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Article

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International Scope of Operations and the Nature of Supply Chain Members' CSR Policy

Abstract

Dynamic relations among supply chain members have forced some changes in those members' business philosophy. One such change involves Corporate Social Responsibility (CSR), which posits an alternative attitude for companies towards business, the natural environment and society. The supply chain structure provides an excellent framework to disseminate the CSR idea among other members. That process is affected by different factors, including the level of internationalization of a given business. The purpose of this paper is to specify relations between the international nature of operations and CSR approach in 150 Polish companies. To better understand these relations a literature review and statistical analysis are conducted. Methods used in the quantitative analysis are a frequency analysis (with usage of One-Sample Kolmogorov-Smirnov and One-Sample Chi-Square tests) and a correlation analysis (Spearman ratio). This research addresses a gap concerning international aspects of supply chain operations and its CSR sensitivity. The results can be used to support supply chain decision makers when applying CSR in their companies as well as can be an outgoing source of data for further, more detailed research.

Keywords: supply chain management, international supply chain, corporate social responsibility, sustainability

JEL: M19

Introduction

Corporate Social Responsibility (CSR) is a new and increasingly important concept for any area of business including logistics [Seuring, Sarkis, Muller, Rao, 2008, pp. 1545–1551]. Social responsibility of supply chain members is also becoming more important for European companies and political authorities. Sustainable supply chain management expresses the concept of member organizations bearing responsibility for the impact of their decisions on society and the environment, requiring more transparent and ethical behavior [Spence, Bourlakis, 2009, pp. 291–302]. In international operations CSR contributes to sustainable development, including improving global health and welfare. as it:

- takes into account the expectations of all supply chain international stakeholders;
- is in compliance with applicable laws and consistent with international norms of behavior;
- is integrated throughout organizations operating in a global supply chain and in their relationships.

It is not possible for such complex challenges to be faced by single companies acting alone. More interaction is therefore needed among the members of supply chain. The large body of academic literature on inter-organizational co-operation focuses predominately on market-oriented relationships such as corporate economic strategy, strategic alliances, or collaborative leadership, with little concern about CSR, sustainability, or stakeholder engagement beyond their economic implications [Murray, Haynes, Hudson, 2010, pp. 161–177]. There is limited research focusing on international aspects of supply chain operations and its CSR sensitivity.

This paper discusses the problems of interactions beyond the economic domain, concentrating on CSR and international sustainability. The CSR concept includes a wide range of issues involved in the relationship between a company's actions and those affected by them. It can be assumed that there are different forms of "responsible management" when international aspects of supply chain operations are considered. Below, we first examine the literature focusing on key aspects of CSR, including its application to supply chains. Another conceptual section follows, in which issues of international operations of supply chains are discussed, particularly with respect to their social responsibility. In the remainder of the paper our research methodology is presented and our research findings are discussed.

Corporate Social Responsibility Concept in Supply Chains

CSR encompasses a wide range of activities that include product safety, community involvement, stakeholder engagement, and environmental management. The contemporary concept of CSR has two main characteristics [Andersen, Skjoett-Larsen, 2009, pp. 75–86]:

- it describes the relationship between business and the larger society, and
- it refers to a company's voluntary activities in the areas of environmental and social issues.

The difficulties with clear definition of CSR often stem from differences in size, products, profitability, resources, societal impacts, etc. of companies [Carroll, Buholtz, 2000]. Moreover, CSR is not the domain of an individual company; it encompasses the entire supply chain. Some key actors in the supply chain, such as large corporations, take responsibility for the inter-firm division of labor and specific participants' capacities to upgrade their activities. In that sense, CSR is part of supply chain "governance" [Gereffi, 2001, pp. 30–40].

The introduction and monitoring of CSR targets in the supply chain is relatively new, especially in relation to the 'upstream' components of the supply chain when applied to a business-to-business context [Vaaland, Heide, Grønhaug, 2008, pp. 927–953]. According to the literature, several factors push supplier-buyer companies to adopt CSR, many of which are driven by the concern over lost reputation 'brand image, sales, access to markets and financial investments' [Cruz, 2008, pp. 1005–1031].

