

Corporate Social Responsibility in Purchasing and Firm Performance

Chompunoot Duangjan^{1*}

1. School of Management, Huazhong University of Science and Technology, Wuhan, 430074, P.R. China

* E-mail of the corresponding author: chompunoot26@gmail.com

Abstract

This article focuses on corporate social responsibility (CSR) in purchasing issue. Especially, suppliers play an essential role in the overall CSR efforts of the buyer firm. The link between CSR and firm performance is one of the most widely recognized issues in research, particularly in the purchasing function which is being recognized as one of the critical elements for improving the sustainability of the company. It is found, after reviewing the available literature, that only a few prior researches have investigated the relationship between socially responsible supply chain and business performance. The aim is to fill the gaps in understanding the role of CSR in purchasing in firms' performance in developing countries. Thus, this research develops a survey instrument based on a set of established hypotheses and a conceptual framework in order to investigate the relationship. Three main concepts (CSR in Purchasing, performance outcome, and purchasing practice) and their relationships with each other are described, and finally conclude with significant hypotheses for future research in this area.

Keywords: CSR in purchasing, Long-term relationships with suppliers, Firm performance, Supplier performance

1. Introduction

Supply chain management has become an essential part of a competitive strategy to improve the efficiency and effectiveness of the organization to respond to customer needs and increase its profitability (Cooper, Lambert, & Pagh, 1997; Mentzer et al., 2001). One of the strategically important factors to the firm's success is the corporate sustainability, utilizing which the companies must focus on sustainable supply chain management (SSCM) practices to develop their overall sustainability (Dahlmann, Brammer, & Millington, 2008; Tuttle & Heap, 2007). The purchasing function is particularly important for improving SSCM performance because it impacts on the socially responsible activities along the entire supply chain (Krause, Vachon, & Klassen, 2009). The vital sustainability drivers are the CSR oriented purchasing strategies, such as the selection of relevant suppliers that enable the firm to achieve the sustainability and business outcomes of the firm (Gimenez & Tachizawa, 2012; Keating, Quazi, Kriz, & Coltman, 2008). Thus, CSR in purchasing practices have become a critical determinant of business performance.

A review of the sustainability literature provides an inconclusive account of the firm performance outcomes of CSR, with results suggesting both positive and negative effects (Ağan, Kuzey, Acar, & Açıkgöz, 2016; Davidson & Worrel, 1988; Goll & Rasheed, 2004; Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015). Also, only a few existing studies have considered the relationship between CSR practices and firm outcomes from the perspective of developing country. Accordingly, this study examines the firm performance of CSR in purchasing by taking into account the mediating role of supplier performance and moderating role of long-term relationships with suppliers based on large manufacturing firms in a developing country. Focusing on business performance is an essential dimension of this study because performance improvement is critical for organizations. Therefore, this study contributes to extending the available research on sustainable procurement in two ways. First, previous studies have discussed that suppliers play an essential role in CSR of the buying firms (Tate, Ellram, & Dooley, 2012). It is further found that implementation of social responsibility can improve suppliers' performance through organizational learning and also lead to cost reduction (Carter, 2005). However, there is no proven direct effect on supplier performance. Hence, with more accurate results, companies can customize their supplier management directions. Second, we suggest that the direction from supplier performance to concerned sustainable procurement is contingent and depends on levels of long-term relationships with suppliers. Since close supplier relationships are essential in business, therefore, suppliers' efficiency has an effect on the performance as well as the reputation of buying firms (Bacallan, 2000; Lau, Tang, & Yam, 2010; Lee, Ooi,

Chong, & Lin, 2015). Therefore, this study aims to develop a conceptual model that focuses on a resource perspective, which will help clarify how effective the company's resources are if the company is socially and environmentally responsible and reviews to explore potential firm performance effects from the social responsibility in purchasing and an understanding of the moderating role played by long-term relationships with suppliers and the mediating role played by supplier performance, particularly in a developing country.

2. A research model

Our conceptual framework draws upon previous research on SSCM which is based on the study of Carter and Jennings (2004). The sustainable procurement aims to extend CSR issues in the purchasing function, which mainly focuses on the social aspect, to include an environmental aspect of the sustainability. This perspective emphasizes two issues that are relevant to this study. First is the identification of the potential links between CSR in purchasing practices and firm performance and to examine the potential mediating role of supplier performance in the CSR in purchasing and performance outcomes. It is important to understand social responsibility in purchasing that is implemented and how these practices impact performance. Suppliers play an overall important role in the CSR of the purchasing firm. Therefore, supplier selection is an important process for successful SSCM (Gimenez & Tachizawa, 2012). Second is the purchasing practice called the long-term relationships with suppliers. The reason is that long-term relationship with suppliers may cause some changes in the relationship between CSR in purchasing practices and supplier efficiency, and hence become a focus of this study too. Long-term relationships with suppliers have been used as a moderator in previous studies (González-Benito, Lannelongue, Ferreira, & Gonzalez-Zapatero, 2016; Narasimhan & Jayaram, 1998; Prajogo & Olhager, 2012). Therefore, identifying the direct association and the moderating effects are relevant and interesting since the moderators will give various perspectives and valuable insights into having a greater understanding of the link between implementation of CSR in purchasing and performance outcomes. This study develops a conceptual model, presented in Figure 1 that captures the links among CSR in purchasing practices, supplier performance, long-term relationships with suppliers, and firm performance. Individual construct, as well as hypotheses regarding their relations, will be explained in the following subsections.

