments of conduct of working in countries associated with elevated risk, certified management systems and work safety of the supplier's contractors. Special attention is also extended to cover anti-corruption activities. Potential risks are controlled by having suppliers to make self-assessments or performing a full-scale supplier-audits.

Performing supplier audits is to ensure Fortum of suppliers' participation in the guidelines of its requirements. A third-party auditing firm performs the audits which include actual visits in the production facilities of the supplier, employee interviews and inspections of documents. In 2019 Fortum made 14 supplier audits in Asia, Russia and Poland, which revealed that there were neglects with overtime hours, salaries and work safety. Misconducts with potential suppliers were reported to involve multiple different areas, such as freedom to organize, forced labour, child labour and discrimination.

Fortum recognizes the importance of corporate citizenship. Responsible conduct is perceived as a cornerstone for a sustainable business. The company supports societies they operate in by endorsing social activities benefiting communities. Fortum also collaborates with universities in different kinds of research and development projects. Fortum utilizes GRI Sustainability Reporting Standards in their reporting of relevant characteristics. The company gains information from its stakeholders by using the One Fortum Survey, stakeholder sustainability Survey and normal collaboration with the stakeholders.

#### **4.1.2 Neste Oyj**

Neste is a Finnish oil company operating in oil refining and marketing. Neste has two oil refining facilities in Finland where it produces different oil related products. Neste is a significant producer of renewables. For instance, Neste is the world's largest producer of renewable diesel. Neste and Fortum have some history between them, as Neste was briefly a subsidiary of Fortum. From until 2004 both companies have been separate businesses and therefore produce their own reports. The management of the supply chain is based on the policies and principles dealing with sustainability and responsibility. All Neste's suppliers must follow the company's Supplier Code of Conduct requirements. The Supplier Code of Conduct was updated in 2019 in order to correspond with existing regulations, and with stakeholders' expectations and needs.

Neste recognizes the importance of supplier selection in accordance with supplier responsibility. The evaluation of the responsibility of a supply chain is a process which begins long before the actual agreements are signed. In regards of responsibility, Neste cooperates with its long-term associates in the fields of training and communication.

As the company is in business dealing with renewables it also recognizes the significance of having sustainable sourcing process. All the suppliers of renewable raw materials are required to meet Neste's Responsible Sourcing Principles as well as Human Rights Commitment and Principles in addition to industry and market specific legal requirements. Neste has developed, in collaboration with its suppliers, a Supplier Sustainability Portal which is specifically designed to evaluate the processes of sustainable sourcing. This portal is designed to achieve global sourcing of renewable raw materials and to ensure sustainability, efficiency and growth.

As recognition of sustainability is a globally growing megatrend, also Neste is constantly developing new and improved systems to enhance its reputation as a responsible company. Due diligence is the latest sustainability principle which is aimed to set minimum requirements for the suppliers of renewable raw materials. It is a six-dimensional sustainability process, which include: review of raw materials approval; sustainability risk assessment; identification of a supply chain; review of certain requirements of market compliance and Neste compliance; ESG evaluation; and onboarding audit. The ESG

evaluation includes a wide range of Environment, Social and Governance (ESG) topics, which are in line with Neste's Supplier Code of Conduct. The ESG topics cover governance, labour standards and practices, human rights, environment, along with health and safety.

Neste's supplier sustainability due diligence framework has a strong focus on human rights. Fair wages, favorable work conditions, health and safety, diversity, labour standards, freedom to association and impacts on neighboring communities and the rights of vulnerable groups such as children, migrant workers and women, are all covered when suppliers of renewable raw materials are visited on site. These visits include interviews with workers and third-party employees, as well as conversations with different rights holders.

The criteria of Supplier Code of Conduct, Responsible Sourcing Principle and Human Rights Principle were compared with the Accountability Framework Initiative (AFi). AFi is a collaborative project trying to establish general guidelines, norms and good procedures for agricultural products. These guidelines are done in cooperation with representatives for different stakeholders such as producers, traders, manufacturers, NGO's and all other relevant stakeholders.

#### **4.1.3 KONE Oyj**

KONE is a Finnish company known for its elevator manufacturing. The company produces also escalators and automatic building doors. Besides manufacturing, KONE provides installation, maintenance service and modernization for their products. The company recognizes sustainability as a source of innovation and competitive advantage. KONE notifies their commitment to conducting business in a responsible and sustainable manner. The same kind of view to commitment they expect from their suppliers.

In 2019 KONE made purchases from its suppliers for just under 6 000 million euros. KONE supports the United Nations' Global Agenda and its principles on environment, labour, anti-corruption and human rights. An assessment of human rights, conducted by a third-party, is designed to recognize policies and processes which induce risks. The

assessment, conducted in 2019, allows the company to prioritize its actions in the management of supply chain related with human rights issues. The company also discloses that in 2020 they are piloting a project for more extensive human rights assessments of their suppliers. In the selection of logistics suppliers, KONE emphasizes on optimizing its transportation networks by selecting suppliers located close to distribution centers, in order to improve its eco-efficiency on the environment. The company encourages its suppliers to develop efficiency and sustainability in their operations and supply chains. The use of renewable energy and the use of recycled materials are one of the requests made for suppliers.