CSR in International Supply Chains

The international nature of supply chains implies special challenges and strategies for their practical operations [Klassen, Whybark, 1994, pp. 385–396; Prasad, Babbar, 2000, pp. 209–247; Starr, 1997, pp. 114–121]. For example, geographical distance is considered a factor negatively impacting international trade relations [Disdier, Head, 2008, pp. 37–48].

International relationships of companies in supply chains are often quite complex, because sometimes they involve parties with similar interests or stakes that do not always share values or objectives. Forms of interactions in international supply chains can also vary, ranging from specific time-bound alliances to long-term partnerships. The literature suggests that the nature of collaboration and its form depends on the number and type of organizations involved (business, NGO, and government) and the motivations of each partner [Cropper, Ebers, Huxham, Smith Ring, 2008]. The nature of this relationship can be described using three main characteristics:

- content (information and resource flows),
- governance mechanisms (such as the degree of trust, contracts and other controls),
- structure (the diversity, intensity, and clustering of relationships within a collaboration).

In international relationships a number of common themes can be identified as potential bases for “collaborative advantage”, including: improved access to resources, risk sharing, increased efficiency, co-ordination and seamlessness between service providers and organizational or industrial learning [Huxham, Vangen, 2005]. Huxham and Vangen [2005] also identify “the moral imperative” as a rationale for collaboration, which denotes “the really important issues that the society faces – poverty, crime, drug abuse, conflict, health promotion, economic development and so on – [that] cannot be tackled by any organization acting alone”. Those issues are part of the CSR concept, particularly when applied to intensive interactions in international supply chains.

Governance systems can control supply chain operations over long distances without exercising ownership [Jenkins, 2001]. Most often, it is the company or corporation in a developed market economy that has the major influence on an international supply chain. Alternatively, these can be also a large retailer and brand-name firms. The power of these organizations stems from the resources they control and their market power [Andersen, Skjoett-Larsen, 2009, pp. 75–86].

Research Methodology

The purpose of the research is to determine whether there are links between international (or domestic) nature of operations and CSR approach of surveyed companies, and, if so, to assess the strength of those relations. In particular, three research questions are considered:

- RQ1: Depending on the level of internationalization, what main CSR principles are included in company’s management system?
- RQ2: Depending on the level of internationalization, are there any incentives motivating implementation of the CSR concept?
- RQ3: Depending on the level of internationalization, what specific processes support implementation of the CSR concept?

We investigate supply chain members’ activities as they relate to achieving their environmental, social and governance goals using standardized interviews with 150 managers conducted in Poland. The interviews were undertaken as a part of broader research project finished in 2015. The 150 companies chosen had to be accessible, willing to participate in the interviews and able to demonstrate CSR-related activities (in order to provide every answer in the questionnaire). The interviews were conducted by using self-administered, paper questionnaires. While the questionnaire was extensive, for purposes of this paper only a part of it was selected for further exploration. Answers were grouped to represent relevant variables and included: sample basic features, i.e., type of business activity, company size, market experience, percent share of foreign capital, sales and supply (6 variables);

- aspects of implementation of CSR principles into the company's general management system (8 variables);
- incentives motivating implementation of CSR (1 variable);
- practices supporting implementation of CSR (7 variables).

Variables related to type of business activity, company's size, and market experience were measured in nominal scale and percent shares of foreign capital, sales and supply – in interval scale. For those variables frequency (percentage) of answers was explored and also Chi-square and one-sample Kolmogorov-Smirnov tests were used to investigate its distribution.

The remaining variables were measured in a 5-point ordinal scale, i.e., in the questionnaire the respondents were asked to choose one of five answers, demonstrating how often they use different CSR principles and practices in their companies. These options included: 'never' (1), 'seldom' (2), 'from time to time' (3), 'often' (4), and 'always' (5). Frequency (in percentage) of received responses was then analyzed and one-sample Chi-square test was used to analyze their distribution. Further quantitative analysis was conducted to determine relationships between selected variables. To assess those relations Spearman ratio (R) was used (statistical significance ≤ 0.05) because of nominal and quantitative scales used in a survey. The analysis was conducted with the support of IBM SPSS Statistics tool, ver. 22.0 as well as Microsoft Excel application.

Sample Characteristics

As mentioned above, the research was conducted relying on information obtained from 150 managers in selected Polish companies. In the initial part of the survey some basic descriptors of those entities were provided.

