

Beyond Mere Control: Codes of Conduct and Corporate Social ‘Capabilities’ Development in Global Supply Chains

Abstract

Codes of conduct are often considered as either a public relations exercise or a means of control. However, codes of conduct may also play a more productive role by raising awareness of social and environmental issues and developing the suppliers' skills and knowledge base. The article discusses how buyer requirements regarding corporate social responsibility (CSR) can improve the social and environmental capabilities of the supply chain partners. The article is based on a case study code of conduct implementation among first and second tier SME suppliers in Eastern Europe.

Keywords: Supply Chains, Corporate Social Responsibility, Capabilities, Resources, Codes of Conduct, Capacity building, First and Second Tier suppliers.

Introduction: Codes of Conduct in Global Supply Chains

In the wake of globalisation and changing societal expectations, multinational corporations (MNCs) are increasingly expecting suppliers to uphold basic social and environmental standards. In consequence, the world has witnessed a proliferation in the number of codes of conduct that are defined in this article as principles and guidelines that set standards for the social and environmental performance in the supply chain (Utting 2000, p. 4). Evidence actually indicates that the majority of large firms in Europe and the US today have formulated some kind of code conduct that are intended to regulate e.g. labour standards, energy consumption, human rights, and community relations (Schwartz 2002, p. 27; Smith 2003, p. 63; Nijhof *et al.* 2003, p. 66).

However, despite the current popularity of codes of conduct in the business community, the efficiency of this instrument and the underlying motives for adopting it are still much debated. CSR sceptics argue that codes of conduct are at best poorly formulated and enforced and at worst a smokescreen for unethical business behaviour, whereas more enthusiastic voices claim that codes of conduct are a promising management approach to address social and environmental issues and avoid ‘bad episodes’ that damage the firm’s reputation (Utting 2000, p. 12-13; Sethi 2002, p. 24; Nijhof *et al.* 2003; Jenkins 2001, p. 26-30; Mamic 2005, p. 81; O’Dwyer & Madden 2006, p. 219).

The controversies aside, there seem to be some consensus that codes of conduct are at least ideally a system of direction and control. Less emphasis has been given to the more productive role of codes conducts as a means to improve the social and environmental

capabilities of the supply chain partners. The article tries to remedy this neglect by examining how the code of conduct implementation may stimulate corporate social ‘capabilities’ building in the supply chain. Furthermore, the article will address the issue for both first and second tier suppliers, where the literature so far has mainly been concentrating on first tier suppliers. It is an important question not least because policies and strategies – including codes of conduct - are not necessarily implemented in the way they were originally intended (Grant 1998, p. 21). The development and upgrading of the suppliers’ organisational routines and knowledge may help to make sure that changing agendas, conflicting interests, poor skills, and inadequate resources do not obstruct the implementation of the codes.

The Role of Organisational Capabilities in the CSR Literature

Capabilities have spurred a wave of research in the last decade even though there is actually little consensus regarding its meaning and content (see e.g. Foss 2005; Teece *et al.* 1997; Grant 1991; Collis 1994). Overlapping and even contradictory definitions exist alongside each other and the literature is yet to give a precise description of the ‘core’ or ‘dynamic’ capabilities that are said to be a source of sustainable competitive advantage by fostering innovation, learning, and strategic change (cf. Zahra *et al.* 2006, p. 917).

The capabilities literature has also found its way into the CSR literature. For instance, Hart (1995) discusses how resources and capabilities that facilitate environmental improvements can be a source of competitive advantage. Moreover, Bakker & Nijhof (2002) have developed a capability assessment framework that can be used in the analysis of responsible chain management.

The capabilities literature is rooted in the resource-based view and can be defined broadly as organisational routines that enable the firm to use its resources to carry out and develop its functional activities (Zollo & Winter 2002). The view of organisational routines as a central feature of capabilities is not without precedents (see e.g. Grant 1991, p. 122; Collis 1994, p. 145; Winter 2000, p. 983).

Numerous attempts have been made to divide capabilities into different sub-categories (Zahra *et al.* 2006, p. 923). Of particular interest for this article are the attempts to classify capabilities building and development. In general, the literature distinguishes between lower order capabilities development, which can be absorbed in the existing models of how to do things, and higher order capabilities development that reconfigure the existing models of how to do things (cf. Bakker & Nijhof 2002, p. 67; Zahra *et al.* 2006, p. 921). For instance, the substitution of a chemical with a more environmental friendly alternative does often not call for major organisational changes whereas the implementation of an environmental management system (e.g. EMAS or ISO 14000) is more likely to reconfigure the way the firm uses its tangible and intangible assets. The separation between incremental and more radical capabilities development bears similarities to learning theory which also distinguishes between lower level/higher level, covert/overt, and single-loop/double-loop learning (Sharma & Vredenburg 1998, p. 740; Winter 2000, p. 985; Argyris 1977, p. 113-114). The distinction between lower/higher order capabilities development has been used to analyse whether the code of conduct implementation stimulate only minor adaptations of existing practises or a more thoroughly organisational changes among the suppliers.

Measurements and Research Design

As already mentioned it has been difficult to get a precise fix on capabilities. The same can be said about CSR which is often accused of vagueness, ambiguity, and lack of clarity (McGee 1998, p. 377; Preston & Post 1975, p. 9; McWilliams & Siegel 2001, p. 117; Litz 1996, p. 1357; Blowfield & Frynas 2005, p. 503). The fact is perhaps that there are no simple measures of complex constructs and it is therefore unlikely that it will ever be possible to develop consensus on the definition and measurement of neither capabilities nor CSR. In consequence, researchers will have to decide whether they want a fairly precise picture of a diminutive subpart of a construct or a more superficial description of its multiple dimensions. In general, Armstrong (1974, p. 3-4) argues that a single measure research design is beneficial when the correspondence between an operational measure and the construct is rather close. In situations where the there is no clear-cut correspondence between measure and construct the researcher will benefit from a more eclectic approach.

Our approach falls in the latter category. More specifically, the data collection has been structured around a model that combines some of the insights from Dorothy Leonard-Barton's (1992) four-dimensional model of capabilities (technical system, managerial system, value system, and knowledge/skills system) with Donna J. Wood's (1991, p. 388) classification of corporate social performance into 1) the principles of CSR; 2) the processes of corporate social responsiveness, and; 3) the outcomes of corporate behaviour. The empirical data stems from participation in a MNC's social and environmental audits in Hungary. The data collection includes participant observation and interviews with representatives from the MNC's first tier and second tier suppliers. The participant observation provided valuable insight in the code of conduct implementation process. By giving voice to the suppliers, it was possible to understand how the code of conduct implementation is perceived upstream in the supply chain. All the interviews have been recorded, transcribed and analysed using qualitative research software (Nvivo).