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**How do SMEs apply CSR in their organisations, and how does this affect conflicts between the SME and its foreign suppliers?**

Bachelor Thesis:

Business Administration

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The whole progress of this thesis has been challenging, difficult but at the same time enjoyable and interesting.

Jönköping, May 2014

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## **Abstract**

Despite its name, Corporate Social Responsibility is not exclusively a concept for large corporations; however, previous studies have primarily focused on CSR within larger firms. As Small and Medium sized Enterprises both possess unique characteristics, and are important actors in the global economy, this is an area that deserves deeper research.

As pressure from internal and external stakeholders are mounting, firms need to ensure that they are following the current rules of the game. As such, firms put pressure on their suppliers, in order to protect their business. Consequently, a failure to cope with this pressure from the supplier's part is a potential source for a conflict. Thus, the actual CSR standards used by a focal firm, has a direct link to a potential conflict within an offshoring relationship.

Hence, this thesis aims to investigate how Swedish SMEs apply CSR policies and activities regarding social issues in their organisations, and how these policies and activities affect conflicts between Swedish SMEs, and their foreign suppliers.

Three Swedish SMEs were interviewed, and their CSR activities, and conflict management were analysed. While all the three firms used CSR to a various degree, this research suggests that the nature and direction of the CSR activities are largely determined by the industry in which the firm operates. Furthermore, SMEs typically lack the power to enforce their CSR standards on their suppliers. However, SMEs can act in the roles of supervisors, in order to communicate that CSR is an important aspect within a relationship. The case companies also illustrated that clear goals of CSR activities within SMEs, connected to the actual business goals, aids in the establishment of CSR in small firms. Finally, none of the three case firms experienced any conflicts with their suppliers, based on social issues within CSR. Instead, this research suggests that SMEs avoid conflicts, by emphasising a careful selection of suppliers.

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# I Introduction

The world today is changing, and an increasing number of firms focus on the Corporate Social Responsibility [CSR] aspect in business (Russell, 2011). The reasons for this phenomenon are multifaceted and will be discussed later on, but Seuring, Sarkis, Müller, and Rao (2008) brings up globalisation and outsourcing as two key factors, in raising the importance of CSR. For firms and other organisations as well, this has led to increased pressure from both internal and external stakeholders. This is visible in terms that firm responsibilities should cover the actions and performance of the whole supply chain (Seuring et al., 2008).

Due to the global business context, this means that the scope of this responsibility encompasses firms across different cultures. Certain standards are close to universally accepted, such as the United Nations declaration of human rights, and the standards produced by the International Labour Organisation [ILO] (ILO, 2013; UN, 2014). However, cultural norms and practices still have a profound impact, and neglecting these in business can cause conflicts within ones supply chain (Tan, Smith, & Saad, 2006). According to Baden, Harwood, and Woodward (2011) much of the academic attention within the subjects of CSR, and the management of global supply chains, have been focusing on the subject in the context of Multi-National Corporations [MNC].

Yet, as Gunasekaran, Rai, and Griffin (2011) points out, Small and Medium-sized Enterprises [SME] are key actors concerning economic growth and employment, and furthermore; constitute a majority share of the total number of firms.

This thesis will be focusing on the relationship between SMEs and their suppliers, and the implementation of CSR in the supply chain. How do SMEs handle conflicts originated from CSR issues? And how does a company respond- and react to a supplier that acts unethical from the view of the focal firm? Recent literature is largely focusing on CSR in MNCs, but there has been limited attention on SMEs (Villa & Bruno, 2013). Therefore, it is an opportunity for this thesis to try and fill this gap, and contribute to the science within this field. The thesis will consider CSR in foreign supply chains while putting emphasis on the social dimension. The social perspective within CSR is concerned with issues regarding welfare, worker-safety and human development, both on the individual, and the societal levels (Amrou & Klassen, 2010).

A further aim is to raise the question and awareness why this ought to be an important matter in modern companies and to provide tools for SMEs regarding conflict management within this context. The outcome of most of the existing literature is, as it is using a MNC perspective; that guidelines exist only for firms with large budgets. This is however not the reality for SMEs, which often lacks both bargaining power and abundance of resources Adams, Khoja, and Kauffman (2012). Thus, how can SMEs find ways to communicate their CSR values down the supply chain despite their limitations? This is a

problem relevant for all firms today due to the growing importance of the subject and considering the limitations mentioned, especially so for SMEs.

## **1.1 Background**

Outsourcing, as a management tool was introduced at the end of the twentieth century. The rationality behind outsourcing is that firms may maintain the core activities, while delegating their non-core businesses to external firms in order to reduce operating costs. Additional benefits arise in the form of capital being freed, which in turn can be spent on improving product quality, focus on human resource management and improve customer satisfaction (Mohiuddin, 2011; Sinha, Michèle, Ding, & Wu, 2011).

According to the geographical distribution of the suppliers, there are two types of outsourcing; domestic and foreign, the latter also known as; offshoring. Depending on the type of relationship, outsourcing partners might also provide knowledge in terms of market know-how and technology (Mohiuddin, 2011). A recent study conducted by The International Association of Outsourcing Professionals [IAOP], shows that outsourcing agreements enable enterprises to save 9% of the costs, and increase product quality by 15%.

Offshore Production has changed the self-sufficiency organization model, as the majority of non-core business/technology processes are outsourced to others. Simultaneously, a common practice to reach global business success among firms has become to distinguishing themselves from competitors, within their core business/technology (Sinha et al., 2011).

Due to differences in labour costs, firms that outsource typically come from countries with relatively higher labour costs, such as the USA, Western Europe and Japan. The supplier nations thus commonly offer lower labour costs, as is the case with India, the Philippines and China (Wenzhong, 2013). Even though offshoring creates work opportunities in cheap labour regions, while also benefitting the parent company, this practice does not occur without controversies. In recent years, many supply chains have caught the attention of the media in regards to ethical issues which includes; unequal treatment of labour, child labour and wage delays. Central issues involve supplier selection, together with monitoring and enforcement of ethical codes, all of which evolves from the central theme of supply chain responsibility, which in the long term equals sustainability (Amaladoss & Manohar, 2013).

These issues have impacted both the local-and global level as flaws have been exposed in supply chains that concerns; lack of supervision and communication between the parent company, the supplier and its workers. This is also related to how the parent company reacts to the ethical problem mentioned earlier, and how it solves these problems. Will they change contractor or do they take measures to supervise and/or improve the contractor?

Surprisingly, little material relating to the principal aspects of international outsourcing has been published in academic journals. Furthermore, there is limited research on CSR within offshore services outsourcing (Di Gregorio, Musteen, & Thomas, 2009). Thus, the

conduction of an in-depth research on this issue is of practical importance (Mohiuddin, 2011).

## **1.2 Problem**

As of today, a large share of manufacturing of components and products are sourced from suppliers abroad, often located in low-cost regions such as South-East Asia (Sinha et al., 2011). Conflicts between a firm and its suppliers are an everyday issue and inserting cultural differences in such an equation adds another dimension to these issues (Tan et al., 2006).

For large firms, conflicts are often managed according to pre-set rules of the game but this is rarely the case in SMEs, where more informal procedures often prevail (Baumann-Pauly, Wickert, Spence, & Scherer, 2013). Furthermore, the field of firm-supplier relationships, built on an outsourcing basis, have previously been studied primarily from the perspective of Multi-National Corporations, while SMEs as parent firms, have received limited attention (Tan et al., 2006). As such, this topic is both interesting and relevant due to the heavy reliance on offshoring in today's economy.

The focal point in this thesis concerns how conflicts with suppliers, originated from the social dimension within CSR are handled by small firms. Particularly when a supplier's management of its workforce fails to comply with the standards set out between the firm and its supplier.

Standards in this context, are not necessarily the product of contractual agreements, but can also appear in the form of industry-wide standards and standards found internally in the focal firm, i.e. the SME.

This research has the possibility of aiding SMEs on multiple levels. This includes providing small firms with guidelines, regarding both its relationships with suppliers, and guidance in decisions concerning losing, keeping or improving its suppliers. Furthermore, raising the importance of CSR in a firm's supplier network, might improve the ability in SMEs when choosing and evaluating suppliers.

The sum of this would result in providing tools that is adapted to the unique characteristics of smaller firms, and that can guide the firms through conflicts with their foreign suppliers. One cannot neglect the importance of ethical issues and CSR in today's society and this applies to the economic arena as well. Merging this with sustainability generates one of the great problems of our time.

## **1.3 Research Question**

How do Swedish SMEs apply CSR policies and activities regarding social issues in their organisations, and how do these policies and activities affect conflicts between Swedish SMEs and their suppliers.



## **I.4 Purpose**

The purpose of this thesis is to identify how manufacturing oriented Swedish, Small and Medium-sized Enterprises apply policies and activities regarding social issues within Corporate Social Responsibility, and how CSR affects conflicts between Swedish SMEs and their foreign suppliers.

## **I.5 Delimitations**

The limitations within this thesis concern the origins of the supplying firms. As such, the suppliers in focus are Chinese and the main rationale for this is to keep down the different cultural perspectives. As the theoretical framework will illustrate, the cultural variable is a big influence regarding CSR.

## **2 Method**

### **2.1 Methodology**

#### **2.1.1 Hermeneutics**

In methodology it is often stated that data does not just “jump” into the computer and prepare its own theories. All data must be interpreted and evaluated, and go from “reality into theory”. The name for this is called hermeneutics i.e. the knowledge of interpreting a text. Hermeneutics is what this thesis will rely on, and the foundation of this is to put much emphasis on analysing empirical material and case studies. If the knowledge is scarce, then it is important to gain understanding through interviews and articles. Observations are not enough, and the data must be given a deeper meaning through interpretations by the writers (Gustavsson, 1998). The solution from a hermeneutic point of view according to Gustavsson (1998), is to use the interviews as a compliment to the article observations in order to gather more specific findings.

#### **2.1.2 Grounded Theory**

According to Glaser (1978 as cited in Gustavsson 1998), grounded theory always starts with a sociological perspective where the author embraces the problem with an open mind. In the next step, the writer compares different data to collect necessary research findings (Åge, 2011). According to Gustavsson (1998), the basic concept of grounded theory is to have no prejudices and to be as blank as possible in the start-up process. When gathering data with an open mind, it is easier to interpret data without being affected by other factors. The process is focusing on to be open minded while knowledge should be grounded. Furthermore, it should be based on reality without being affected by circumstances and other theories related to the field, in that case the data collected will be perceived as more genuine (Gustavsson, 1998). In the next step, it is valuable to combine this redefined information with hands-on material from relevant companies through a case study. Gustavsson (1998) describes grounded theory as, a method that creates new empirical models in social contexts that are based on empirical data. The aim is not to prove correlations but instead to invent new ideas.

The main difference between Glaser (1978 as cited in Gustavsson 1998) and Strauss and Corbin (1998) is the approach to a certain study. Glaser means that a researcher should embrace knowledge with an open mind, and that previous studies within the field are not necessary. The researcher should go in as a blank page, find information and then use it. Strauss and Corbin on the other hand argue that previous information within a field enhances the work and are not a barrier at all. Another aspect that differs is the interpreting process of information. Strauss & Corbin calls this the coding process, and it has three steps (Strauss & Corbin, 1998). The first step is the open phase, where data gets analysed. The second is called Axial, and focuses on finding certain fragments of information and to puzzle this in new ways. The last step is the Selective, where all the fragmental parts should be linked together and refined (Walker & Myrick, 2006). This thesis will use the approach

that Strauss and Corbin emphasise, and view previous knowledge within CSR as a strength to use. As such, due to previous education, a certain level of knowledge is present in the group which will be a benefit when striving for new findings in the field.

### **2.1.3 Inductive**

Inductive studies aims at defining and generalising a common law from a certain case, an inductive approach is to generalize and apply a carefully researched case and to apply this to a broader spectrum of cases (Gustavsson 1998). The point from an inductive view is to draw conclusions based on knowledge from previous information. Inductive statements will follow probabilities and support the most common statements. Inductive information will appear as the best truth for now, but can always be revised by new and improved data in a certain field (Gustavsson 1998).

## **2.2 Case companies**

The firms selected within the frame of this research have certain traits in common which is the result of deliberate choices. The firms are Swedish, and use Chinese suppliers; they are mainly involved in B2B transactions and operate close to their corresponding raw material. These variables were also given importance in the theoretical framework within this study. The rationality behind this selection is that comparison and analysis will both be clearer, and more relevant by the usage of common factors.