First, the type of business activity was considered. About 27% of the companies in the sample are manufacturers, about 30% – trading companies, and almost 43% – service providers. The share of service providers is slightly higher than other companies, however, statistically significant result of Chi-square test ($p \leq 0.05$) indicated that the share of those business within the sample is rather equal.

The sample included companies of different sizes (measured by the number of their employees), i.e., small (from 20 to employees), medium (from 50 to 249 employees) and large (250 employees and more). The analysis showed that small companies prevail within the sample (about 55%), medium companies constituted more than 25% and large around 19%. Result of Chi-square test ($p \leq 0.05$) confirmed that the shares of those three companies types are significantly different.

The market experience of the investigated entities was measured by the number of years they conducted their businesses, i.e., 1 to 5 years (limited experience), 6 to 19 years

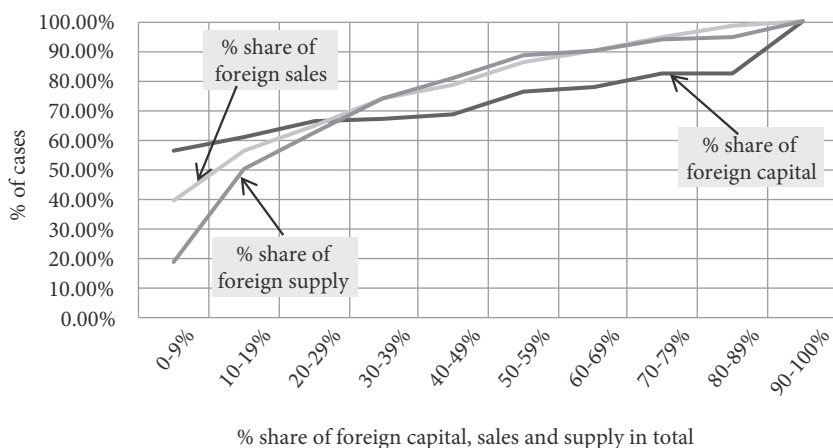
(medium experience), and 20 years or more (extensive experience). The results of the analysis showed that about 31% of the companies within the sample had limited market experience, 41% – medium, and 28% – extensive. Chi-square test ($p \leq 0.05$) confirmed that the shares of those three groups of companies are significantly equal.

Finally, to assess the level of a company's internationalization three criteria were considered:

- percentage of foreign sales in their total sales,
- percentage of foreign supply in their total supply, and
- percent of foreign capital in their organizations.

The initial quantitative analysis implied that only 80 of the enterprises have foreign customers, suppliers or capital invested. In-depth analysis of those 80 companies demonstrated that their level of internationalization is relatively low (Figure 1). One-sample Kolmogorov-Smirnov indicated that the distribution of all three investigated variables is not normal ($p \leq 0.05$).

FIGURE 1. Internationalization level of the surveyed companies according to their share of foreign capital, sales and/or supply



Source: own elaboration.

In particular, Figure 1 demonstrates cumulative shares of foreign capital, sales and supply in 80 companies within the sample (the companies were also presented by their percent share in the sample). It reveals that for more than half of the examined companies the share of foreign customers, suppliers and/or capital invested was below 20%. Consequently, in over 56% of the companies, the share of foreign capital was less than 9%. However, it is worth noting that 18% of examined companies were almost entirely owned by foreign capital. Despite a relatively low share of foreign sales and supply, the companies

tend to rely more on foreign suppliers than customers. For example, the percentage of foreign customers was less than 10% for 40% of companies and less than 20% for 16% of cases, the percentage of foreign supply was correspondingly 19% and 31%. Also, the percentage of companies with foreign supply share between 20 and 40% was about 5% higher than in the case of foreign sales. These results indicate that the analyzed companies tend to purchase more supplies than they sell their products abroad.

Although the initial research showed that almost half of the enterprises in the sample considered conducting entirely domestic businesses, and the remaining ones demonstrate a relatively low level of internationalization, it appears that such a sample structure provides a convenient opportunity to conduct comparative analysis and obtain meaningful results.