KONE has its own Supplier Code of Conduct for their suppliers and distributors to follow. It sets out the ethical business requirements expected from suppliers. It covers legal compliance, ethical conduct, anti-corruption policy as well as labour and human rights, health and safety requirements and environmental issues. KONE expects these codes of conduct to be extended to all employees, suppliers and third parties of its suppliers. KONE's Supplier Code of Conduct also sets requirements for its suppliers' competence and continuous improvement in various business areas such as quality, cost control, innovation and reliability.

KONE monitors its suppliers using various management and measurement techniques such as audits, assessments and mitigation of supplier-related risk, standardized contracts which include KONE Supplier Code of Conduct, supplier performance measures and supplier certification. KONE's supplier development and supplier management functions are designed and developed to help the suppliers in implementing best practice quality management methods.

KONE recognizes the importance it plays in societies where it operates either directly or in collaboration with its suppliers. KONE acknowledges its role in generating wealth through taxes and employment in countries all over the world. The company addresses that the largest economic impacts it has on the societies, are due to the employment opportunities it provides.

#### **4.1.4 Finnair Oyj**

Finnair is a Finnish airline company operating in domestic and international flights. Finnair's main business is the transportation of people and products from one location to another, using airplanes. Finnair is a company providing transportation as a service, instead of being a conventional manufacturer of physical products. Finnair provides also airplane services, ground operations and catering services, in addition to working as a travel agency.

As a global operator Finnair has multiple partners and suppliers all over the world. According to Finnair, its sourcing activities are based on a Code of Conduct which emphasizes fair treatment of all the suppliers. Finnair endorses the United Nations' Global Compact -initiative which aims to prevent human rights violations, the use of forced labour and the use of child labour inside Finnair's own operations but also in the supply chain it manages.

Finnair has formed its own ethical principles for the suppliers to follow. The Finnair's Supplier Code of Conduct dictates the minimum level of ethical standards that all its suppliers must adhere. Finnair considers being self-evident that all its suppliers comply with the United Nation's Human Rights declaration as well as all the laws and regulations provided by local authorities.

Sourcing at Finnair is based on the assumption of self-sufficiency and independence from the suppliers. The company emphasizes that all its personnel must recuse themselves from sourcing decisions if they have any dependencies on the counter parties they are dealing with.

Finnair conducts audits of its key suppliers. The audits are primarily focusing on quality and security matters of strategic importance. Finnair has a distinct process and guidelines for continuous improvement of responsibility in its supply chain management, which strives to minimize any negative effects and enhance responsibility and sustainability affiliated with sourcing.

Finnair recognizes its responsibilities in doing business. Finnair perceives itself to have considerable direct and indirect economic effects on the societies it operates with. One of

the company's main goal is to create sustainable economic added value by providing lucrative and competitive flight services in conformity with the needs of societies and the environment. As an airline company, Finnair's largest environmental impact is caused by the emissions of carbon dioxide. The company is working to achieve a role as a trendsetter in estimation of environmental impacts, reduction and reporting of environmental impacts, as well as to exceed environmental requirements set by different authorities. Social responsibility is also at the heart of Finnair's operations. The main social responsibility activities are focused on security, personnel, customers and the supply chain. Finnair is committed to comply with the United Nations' Sustainable Development Goals, and sustainability is extended to concern all levels of the company's processes equally.

In supplier evaluation Finnair is using the SEDEX system to enhance its risk management, evaluation of social repercussion and traceability in the supply chain. Regarding direct geographical and industry-specific social risks, Finnair assesses all its suppliers, which have a considerable role in creating customer experience, using the Supplier Ethical Data Exchange (SEDEX) risk assessment tool. Finnair emphasizes, that geographical and industry-specific factors also contribute to environment and human rights risks, which are both targeted with plans of continuous improvement and preventive actions. In 2019 Finnair launched a new Procure to Pay-system, which is aimed to enhance regulative consistency in the supply chain. The new system allows Finnair to concentrate its acquisitions to suppliers which perform the best, according to selected parameters. These parameters are designed to improve the effectiveness of Finnair's ethical principles and to mitigate risks embedded in the supply chain network.

#### **4.1.5 UPM-Kymmene Oyj**

UPM-Kymmene, commonly referred as just UPM, is a Finnish forest product company working in several different product categories associated with forestry. UPM is combining six diverse industries in its business, UPM Biorefining, UPM Energy, UPM Raflatac, UPM Specialty Papers, UPM Communication Papers and UPM Plywood. UPM's main products are pulp, various paper materials such as magazine paper and newspaper, labeling

materials and wood products. The company is also involved in the development and production of biofuels.

UPM is actively developing new solutions in order to enhance sustainable use of renewable materials. The aim is to decrease effects on the environment and to increase added value by developing new innovative products. Life cycle of the products is highlighted in the development of the products throughout the whole value chain, from sourcing of raw materials and manufacturing of end products to recycling of the products at the end of their life cycle.