One of the authors has prior experience working with Arlemark Glas in the context of a host company. Prior experience with a company can be beneficial as a certain level of knowledge is in place, and a relationship is already established. An interview was conducted with the CEO of Arlemark; Johan Schyllander. The firm trades with glass and plastic for construction purposes, as well as LED products. The company is located in Jönköping and is currently employing five people (AB Arlemark, 2013).

By reviewing the answers from the interview, it was clear additional empirical material was needed. Thus, the firm Tanso was contacted due to recommendations from Arlemark and an interview was conducted with its CEO; Sten Fransson. Svenska Tanso AB (Henceforth known as Tanso), specialises in manufacturing products and components based on graphite. Currently they have forty employees and they are one of the most prominent firms within the graphite business in Sweden (S. Fransson, personal communication, 2014-03-20).

The third, and final interview, was performed at the firm Flisby, with its CEO, Johnny Hansen. An additional important factor when selecting Flisby for the last interview was that the firm had a Code of Conduct in place. This was something the other firms lacked, and which was seen as interesting for this research as it implies past or present problems. The firm is located in the municipality of Aneby. Flisby provides natural stones for residential applications as well as cement-based products, and materials include limestone, granite and sandstone (Flisby, 2014). Flisby today employ twenty-five persons.

All of the interviews were recorded and notes were also taken to highlight important facts during the interviews. In order to parallel compare the interview results, a common denominator provides an easy structure (Flick, 2011). For both Arlemark and Tanso, the same questions were initially used. There were thirteen topic related questions, which aimed to grasp a general picture of the two firm's corporate values, relations with suppliers and CSR perspective. The results from the different interviews will be gathered and compared with the literature review; and these findings will serve as a foundation when drawing conclusions. Along with the progress of the literature review, an additional six questions were developed, these questions were sent by email to Arlemark and Tanso. As relations had been established with both firms, this was deemed as equally valuable as conducting additional interviews. As all nineteen questions were developed before the interview with Flisby was performed, the same process was not needed.

## **2.3 Method**

### **2.3.1 Primary and Secondary data collection**

This thesis will use an inductive way of analysing the results, first gather information, then analyse the findings and make a conclusion based upon these. To obtain information for the thesis, both primary and secondary data will be utilized in the data collection. Secondary data that has already been published will provide a clear picture of earlier research while primary data are considered more up to date and adapted specifically to the purpose. Secondary data, such as previous studies and theories will be collected by reviewing articles while primary data mainly will be collected through qualitative research, such as interviews. Comparative literature research has been chosen as secondary data collection, since quantitative and qualitative research method can work systematically by using empirical methods (Flick, 2011). Emphasis will be put on reliable sources for gathering our theories, which includes regarded published books, journals and other articles within the field; furthermore established theories will be taken into account.

There are several options to consider on how to collect primary data. Since the aim is to collect up to date information to the largest extent possible, in-depth interviews with SMEs were chosen. A key aspect in interviewing is showing an interest in the interviewee's stories (Seidman, 2006). The primary research is based on the organisations of interest. The selection of organisations, the information gathering from their website, and generating interview questions were part of the primary collection of data. The interview questions were brainstormed and based on the underlying theories. Questions were largely designed to get an insight about the CSR activities in the SMEs of choice.

### **2.3.2 Interview as the chosen method**

In order to acquire the best possible result, the choice to visit the headquarters physically was made since a personal interview leads to the highest response rate. Also important is body language, such as smiling, and eye contact which can create and maintain a relationship between interviewer and respondent (Bryman & Bell, 2003). Moreover, the complexity of questions can be explained by the interviewer during a face-to-face interview.

This enables the interviewee to have a better understanding of the questions and also help the interviewer to get better results. For the interview, a semi-structured method with open-ended questions was chosen. This means that not all the prepared interview questions will necessarily be asked, or done so in a certain scheduled order. New questions will bring up new thoughts as well during the interviews. The structure has a free setup, and the interviewers can mix freely, between the question formulas and freely associate the new question that comes to mind. It was the purpose to make the interview function as a conversation more than an interview, to give the interviewee a feeling of casually talking about the subject. This can improve the comfort level of the interview and also the outcome of the answers as well (Saunders, Lewis, & Thornhill, 2007).

### **2.3.3 Weakness of chosen method**

As there are no universally accepted definition for CSR, and the applied definitions can be perceived as vague, people, and firms alike might have different understandings of the concept. As such, this may have implications for the results of this research as the same questions were applied to the firms, while the understanding of the underlying concepts most likely differed. A possible solution to this issue would be to provide the interviewees with a definition beforehand; however that increases the probability of biased answers from the firms. Thus, we judged that the wider empirical base was more important for this research than the possibility of increased validity.

There is also important to be aware of the sampling of the firms involved within this research. As focus was put on firms located in, and around the Jönköping area, the validity to discover how Swedish SMEs behave is limited. However, the extent of this limitation is overshadowed by the common factors SMEs share. This is exemplified by their reliance of the founder/owner, which has little correlation to the geographical whereabouts of the firm itself. Furthermore, no consideration were given to the actual differences in size between the interviewed firms, which nonetheless are significant as the number of employees range from five, to forty.

It is also vital to highlight the practical variances that occurred during this process. The three interviews were conducted at three different points in time, and at different stages of the literature review. This was given practical importance as for the last interview; as six additional questions had been generated. Consequently, these questions were sent and answered electronically by the first two firms. Even so, as conversation oriented interviews were emphasised, the time and knowledge aspects affected the approach too, and the process of the different interviews. It should also be noted that this is compensated to a certain extent by the prior knowledge that the researchers possessed within the area of study.

## **3 Theoretical Framework**

### **3.1 Introduction**

This literature study has its foundation within the concept of CSR with a more narrow focus on experiences derived from SMEs. In order to match the selection of articles with the aim of the thesis, certain key variables were used to filter articles in the field. Furthermore, the majority of the articles of choice approach the issues from the perspective of one or several SMEs which goes hand in hand with the purpose of the thesis.

Important concepts that were integrated in the selection include Corporate Social Responsibility, manufacturing companies, conflict management, supply chain management and outsourcing. Emphasis was put on newer rather than older articles, and similarly, preference was given to qualitative rather than quantitative articles. As for the geographic and cultural scope of the articles, attention was not given to any particular area or region, thus advocating diversity in the literature.

This literature review will take off by defining Corporate Social Responsibility and concepts closely associated with the term followed by a discussion about the importance of CSR. This will be continued by outlining the structure of a supply chain followed by a description of what constitute a small firm and the role of small firms within this context. The concept of outsourcing is brought up from the perspective of small firms, and followed by a cultural perspective including trust with crisis- and conflict management as a final area of study. The review is concluded by the introduction of a model which provides a summary for the theoretical framework, and illustrates how CSR is implemented and used within a firm.

Subareas in the fields, such as the environmental dimension within e.g. CSR will be mentioned briefly in order to provide a broad understanding of the context, but the social perspective in the literature will receive most attention.

### **3.2 Corporate Social Responsibility**

The concept of Corporate Social Responsibility is well-known, and often used as a buzz word within the field of economics. However, the roots of CSR can be traced through history and the concept was in use before World War Two (Carroll & Shabana, 2010).

CSR in its basic form can be explained as the enterprises responsibility towards the society and the impact it has on it (Ayuso, Roca, & Colomé, 2013).

Corporate Social Responsibility or CSR is a field that according to Ageron, Gunasekaran, and Spalanzani (2012) have received considerable interest in recent years due to a number of both connected and independent links. For starters however, there are a number of interpretations of the concept, and also several closely connected terms which easily can be confused with it. Ciliberti, de Haan, de Groot and Pontrandolfo (2011, p. 885) apply the following definition of CSR; “the voluntary integration, by companies, of social and

environmental concerns in their commercial operations and in their relationships with interested parties”. Similarly, Fenwick (2010, p. 149) refer to the term as “activities undertaken by businesses, beyond what is required in fair business practice, to further social and/or environmental objectives”.

Both the definitions build upon the notion of voluntarily activities, and beyond what is required which is a theme that is generally found within the literature.

Ever since the emergence of CSR there has been an ongoing debate related to the essentials of CSR with two sides debating over this, the supporters and the detractors. Supporters see the importance of helping actions for the society while the detractors are more focused on the aspect of profit (Carroll & Shabana, 2010).

### **3.2.1 Sustainability**

A notion closely associated with CSR is sustainability or sustainable development which is brought forth by Ageron et al. (2012), Loucks, Martens, and Cho (2010) and which the latter define as “means meeting the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987 as cited in Loucks et al. 2010).

While this statement provides a wide scope, Ageron et al. (2012) also incorporates the creation of new value, or abundance within the economic, social and environmental areas, and to preserve that for coming generations. Thus the core of the concept is not so much about decreasing unsustainability, but instead finding the balance of sustainability and economic growth (Ageron et al., 2012).

Depending on the context, sustainability can be integrated in different forms in an organisation which Seuring et al. (2008) demonstrates with sustainable supply chain management. This term includes the management of material and information while incorporating goals from economic, social and environmental performance and taking inputs from stakeholders into consideration.

### **3.2.2 Triple Bottom Line**

A further related idea is the Triple Bottom Line [TBL] which according to Amrou and Klassen (2010) is a way for organisations to put sustainability into practice. TBL takes into consideration how the firm or organisation performs, both inside the traditional economic arena, and outside it, such as in the context of worker-safety and green supplier development (Amrou & Klassen, 2010).

### **3.2.3 People, Planet and Profit**

A similar concept to the TBL is the idea of the 3 P’s which denotes people, planet and profit. Firms should thus aim to create value within the three areas mentioned and communicating that to their stakeholders (Werther & Chandler, 2006).

The definition of CSR includes corporate citizenship, corporate accountability, business ethics, sustainability, and corporate responsibility. For the purpose of this study, we shall consistently use the term CSR, since it is more widely used by companies and their stakeholders (Ageron et al., 2012).

### **3.2.4 Importance of CSR**

The concepts described in the previous text is with some exception, largely theoretical but a way for organisations to put them into practice in their supply chain management is by formulating a Code Of Conduct [COC] (Amrou & Klassen, 2010). This stipulates how members of an organisation should interact with its partners in its supply chain network and is thus most closely connected to the social dimension of CSR. According to Amrou and Klassen (2010) COCs are either firm specific, thus individual firms create their rules of the game, or industry specific, such as the S.A 8000 which addresses working conditions and human rights (Ciliberti, de Haan, de Groot, & Pontrandolfo, 2011).

While most of the literature e.g. Amrou and Klassen (2010), Moore and Manring (2009), Seuring et al. (2008) recognise that CSR is an important concept in business today it is also vital to recognise why this is the case. One aspect of the issue is the usage of natural resources, which are diminishing, according to Ageron et al. (2012). Moore and Manring (2009), points to the fact that resources are limited, and that a more efficient usage would create mutual benefits for the organisation and the environment. The technological dimension is another important field to take into consideration. According to Amrou and Klassen (2010), the improvement in information technology has increased the transparency, allowing firms to monitor their supply networks. As such, information can be exchanged with short notice and distances have become less of a barrier.

Companies also face expectations and pressure from various parts of society. Therefore, a firm can fulfil societal expectations and build up a positive image that will provide a reflection as a responsible actor (Lin-Hi & Müller, 2013). Similarly, society and stakeholders expect organizations to engage in socially responsible activities. Therefore these expectations raise the relevance of CSR actions, within the social dimension in modern society (Perks, Farache, Shukla, & Berry, 2013).

### **3.2.5 The role of Codes of Conduct and standards**

A Code of Conduct, or COC is as previously mentioned, a tool for organisations in implementing standards within the firm and in its supply network, set by either the firm itself or by an external organisation (Amrou & Klassen, 2010). As such, a corporate Code of Conduct refers to how CSR can be used as a practical tool to establish a social responsible organizational culture (Erwin, 2011). Amrou and Klassen (2010) put forward two results of their study regarding the use of Codes Of Conduct. First, companies are more likely to use a COC for their suppliers, when operating in the proximity of the extraction of raw material in the supply chain. Secondly, firms were less likely to utilize a COC, as the geographical distance increased between the focal firm, and its supplier.



However, the work for a firm does not stop at the creation of a code, since the standards set would be of little use if neither the participants, nor the rules were assessed or evaluated.

The main tool for a focal firm to ensure that the rules of the game are being followed is monitoring/auditing (Amrou & Klassen, 2010). Auditing can be executed by the focal firm itself or by an external partner, and is performed through controlling that practices agreed to are in use (Amrou & Klassen, 2010). As rules need to be followed, not doing so also comes with consequences; these include either enhancing the skills of the supplier or alternatively ending the relationship (Amrou & Klassen, 2010). As is put forward by Vázquez-Carrasco and López-Pérez (2013), large firms tend to have planned CSR systems in place, also demonstrated by the extensive material on the matter found on e.g. corporate websites. Thus, this is a key difference between SME's and larger firms and it is where the empirical research of this thesis takes off.