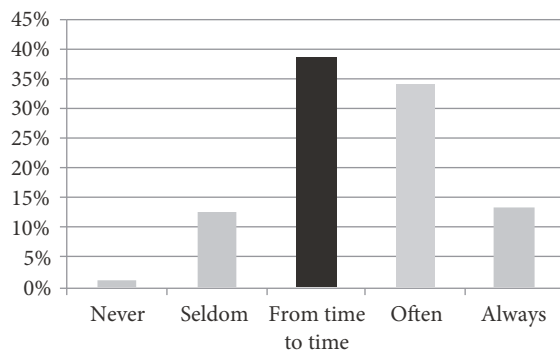
The Relationship between CSR Principles Included in a Company's Management System and the Level of Internationalization

To investigate the level of implementation of CSR rules in all sampled companies, their managers were asked whether:

- Q1. The management takes into consideration the sustainability and CSR concept when establishing its strategic goals?
- Q2. The company's management system considers the following principles of CSR:
 - Q2.1. Accountability,
 - Q2.2. Transparency,
 - Q2.3. Ethical behavior,
 - Q2.4. Respect for stakeholder interests,
 - Q2.5. Respect for the rule of law,
 - Q2.6. Respect for international norms of behavior,
 - Q2.7. Respect for human rights

Distributions of the data in correlation with the variables mentioned above revealed statistically significant differences in their frequencies (according to one-sample Chi-Square test $p = 0.000$ for every variable). The answers for the first question indicated the average level of awareness of CSR importance (Figure 2). More than 38% of respondents stated that company management considers sustainability and CSR when establishing its strategic goals from time to time, and 34% do it often. About three-quarter of respondents confirmed the presence of CSR rules in their decision-making process, versus only 1% of managers who answered 'never' and 13% responding 'seldom'.

FIGURE 2. The frequency of considering sustainability and CSR when establishing a company's strategic goals



Source: own elaboration.

The respondents answered more detailed questions about implementing specific CSR principles into their companies' management systems. The results showed the CSR rules that are often or always incorporated by management into their organizations (Figure 3).

FIGURE 3. The frequency of considering specific CSR principles



Source: own elaboration.

Specifically, answers to question 2 were in affirmative for: accountability – 75%, transparency – 74%, ethical behavior – 82%, respect for stakeholder interests – 85%, respect for the rule of law – 88%, respect for international norms of behavior – 65%, respect for human rights – 80%. It appears that some rules of CSR are perceived as more important than the others. While 88% of managers are very careful about respecting the rule of law, only 65% comply with international norms of behavior. The relatively low level of internationalization of most companies and domestic character of their business may not motivate them to comply with international regulations and standards.

To identify the existence and strength of the relationship between CSR principles embedded in companies' management systems and their level of internationalization, the Spearman ratio was used (Table 1). In Table 1 Spearman ratios from 0.20 to 0.29 are marked by a light grey shadow and ratios of 0.30 or more by dark grey shadows. Only statistically significant results ($p \leq 0.05$) were used for further analysis. The results indicate that management of a company considers sustainability and CSR when establishing its strategic goals generally more often when the share of foreign capital, sales and supply increases.

TABLE 1. The relationship between CSR principles included in a company's management system and the level of internationalization

	The percentage of foreign capital		The percentage of foreign sales		The percentage of foreign supply	
	Ratio	p	Ratio	P	Ratio	p
Q1	0.28	0.00	0.33	0.00	0.37	0.00
Q2.1	-0.06	0.46	0.10	0.21	0.02	0.82
Q2.2	0.11	0.19	0.33	0.00	0.23	0.00
Q2.3	0.00	0.97	0.11	0.16	0.15	0.07
Q2.4	-0.01	0.89	0.08	0.32	0.00	0.98
Q2.5	-0.12	0.16	0.06	0.46	-0.05	0.56
Q2.6	0.12	0.13	0.29	0.00	0.29	0.00
Q2.7	-0.12	0.16	-0.04	0.60	-0.10	0.24

Source: own elaboration.