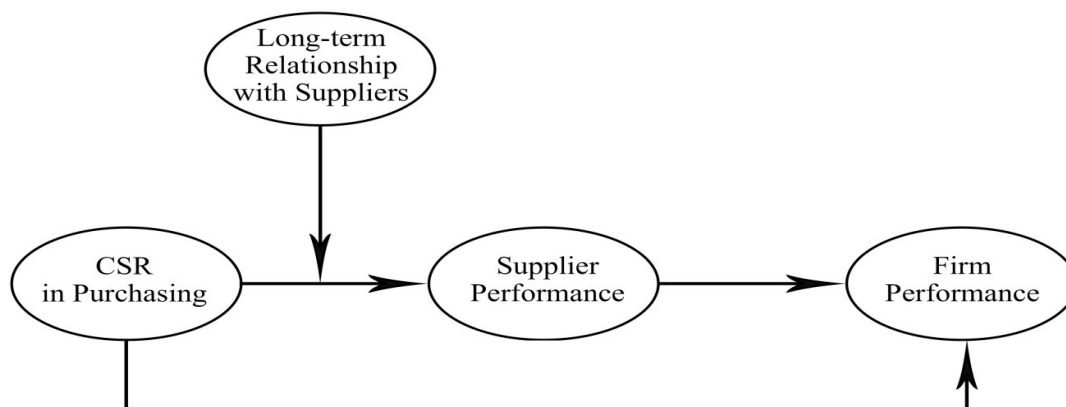


Figure 1. A research model

3. Hypotheses development

Corporate sustainability has gained considerable interest because it involves risk management of the organization (Yilmaz & Flouris, 2010). As a result, organizations have to give regard to the social problems and protection of the environment (Sawyer & Evans, 2010). Thus, organizations not only consider the price and quality of the product in supplier selection but, they consider a wider range of factors such as assessment of suppliers who implement environmental and social practices. It could support the sustainability perspectives of profitability and reduce costs of the firm in the long-term (Krause et al., 2009). Supplier performance is defined in many different ways through various angles in purchasing literature. Carter and Jennings (2002) have defined it as the ability of social responsibility in purchasing suppliers to provide products and services that will benefit the company's competitive advantage over purchase prices. Previous research has found that sustainable practices have an impact on supplier performance (Bloom, 2014). However, there is no available research yet to show a direct effect on the supplier's performance in socially responsible practices. While Carter (2005) showed that there was

no direct impact on performance outcomes, a significant indirect relationship through the mediated impact on organizational learning leads to supplier improvement and firm performance. In line with these arguments, we argue that CSR in purchasing practices should directly support supplier performance. Thus, we propose the following hypothesis:

H1: Corporate social responsibility in purchasing has a significant positive influence on supplier performance.

The moderating effect indicates that the positive relationship between CSR in purchasing practices and supplier performance can be strengthened when long-term relationships with suppliers exist. SSCM practices can bring efficiency to a firm (Aghelie, Sorooshian, & Azizan, 2016; Antonio, 2011; Carter, 2005; Thornton, Autry, Gligor, & Brik, 2013). Organizations which are considered the global production bases and situated in developing countries are forced to respond to the needs of global organizations about the environmental and social issue. Thus, organizations have to pay more attention to purchasing practices of suppliers as supplier performance affects the firm efficiency and reputation (Bacallan, 2000; Lau et al., 2010; Lee et al., 2015).

Therefore, supplier management can create trust and increase commitment to the relationship between buyers and suppliers (Worthington, Ram, Boyal, & Shah, 2008). Building long-term relationships and being partners with suppliers (Prajogo & Olhager, 2012; Prior, 2012) are a driving force for organizations to really implement CSR in purchasing related practices and gain performance improvement (Chen, Paulraj, & Lado, 2004; Choi & Hartley, 1996; Kotabe, Martin, & Domoto, 2003). Moreover, supplier cooperation is helpful in improving performance, especially business performance (Hollos, Blome, & Foerstl, 2012). Establishing reliance and good relationship between buyers and suppliers especially in sharing information and using applications helps improve CSR in purchasing efficiency performance. Similarly, González-Benito et al. (2016) demonstrate that the effect of green purchasing on the purchasing performance is higher when a firm maintains long-term relationships with suppliers. We, therefore, propose the following hypothesis:

H2: Long-term relationships with suppliers positively moderate the link between corporate social responsibility in purchasing and supplier performance.