### **3.3 Supply Chain**

The definition of a Supply chain involves a network of organisations that take part in the processes of value creation regarding products and services (Martin, 1998). Nowadays, supply chains have transformed and have become more focused on outsourcing non-core activities, and to build strategic alliances in a global context, with the focus on satisfying end customers (Tan et al., 2006).

There are three main types of supplier networks that a company can employ. The simplest one is the direct supply chain which only has a few key players involved in the network, these include the company, a middle-hand and end consumer. The second structure is the extended supply chain that adds additional suppliers and also the customer's customer. The most advanced version is termed ultimate supply chain and includes all the steps as the previous ones but also adding a few more. Additional parties include third party logistics suppliers, financial providers, and finally, market research firms (Mentzer, DeWitt, Keebler, & Min, 2001).

#### **3.3.1 Sustainable Supply Chain Management**

The original purpose of Supply Chain Management [SCM] is to reduce the costs and at the same time offer better services to customers and can be achieved by moving production to another country. Sourcing from developing nations gives rise to a broader aspect of stakeholders and underlines the social, ethical and environmental issues in supply chains (Gimenez & Sierra, 2013). The Sustainable Supply Chain Management [SSCM] is an incorporation concept of these issues and the concept has been in use the last twenty years, starting at the 1990's. At an early stage, the environmental perspective was the main focus of sustainability. Later the work expanded to other areas such as purchasing decisions, ethical issues and more specifically working conditions, work-safety and human rights. Recently, research has been concentrated on identifying social and environment practices in specific industries (Ayuso et al., 2013).

### 3.4 Small and Medium-sized Enterprises

The definitions of Small and Medium sized-Enterprises are nearly as many as there are nations in the world. The rationality behind this phenomenon is located in the variances of the legal systems that different countries apply. In order to bypass this issue as much as possible we will therefor apply the recommended definition of SMEs that has been provided by the European Union. The following table is used by the European Union to define the different levels within the concept of SMEs (European Commission, 2003)

Enterprise Category	Headcount	Annual turnover	Annual balance sheet total
Medium-sized	<250	≤ €50 million	≤ €43 million
Small	<50	≤ €10 million	≤ €10 million
Micro	<10	≤ €2 million	≤ €2 million

Table 3.1 The New Thresholds (Art.2) (European Commission, 2003)

An additional note to figure 3.1 is important to make, namely that while following the headcount is mandatory, firms are free to use one of two other variables in determining their size (European Commission, 2003).

#### 3.4.1 Importance of SME's

Numerous authors point to the importance of SME's in today's economy and figures range from 90 to 99 percent when it comes to the share of companies belonging to the SME category in different countries (Gunasekaran et al., 2011; Moore & Manring, 2009). Furthermore, SME's accounts for approximately 65-70 percent of the world's production (Moore & Manring, 2009; Vázquez-Carrasco & López-Pérez, 2013).

#### 3.4.2 CSR as competitive advantage for SMEs

CSR holds the possibility to affect the firms' competitiveness and competitive advantage through two main channels. Firstly, as demonstrated by Ageron et al. (2012), Moore and Manring (2009) efficient usage of resources can carry large rewards for firms in terms of decreased production costs. Secondly, and with a wider scope of application due to its ability to function outside the environmental dimension, CSR has the ability to affect the reputation of a firm. According to Ageron et al. (2012) firms can improve their reputation and reach new customers and suppliers by succeeding in performing above what is expected of them within the three fields of sustainability. Similarly, a poor performance, whether within the own firm or in the supply chain, can create the opposite and thus affect the organisation in a negative manner (Seuring et al., 2008).

Given the importance of SME's previously discussed and the surge in CSR related issues both in literature as well as in practice it is somewhat surprising that there is a lack of

literature combining the concepts. This is mentioned by Ciliberti, Pontrandolfo, and Scozzi (2008), Moore and Manring (2009), Vázquez-Carrasco and López-Pérez (2013) that points to the fact that much of the studies on CSR in companies have been interested in larger firms such as MNC's. This fact leads to questions regarding the differences between SME's and MNC's and if the research about larger firms also can be applied to their smaller cousins.

### **3.4.3 Comparing SME's and MNC's**

Besides from the difference in size when comparing SME's and MNC's, much of the literature claims that smaller firms are not merely small versions of larger ones (Vázquez-Carrasco & López-Pérez, 2013). Going deeper Adams et al. (2012) argues that there are profound structural differences that make it hard to apply the same principles on SME's that researchers have been using on larger firms. This is true both in terms of the application of CSR (Vázquez-Carrasco & López-Pérez, 2013) and on the relationships between the focal firm and its supply chain partners (Adams et al., 2012). Hence, in order to describe how CSR is implemented in SMEs, the differences between small and large firms need to be emphasised in order to provide a foundation for future discussion.

First of all, even though all firms face the issue of limited resources, the situation for SMEs is different. High costs are involved in creating and monitoring CSR, no matter in what type of firm and given the smaller resources available for small firms the relative impact is more substantial (Fenwick, 2010; Moore & Manring, 2009).

Resources also include concepts such as time and relationships, which can be equally important as tangible resources according to Adams et al. (2012) and Fenwick (2010). A further key aspect of SMEs is that the firm often is closely connected to its founder/owner, both in terms of management suggested by Ciliberti et al. (2011) and values proposed by Ciliberti et al. (2008). Personal values are considered a key variable concerning the implementation of CSR in smaller firms while external influences play a smaller role. This stands in contrast to the situation in larger firms, especially ones facing a high degree of consumer exposure (Seuring et al., 2008). Additionally, most of the CSR initiatives in MNSs emerge from stakeholder pressure, where stakeholders use their bargaining power to demand companies to address CSR issues (Bondy, Moon, & Matten, 2012). The larger the firm is, the greater the stakeholder pressure is, for a formal CSR strategy. However, it is also important for SMEs to have a tailored CSR package to get a meaningful implementation of such standards (Agudo Valiente, Garcés Ayerbe, & Salvador Figueras, 2012).

Furthermore, a study made on CSR in Canadian SMEs highlights the importance of the local community to SMEs operating within it (Fenwick, 2010). This applies particularly to firms that relies on the local economy where both customers and problems are to be found (Fenwick, 2010).

It is also suggested by Moore and Manring (2009) that the high costs for external application of CSR discussed earlier, influences SME's in focusing their CSR activities on internal stakeholders instead.

A final important distinction between smaller and larger firms is related to their power within the supply chain (Amrou & Klassen, 2010; Ciliberti et al., 2011). Hence power within the supply chain is partly associated with both the actual size and financial muscles of the firm and consequently, also to the resource aspect earlier brought forth. However, power or the ability to influence can also be derived from relationships between buyers and suppliers which nonetheless require time, a scarce resource in many SME's (Fenwick, 2010).

Most studies have not distinguished between the differences between the decision-making processes at small and medium sized firms and large organizations (Moore & Manring, 2009). While the literature is clear on that SME's differ from MNC's and the reasons for it, there are also certain advantages and disadvantages in being a small company. Disadvantages discussed in the previous part include limited resources and low power but the reliance put on a small customer base is also mentioned. However, there are also benefits in being a SME. These benefits come in the form of flexibility which is related to the size of the firm and the informal management system often found in smaller firms (Adams et al., 2012). This allows the firm to adapt to change more easily compared to larger firms according to Gunasekaran et al. (2011).

#### **3.4.4 Barriers and benefits for implementing CSR in SME's**

As earlier discussed, SME's have certain disadvantages compared to large firms and subsequently, these affect the implementation of CSR activities in smaller firms.

There is however more barriers pointed out by the literature which is not clearly connected with the direct disadvantages of being small. Fenwick (2010) brings up three major challenges for firms when it comes to CSR practices: First, there is no single definition of CSR that is universally accepted which leads to different understanding of the term between and even inside firms. Furthermore, as the actual term is relatively new, the practices of it needs not to be, thus implying that it is only a new term for established practice. The second challenge brought forth relates to the vagueness of the concept in terms of what should be done and who should do it. There was also reported that firms lacked clear and visible benefits of executing CSR projects. Finally, there is the notion of CSR activities being too much of a financial burden and that those activities often are too far from the business goals of the firm.

While these challenges chiefly are concerned with the go-or-no decision-making of CSR Amrou and Klassen (2010) highlights issues in transmitting firm standards along the supply chain. Insufficient firm power together with cultural and geographic distance is important variables that firms need to take into account when designing and implementing appropriate CSR standards.

It should also be noted that in one study performed by Fenwick (2010), owners of SME's felt that the actual term CSR only applied to corporations, which they wanted to keep a distance from. Similarly, Vázquez-Carrasco and López-Pérez (2013) refers to CSR as being constructed for large firms thus alienating smaller firms from using the term.

Hence, the barriers for firms when implementing CSR can be found both internally and externally, does the same logic apply to the benefits as well?

Internally directed benefits for implementing CSR practices has already been discussed but these tend to be generic for all firms but the key concern in this context is small firms. Small firms are not isolated entities but rather the opposite as they constitute important players in supply chains in cooperation with both small firms as well as MNC's (Moore & Manring, 2009; Seuring et al., 2008). Therefore, a key aspect for firms in being sustainable is to be attractive for external firms to cooperate with. This includes both as partners to other firms and networks where sustainable practices are valued and in terms of investments from predominantly larger firms (Moore & Manring, 2009). The essence is that performance besides pure financial objectives is taken into account in transactions and relationships but what constitutes the actual purpose is left unsaid.

### **3.5 Outsourcing**

There are two types of outsourcing that needs to be distinguished between: domestic outsourcing and offshoring. Domestic outsourcing is the term when the principal and the agent operate within the same geographic area, such as the same country. On the other hand, offshoring implies that outsourcing provider and outsourcing supplier are from different countries. Offshore Production is a way to assign the production process or method to external, specialized and efficient service providers. This is made in order to make the best of resources, to reduce costs, diversify risk, improve efficiency and enhance own competitiveness (Wenzhong, 2013).

In today's competitive economic environment it has become common for firms to move its non-core activities to low cost countries, while keeping more advanced, core capabilities in-house (Jensen, Ørberg, & Pedersen, 2012). However, this method is not without controversies as the offshoring of activities to low-wage countries are perceived as a major threat to domestic jobs (Michel & Rycx, 2011). When it comes to outsourcing, there are several factors that needs consideration, especially when moving production abroad. Berggren and Bengtsson (2004) bring forth issues related to logistical matters such as lead times and just in time deliveries, but quality and customer adaptation abilities also needs to be considered. However, Bengtsson, Berggren, and Lind (2005), states that companies that have a larger share of its production in-house is the ones that has had the best economic development in recent years.

#### **3.5.1 History of previous study towards offshoring area**

Started in the 1980s, offshore outsourcing as a corporate strategy has since been developed from a single transactional approach to a broader concept, involving a co-developed

process with the outsourcing provider where cost control is no longer the main focus. The academic interest towards offshore outsourcing began in 1990's (Jiang & Qureshi, 2006). In early studies, the authors tended to use management theories to analyse different areas of the offshore outsourcing. With time, researchers started to use a combination of several theories to explain integrative issues in the offshore outsourcing industry. Nowadays, a more cooperative way are commonly used by researchers (Mohiuddin, 2011).

### **3.5.2 Offshore outsourcing as a competitive advantage for SMEs**

Offshore outsourcing can improve a company's competitiveness by enabling SMEs to cutting down on costs, expand relational ties, more effectively serve customers, free up scarce resources, and leverage capabilities of foreign partners. Sinha et al. (2011) also claims it has further benefits, including making the firm more flexible, improving its ability to concentrate on core competencies and decrease capital investment requirements as well as reduce risks. As such, the internationalisation of sourcing via offshore services outsourcing is an important mechanism for improving international competitiveness (Di Gregorio et al., 2009). However, as the level of process complexity and customization increases, greater cooperation between partners are required and will raise the importance of creating alliances when dealing with outsourcing (Mudambi & Tallman, 2010).

It is not surprising that managers, policy-makers and researchers in and on MNCs have been paying a lot of attention on offshore outsourcing. However, when it comes to research emphasising SMEs, less focus has been put in by the business press or in academic research. Scholars typically associate small firms with serving domestic markets using domestic resources while entrepreneurship and international business scholars acknowledge that small and emerging businesses also play important roles in international business (Di Gregorio et al., 2009; Wenzhong, 2013).