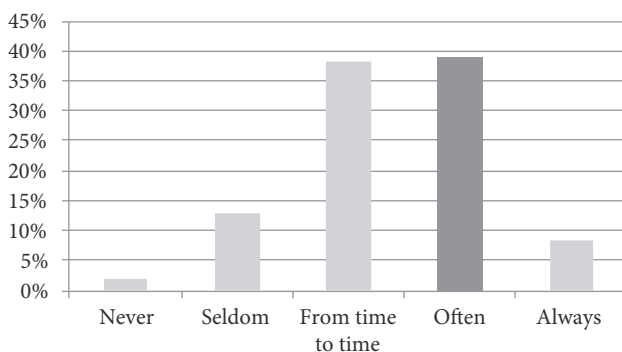
The strongest relationship was observed between foreign sales and supply. Management considers such principles of CSR as transparency and respect for international norms of behavior more often when it has a higher level of foreign sales and supply. Thus, companies tend to be more careful about those two CSR primary rules because their foreign customers and suppliers are sensitive about them. Those results confirm the importance of codes of conduct which might pressure leading companies in international supply chains [Andersen, Skjoett-Larsen, 2009, pp. 75–86]. These codes of conduct are sometimes derived

from local legislation and international conventions, standards and principles such as ISO 14001, Social Accountability 8000, the ILO Declaration of Fundamental Principles and Rights at Work and (less often and mostly in large companies) – the Global Reporting Initiative, the UN's Global Compact or the Global Sullivan Principles.

The Relationship between the Use of Incentives for Implementing CSR and the Level of Internationalization

To answer the second research question respondents were asked to specify if their companies use incentives to motivate managers to respect CSR principles (Q3). The results showed that while most organizations use such incentives, the most frequent answers were 'from time to time' and 'often' (together almost three-quarter of respondents) – these answers differ significantly according to one-sample Chi-Square test ($p=0.000$). Only 8% of respondents stated that they always use those incentives (Figure 4). Overall, less than half of investigated managers showed interest in that issue. Without proper motivation employees will not perceive CSR as a significant concept for their organizations. The sustainability idea should be treated as a philosophy of the whole organization that is considered in every company activity.

FIGURE 4. The frequency of using incentives to motivate implementation of the CSR concept



Source: own elaboration.

To reveal the existence and strength of the relationship between incentives used to motivate implementation of CSR concept in analyzed companies and their level of internationalization, the Spearman ratio was used. Only statistically significant results ($p \leq 0.05$) were used for further analysis. The analysis revealed that companies that

have a higher share of foreign supply operations are more willing to use such incentives ($R = 0.33$). They adapt those incentives less frequently when a higher sales share ($R = 0.24$) and a higher foreign capital share ($R = 0.19$) are present.

The Relationship between Running Specific Processes Supporting Implementation of CSR and the Level of Internationalization

To determine the existence of specific processes supporting implementation of the CSR concept, respondents were asked if the decision processes and organizational structure of their companies' enable them to (Q4):

- Q4.1. Develop an organizational culture capable to practice CSR principles,
- Q4.2. Use a system of economic and non-economic incentives enhancing performance in terms of social responsibility,
- Q4.3. Use financial, natural and human resources efficiently,
- Q4.4. Enable a fair opportunity for under-represented groups (including women and racial and ethnic groups) to occupy senior positions in the organization,
- Q4.5. Consider needs and establish two-way communication with stakeholders to negotiate agreements and resolve conflicts,
- Q4.6. Determine the responsibility for the positive and negative effects of decisions made on behalf of the organization,
- Q4.7. Periodically review and evaluate the governance processes of the organization, and adjust and communicate changes throughout the organization?