UPM states that creation of value for society is one of its main strategic goals as a business. Responsible business practices encompassing the entire value chain and sustainable solutions searched in cooperation with customers, suppliers and other stakeholders are central functions in promoting value creation. UPM recognizes its role in generating tax income for societies. Therefore, the company refuses to invest in production or service operations in areas which the council of the European Union has declared non-cooperative in taxation.

Cost efficient supply chain is a key element of value creation at UPM. The company determines that a long-lasting collaborative development with its suppliers is to ensure a functioning and responsible supply chain. As the company is making sourcing decisions, the emphasis of supplier selection is on the long-term reliability of deliveries, quality, economic stability, social and environmental sustainability and product safety.

The aim behind collaboration between UPM and its suppliers is to ensure compliance, competitiveness and systematic performance. A mutual goal of the collaboration is to confirm that the suppliers are able to provide responsibly produced, competitively priced and innovative materials and services worldwide, despite the existing market situations.

UPM is committed to responsible sourcing. The main focus areas of responsibility at UPM are economic, social and environmental responsibility. All the company's suppliers are provided with UPM's Supplier and Third-Party Code of Conduct, which determines the minimum requirements for suppliers and their associates. UPM performs risk assessments of its suppliers. Responsibility-related risks are evaluated by determining the country of origin, sourced material and the complexity of the supply chain. According to the risk assessments, suppliers are evaluated using annual surveys, audits and collaborative

development plans. UPM recognizes the importance of effective management of the third-party affiliates in securing business continuity and compliance.

UPM is a part of the United Nation's Global Compact. In 2019, UPM was once again nominated a Global Compact LEAD participant due to the company's commitment to the United Nations Global Compact. UPM is one of the 36 participants, the only Finnish company, and the only representative of forest companies worldwide to be appointed with the LEAD prestige. The company acknowledges its active role within the Action Platform, promoting decent work in supply chains globally. UPM is working in cooperation with Together for Sustainability-initiative (TfS), which is an initiative promoted by the chemical industry designed to improve practices within the supply chains of all its members. Together with Sustainability-initiative allows UPM to gain information from other TfS members such as audit reports. The membership of TfS enables improvements in transparency and efficiency of UPM's own assessments and audits.

#### **4.1.6 Outokumpu Oyj**

Outokumpu is a Finnish company operating in metal industry. The main business activity of the company is the manufacturing of stainless steel. Outokumpu is recognized to be a leading producer of sustainable stainless steel in the world. The company discloses that the cornerstone of its business is to enable growth and innovation using sustainable stainless-steel solutions, which are designed to benefit society and society of future generations.

In 2019, Outokumpu deepened its sustainability agenda. The increasing relevance of sustainability is affecting the company's sustainability strategy, which is based on climate, environment and society. As a producer of stainless steel Outokumpu considers its main product to be at the very core of the company's sustainability strategy, as stainless steel is totally recyclable, efficient and long lasting. Recycled steel is the most important raw material for Outokumpu in its production of stainless steel. The total amount of recycled steel is 85 per cent of all raw materials required in the company's production of stainless steel.

Sustainability is integrated into all levels of the company's operations, activities and decision making. All operations are linked to Outokumpu's Code of Conduct, ethical Principles, Corporate Responsibility Policy and Environment, Health and Safety and Quality Policy. All collaborators such as business partners and suppliers are expected to comply with similar standards.

Outokumpu is a part of a supply chain which operates on a global scale. Providing sustainable products for its customers the company has to have strict requirements for its own suppliers, as well. Outokumpu has over 9 000 suppliers worldwide. Rigorous assessments of new and existing suppliers allow Outokumpu to evaluate any evidence of violations regarding company requirements. All the company's suppliers and subcontractors are expected to follow the Code of Conduct composed by Outokumpu. Meeting the supplier requirements includes acting accordingly to any applicable laws and regulations, uphold a management quality program, follow general terms and conditions, competence to define, with documents, the supply and production control processes, and the ability to trace all materials. If a supplier neglects the requirements, Outokumpu approaches such suppliers with a request to provide an improvement plan and evidence of successful improvements. If the requirements of the Code of Conducts are ignored Outokumpu will discontinue purchases from supplier associated with violations. Suppliers are evaluated using self-assessments, screenings and audits. The supplier self-assessments are focused on evaluating suppliers' social responsibility, environmental responsibility, safety and management of quality. Raw material suppliers operating in countries with high environment, social and governance risks are evaluated by self-assessments. Annual environmental audits are used based on internal risk assessments, and the majority of the company's suppliers are assessed using regular normative sanction screenings.

Outokumpu follows the OECD Due Diligence Guidance for Responsible Supply Chain. In 2019 Outokumpu screened its direct material suppliers in accordance to their environmental, social and governance (ESG) risks by the country of their origins. The ESG country risk assessment has seven criteria: "regulatory quality, rule of law and corruption from the World Bank, Environmental Performance Index, conflict minerals, child labor, and forced labor". The company recognizes the impact and importance of its decision making to communities and societies, as it operates in a global market and the production

sites are often relatively dependent on different operations and decisions affiliated with Outokumpu.