Mediation analysis can explain the factors behind the expected performance effect (Baron & Kenny, 1986). Previous studies showed that supplier performance affects the buying firm's performance and reputation (Bacallan, 2000; Lau et al., 2010; Lee et al., 2015). However, the existing evidence falls short of clearly demonstrating a direct or indirect relationship between CSR in purchasing practices and performance outcomes. We expect supplier performance to mediate improvements in firm performance by the implementation of CSR in purchasing. Hence, we propose the following hypothesis in the context of Thailand manufacturers:

H3: Supplier performance positively mediates the link between corporate social responsibility in purchasing and firm performance.

A review of the CSR literature provides an inconclusive account of the firm performance outcomes of CSR. This is due to the omission of mediators and moderators in this relationship (Branco & Rodrigues, 2006; Saeidi et al., 2015). This research attempts to extend previous studies on the link between CSR and firm performance on the part of purchasing function. Therefore, we used supplier performance (H3) as a mediator to show how and why implementation of CSR in purchasing influences firm performance. Consequently, to identify whether this model is partial mediation or full mediation, we also test a direct positive link between CSR in purchasing practices and firm performance. We, therefore, propose the following:

H4: Corporate social responsibility in purchasing has a direct positive relationship with firm performance.

4. Conclusion

This study contributes to an understanding of the implementation of CSR in purchasing in Thailand, which is a developing country. The conceptual model can be considered; the model extends the available research on sustainable procurement to consider the moderating effect of long-term relationships with suppliers as well as the mediating effect of supplier management on firm performance. This research is the first empirical study to analyze the extent of the moderating roles being played by long-term relationships with suppliers that influence the link between CSR in purchasing and supplier performance. The existence or non-existence of long-term

relationships with suppliers may hinder or help the impact of CSR in purchasing on supplier performance. Moreover, it can confirm the mediating effects of the supplier management on firm performance within the context of Thailand, which is a developing country. Results will facilitate the understanding of the impact of implementation of CSR in purchasing on firm performance, the mediating effects of supplier management, and the moderating effects of long-term relationships with suppliers between CSR in purchasing and firm performance. This will be interesting since the moderators will give various perspectives and valuable insights into better understanding of the link between CSR in purchasing and firm performance. Sustainability is a more accepted concept to be used as a guideline for achieving the triple bottom line of an organization. This research shows that manufacturing firms can use the findings to improve their performances.

References

- Ağan, Y., Kuzey, C., Acar, M. F., & Açıkgöz, A. (2016). "The relationships between corporate social responsibility, environmental supplier development, and firm performance", *Journal of Cleaner Production*, 112, 1872-1881.
- Aghelie, A., Sorooshian, S., & Azizan, N. A. (2016). "Research Gap in Sustainopreneurship", *Indian Journal of Science and Technology*, 9(12), 1-6.
- Antonio, K. (2011). "The implementation of social responsibility in purchasing in Hong Kong/Pearl River Delta", *Strategic Outsourcing: An International Journal*, 4(1), 13-46.
- Bacallan, J. J. (2000). "Greening the supply chain", *Business and Environment*, 6(5), 11-12.
- Baron, R. M., & Kenny, D. A. (1986). "The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations", *Journal of personality and social psychology*, 51(6), 1173-1182.
- Branco, M. C., & Rodrigues, L. L. (2006). "Corporate social responsibility and resource-based perspectives", *Journal of business ethics*, 69(2), 111-132.
- Carter, C. R. (2005). "Purchasing social responsibility and firm performance: The key mediating roles of organizational learning and supplier performance", *International journal of physical distribution & logistics management*, 35(3), 177-194.
- Carter, C. R., & Jennings, M. M. (2002). "Social responsibility and supply chain relationships", *Transportation Research Part E: Logistics and Transportation Review*, 38(1), 37-52.
- Carter, C. R., & Jennings, M. M. (2004). "The role of purchasing in corporate social responsibility: a structural equation analysis", *Journal of business logistics*, 25(1), 145-186.
- Chen, I. J., Paulraj, A., & Lado, A. A. (2004). "Strategic purchasing, supply management, and firm performance", *Journal of Operations Management*, 22(5), 505-523.
- Choi, T. Y., & Hartley, J. L. (1996). "An exploration of supplier selection practices across the supply chain", *Journal of Operations Management*, 14(4), 333-343.
- Cooper, M. C., Lambert, D. M., & Pagh, J. D. (1997). "Supply chain management: more than a new name for logistics", *The International Journal of Logistics Management*, 8(1), 1-14.
- Dahlmann, F., Brammer, S., & Millington, A. (2008). "Environmental management in the United Kingdom: new survey evidence", *Management Decision*, 46(2), 264-283.
- Davidson, W. N., & Worrel, D. L. (1988). "The impact of announcements of corporate illegalities on shareholder returns", *Academy of Management journal*, 31(1), 195-200.
- Gimenez, C., & Tachizawa, E. M. (2012). "Extending sustainability to suppliers: a systematic literature review", *Supply Chain Management: An International Journal*, 17(5), 531-543.
- Goll, I., & Rasheed, A. A. (2004). "The moderating effect of environmental munificence and dynamism on the relationship between discretionary social responsibility and firm performance", *Journal of business ethics*, 49(1), 41-54.
- González-Benito, J., Lannelongue, G., Ferreira, L. M., & Gonzalez-Zapatero, C. (2016). "The effect of green purchasing on purchasing performance: the moderating role played by long-term relationships and strategic integration", *Journal of Business & Industrial Marketing*, 31(2), 312-324.
- Hollos, D., Blome, C., & Foerstl, K. (2012). "Does sustainable supplier co-operation affect performance? Examining implications for the triple bottom line", *International Journal of Production Research*, 50(11), 2968-2986.
- Keating, B., Quazi, A., Kriz, A., & Coltman, T. (2008). "In pursuit of a sustainable supply chain: insights from Westpac Banking Corporation", *Supply Chain Management: An International Journal*, 13(3), 175-179.
- Kotabe, M., Martin, X., & Domoto, H. (2003). "Gaining from vertical partnerships: knowledge transfer,