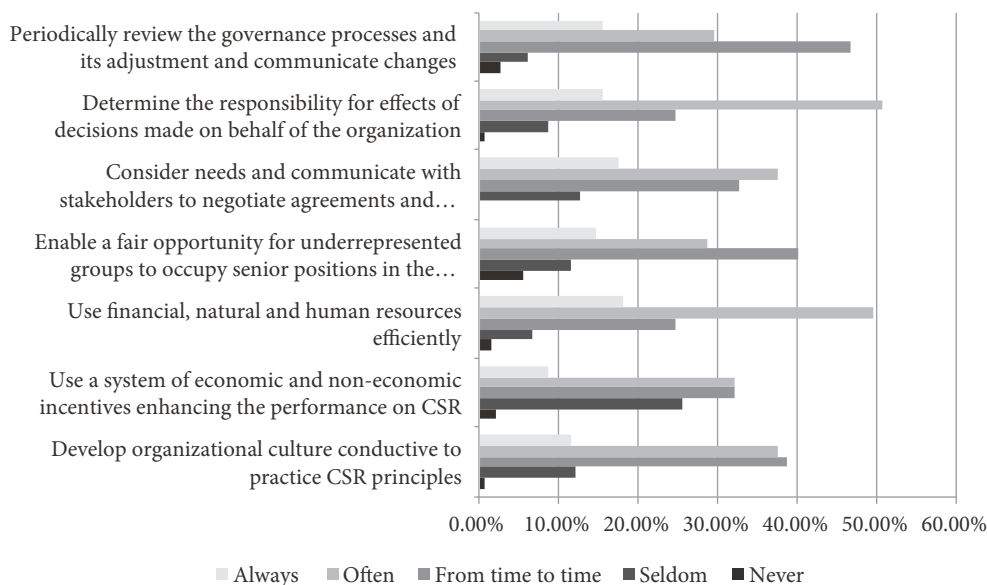
The results demonstrate that in more than 2/3 of companies the decision processes and organization structures specifically oriented towards CSR are implemented 'from time to time' or 'often' (Figure 5). Such answers were provided for each part of the question 4: Q4.1. – 76%, Q4.2. – 64%, Q4.3. – 74%, Q4.4. – 69%, Q4.5. – 70%, Q4.6. – 75%, and Q4.7–76%. These findings indicate an average (but explicit) interest of analyzed companies in implementing management solutions supporting CSR.

However, some differences between them can be observed. Respondents were least likely to implement the use of incentives (economic and non-economic) enhancing the performance of social responsibility; 2% of the respondents answered 'never' and more than 25% – 'seldom'. On the other hand the smallest percentage of 'never' (1%) and 'seldom' (7%) answers, and the highest percentage of 'always' (18%) answers, were in response to the question about usage of financial, natural and human resources efficiently. The differences between the answers are statistically significant according to one-sample Chi-Square test ($p = 0.000$).

These responses suggest that company performance in Poland is still more important than social responsibility. Respondents indicate that they are determined to:

- use resources efficiently,
- develop an organizational culture supporting CSR principles,
- periodically review and evaluate the governance and adjustment of the processes and communicate changes throughout the organization
- determine the responsibility for positive and negative effects of their decisions.

FIGURE 5. The frequency of implementing decision processes and organization structures specifically CSR concept oriented



Source: own elaboration.

Thus, decision-making processes in the analyzed companies is still not oriented towards CSR concepts as it fails to encourage CSR by incentivizing their personnel. To determine the existence and strength of the relationship between implementing the decision processes and organization structures specifically oriented to CSR concept and companies' level of internationalization, the Spearman ratio was used (Table 2).

Within Table 2, Spearman ratios from 0.10 to 0.19 are marked by A light grey shadow, and ratios of 0.20 or and more by dark grey shadows. Only statistically significant results ($p \leq 0.05$) were used for further analysis. The above data suggests several relationships between a company's share of foreign supply and social responsibility (listed in the order of the strength of relationship). They include:

- development of an organizational culture capable to practice CSR principles,
- use of a system of economic and non-economic incentives motivating to enhance the results of social responsibility actions,
- consideration of the needs and establishing two-way communication with, stakeholders to negotiate agreements and resolve conflicts,
- the periodic review and evaluation of the governance processes of the organization and adjustments and communication of changes throughout the organization,
- ability of creating the opportunity for underrepresented groups (including women and minorities) to occupy senior positions in the organization.

TABLE 2. The relationship between implementing decision processes and organizational structures specifically oriented towards CSR and a company's level of internationalization

	The percentage of foreign capital		The percentage of foreign sales		The percentage of foreign supply	
	Ratio	p	Ratio	p	Ratio	p
Q4.1	0.18	0.03	0.20	0.01	0.26	0.00
Q4.2	0.25	0.00	0.27	0.00	0.26	0.00
Q4.3	-0.02	0.85	0.09	0.26	0.02	0.84
Q4.4	0.16	0.05	0.15	0.06	0.18	0.03
Q4.5	0.14	0.09	0.27	0.00	0.22	0.01
Q4.6	-0.02	0.80	0.15	0.06	0.09	0.25
Q4.7	0.16	0.05	0.18	0.03	0.20	0.02

Source: own elaboration.