#### **4.1.7 Nokia Oyj**

Nokia is a Finnish company operating in telecommunication industry, information technology and consumer electronics. As the use of technology is increasing in society, companies such as Nokia are at the pinnacle of that development. New technological solutions also produce new unknown challenges. For this reason, Nokia states that: "Our products and solutions are designed to drive social, environmental, and economic progress. We continue to develop processes, policies and programs that align with globally recognized ethical and responsible business practices and frameworks." Nokia recognizes the responsibilities it possesses as a global operator, as it also concludes that even though its conduct induces challenges to sustainability issues, "the positive impact of the technology we create and deliver far outweighs the potential negative impacts." Nokia declares that its key sustainability priority is: "to improve people's lives with technology, to protect the environment, to conduct our business with integrity, and to respect our people".

According to Nokia, integrity and reputation are considered to be the most important assets the company possesses. Nokia perceives that the company's reputation can be affected by unethical misconducts of its suppliers. Regarding reputation management, Nokia has a Code of Conduct, which contains guidelines and requirements for the company itself but also to all operatives working with Nokia. The Code of Conduct is spread across the company and its operations in order to protect Nokia's reputation. The Code of Conduct also guides the company's ethical responsibility, which is intended to encompass all Nokia's own employees as well as its suppliers. The code of Conduct is used to set standards for supplier requirements. The Supplier requirements comprehend environmental aspects, as well as security, privacy, risk management, human rights and health issues. Anti-corruption and bribery policies are included in the company's Code of Conduct, which focuses on corruptive behavior of suppliers as well as Nokia's own employees. The company carries out periodic audits and risk assessments to ensure identification and

corrective reaction to risks related with corruption. Nokia performs assessments and audits for the suppliers and provide them with additional training to ensure suppliers' compliance with the company's ethical requirements. Training is also focused on the continuous improvement of the suppliers' performance. Supplier audits concentrate on responsibility topics and are conducted in alliance with Nokia's own major customers. Collaboration with customers enhance improvements and transparency in the supply chain management. The Code of Conduct is spread out to comprehend commercial third parties associated with Nokia and its suppliers. Commercial Third-Party Code of Conduct is implemented for clarification purposes in order to clearly state Nokia's expectations for ethical conduct of third-party collaborators. Nokia performs risk-based due diligence and other monitoring procedures of its third parties' collaborators in order to assess and manage risks related to third party associations.

Nokia is committed to follow the principles of the Universal Declaration of Human Rights as well as the United Nations Global Compact. All Nokia's suppliers and other partners are expected to comply with the same principles and recommendations as the company itself. Alongside with Nokia's Code of Conduct, the company's Human Rights Policy composes Nokia's approach to human rights. Human rights requirements are considered to cover the whole value chain from Nokia's own suppliers up to the end users. According to Nokia, in addition to human rights risks related to the company's global supply chains, also risks related to misuse of its products and technology are under scrutiny, as they can be used to infringe human rights. Nokia's own employees and external stakeholders, such as suppliers, are encouraged to report any possible ethical misconducts they might encounter using the company's EthicsPoint channels, which can be used anonymously via email, telephone or online.

#### **4.1.8 YIT Oyj**

YIT is a Finnish construction company that operates in developing and building apartment houses and business premises as well as paving and other infrastructure constructions. Sustainable development is a strategic priority at YIT, which influence the company's operations and planning. Top performance, happy people and success together with

customers and other business partners, are also considered to possess high priority. YIT recognizes that its business has significant and long-term consequences on the surrounding society it operates in. The company perceives that it creates sustainable development for societies along with direct and indirect employment effect. YIT is also aware of its impact on society as a significant taxpayer. The company recognizes its responsibility of negative impacts on society, as it consumes vast amounts of materials and energy in its operations. YIT focuses on improvement of operational productivity and efficiency in order to reduce any negative impacts it produces.

YIT describes its sustainability themes as operational impacts it produces also from the perspective of value creation and value retention. Most of the value creation and value retention from sustainability perspective is governed with the company's risk management activity. The company utilizes circular economy in creating value for society and customers by focusing on environmental sustainability, which is also considered to increase YIT's brand value. Anti-corruption practices and prevention of grey economy create value for the company's business partners, society and owners by reducing risks. Risk management includes also occupational safety, well-being and competence development, which improves value for personnel. Responsible subcontracting and procurement generate value for business partners, society and the environment. YIT perceives to create value and to enhance the company's overall brand value by reducing unnecessary impacts on the environment in its own operations.

YIT Code of Conduct alongside with the company's Sustainability Policy Code of Conduct and Sustainability Policy are the founding non-economic principles guiding business operations for YIT. The Code of Conduct was updated for 2019 and now include the principles that guide YIT's operations in relation to its stakeholders. YIT's Sustainability Policy defines all its operations dealing with the environment, personnel and social aspects, human rights, financial activities, ethical perspective and company governance. YIT recognizes the environmental impact it produces. As a result, the company aims to minimize all negative environmental impacts affiliated with its business operations. YIT's suppliers are mandated to comply with the company's Supplier Code of Conduct, which determines YIT's expectations of its suppliers conduct regarding responsibility and sustainability.