### **3.5.3 Why SMEs engage in offshore outsourcing**

Sinha et al. (2011), use a combination of three theoretical lenses to describe the benefit for SMEs to offshore outsourcing. These include Transaction Cost Approach [TCA], the core competences approach (also known as Resources Based View [RBV]) and the alliances, networks and internationalization approach. TCA and RBV are strongly intertwined and TCA can be described as putting the costs that will incur with a transaction against the costs of not performing that transaction. The RBV suggests that if an enterprise wants to sustain its competitive advantage, core resources and core capabilities are the main focus and it therefore advocates that firms should outsource those activities which is not their core competences (Amaladoss & Manohar, 2013; Mohiuddin, 2011). The network alliance internationalization approach works as a form of engagement in improving the abilities of firms, provide access to new resources and expand to new markets. This is achieved by developing relationships with suppliers through the use of intense interaction, personal visits, frequent communication and insights into the workings of foreign markets (Di Gregorio et al., 2009).

In recent research regarding offshore outsourcing, the perspectives analysed has been further diversified. Focus has shifted from Transaction Cost Economics (TCE), RBV and Resource Dependence View [RDV] towards the Knowledge Based View [KBV] and the Collaborative Relationship Based View [CRBV]. It is getting more and more common for researchers to combine the KBV, CRBV and dynamic network theories in order to explain the benefit of collaboration among the firms and outsourcing as one way of utilizing this collaboration (Mohiuddin, 2011).

### **3.5.4 Offshoring and CSR**

According to the research of Wenzhong (2013), there are three dominating reasons that cause CSR issues in an offshoring relationship. The first reason comes from the focus on profits by businesses that only have a short-term interest in cooperation. This results in little consideration for other stakeholders who are involved in the business transactions and there is no long-term relationship management philosophy to restrict them. Secondly, the focus on the majority of stakeholders' interests can lead to neglect, concerning the interest of other stakeholders. Most of the unethical, or even illegal activities that has taken place are mainly the result of the managers maximizing the profit (Qi, Feng, & Jin, 2012). The third issue comes from the influence from peer companies. As such, there are companies that do not take social responsibilities for their operations, but which are not being seriously punished for it. In this case, losing CSR in the company does not mean losing competitive advantage, or profit-making opportunities.

Wenzhong (2013), also points to other specific reasons, such as different ethical standards in different countries and lack of related ethical standards in the offshoring business area. Furthermore, different perceptions between the host nation and the home nation and that the supervision from government is lacking techniques and knowledge regarding outsourcing activities.

## **3.6 Aspects of trust in a cross cultural context**

Trust is a vital tool for managers and has shown to reduce conflicts and to foster loyalty within business relationships. Research has shown that trust is involved in, and is fundamental in successful business relations (Lohtia, Bello, & Porter, 2009). Trust in business climates is seen as critical because it is acquired in order to facilitate and reach good performance within a relationship (Verschoor, 2011). It is also put forward that building trust is harder when the cultural gap is big and especially in cultures in East-Asia it is highly recommended to build deeper relationships with your business associates to better understand and overcome culture clash and to build a deeper mutual trust. Trust is the keyword for building an influential and significant business relationship between companies today and it is extra vital in the Asia. Trust is a major aspect in the business climate in the Asian business market and therefore managers need to be aware of these trust triggers when communicating and doing cross-cultural business. Trust is often shaped in the context of business when one side of the partner feels that the other is benevolent and willing to put effort and commitment into the relation (Lohtia et al., 2009).

Trust can be explained as a belief of confidence that the other part meets the obligations required. Further on, the concept of trust can vary between individual beliefs and group beliefs in different contexts. According to Fadol and Sandhu (2013) the basic concept of trust involves; to behave in accordance to implicit and explicit commitments and to not take excessive advantage even if there is an opportunity and to be honest in all cases. According to Lohtia et al. (2009) a trustworthy person should observe all of these requirements in order to fully understand and achieve success in situations where trust is required. According to Luo (2002) trust is also depending on reliance, to rely on somebody else and to allow you to get vulnerable.

Cognitive trust is based more upon rational choices and to believe that the other part will provide something beneficial. It is also stated that trust develops over time and increases by regular interactions. Trusts also increase the willingness to endure hard times by raising perseverance and to exercise tolerance. Another contribution arising from trust is the fruitful environment where specific assets can be evolved further in a business relation. There are also several links between trust in managerial situations and increasing profits for companies. Previous studies have shown that trust triggers both attitudes and behaviour in a positive way. A correlation has been found between increasing trust and the effort to put in more devotion into different tasks in e.g. work related issues. The modern science within the area is founded on two different categories of trust called cognitive and affective trust. Cognitive is more focused upon a specific person's abilities and integrities. The second form of trust; affective, is more defined by a certain individual's personal attributes and set of values (Yang & Mossholder, 2010).

### **3.7 CSR in different countries**

When discussing the roles of firms in today's society, it is recognised that they are influenced by, and in-turn, influence a number of external and internal factors, most commonly called stakeholders (Fassin, 2010). In 1984, these stakeholders were summarised in a model, made by Freeman (Morsing & Schultz, 2006). The model has since then been developed, and received additions by Freeman and others (Donaldson & Preston, 1995; Fassin, 2009). Freeman's model is by no means the first, or the most extensive model within the field, but it has become an important tool for creating awareness within CSR (Morsing & Schultz, 2006). There are seven stakeholder groups within Freeman's model; suppliers, employees, shareholders, customers, competitors, civil society and the government.

Historically, a firm's responsibility was limited to their part in the value creation of the supply chain, currently though; a firm is expected to consider the whole supply chain. Customers demand CSR to a larger extent in modern partnerships than in the past, and the social performance of a company has an increasingly important role for the firm's external stakeholders, such as the customers (Brower & Mahajan, 2013). As the interests of the different stakeholder groups not always converge, this is a potential source of conflicts. As such, CSR has an important role and it has become one of the most desirable strategic



instruments when minimizing stakeholder conflict (Becchetti, Ciciretti, Hasan, & Kobeissi, 2012).

Two main movements within stakeholder management are important for corporations today. Firstly, greater emphasis is put on a wider range of stakeholders, and secondly, CSR should be implemented so to extend the value creation for all stakeholders involved (Brower and Mahajan, 2013).

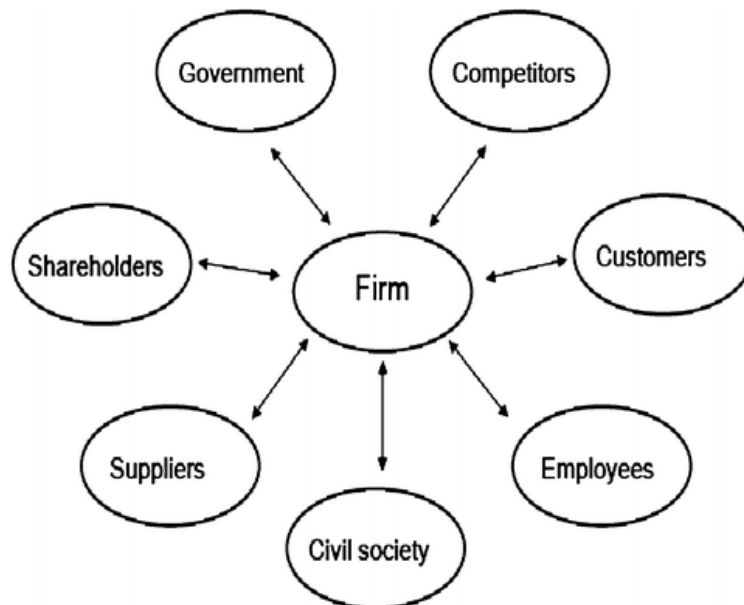


Figure 3.1 Traditional stakeholder model (Freeman, 1984 cited in Fassin, 2009).

### 3.7.1 CSR in China

With a fast growing economy, international cooperation and trading, the concept of CSR is getting more familiar, and essential to Chinese companies. According to Qi et al. (2012), China is the largest developing country in the world. Additionally, the large- and medium-sized corporations in China tend to have CSR activities in place. At the same time, small- and medium-sized enterprises also have carried out social responsibilities. However, there are still problems for Chinese firms to fulfil their social responsibilities.

Nowadays in China, not only enterprises, but also more Non-Governmental Organisations [NGO] and other social organizations are emphasising socially responsible activities. Government agencies have also begun to actively participate in institutional arrangements, policy formulation and in the practice of social responsibility (Qi et al., 2012). Moreover, Tang and Tang (2012), argues that the studies made in the West cannot be easily adapted to the Chinese context. Furthermore, they put forward that there are four main stakeholders for a firm's CSR activities and performance in China. The four stakeholder groups are:

- (1) Chinese governments who control licenses, land, and other administrative resources.
- (2) Competitors who jointly form the industry norms that can considerably change a firm's managerial and operating processes.
- (3) Customers who determine the revenue flow to the

firm. (4) The media that potentially establish or ruin a firm's reputation. (Tang & Tang, 2012, p. 438)

Even though the government plays a crucial role in affecting companies' CSR performance, at the current stage of economic development in China, the country remains the biggest developing country in the world. Thus, the major focus of the government is continuous economic growth, and this means less attention will be paid to CSR (Qi et al., 2012; Tang & Tang, 2012). The state-owned Assets Supervision and Administration Commission [SASAC] only have CSR guidance for the central state-owned enterprises [SOE]. These organisations are the only firms required to perform CSR activities, and to present this behaviour to the public. The majority of non SOE firms are still in an early stage of their development, and the pursuit of profit is the main purpose for those firms. More than 90% of the SMEs in China are still struggling to survive, so there are little time to spare on issues such as CSR (Qi et al., 2012). However, the CSR movement began to grow in importance in China in 2003. By the end of 2006, there were only five SOEs that released CSR reports; By the year of 2011, the number was up to 100, an impressive increase in the number of CSR reports, and world leading. A series of effective measures have been performed by the SOEs in China, and they are continuously improving it. At the same time, other Chinese enterprises are getting more and more involved in CSR, and pay more attention on fulfilling social responsibilities (Amaladoss & Manohar, 2013).

### **3.7.2 CSR in Sweden**

Sweden is currently ranked as one of the least corrupt nations in the world. While this argument in itself might not have a clear link to CSR practices in Sweden, transparency and honesty are important concepts in the Swedish business climate. Furthermore, Swedish firms are generally viewed as trustworthy and often scores high in credibility (Strand, 2009). Swedish firms are also driven by willingness, and an ability to form long-term, collaborative relationships with suppliers (Strand, 2009). These factors have implications for the reputation of a firm, and to be seen as a favourable partner, provide firms with an advantageous position on the market. Swedish companies are regarded to be at the vanguard at implementing good CSR standards, with focus on social and environmental responsibility (Strand, 2009). Additionally, the father of the original stakeholder model; Freeman, argues that Swedish companies have come a long way in developing the stakeholder model and the importance of CSR. External stakeholders are commonly given extra consideration by Swedish firms; this applies especially to the suppliers, and to the customers (Strand, 2009).

Swedish companies are perceived as responsible business partners with focus on reaching results, other European countries i.e. Mediterranean such as Spain emphasis more philanthropy and community involvement as noteworthy differences (Branco, Delgado, Sá, & Sousa, 2014).

## **3.8 Crisis Management**

The concept of crisis managements [CM] has been brought to life by companies that want to find a way to deal with internal and external corporate conflicts (Khodarahmi, 2009). The main issue is to reduce turbulence in various situations, where handling conflicts is one of them. Culture dimensions and legal aspects therefore need to be evaluated to come up with efficient action plans. The meaning of the word “crisis” comes from the Greek language and means “choice” or “decision”. Proper communication is viewed as a highly important instrument for an effective crisis management (Khodarahmi (2009) For companies in certain predicaments, there is help to get, e.g. the company could look for different templates on these things where consultants specified in this area gives their input. Mitroff and Alpaslan (2003) states that crises can be divided into two different categories; the “normal “and the “abnormal”. A normal crisis is linked to everyday problems while abnormal is intentional evil deeds, such as bomb attacks or kidnappings. Plenty of studies within the field of CM discussed about the best way to tackle a problem. Due to differences in resources between companies, this is done differently; the main resources are often money and human resources.