Three main topics of CSR connected to all aspects of internationalization of the surveyed companies are worth mentioning:

- development of an organizational culture able to practice CSR principles (mostly related to international purchases),
- use of a system of economic and non-economic incentives enhancing social responsibility performance (related mainly to foreign sales), and
- the periodic review and evaluation of the governance processes of the organization and adjustments and communication of changes throughout the organization (mostly related to international purchases).

Our research indicates that companies owned by international capital provide more opportunities for underrepresented groups (including women and minorities) to occupy senior positions in the organization. Thus, international companies seem to pay more attention to governance systems while focusing on social responsibility. [Gereffi, 2001, pp. 30–40].

The share of foreign capital encourages companies to use a system of economic and non-economic incentives enhancing the extend of social responsibility actions. The increase in foreign sales is mostly related with using a system of economic and non-economic incentives enhancing the social responsibility performance, and determining responsibility for the positive and negative effects of decisions made on behalf of the organization. An increase in foreign supply encourages companies to develop an organizational culture capable to perform CSR actions according to appropriate principles, and to use a system of economic and non-economic incentives enhancing social responsibility actions to be undertaken. Overall, an increase in foreign supply share influences the largest number of issues discussed above.

In summary it is worth mentioning two issues most influenced by internationalization. These are development of an organizational culture capable to promote CSR principles and usage of a system of economic and non-economic incentives enhancing social responsibility performance. Those two findings need to be considered when planning business expansion abroad.

Conclusions

The research discussed above focused on the growing interest of companies in managing CSR. In particular, we demonstrated the impact of internationalization of company operations on their use of CSR embedded in their supply chains. There are some aspects of international operations that affect implementation of CSR policies. However, despite many companies' efforts to engage in CSR-related activities in their international supply chains only a limited scope of their operations actively supports their pro-social efforts. The research indicates that company management considers sustainability and CSR when establishing its strategic goals more often when the share of foreign capital, sales and supply grows.

Answering our question (RQ1) *What main principles of CSR are included in company's management system depending on the level of internationalization?* we found that the main principles of CSR incorporated by companies that operate internationally included (in order of importance): respect for the rule of law, respect for stakeholder interests, ethical behavior, respect for human rights, accountability, transparency and respect for international norms of behavior. The last rule seems to be more essential in companies with foreign suppliers and/or foreign sales.

Research concerning our question (RQ2) *Are there any incentives motivating implementation of the CSR concept depending on the level of internationalization?* demonstrated that three-quarters of respondents declared frequent and less frequent use of some systems motivating employees to adopt CSR regulations in the practical operations of companies.

However, the level of internationalization of company's operations was not a very important factor in adopting CSR; international supply and sales had a greater impact than international ownership.

When considering answers to our third question (RQ3) *What are the specific processes supporting implementation of the CSR concept depending on the level of internationalization?* We found that adoption of a system of economic and non-economic incentives enhancing the social responsibility performance in companies included in the survey was the least common process in companies acting on international markets. Instead, managers use all resources to develop an organizational culture conducive to practicing CSR, periodically review and evaluate the governance processes and adjust and communicate changes throughout the organization and, finally, determine accountability for the effects of decisions made on behalf of the organization. This suggests that the decision-making processes in the analyzed companies are still not oriented towards complying with CSR by incentivizing their personnel with benefits.

The above research has some limitations, however. First, the sample examined is relatively small (mostly because of the time-consuming data gathering technique used and limited accessibility to companies willing to provide information). Thus, the results of the research should be considered cautiously when drawing general conclusions. Second, our sample included only Polish companies and it is possible that the results of a similar study in other countries might differ. Finally, analysis of the sizes of the companies within the sample revealed that their frequency distribution varies significantly. In particular, while SMEs were well represented in the sample there were fewer large companies present. Thus, the results presented in this paper should be treated more cautiously when applied to large companies.

In spite of these limitations, this research may be helpful for decision makers when considering applying CSR concept in their companies. The presented results could be a guideline for managerial practices in this area.

Finally, findings of this research can serve as a starting point for further, more detailed research. This paper discussed CSR approaches used by selected companies operating in international markets. In the future it would also be interesting to investigate how far the CSR concept is transferred upstream and downstream in international supply chains. Furthermore, research on potential differences between large, small and medium companies operating in international supply chains, focusing on the large ones, is worth considering.

Notes

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