In 2019, as a strategic development program, YIT organized and further developed the company's sustainability activities. Risk assessments for human rights and responsible sourcing were conducted in order to improve sustainability practices. YIT has deployed a specific YIT Ethics Channel where any ethical violations can be reported anonymously and brought into the attention of the company. YIT recognizes challenges in its supply chain management. Especially in subcontracting, the company tries to eliminate the possibility of labour law and human rights violations affiliated with the use of foreign labour. YIT attempts to mitigate these risks using supervision and auditing activities dictated in the supplier agreements. In the construction business, additional challenge is the high degree of subcontracting. Multilateral supply chains increase the risk of unethical behavior which is why multilateral chains of subcontracting requires permission from YIT. Corruption and bribery are challenges that YIT tackles with transparency and internal audits in addition to increasing awareness of such activities. Prevention of unethical conduct is based on the evaluation of suppliers' background information in the confines of local legislation.

#### **4.1.9 Kesko Oyj**

In contrast to most of the previous companies, Kesko is not a traditional producer or manufacturer of tangible products, but a company that is doing business in wholesale and retail sector providing trade as a service to its customers. In addition to groceries, daily and specialty consumer goods, Kesko's business include building and home improvement trade as well as car and machinery dealer services. Together with its different business divisions Kesko composes the K-group, which include Kesko itself but also all its K-retailers.

Kesko has integrated corporate responsibility into its operations as a strategic preference. The corporate responsibility at Kesko is divided into transparency in sourcing, prevention of climate change, taking care of the environment and value creation throughout the society. Kesko has been ranked multiple times the most sustainable grocery trade company in the world. At Kesko, social responsibility and human rights in the supply chain are regarded to be a source of stakeholder trust, whereas irregularities and violations of human rights in the social responsibility of the supply chain management can result into loss of trust of customers and other stakeholders. As a grocery trader, Kesko acknowledges the

risk of health hazards to be included in the neglection of responsible supply management. For this reason, Kesko narrates that sustainability forms the foundation for the company's entire operations. For the benefit of society Kesko is a significant employee, taxpayer and service provider. The company also recognizes its global role in the supply chains it manages. Purchases in the supply chains generate economic impacts to the regional welfare. Kesko has a strong sense when it comes to paying taxes. The company declares not to have any connections or subsidiaries in countries associated with tax circumvention.

Kesko makes most of its purchases from Finnish suppliers, and with international sourcing the company draws special attention in human rights and the environmental impacts of the supply chains it manages. For the purpose of responsible behavior and sustainability in the supply chains, Kesko performs audits in suppliers' factories. The company also promotes sustainability policies, provides sustainability training and evokes collaboration in sustainability with its international partners. Sustainability training for suppliers is an important activity in promoting social responsibility awareness within Kesko's supply chains. The company performs environmental assessments of its suppliers. Kesko requires its suppliers to report information of their energy consumption as well as the source of the energy. Suppliers are also asked to disclose the origins of their energy in addition to plans reducing energy consumption. As a part of the amfori membership, Kesko participates in the amfori Business Environmental Performance Initiative (BEPI), which focuses on the development of environmental management of suppliers operating in countries associated with risk.

Kesko performs supplier risk assessments based on the country of the supplier. The company uses the amfori Country Risk Classification. The classifications are published by the World Bank and are based on the Worldwide Governance Indicators. As a member of amfori, Kesko promotes sustainable trade. Amfori Business Social Compliance Initiative (BSCI) is designed to improve the social performance of supply chains. Kesko uses amfori BSCI audits as a global social responsibility measurement system in its assessments of suppliers in countries related with risk. In addition to amfori, Kesko also accepts similar responsibility measurement systems equal to amfori. Kesko complies to several internationally recognized approaches to sustainability and ethical behavior. Alongside with these, Kesko also has its own K Code of Conduct, which is the basis for Kesko's responsible conduct. Suppliers and other business partners are expected to follow the

guidelines of K Code of Conduct or an equal system of conduct with similar principles. Kesko also upholds a company-wide channel of denunciation or a SpeakUp channel, which allows any company employee or a business partner to report any expected misconducts and violations of the K Code of Conduct.

Kesko generates economic benefit for its suppliers' local communities by making purchases. As kesko is focusing most of its purchases in Finnish suppliers, the company benefits its home country and supports Finnish employment. As a grocery retailer Kesko perceives itself as an important supporter of Finnish agriculture and has launched a "Thank the Producer" operating model, which focuses on the increase of consumer appreciation for domestic food and the producers providing it. Kesko has intentions to grow this operating model and the company discloses that in 2020 it is aiming to double the number of producers in the program. Kesko is also taking part in the nutrition commitment, which aims to increase the consumers consumption of vegetables by introducing "veggie shelves" in their stores, organizing vegetable related promotion campaigns and by adding more vegetables in its offering. All vegetables under the company's own brands that Kesko imports to Finland using suppliers are certified with GlobalGAP, which concentrates on the issue of sustainable water consumption.