### **3.8.1 Conflict management**

There are several definitions for “conflicts” available as many scholars have studied it within diverse areas, and from different perspectives (Rahim, 2001). Stern and El-Ansary (1977 as cited in John & Prasad, 2012 p. 329), defines a conflict as: “A situation in which one channel member perceives another channel member to be engaged in behaviour that is preventing or impeding him from achieving his goals”. Furthermore, March and Simon (1958 as cited in John & Prasad, 2012 p. 327) separate between individual, organisational and inter-organisational conflicts. Individual and organisational conflicts take place within an organisation, between individuals or groups, while inter-organisational conflicts occur between organisations.

It is natural that conflicts exist in any kind of relationship. The continuously cooperation in supply chain management can generate profits for both parties: the supplier and customer. However, when the collaboration fails to satisfy both parties, or achieve the desired outcomes, there is a high possibility for both parties to experience mutual distrust and relationship difficulties. If the conflicts cannot be handled effectively, they can harm the performance of the system as a whole, since the firms will lose any benefits related to cooperation.

According to John and Prasad (2012, p. 330), the following factors are the main reasons for conflicts within supply chain managements:

- differences in objectives
- lack/scarcity of trust among partners
- use of coercive power and strategies by chain members
- inefficient system structure
- win-lose mentality

- slippery and arduous global business environment
- lack/scarcity of collaboration and cooperation within the organisation and among supply chain partners

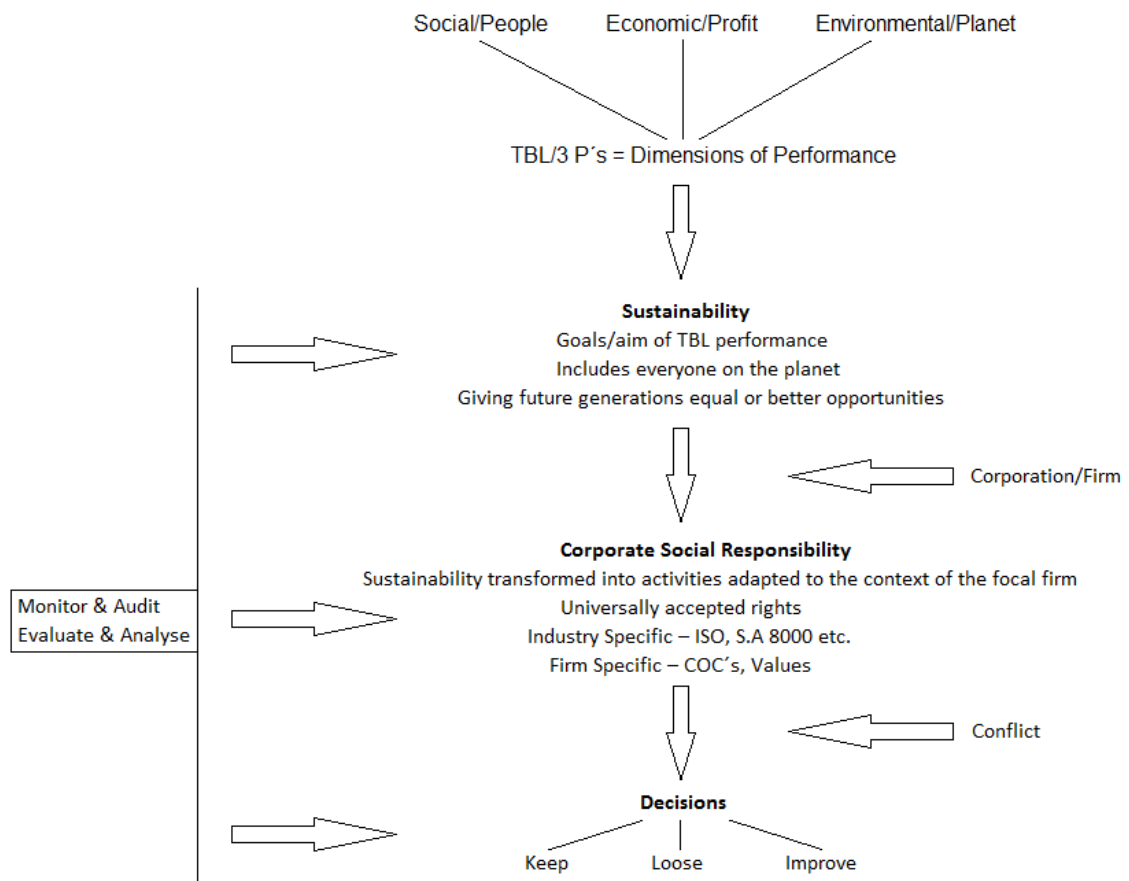
### **3.9 A model for theoretical framework**

This model is the result of our conclusions regarding the theoretical framework. It illustrates the process of transforming general areas of importance, to specific issues, relevant to the individual and unique small firm. In other words; how the TBL is translated into CSR. Furthermore, the model describes the logics behind the concept of CSR and that it is a variable of importance when encountering conflicts in a focal firms supply chain. As mentioned by Amrou & Klassen (2010) the Triple Bottom Line, which include social, economic and environmental aspects, are the three areas where a firms performance is measured. The notion of TBL is in that sense synonymous with the concept of the 3 Ps, making a separation irrelevant. The TBL performance is centred on sustainability, which is the next part of the model. The core of sustainability, as Loucks et al. (2010) describes as; “means meeting the needs of the present without compromising the ability of future generations to meet their own needs.” However, this does not only concern firms, since sustainability is a concept that is relevant for everyone. As such, the variable of firm is inserted in the model in order to apply sustainability in the context of the firm. The result of this is Corporate Social Responsibility.

At its broadest scope, CSR includes universally accepted rights such as the United Nations declaration of human rights (UN, 2014). However, this scope needs to be narrowed down as different industries have different traits. Industry specific CSR, encompasses e.g. ISO standards and S.A 8000, which denotes Social Accountability (Ciliberti et al., 2011). Thus, the implementation of these standards is related to the industry in which the firm operates. However, firms are unique and this is especially the case for SMEs, which tend to be closely connected to their owners/founders values as suggested by Ciliberti et al. (2008). This creates the need for firm-specific CSR activities, these might be stated in a Code of Conduct, but they can also exist on a more informal level. In the final step of the model, the variable of a conflict between a firm, and one of its suppliers is inserted. In this context, the conflict is a result of a supplier violating the social standards used by its customer, i.e. the focal firm. This is an example of CSR in practice, and hence; where the CSR of a focal firm is tested. There are three options available for the focal firm when facing such a conflict. The option of improve relates to enhancing the skills of the supplier, while loose refers to ending the relationship (Amrou & Klassen, 2010). The third option; keep, which implies business as usual, can be the result of the focal firms; lack of power, lack of options, or, neglect of the problem.

As any situation is likely to change, CSR needs constant evaluation and analysis in order to keep it aligned to the firm. This is important, as Fenwick (2010) argues that SMEs need to see clear benefits for their CSR activities and that the goals of those activities should be aligned with the goals of the firm. Additionally, the focal firm needs to ensure that both the own organisation, and its suppliers, follow the rules of the game, the main tool for ensuring

this is monitoring, or auditing (Amrou & Klassen, 2010). Thus, the problem that results in the conflict, earlier described, should ideally be identified by monitoring, and be handled according to the firm-specific CSR.



Model 3.1 A model for theoretical framework

## 4 Empirical Findings

### 4.1 Arlemark Glas

*Interview with owner and CEO Johan Schyllander 2014-03-11*

Arlemark Glas is a family owned company which was founded by Eric Arlemark in 1960 in Gothenburg. Currently, the company is run by the third generation of the family in Jönköping. Arlemark currently has five employees and is the smallest firm in this research. The firm's activities are entirely B2B oriented with the main products being glass for buildings while the areas of lighting and LED are growing parts of the business. As of today, most products that Arlemark trade with are imported from Chinese suppliers while they are being sold domestically (AB Arlemark, 2013).

CSR is not an unfamiliar concept to Arlemark, even though it is a small firm. This is due to the academic education within business of its CEO; Johan Schyllander.

#### 4.1.1 CSR within the firm

Arlemark does not have any written CSR standards in use that they employ in their relations with their suppliers, the reasons for it being a combination of limited resources and lack of clear benefits in producing it. Even if CSR standards would be stated formally, it is a risk that it could remain only a piece of paper, the importance is that suppliers really implement these values for it to gain effect. However, Arlemark sees the benefit of having a written CSR in terms that it makes communicating the values easier, and that it can serve as a guide if issues appear.

As Arlemark is a small firm and its suppliers tend to be large due to the need for capital equipment within the industry, the firms bargaining power is limited. Furthermore, it is difficult to change practice that has been ongoing for decades, thus leaving Arlemark in a position where they have little influence.

Regarding organized standards, Arlemark does not currently have an ISO certificate, however, the plan is to acquire one in the near future. The company recognizes the importance of it if you work actively with it to improve quality or environmental efficiency. However, the fact that a firm has a certificate do not guarantee it utilizes it or delivers more value compared to a firm that does not have it so Arlemark considers this type of standard as being both weak and over esteemed.

Instead of written CSR, Arlemark employs in-built CSR thinking based on the personal values of the owner, shaped by both events in the media and from his education. Whether a supplier breach the CSR standards set up by Arlemark is determined by the CEO of the firm. He personally visits suppliers to inspect facilities and routines and if a supplier fails to deliver what is expected he notifies them about that, or chooses to do business with another firm.

When it comes to the ethical aspect of business, Arlemark argues that long-term business without an ethical standard is impossible since both customers and suppliers will be mistreated. At the same time, putting CSR before business is neither appropriate in the long-run. Arlemark is a member of both Svensk Handel and the local chamber of commerce that have CSR questions on their agenda. However, this is not the main focus of either of the organizations, and Arlemark put forward time as the main barrier to engage further in these questions.

#### **4.1.2 Supplier relationships**

Arlemark has been working with Chinese suppliers for the past seven years, and for Arlemark it has been important to go to China in order to select the most suitable supplier at hand.

Selecting suppliers is quite a long process, up to several years, and the selection is mainly based on recommendations and trade fairs. However the best way for evaluating a potential supplier is to look for quick responses in the communication between the firms, if they reply fast, it is a sign of good routines and devotion to business. It is furthermore important to look upon the way a supplier treat their employees, since if they do not treat them well there is a risk that customers will be treated the same way.

A further possibility is that a firm seems interesting, but that they sometimes hide parts of their business they do not want to show to potential business partners. In some instances there is also a middleman, such as a trade company between Arlemark and the supplier, which creates the feeling that control of the supplier is lost.

However, Arlemark argues that problems in these areas rarely occur, and most of the glass suppliers in China are seen as serious and reliable, as well as easy to cooperate with. Arlemark also employs an unofficial rank regarding its suppliers. A key aspect stressed by the CEO, is relationship building with suppliers that will build trust in the long-run, and this is their main focus in interactions with their suppliers. The CEO also makes regular visits to the firms' suppliers, both to support the relationship and to monitor the suppliers.

The issue with suppliers from China is that standards regarding CSR differ; things that are unacceptable in Sweden can be fine in China. However, the internationalization of business will bring countries closer to each other and this will reduce the boundaries within CSR while establishing a more united legislation and frame regarding CSR in the world. Thus ethical values will get more universal since trading becomes more global and countries affect each other.

Regarding communication with its Chinese suppliers, problems can occur as not knowing the answer to a question can lead to losing your face in the Chinese culture. Thus, it might be more acceptable to lie or simply not reply which can create problems.

### **4.1.3 Conflict management**

Conflicts connected to the social dimension of CSR are rare according to Arlemark due to the nature of the glass industry. The manufacturing process requires large investments in capital equipment and a certain level of competence for the workers, thus making it an unlikely environment for child labour. And as mentioned above, emphasis is put on selecting suppliers thus lowering the probability of encountering conflicts.

However, Arlemark has encountered other problems in their supply chain. One of their suppliers performed internal adjustments and for a while the new personnel had a hard time to adjust to the tempo and they experienced product delays because of this. For Arlemark, the only noticeable case of problem with a supplier was in terms of quality of a shipment of glass. According to Arlemark, these things can happen but if a supplier does not show improvement, this can cause the relationship to be terminated.

Even though Arlemark claims that conflicts are not so likely, the firm wants to take precautions and has an emergency plan to stick to if problems and supplier conflict occurs, like the firm CSR standards however, this plan is not written down. The rationality is also similar, as Arlemark is a small firm; the CEO sees little need for it as it can easily be transmitted internally when it is needed.

For instance if there is a conflict with an important supplier it is difficult to just terminate the relationship since large amounts of resources are invested into the relationship, therefore it is important to instead find ways to improve the relation. There are of course some circumstances that are unacceptable so if arguments and conversations regarding change fail to have an effect, the relationship needs to be terminated even if a financial loss is incurred.