- relationship duration, and supplier performance improvement in the US and Japanese automotive industries", *Strategic management journal*, 24(4), 293-316.
- Krause, D. R., Vachon, S., & Klassen, R. D. (2009). "Special topic forum on sustainable supply chain management: introduction and reflections on the role of purchasing management", *Journal of Supply Chain Management*, 45(4), 18-25.
- Lau, A. K., Tang, E., & Yam, R. (2010). "Effects of supplier and customer integration on product innovation and performance: Empirical evidence in Hong Kong manufacturers", *Journal of Product Innovation Management*, 27(5), 761-777.
- Lee, V.-H., Ooi, K.-B., Chong, A. Y.-L., & Lin, B. (2015). "A structural analysis of greening the supplier, environmental performance and competitive advantage", *Production Planning & Control*, 26(2), 116-130.
- Mentzer, J. T., DeWitt, W., Keebler, J. S., Min, S., Nix, N. W., Smith, C. D., & Zacharia, Z. G. (2001). "Defining supply chain management", *Journal of business logistics*, 22(2), 1-25.
- Narasimhan, R., & Jayaram, J. (1998). "Causal linkages in supply chain management: an exploratory study of North American manufacturing firms", *Decision Sciences*, 29(3), 579-605.
- Prajogo, D., & Olhager, J. (2012). "Supply chain integration and performance: The effects of long-term relationships, information technology and sharing, and logistics integration", *International Journal of Production Economics*, 135(1), 514-522.
- Prior, D. D. (2012). "The effects of buyer-supplier relationships on buyer competitiveness", *Journal of Business & Industrial Marketing*, 27(2), 100-114.
- Saeidi, S. P., Sofian, S., Saeidi, P., Saeidi, S. P., & Saeidi, S. A. (2015). "How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction", *Journal of Business Research*, 68(2), 341-350.
- Sawyer, J., & Evans, N. (2010). "An investigation into the social and environmental responsibility behaviours of regional small businesses in relation to their impact on the local community and immediate environment", *Australasian Journal of Regional Studies*, 16(2), 253-265.
- Tate, W. L., Ellram, L. M., & Dooley, K. J. (2012). "Environmental purchasing and supplier management (EPSM): Theory and practice", *Journal of Purchasing and Supply Management*, 18(3), 173-188.
- Thornton, L. M., Autry, C. W., Gligor, D. M., & Brik, A. B. (2013). "Does Socially Responsible Supplier Selection Pay Off for Customer Firms? A Cross-Cultural Comparison", *Journal of Supply Chain Management*, 49(3), 66-89.
- Tuttle, T., & Heap, J. (2007). "Green productivity: moving the agenda", *International Journal of Productivity and Performance Management*, 57(1), 93-106.
- Worthington, I., Ram, M., Boyal, H., & Shah, M. (2008). "Researching the drivers of socially responsible purchasing: a cross-national study of supplier diversity initiatives", *Journal of business ethics*, 79(3), 319-331.
- Yilmaz, A. K., & Flouris, T. (2010). "Managing corporate sustainability: Risk management process based perspective", *African journal of business management*, 4(2), 162-171.