#### **4.1.10 S Group**

S Group is a Finnish company operating in multiple business areas. The company is a cooperative group and is owned by its customers. S Group provides services in the grocery trade but offers also daily and specialty consumer products alongside with service station stores, fuel sales, hotel lodging, car dealerships, agricultural outlets and hardware stores. S Group has its own banking services for its customers in the form of S Bank. The central cooperative Suomen Osuuskauppojen Keskuskunta (SOK) with its subsidiaries and the 19 regional cooperatives form the S Group, which is collectively owned by the members of the cooperatives. A membership can be received by paying the membership fee, which varies according to region, being around 100 euros. The central cooperative SOK provides the regional cooperatives all the centralized expert and support services such as supply management, product range, procurement and marketing. SOK oversees the strategic

planning for the whole group as well as the development of the business chains. S Group is the largest employer in Finland. The company also recognizes its status as a considerable taxpayer for the entire Finnish society. For these reasons S Group's mission is: "We make Finland a better place to live" and the objective is to lead by example by working responsibly and sustainably. As an extension to the company's mission statement S Group is actively contributing to the healthier eating habits for Finns, as the company is encouraging their customers to increase their consumption of vegetables by lowering the prices of vegetables.

Social responsibility is central in supply management at S Group. The company understands having indirect impacts regarding human rights in countries with high risk in its supply chains. S Group evaluates risks related to human rights in its supply chains by using the amfori BSCI. In addition, S Group performs regular surveys of its suppliers, regarding social responsibility. Alongside with amfori BSCI, S Group utilizes Supplier Ethical Data Exchange (SEDEX) database in monitoring the responsibility of its suppliers. The company highlights that all its supplier contracts require the suppliers to follow labour and human rights. Also, transparency in every product category demands that all products and raw materials must be able to be traced back to their origins. S Group is committed to follow the principles of good business practices. The agreement roots back to 2011 and was settled between the EU organizations and the EU Commission. The agreement covers desirable business practices in the food supply chains, such as the principles to secure the competitiveness between the contract parties and to insurance of the continuity of the contractual relationships by enhancing mutual trust. Written contracts, predictability and responsible risk management are all considered to be included in the principles of good policies for business practices.

Human rights are an important issue in the procurement activity at S Group. Risks related to human rights are evaluated by countries associated with high risk. The company also realizes that non-risk countries may have areas with elevated risks affiliated with human rights. Human rights violations often occur in countries identified with poor working conditions, but S Group also identifies the possibility of labour exploitation in Finland. The company concludes that human rights violations are often associated with the use of migrant workers. Therefore, S Group requires its supplier contracts to include a requisite

for appropriate working conditions enforced by a third-party auditor to ensure sustainability of such conditions.

S Group has launched a project called Radical Transparency to be used in its supply chain management. Radical Transparency is a new research model developed to complement audits performed to suppliers. The new model is designed to identify human rights issues and the root causes behind them. S Group evaluates that the new model enables it to identify and minimize typical challenges related to human rights violations. The Radical Transparency concept won amfori's Member of the Year Award in the Leadership category in 2019. The same concept was also highly regarded by the Ethical Corporation's Responsible Business Award for reporting and transparency.

## 5 Discussion and Conclusions

Companies discuss their corporate social responsibilities and sustainability agendas quite openly in their annual reports. This is not unexpected as openness and transparency toward companies' stakeholders have grown from previous decades. All companies studied in this research have multiple different approaches to corporate social responsibility and sustainability practices used in their supply management activities. For internal purposes, companies have developed guidelines to how the company itself is expected to deal with responsibility and sustainability issues. This internal approach manifests itself with a written Code of Conducts that are expected to be followed by all the company's employees.

As companies are conducting business with other businesses such as partners and suppliers, the internal Code of Conduct is extended to affect them as well. When a supply chain is in question, companies call the responsibility and sustainability requirements Supplier Code of Conduct. Often, the exact same rules are not demanded, but similar conduct is required from suppliers. In other words, the suppliers may have their own guidelines concerning desirable conduct which have to be in line with the requirements of the buyer companies' expectations. The Supplier Code of Conduct is embedded in the supplier agreements that are signed before the supply relationships are formally established. In addition to the actual manufacturing and production of products or services, the supplier agreements include ethical requirements that comprehend social conduct as well as expectations concerning sustainability.

Companies are keen to monitor the compliancy of the supplier agreements for two reasons. Firstly, to ensure that the procured products or services meet the buyer company's expectations, and secondly because violations of ethical conduct may result in the loss of reputation of the focal company. Ethical conduct contains human rights which include, for example, working conditions, work safety, freedom of assembly and fair wages. Traditionally issues related to working conditions have been considered to be included in the labour rights instead of human rights, but according to the United Nations this distinction is becoming redundant. In addition to human rights, sustainability poses a substantial aspect for ethical conduct. Sustainability encompasses environmental issues

which are related to the conservation and sustainable development of nature. If for instance a supplier was found responsible for exploitation of nature, the reputational damage to the buyer firm could be socially and financially severe.