## **4.2 Tanso AB**

*Interview with owner and CEO Sten Fransson 2014-03-20*

With 40 employees, Tanso is the largest of the interviewed firms in this study. Tanso was founded in 1981 and is located in Jönköping (Tanso, 2014). The company specialises in manufacturing products and components based on graphite; especially synthetic, as well as carbon fibre. The scope of their products range from components for electrical and mechanical machines to carbon fibre products used in sports cars, thus the company is entirely B2B oriented (S. Fransson, personal communication, 2014-03-20).

Although the firm share its name with the Japanese company Toyo Tanso, the Swedish firm is independent. However, the firms have a far reaching cooperation including mutual visits and sharing of information.

### **4.2.1 CSR within the firm**

Although Tanso do not have an all-encompassing CSR statement they do employ an environmental policy throughout the firm and Tanso is also a holder of an ISO 14001



certificate. However, CSR is relevant for Tanso and is a part its customer's evaluation of their supply chain, thus transmitting these evaluations onto Tanso.

Instead of CSR standards, Tanso has what the CEO dubs as "Company Commandments" which is Tanso's version corporate values. However, these commandments mostly touch upon the areas of quality, customer orientation and importance of profit. Thus, Tanso employs considerably more resources in evaluating and monitoring the quality of their goods and products, a key activity in the firm since the production process can take up to nine months.

Tanso has given some thoughts into putting its values regarding CSR onto a piece of paper since it would aid in the communication of these values, both internally and externally. The reason in not doing this so far is the concern that the values could just be a piece of paper that is worth nothing without a proper implementation. This implementation in turn can be very costly and the CEO mentions that additional overhead costs of this type, "while being necessary for larger firms can be deadly for small firms".

Sten Fransson further suggests that a lack of a written CSR policy does not equal worse Corporate Social Responsibility in practice, at least not for small firms, hence providing further argument for not putting it in print. Furthermore, Tanso is not involved in any organisation of other small firms that works with CSR issues nor have the firm heard of any organisation of that kind in its vicinity. Instead of stated CSR values, Tanso relies on its own conscience in business which in this case means the personal values of the CEO. However, he is not certain that all employees have the same mind-set regarding these values that he does which could be offset by producing a written document.

He further states that ethics should be the first consideration in business transactions and that it is important to be profit driven for every company but not to any price. This informal CSR practice suggests that contracts might be terminated if the conflict is severe enough even though that would mean an economic loss. This practice would also be employed when interacting with the main supplier; Toyo Tanso since according to CEO Sten Fransson, "it would be the right thing to do".

#### **4.2.2 Supplier relationships**

According to the CEO of Tanso there are very few suppliers to choose from in the graphite business and Tanso source most of its material from the firm Toyo Tanso in Japan that it has strong links to. Firms in the industry tend to be large since much investment is needed in capital equipment. Simultaneously, the production process of graphite consumes vast amounts of electricity, a considerable share of the costs; labour cost on the other hand is quite a small expense. A further important aspect in the graphite industry is the legal aspects connected with importing and exporting graphite due to the possible usage of the material within both the nuclear industry and the weapons industry.

The ISO certificate mentioned earlier was obtained due to customer pressure which is an illustration of the position Tanso is in. For example, it would not be possible to transmit

this same pressure on Toyo Tanso, its main supplier which nonetheless does have a business ethics statement.

Due to the limited number of suppliers it is important to develop and maintain good relations with your suppliers and Tanso spends as much resources on its suppliers as the firm does on its customers. The relationships between Tanso and its suppliers are built on trust and transparency and some relations have been ongoing for thirty years. Tanso would not engage in business transactions without knowing the people behind the other firm, especially not from what the CEO terms as “high risk countries”.

The CEO of Tanso performs yearly visits to the suppliers and also receives visits every year which is a tool for maintaining good supplier relationships. Tanso also performs evaluations of their suppliers every second year in which compliance of ILO’s are being followed up. The length of the relationships is the result of the nature of the graphite industry as Tanso would have large problems finding another supplier that could deliver material up to their specifications, thus terminating a relationship would have severe consequences.

Tanso tries to improve their supplier relations by participating in meetings and have regular contact with their suppliers in order to obtain cultural understanding and to overcome cultural clashes. CEO Sten Fransson argues that being open-minded and receptive to learning are vital when improving working relations.

Tanso is in no practical position to choose suppliers regarding material for its core business, a result of the structure within the industry. Even if Tanso would be forced to find a new supplier of key material, such as graphite, the CEO describes the market as “kill or be killed”. Thus, other firms and therefore competitors would refuse to sell their products to Tanso if they were in a legal position to do that.

### **4.2.3 Conflict management**

Tanso has been spared from CSR related conflicts in the past but if one should emerge they would try to solve it with all means necessary. The CEO is satisfied with the rather clean graphite business and so far conflict management has only been employed to solve minor turbulences through dialogue. However, Tanso is aware of historical social issues within its own and associated industries. This is exemplified by several sever mining accidents in China, primarily in the 1990s. Social problems in the form of forced labour in Inner Mongolia were also brought to the CEOs attention, thus raising awareness of these issues today. Sten sees this kind of treatments, not only as wrong according to personal values but also as unfair competition between firms.

This is primarily the case within the synthetic graphite industry where Tanso is most active and he CEO suggests that the extraction and trade of natural graphite is more exposed to ethical problems. If a larger problem would occur within this context, the aim is to solve the conflict as early as possible and act according to the own conscience.

If there should be a major problem in their supply chain the first action would be to warn the supplier and engage in a dialogue. If the supplier would reject the input there is no other way than to terminate the business contact and locate new business partners. Due to the value of the existing supplier relationships, Tanso would consider terminating a relationship only in a worst case scenario. However, would this be the case, the aim would be to find a new supplier with a clean record.

Tanso has no specific action plan to stick to if a supplier conflict should occur but due to recent events (read tsunami) in Japan there are emergency plans if a key supplier would be lost with short notice.

### **4.3 Flisby AB**

*Interview with owner and CEO Johnny Hansen 2014-04-11*

With almost 50 years in the business of natural stone and cement-based products Flisby is today one of the major distributors in Sweden. The products are sourced from quarries around the world; including China, that holds a substantial part of the firm's distributors (J. Hansen, personal communication, 2014-04-10). The firm supply both firms and consumers directly, through their own stores (Flisby, 2014). Flisby started as a small family business and they currently have 25 employees. For Flisby, its brand is a vital asset due to the firm's remote location and it is important to develop their strong brand further (J. Hansen, personal communication, 2014-04-10).

Flisby is a firm that have achieved their current position through being open to change and quickly adapting to it, not too long ago, the firm sold both wooden fence and canoes. Additionally, the firm has not been averse to finance its operations with external capital. Keeping the firm in constant movement means Flisby has been open to new trends in business which the CEO compare to the movement of a boxer. This attitude which involves constant development and never to stagnate is the mantra in Flisby.

#### **4.3.1 CSR within the firm**

Flisby do employ a written Code of Conduct within their firm. The CEO mentions that a main reason for having a written COC is to establish and maintain long-term relationships with their suppliers. Thus, a clear CSR statement assists in building trust and understanding between Flisby and their suppliers. The COC was written with external help, and with inspiration collected from MNCs, but adapted to fit the firm, and the company values in Flisby. As the CEO; Johnny Hansen explains, it was vital to choose statements that the company could stand for. For Flisby, the COC is a statement of how much the firm can promise in terms of their actions without lying. However, the code is also written to be somewhat flexible as it can be adapted to shifting variables and needs, both in other firms and across cultures.

A further key motive in producing and implementing a COC is to protect the Flisby brand which Johnny views as stronger than the firm's turnover. Due to its remote location, Flisby

is in no position to survive on the local market and consequently relies on extensive marketing in attracting new business. Thus, a strong brand needs to be nurtured and protected and a bad conduct leading to negative reputation can tarnish the brand and therefore ruin the company.

According to Johnny, SMEs should have a COC in order to both inform customers and to for the good of tomorrow. Further on, he argues that a COC aids in the development of the firm and is in no means a hinder for profit. The written CSR standards that Flisby uses correspond to the company sole, and its function is to remind the organization of the importance of the COC and to act accordingly. Outside the firm, Flisby recognises the potential of utilizing Codes of Conduct as a way to improve working conditions and overall social welfare for workers.

When it comes to membership in trade organisations, Flisby is somewhat discouraged due to their experience. The firm regards their COC as offering higher standards compared to both peer firms and industry organisations.

Flisby also emphasise the importance of ethics within the own firm and Johnny compares his firm with the case of a farm and the employees as the cattle. If the cattle get mistreated they will not milk. Therefore the employees will be given a decent wage in order to be satisfied. Furthermore they have no union membership in the firm since the wages and pensions offered are above the regulated level, thus the employees see no need for union membership.

### **4.3.2 Supplier Relationship**

The aim of Flisby when it comes to supplier relationships is to establish them on a long-term basis with several current relations running for fifteen years. This allows for the development of a high degree of trust between the firms. This is further enhanced by a preference for selecting small family firm as suppliers due to the similar nature of Flisby, which leads to “speaking the same language”. A further supplier strategy employed by Flisby is to limit the number of active suppliers. In keeping this number down, Flisby will be a relatively larger customer, thus helping them in negotiating a better price on the products.

When it comes to selecting new suppliers, it is primarily done due to one of two reasons; either Flisby is in the market for new products or, the firm aims to find existing products at a better price. The process of selecting suppliers for Flisby usually focus on finding out what kind of company they are dealing with, if they are reliable and the prospect of a future together. The COC and importance of it is communicated at an early stage as a similar attitude towards CSR is important and approving the code is mandatory before signing a business contract.

Flisby try to visit the quarries for each supplier and evaluate their standards and this is followed up with yearly visits to maintain contact. Even though it is difficult to control the whole chain, Flisby tries to be present by letting the suppliers be aware of their attitude

towards CSR and demanding the suppliers to follow the COC. This is exemplified by that quarries can be controlled but it is much harder to control the lorry from the quarry to the harbour according to Johnny. Even though Flisby tries to promote their CSR values to their suppliers, the CEO admits that the firm has no power to make a difference, only to encourage.

For a generic relationship, it takes one- to two years for both parties to understand each other's needs and to establish a good contact. Flisby performs trade with suppliers in both China and India as well as within the European Union. Johnny in general argues that it is easier to do business with Chinese firms even though the European Union has imposed both visible and hidden tariffs in order to protect European industry. However, the main issue with Chinese suppliers is that they tend to neglect established relations in favour of attracting new customers thus eventually forcing Flisby to find new suppliers. The benefit of this cycle is that Flisby is able to obtain lower prices with new more interested suppliers but building new relationships is time-consuming and can be risky. As there are plenty of stone suppliers in China, finding new ones to work with is not an issue. However, it is important to have supplier relations that can back up the brand reputation instead of damaging it.

### **4.3.3 Conflict management**

According to Flisby, they have not experienced any conflicts related to their Code of Conduct. However, the CEO does think that for example child labour is more common, more accepted and more of a problem in China, especially in the poorer areas. This is due to differences both in economic standards and cultural aspects. Johnny nonetheless thinks that this picture needs to be nuanced, as for example he started working extra at a very young age in the family firm, which is not uncommon in small family firms.

One of the few problems that have occurred in China occurred when the CEO visited a supplier and the only visible problem was the lack of ear-protection for the workers. The issue with the ear muffs was that the workers for some reason did not want to use them. Even if Flisby has no record of previous supplier conflicts they cannot be sure about the future and therefore tries to minimize the risks by having an action plan to stick to. The action plan came into existence due to a course in conflict management the CEO undertook. Johnny states that there is absolutely no use to have an action plan if it is not implemented in the organization which Flisby has. Thus, if a supplier conflict should occur the company knows what to do. The procedure is to inform the supplier of the breach in the COC, warn the firm and initiate a dialogue with the supplier with the aim to understand the situation from the supplier's point of view. However, would the warning and dialogue be fruitless, Flisby understands that the supplier holds a conflicting opinion and the contract would be terminated.

One incident occurred while the CEO, Johnny was visiting a potential supplier in India. The factory and office appeared fine, however Johnny discovered it was fake and only a front to attract new customers. When he visited the quarry the next day, he discovered all

labour signs were hidden in order to give the impression of a perfect workplace. This meant that business was out of question for Flisby; however this case is an exception according to the CEO.