As customers and consumers in general make the buying decisions based on perceived assumptions concerning companies' reputation, companies have a large-scale external pressure to uphold ethical conduct. Outsourcing has become a new reality for many companies. When dealing with partners and suppliers, the reputation of the buyer company is related to the actions of the members of its supply chains. As sourcing is getting a larger role in companies, the emphasis of reputational control of social and environmental sustainability and responsibility is shifting more towards the actions of these suppliers (Gualandris & Kalchschmidt 2014), and the management of these supply chains.

The companies studied in this thesis were using various CSR practices in their supply management. As expected, being large companies, CSR practices were implemented to a high degree in their business operations. The companies had a lot of similarities in their practices but based on the industry branch there were also some differences. For instance, some specific CSR initiatives prepared for the use of forest industry may not be applicable for grocery retailers, and vice versa. Ethical conduct is at the heart of CSR. Social responsibility for doing the right thing guides all the companies whether the concern is about economic, legal, ethical or philanthropical issues. All the companies announced their concerns dealing with human rights. Human rights are an umbrella which embodies multiple different aspects associated with human rights. For instance, decent working conditions for all workers including work safety, working hours, employees right to get organized and banning of child labour and slavery.

Ethical conduct comprehends also sustainability. Sustainable conduct is perceived to be a major part of the responsibilities companies possess. Sustainability is often related to environmental issues, but sustainable development can also include social and economic components. Environmental concerns involve all the strains effecting the nature. Companies address environmental issues as they extract raw materials from nature. Refining and processing these raw materials cause additional strains. Manufacturing, production and transportation add to the total amount of burden that doing business afflicts to the natural environment. Sustainable responsibility focuses on limiting this burden to be as low as possible by developing new capabilities, providing legislation, addressing

malpractices and by producing sustainability related research to allow better understanding of the matter. Sustainability as a social context is addressing more about people and their standard of living. Social sustainability encompasses societies' role in people's lives by providing them with services such as education, healthcare, welfare and security as social sustainability can only be achieved by ensuring equally good standard of living as before or better social abundance in the future to all the members of society. Economic sustainability in society allows all the other aspects of sustainability to flourish. Without economic sustainability societies and companies as well would collapse when their financial situation become unbearable. Economic sustainability enables higher commitment to overall sustainability.

Dealing with CSR practices in supply management is a difficult task for companies. In addition to dictating expected requirements, the buyer company must also adhere to monitoring the suppliers for their conduct. As CSR is growing its importance in business, and because perceptions of the adequate level of CSR used in companies is under scrutiny of different stakeholders, stakeholder theory can be used to interpret reasons why companies are engaged with CSR and why it is important. Stakeholders are to be considered the ones contributing the most to companies' operations concerning corporate social responsibility. Even though most of the stakeholders are not participating to companies' day-to-day managerial decision making, they still possess an effect on the companies' business endeavors.

Stakeholders are concerned about the reputation associated with company of their interest. Different stakeholders have different angles to their interest. Owners of the company focus on the return on their investment. In addition to maintaining their position in the company, managers have company's performance related incentives and possible career related ambitions to consider. Company employees might experience pride in working for a respectful and responsible company. Employees are also concerned about their jobs and salaries, which might be affected if the company fails to sustain a responsible conduct. Suppliers can be affected if they are associated with the company's reputational damage. Suppliers are also concerned about the well-being of their buyers as disruptions can lead to a reduction of purchase orders. The effect for suppliers is relative to the importance of the relationship.

Competitors of a company can be affected either positively or negatively by the company's neglect of its responsibilities. Positive effects can occur when the damaged company losses business to its competitors. Negative impacts arise when reputational damage is circulated to comprehend an entire industry branch or as it deteriorates collaboration between companies. Creditors as companies' stakeholders are interested in the financial performance of the companies. Creditors can be affected by reputational damage of a company when the damage affects the company's ability to maintain repayments of the company's liabilities. Society as a stakeholder can be affected by companies' responsibility neglections through the loss of taxes, jobs and credibility as a responsible realm.

Violations concerning social, environmental or economic responsibilities often result in economic setbacks for the company. Economic consequences are usually enough to induce corrective behavior, although evidence to the contrary can also be found. A research done by Brunk and de Boer (2020) suggests that companies engaged in unethical behavior cannot fully correct the negative impacts on consumers perceptions of the company by investing in philanthropical activities. In other words, violating the anticipated responsibilities set for a company cannot be rectified by acting responsibly somewhere else.

Supply management activities are faced with the same reality as the companies themselves. Even if a company manage to uphold CSR standards inside the company's operations, the activities extended to the outside operations, such as sourcing, are much more difficult to maintain in accordance with the company's CSR requirements. In addition to selecting the responsible suppliers, companies must do continues surveillance of these suppliers to ensure their compliance, as buyer companies are often held responsible for the actions of their entire supply network. The studied Finnish companies are all applying CSR practices in their supply management. Multiple variations of CSR practices can be discovered as companies adapt both company-made practices as well as practices and requirements based on existing international standards.