## **5 Analysis**

When approaching this topic we had some initial expectations regarding this research. The most profound of these was that we were more or less certain that SMEs would be engaged in conflicts with their suppliers regarding social issues within Corporate Social Responsibility.

However, during our interviews it became clear that this was not the case and consequently, the analysis of this area will not be as comprehensive. Emphasis will rather be put at the factors that influence and affect SMEs in their implementation of CSR.

### **5.1 CSR within the firms**

#### **5.1.1 Industry specific factors**

Although all of the three firms in this study are affected by factors that are more or less specific to the corresponding industries, this was unarguably most visible in Tanso.

When analysing the CSR policies and activities of Tanso, it is important to first look upon the general structure of the industry, and the legal framework that encompass it. As mentioned, the possible application of graphite within the nuclear and armament industries is the reason for the trade limitations that surround the business. This clearly affects the industry and thus also Tanso, but as we see it, there are two possible results of these rules. The first option is that; since legislation prohibits free trade and sets industry standards, it functions as an industry wide Code of Conduct. However, this does not encompass all aspects of CSR, and it is hard to determine whether this affect the social dimension at all, since the legislation is set on a national level. A second possibility is that the legal structure acts as an obstacle for firms in implementing CSR policies and activities. The rationality for this is based on the notion that the legal code in itself will be enough in providing ethical guidelines within the industry.

The second structural aspect, which affects CSR in Tanso, but also Arlemark to a lesser extent, is that their corresponding industries are dominated by large firms; are capital intensive and requires skilled workers. Thus, the incentives for a supplier in neglecting social aspects is intuitively smaller compared to firms that operates where labour cost is a more substantial part of expenses.

Thus, the lack of systematic CSR strategies is partly due to industry specific reasons, but there are additional reasons connected to Arlemark and Tanso being SMEs, which will be discussed later on.

Since Arlemark, Tanso and Flisby are active in different industries, the areas of concern also affect the role and nature of their CSR activities. The amount of attention put on environmental, economic and social issues thus differ, both between the industries they operate within and consequently, between the firms.

Thus, the three firms all work with Sustainable Supply Chain Management as described by Ayuso et al. (2013). Tanso emphasise the environmental dimension by the usage of an environmental policy, and by maintaining an ISO 14001 certificate. Flisby on the other hand, tends to focus their CSR efforts on the social area, and their COC chiefly deals with issues such as child labour, working conditions and discrimination. Regarding Arlemark, the firm states no clear, specific focus for their CSR activities; however Arlemark aims to avoid bad suppliers, and aims to support good standards. As such, we argue that the implementation of CSR activities is closely connected to the perceived problems within the respective industry. Thus, Tansos focus on environmental issues hail from the extensive usage of energy in the production process of graphite. Further on, Arlemark perceives no problem that requires a specific CSR focus. Lastly, Flisbys focus on the social dimension of CSR is more related to past events, rather than current. It should however be noted that we find firms-specific factors as more important for Flisby, a notion which later will be recovered.

### **5.1.2 Firm specific factors**

The aspects of cost (Fenwick, 2010) and time (Adams et al. (2012) are important factors for firms in forming and maintaining CSR policies. Due to fewer resources in SMEs, the cost is often comparatively high which Tanso confirms as the firm view added overhead costs as being lethal to a small firm. This argument would intuitively hold, if the absolute size of the CSR activities were the same between firms, but if it instead was relative to the size of the firms, there should be little difference in relative cost for SMEs and MNCs. For Arlemark however, the key resource is time which the CEO states as the main barrier when working with CSR questions. Flisby on the other hand claims that neither time, nor financial resources are issues in their current CSR activities.

As is suggested by Ciliberti et al. (2008), small firms are often closely connected to both the management, and the values of the founder/owner. This creates an interesting linkage between the concept of time and money as critical resources, and the role of the founder/owner in the corresponding firms' CSR activities. Arlemark and Tanso employ informal, unwritten CSR policies, created by its CEOs. Thus, if the firms would put this into written policies, it would likely rely on the work and time of the CEOs. However, their time should have a higher value to the small firm than the equivalent amount of time spent by a generic member of a large firm. This implies that the relative costs are indeed higher for small firms. Similarly, the need for separating the concepts of cost and time have little relevance when the owner/founder, or CEO in this case, has the close connection to the firm described by Ciliberti et al. (2008).

The situation in Flisby is somewhat different as, even though the COC reflects the values of its CEO, the policy itself was written by an external consultant. Consequently, the same link between time, cost and reliance of the CEO, appears not to be present in Flisbys organisation.



The relationships illustrated above, can be further enhanced by connecting it to the three barriers presented by Fenwick (2010), especially that SMEs tend to fail in finding clear benefits for their CSR activities. Neither Arlemark, nor Tanso states any specific goals or benefits regarding their CSR policies, while Flisby put forward their COC as a tool in protecting their brand. Hence, we suggest that clear goals of CSR activities connected to the firm's business goals, aids in the establishment of CSR in small firms.

There are a number of further explanations available regarding why Tanso and Arlemark lack a stated CSR policy. Adams et al. (2012) brings forth the notion that SMEs are more flexible than larger firms in adapting to change. This can act as a reason for not producing CSR statements or action plans, since they in times of need can solve the issue through their flexibility. However, Flisby is also a SME, moreover, Flisby is smaller than Tanso, and thus flexibility alone cannot answer our question.

### **5.1.3 Conceptual specific factors**

As mentioned, all three firms in our study both have an understanding of CSR, and have certain policies in place. However, the view of what actually constitute CSR differs between the firms, a notion that also Fenwick discusses. Consequently, SMEs tend to perceive that CSR as a concept is vague, while a further argument view the term as a new word for old practice (Fenwick, 2010).

Similarly, Russo and Perrini (2010) states that many SMEs do engage in CSR activities, but do not know this is the case, and do not describe it as so. While Flisby do not specifically describe their policies as CSR, they do base their actions on a Code of Conduct, an integrated tool within Corporate Social Responsibility. The CSR activities in Arlemark reflect the personal values of the owner, but these activities are not specifically termed CSR. Thus, even though Arlemark partly employs behaviour that can be described as CSR, it is neither systematic, nor practical to determine to what extent this takes place. The final firm; Tanso, do have an environmental policy in place, while its other CSR activities are structured as those presented in Arlemark. However, when asked, Tanso stated that they had no CSR policies in the firm, thus confirming the view of Fenwick (2010) and Russo et al (2007).

As such, we argue that Flisby has a clear understanding of CSR, at least when using the concept within Flisby's environment. For Arlemark, we judge that an understanding of CSR exists due to the experiences of the CEO; however this is not clearly visible in the firm. Tanso on the other hand, failed to recognise that its activities actually were CSR.

## **5.2 Supplier relationships**

As both Tanso and Arlemark are small companies surrounded by large firms, their power within their supply chains is limited, which Amrou and Klassen (2010) discusses. Tanso further describes their capability to influence their suppliers as almost non-existent. Their position is also illustrated by the fact that they spend as much resources on suppliers, as they do on customers regarding relationships. Arlemark describes a similar position with

the difference that their freedom in moving between suppliers is larger. The main reason behind this, is that its glass products are more standardised compared to Tansos need of specialised material. The manoeuvrability of Flisby is thus even greater and the firm shows a high supplier turnover in this context.

As discussed, Tanso is in a delicate position due to its reliance on maintaining its relationship with Toyo Tanso, which is its most important supplier. This principal-agent reliance could mean that Tanso would be more willing to overlook the significance of CSR problems found in Toyo Tanso, due to the high stakes involved. It should however be noted that there is nothing in the research that suggests this is in fact taking place.

These arguments lead to a further explanation for the approach taken by the different firms to CSR, namely that their perception of power is directly linked to the respective firms CSR policies and activities.

As discussed by Ageron et al. (2012), the reputational aspect of CSR is important for firms in terms of protecting current- and attracting new business. This is especially true for small firms which Moore and Manning (2009) describes as; attractiveness to cooperate with or invest in, from the perspective of large firms. Additionally, Seuring et al., (2008) highlights the importance of external influences in designing CSR policies, in firms that faces a high degree of consumer exposure.

While Tanso and Arlemark attracts little attention from consumers due to their positions in their supply chains, making the last argument mute, other external factors are still active. However, neither the argument to attract investment can be applied to either of the firms as they have not been, or currently are in any need of it. Would that situation change however, Tanso recognises that there might be a need for a more comprehensive CSR policy. Hence, the main reputational aspect that concerns CSR, and which can be applied to both firms, is related to being an attractive business partner for firms valuing sustainable business.

Once again the situation for Flisby is different, as the firm has used external capital to finance the business. Additionally, Flisby faces a higher degree of consumer exposure, since its products are partly consumer oriented, and sold in own stores and through external retailers. Consequently, we argue that the more important external stakeholders are for a firm, the more likely it is that a written CSR policy exists in that same firm.

Furthermore, CSR policies can also be viewed upon as a competitive advantage for firms as is brought forth by Ageron et al. (2012). However, this is realised by delivering more than is expected in terms of social, environmental and economic performance which it would be hard to argue that Tanso and Arlemark does due to the lack of overall CSR policies. However, we argue that Flisby indeed succeed in delivering more than is expected which is visible both internally and externally. Externally, Flisbys COC offers higher standards compared to other firms in the industry. Internally, this pattern is visible in the social- and economic benefits presented to the employees.

A written CSR policy is however no guarantee for better or more comprehensive CSR activities but it is an indication that a planned CSR system is in place. This is typical for MNCs according to Vázquez-Carrasco and López-Pérez (2013) while the opposite is often true for SMEs which Tanso and Arlemark in this case demonstrate.

Both Tanso's suppliers i.e. Toyo Tanso and its customers employ CSR policies. This is also true for Tanso, albeit in a more informal way regarding social issues, while in a policy concerning the environmental area. Thus, CSR policies are in place both before and after Tanso when picturing a supply chain. This raises the question whether there is any real need for Tanso, to add its own ethical standards to the mix? While this is outside the scope of this thesis, that is an interesting area for future studies.

Flisby on the other hand, is in some instances the last firm in its supply chain, thus the firm needs to take a responsibility regarding its products. While this is not the case for Arlemark, the firm is still in a considerably better position to monitor its supply chain, compared to the construction firms who make up the firm's customers.

### **5.3 Conflict management**

As Lohtia et al. (2009) suggests, trust plays an essential role in avoiding conflicts and developing loyalty within business relationships. However, building trust can be a long and hard progress, especially when communicating across cultural and national borders.

Furthermore, (Sinha et al. (2011)) describes that building international network alliances with suppliers, is accomplished by the frequent interaction between two parties. This includes personal visits, continual communications and understanding the differences between two countries. The importance of the relationships with their suppliers is highlighted by all three firms in our study. Often, the relationships are described as a "marriage", based on trust, honesty, commitment as well as compromises. Thus, all firms show signs of understanding the importance of this practice. Personal visits are a tool all firms employ in order to perform an initial assessment of the supplier's suitability. This is later followed up and more frequent visits also have the dual purpose of strengthening the relationships

The understanding of cultural differences is another key aspect in the relationships and is stressed by both Flisby and Arlemark, while Tanso emphasises an open-minded approach. Flisby also has an own tool in their supplier selection process in order to overcome barriers between themselves and their suppliers. This means that they search for firms that are "speaking the same language", in this context, that implies small, family owned firms.

As Wenzhong (2013) describes, a major source of conflicts in an offshoring relationship comes from a short-term orientation, chiefly connected to economic benefits. As Arlemark, Flisby and Tanso put considerable emphasis on long-term relationships, we regard that fact as being a major reason for the lack of conflicts within the context of this study.

All these firms gather information about potential suppliers, in order to make sure whom they are conducting business with. Furthermore, they emphasise an understanding of cultural differences and put resources on maintaining their relationships.

## 6 Conclusion

A key aspect in SMEs concern the influence the founder/owner has, both regarding business- and, ethical activities. The findings within this research do not argue with this, but they do show that SMEs can express their CSR on three different levels. These include; universally accepted rights, industry specific CSR and firm specific CSR, all of which are affected by the personal values of the founder/owner. The extent, and direction of these CSR activities, is also a product of the nature of the respective industries, which is indicated by the focus the case firms demonstrates with their CSR policies and activities. Consequently, the perception of potential problems within an industry is a determinant of which aspects a SME focuses on, and how they translate that into activities. The CSR policies within SMEs are also related to the actual business goals of the firms. As such, this research suggests that a clear link between the goals of the CSR activities, and the business goals, aids in the implementation of CSR in small firms.