As mentioned before, companies studied in this thesis apply code of conduct practices in their own operations which are developed specifically for the company by the company itself. Similarities can be found between the different companies when it comes to their code of conducts. Best practices often influence to the formation of such guidelines. Still, company-specific requirements may occur when certain desired conducts are in question.

In addition to the code of conducts used in companies, there are also many more CSR standards in use.

The corporate social responsibility framework provided by Carroll's CSR-pyramid addresses the fundamental responsibilities of a company. As Carroll suggested, these different types of responsibilities are designed to be approached simultaneously rather than one step at the time, even though some steps can require more attention in certain stages of company's existence. The economic responsibilities are always important to a company, because they enable the very existence of the company. The economic responsibilities include responsibilities to the company itself but also the responsibilities towards company's stakeholders. Supply management addresses these issues related to company's suppliers. As suppliers are relying on the company's performance, without superior management of economic responsibilities, suppliers' compliance towards the buyer company's expectations may be damaged.

As corporate social responsibility affects all aspects of companies' economic, social and environmental issues, the importance of the use of CSR is self-evident. The CSR practices used in the supply management activities of the companies studied in this research focused more on the social and environmental aspects of corporate social responsibility. The economic dimension of CSR was associated with different kinds of actions concerning society and communities, but these actions were also more on the social and environmental end of the CSR spectrum. Even though the economic responsibilities were not discussed in such detail, the implications of the social and environmental practices of the corporate social responsibility actions are making explanations to the contrary.

The importance of the use of CSR in companies' supply management is due to the expectations placed on the companies. According to the legitimacy theory, companies obtain their legitimacy by complying with the expectations set by a larger entity, such as society. Failing to follow the expected requirements, companies can lose their justification of existence. For this reason, compliance with common beliefs are often the basis for certain actions. As legitimacy requires companies to follow beliefs enforced by outside expectations, institutional theory helps in explaining why companies resemble each other as they adopt CSR practices to their operations.

Institutional theory exhibited three isomorphisms to explain why companies become alike. Coercive, normative and mimetic isomorphisms all effect to the similarities between different companies' actions, concerning business operations they adopt, use of selected practices and compliance to certain rules and expectations. As coercive isomorphism manifests itself with companies' compliance to laws and regulations, normative and mimetic isomorphisms affect companies' adaptation of certain practices by presenting desirable approaches to existing well-functioning practices of other companies. In other words, as normative and mimetic isomorphisms are in operation, companies begin to resemble one another because perceptions of best practices cause companies to act alike. The studied companies manifest this behavior as many of their practices related to CSR resembled the practices of all the others. Similarities in companies' CSR practices allow better transparency for the stakeholders, as multiple different practices would be more challenging to master. Standardized practices help the companies as well, because they have access to existing practices formulated by experts, which allows the companies to concentrate to their core competencies. New kinds of practices involving corporate social responsibility are expected to emerge as the world is getting more united due to globalization and enhanced connectivity.

For the conclusions, the research questions are answered in order to validate the purpose of this study. The research questions consist of the main research question and two sub-questions.

### **The main research question of this study is:**

*"What types of corporate social responsibility practices are companies implementing in their supply management activities?"*

Companies implement corporate social responsibility in their supply management by using multiple different kinds of practices. Companies' own Code of Conducts being one of the most used responsibility related practices. International standards, such as the United Nations Global Compact, the amfori initiatives and the standards of the international labour organization were widely used among the studied companies. Many companies had an ethics channel, where misconducts and violations can be reported anonymously.

**The first sub-question is:**

*“Why are companies engaged in corporate social responsibility in supply management?”*

Companies were engaged in corporate social responsibility for several reasons. All the studied companies expressed their concern for the well-being of people and societies in whole. Still, two distinct explanations can also be discovered. Large companies with ample resources are often Avant-guards when it comes to responsibility. These types of companies want to achieve their legitimacy among the public perception. As legitimacy is usually related to trust and reputation, companies are inclined to get involved in CSR.

**The second sub-question is:**

*“How are companies managing their suppliers’ compliance regarding corporate social responsibility in their supply management?”*

Supply management includes the monitoring of suppliers’ performance. Supplier requirements presented in the supplier agreements need supervision in order to acquire necessary information of the suppliers’ compliance. Companies used suppliers’ self-assessments and surveys to acquire relevant information of suppliers’ compliance. Auditing procedures, performed by a third-party auditing firms, were used in the more severe cases. Companies were also engaged with education and training of their suppliers in order to help the suppliers to achieve the requirements of CSR.

**Future research**

For future research related to corporate social responsibility in supply management, a study of actual CSR practices in companies would bring more interesting information of the real-life actions that companies implement in their supply management. The study at hand provided only a company perspective to their CSR engagement related to the management of suppliers. An action-based case study could provide a factory level insight to how the implementation of CSR is perceived at the ground level of suppliers. Another approach could be to conduct a survey or an interview-based study of the buyer companies’

managers and other employees engaged with the implementation of CSR requirements on their suppliers.

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