A key aspect for SMEs, when transmitting its CSR standards to its suppliers, is the power balance. Without sufficient relative power, SMEs have a hard time enforcing their CSR standards which Arlemark, Tanso and Flisby illustrate. However, this does not imply that the firms cannot act against, nor influence their suppliers, and consequently, SMEs can act in the roles of supervisors. This will make the suppliers aware of both their presence, and the importance of complying with the CSR standards, as failure to do so might terminate the relationship.

However, this scenario did not occur in either of the case companies in this study. Evidence from this research show, that the lack of conflicts between SMEs and their foreign suppliers is the result of three factors. Firstly, a careful supplier selection, which includes finding firms with similarities in values and attributes that add value to the focal firm, reduces potential conflicts. Secondly, an emphasis on long term relationships with suppliers, diminish the risks for conflicts based on short term profit focus. As such, these two factors are interlinked as a long term orientation should bring firms closer to each other as learning improves. Consequently, putting resources on supplier selection, and finding suppliers that add value, should provide incentives for a long term focus, since transaction costs increase. The third factor concerns the cultural understanding emphasised by the SMEs. Even though the CSR within the SMEs are developed within their own environment, it is put into action in different cultures. One tool is not suitable for every problem, and this applies to CSR as well. Thus, a cultural understanding and a certain adaptation is important in order to limit the risk for cultural clashes.

## **7 Discussion**

### **7.1 Discussion**

While the results of this thesis suggest that SMEs do not encounter conflicts, we neither argue, nor judge that this is the case on a general level. Furthermore, the three reasons that were found to diminish the risk of conflicts; 1) a careful supplier selection, 2) long term relationship orientation, 3) cultural understanding, are not exclusive for SMEs. There are no obstacles for large firms to hold a similar focus. As such, this research does not show why SMEs should face fewer conflicts compared to larger firms. While this presents a weakness when considering the actual purpose of the thesis, it is also considered a strength as the result can be applied to a broader scope of firms.

The results of this study provide a framework for firms, which they can implement in order to minimise the risks for encountering conflicts with their foreign suppliers. Furthermore, the research also highlights the importance of CSR, and the possible applications of it. As such, this thesis also raises the awareness of CSR for small firms. This is by no means an unimportant task, as even though the founders/owners in our case companies had some knowledge of CSR, although at different levels, there are no reasons to assume that this is the case for all SMEs. Additionally, CSR as a concept is vague which makes understanding it difficult. These are factors that need to be addressed, and what we suggest is that SMEs need to acquire a deeper understanding of the theoretical aspect of CSR, while researchers provide definitions and frameworks more suited to the needs of SMEs. This argument builds upon the notion that a common understanding of CSR is important. While this might be irrelevant for the people that are the target of the CSR actions, it does matter for the other stakeholders. Communicating what you are doing is vital for a firm, and a unified framework within CSR is a foundation for a clear communication, as stakeholders can see what the firm is doing, and what it should do.

The approach to CSR that was observed in Tanso also provides the rationality for future research, while it also provides an explanation for the firm's actions. As both Tanso's suppliers and customers employ CSR standards, is there any need for Tanso to add its own ethical standards to the mix? Translating this issue into a broader question; Does a higher number of different CSR standards, increase the value of CSR, within a given supply chain? As we see it, the answer to this is dependent on whether the CSR of the other firms are sufficient for the task. However, what also has been shown is that CSR differs between cultures. As such, there is a possibility that a supplier is required to follow several different CSR standards. Thus, a unified approach is preferred for firms, an approach that would share several benefits with an organisation of SMEs, albeit on a smaller scale.

### **7.2 Suggestion for future research**

This research does not separate between micro, small and medium sized firms within the framework of SMEs. However, as the difference in size between SMEs can be at the same relative level as between SMEs and large firms, this is an area that deserves future research.

Thus, the framework that this thesis provides can be deepened by studying the differences within the concept of SMEs. Furthermore, this also includes establishing which of the variables, presented by the European Commission, that are the most important.

The results of this thesis also provide the opportunity for parallel research. As this research use case companies from the Jönköping region, research on other regions can provide a broader picture of the subject. This would highlight the understanding, importance and differences of CSR in SMEs, on a national level. Furthermore, as this research is predominantly interested in manufacturing oriented firms; parallel research could be conducted on SMEs within the service industry. Some factors related to the implementation of CSR, i.e. the importance of industry in which the firm operates, and the perceived problems in that context, are related to the manufacturing orientation of the firms within this study. As such, a research on service firms would most likely produce different results.

This study emphasise the importance of power in an offshoring relationship were a SME acts as the focal firm. It also shows that SMEs typically lack the power that is required to enforce their CSR on their suppliers. This presents a problem for SMEs as they are held responsible for the actions within their supply chains, while simultaneously, they have little control over those actions. One solution for this issue, and an area of future research, is the opportunity and possibility for SMEs to organise themselves, in order to enhance their power. It should however be noted that such organisations exist. This includes associations which have a general business purpose, and those who are primarily focused on CSR issues. However, this research finds that SMEs lack confidence in such organisations, or fail to identify their presence. Thus, more academic and practical emphasis within the field is needed, in order to identify how such organisations can be utilised in a way that suits the needs of SMEs.

Such a research should be interested in the benefits and drawbacks of industry specific organisations, versus organisations that spans across all industries, in terms of enhancing the power of the individual SME.

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## 9 Appendices

### Appendix I

#### Interview questions

1. Can you describe your relations with your suppliers?
2. What is your corporate value regarding Corporate Social Responsibility (CSR)?
3. When it comes to selecting your suppliers, do you require your suppliers to have the same CSR values as you do? Or do you wish to coach/guide the suppliers afterward?
4. Have you ever been exposed to supplier conflicts before?
5. If this happened, what was your first impression of the problem?
6. Do you have any action plan to handle supplier conflicts?
7. How do you relate to culture dimensions and cross cultural challenges, such as different ethical standard in different countries?
8. If you found child labour in your supply chain, how should you act against your supplier network?
9. We have done some literature studies and found one article mentioning that there are three main reasons which lead to CSR problems in offshoring: Profit-making which implies that profit-making is the only objective. Stakeholders' interest; which means that a firm cannot comply with the objectives of all different stakeholders. Lastly, problems arise from following peer companies in regards to their actions, which creates CSR issues. Do you agree with it or what are the most important factors that cause unethical problems?
10. If you should choose between three ways to handle a supplier conflict, which one would you pick: maintain, terminate or improve supplier relation? Under what kind of condition and why would you make that decision?
11. How much resources are acceptable to invest in a key supplier in your own opinion?
12. Have you learned and adapted CSR standards from other companies with greater budgets, such as MNCs?
13. How do you select new suppliers to work with, what will the decision making process look like?

## **Appendix 2**

### **Additional questions**

1. Are you member of any organisation/collection of small firms that discuss/take actions regarding CSR issues (e.g. child labour and living standards). Or have you heard that any organisation like that exist in your vicinity?
2. How powerful do you perceive that ISO standards are in regards to monitoring supplier behaviour, i.e. is it possible to receive a certificate in ISO 9001 and 14001 and then not follow it, just using it in order to obtain business
3. Putting CSR before the business or the other way around? Do you think it is appropriate to put ethics before business or business before ethics?
4. Does a lack of written CSR statement equals worse CSR practices?
5. Since so far, the small firms in our study generally lacks written forms of CSR, what or who determines if suppliers breach it?
6. We have come across research that suggest that small firms feel alienated from the concept of Corporate Social Responsibility due to the emphasis on “Corporate”, thus suggesting that it is only for big firms. Do you feel this as well?

## Appendix 3

### Code of Conduct of Flisby

Flisby AB har en viktig roll att spela i utvecklingen av ett hållbart samhälle. Vi vill försäkra oss om att våra produkter tillverkas under goda arbetsförhållanden och att ingen som bidrar till vår framgång berövas sina mänskliga rättigheter eller lider skada. Därför har vi utvecklat en uppförandkod för våra leverantörer. Genom att underteckna denna förbinder sig leverantören att proaktivt verka för att möta dessa krav inom sin egen verksamhet och sin leverantörskedja.

#### 1. Lagar och konventioner

Även om våra leverantörer verkar i olika rättsliga och kulturella miljöer förväntar vi oss att de respekterar grundläggande mänskliga rättigheter och behandlar sina anställda rättvist och med respekt. Flisby AB räknar också med att leverantörerna verkar för att kontinuerligt förbättra arbetsvillkoren för dem som deltar i framtagandet av våra produkter.

#### 2. Barnarbete (ILO 182 och 138)

Flisby AB accepterar inte barnarbete. Vi baserar vår policy för barnarbete på FN-konventionen om Barnets rättigheter, artikel 32:1. Ett barn definieras som en person yngre än 15 år eller som inte uppnått ålder för obligatorisk skolgång. Därmed erkänner vi rätten för varje barn till skydd mot ekonomiskt utnyttjande och mot att utföra arbete som kan vara farligt eller att störa barnets utbildning eller vara skadligt för barnets hälsa eller fysiska, psykiska, andliga, moraliska eller sociala utveckling.

#### 3. Tvångsarbete (ILO 29 och 105)

Leverantören får inte använda någon form av tvångsarbete eller straffarbete.

Produktionen hos våra leverantörer får inte ske av personal som under slavliknande förhållanden eller på andra sätt ofrivilligt tvingas arbeta.

#### 4. Löner och arbetstid(ILO 100)

Leverantörer skall regelbundet betala ut lön och tillämpa arbetstider i enlighet med nationella

lagar, gällande avtal och allmänt accepterad standard för branschen. Alla anställda har rätt till ett skriftligt anställningskontrakt.

#### 5. Diskriminering(ILO 111)

Att alla människor ges lika möjligheter oavsett ras, kön, nationalitet, hudfärg, religion eller andra särskiljande egenskaper. Att leverantören varken tillåter trakasserier eller diskriminering.

## 6. Arbetsmiljö och hälsa(ILO155 och 170)

Leverantörer och underleverantörer skall följa gällande lagar och förordningar och ge medarbetarna en säker och hälsosam arbetsmiljö. Det är arbetsgivarens ansvar att tillhandahålla ändamålsenlig skyddsutrustning samt att informera anställda om hur de skall bete sig för att undvika skador. Kemikalier ska behandlas och förvaras på ett säkert sätt.

Processerna ska utformas för att minimera kvartsdamm.

## 7. Föreningsfrihet(87 och 98)

De anställda skall kunna utöva sin lagliga rätt att vara medlem i organisationer som representerar deras intressen som anställda. Leverantören skall även respektera de anställdas rätt till kollektiv löneförhandling.

## 8. Tillämpning och uppföljning

Flisby AB ansvarar för att våra leverantörer får information om vad uppförandekoden innebär. Vi förväntar oss att leverantörerna respekterar uppförandekoden och aktivt verkar för att uppfylla Flisby AB:s krav i sin egen organisation och leverantörskedja. Detta bör göras genom att samarbeta på ett öppet sätt. Vi betraktar uppförandekoden som en fortlöpande process som Flisby AB ansvarar för att följa upp. Flisby AB förbehåller sig rätten att när som helst utföra anmälda och oanmälda kontroller av alla anläggningar som tillverkar våra varor, antingen genom Flisby AB eller av en oberoende tredje part. Finner vi att en leverantör allvarligt bryter mot vår uppförandekod, och om korrigerande åtgärder inte vidtas inom överenskommen tid, avvecklar vi samarbetet med denne leverantör efter eget gottfinnande. Om överträdelser upprepas förbehåller vi oss rätten att avbryta befintliga order.

## Appendix 4

### Quality/Environmental policy of Tanso

**Svenska Tanso AB** arbetar ständigt med att förbättra verksamhetssystemet och miljöanpassa våra produkter och tjänster samt att kompetensutveckla personalen för att få god lönsamhet och nöjda kunder.

Detta innebär att vi skall, förutom att följa gällande miljölagstiftning, rekommendationer och egna åtaganden, även arbeta för att:

- höja kvalitets- och miljömedvetandet och engagemanget hos alla anställda
- vi förbättrar vår kvalitets- och miljöprestanda genom övervakning och styrning mot fastställda kvalitetsmål samt övergripande och detaljerade miljömål.
- aktivt arbeta för att förebygga föroreningar
- hushålla med resurser och låta kretsloppstänkandet vara en naturlig del av verksamheten, framförallt genom ökat fokus på återvinning av material från produktion
- i samarbete med kunder, leverantörer, intressenter och andra berörda parter arbeta för en hållbar kvalitets- och miljöutveckling för samtliga våra tjänster.
- säkerställa att kundens krav fastställs och uppfylls med målet att öka kundtillfredsställelsen.