Exploring CSR in the Supplier Management of SMEs in Germany

A Study about Supplier-Related CSR Activities and Barriers in CSR Adoption

Master’s Thesis within: International Logistics and Supply Chain Management

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Jönköping May 2015
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Master’s Thesis in International Logistics and Supply Chain Management

Title: Exploring CSR in the Supplier Management of SMEs in Germany. A Study about Supplier-Related CSR Activities and Barriers in CSR Adoption

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Date: 2015-05-11

Subject terms: Small and Medium-Sized Enterprises, SME, Corporate Social Responsibility, CSR, CSR Activities, Barriers in CSR Adoption, Certificates, Supplier Management, Supplier Selection, Supplier Relationship, Supplier Development

Abstract

Background

CSR is a concept of growing attention as stakeholders’ pressure on companies to ensure social and environmental standards has increased. However, as companies have progressively shifted to supplier-based manufacturing their dependency on suppliers requires them to assure that CSR standards are also employed at their suppliers. Thereby, the size of a company plays an important role. While SMEs are generally CSR-oriented internally and on a societal level, they are rather disadvantaged when aiming to impose CSR requirements on their suppliers due to their specific characteristics. Nonetheless, making a supply chain truly sustainable depends on the SMEs imposing CSR practices on their suppliers.

Purpose

Exploring CSR in the context of SMEs’ supplier management.

Method

The study employs a qualitative research method to fulfil the exploratory nature of the thesis. As research strategy, case studies of ten SMEs in Germany were conducted. Therefore, empirical data was collected through retrospective, semi-structured interviews as well as data from corporate webpages, internal documents and newspaper articles. The empirical data were categorised and prepared for content analysis, which comprised of interpretations according to defined categories.

Conclusion

This thesis shows that general awareness of CSR among SMEs has increased. Though, occurrence of CSR in supplier management context is often not considered and recognised yet. Thus, it can be said that CSR has reached the SMEs’ awareness but not sufficiently in all business operations. Nonetheless, the thesis determined many CSR activities in supplier management which can be assigned to supplier selection, relationships and development. However, many activities depend on the available resources a firm can offer. Thereby, this thesis confirms that lack of resources is a general drawback of SMEs. Thereof arising, SMEs face several other barriers when adopting CSR in their supplier management. These need to be overcome as increasing importance of supplier-related CSR is expected.
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>IfM</td>
<td>Institut für Mittelstandsforshung</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organisation for Standardisation</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Company</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer</td>
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<td>RQ</td>
<td>Research Question</td>
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<tr>
<td>SCM</td>
<td>Supply Chain Management</td>
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<tr>
<td>SEP</td>
<td>Supplier Evaluation Process</td>
</tr>
<tr>
<td>SERP</td>
<td>Socially and Environmentally Responsible Procurement</td>
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<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprise</td>
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<td>SRSD</td>
<td>Socially Responsible Supplier Development</td>
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1 Introduction

This first section provides a brief background of the research area in order to develop an overview about the subject of the thesis. The following problem statement leads to the overall research purpose as well as to the delimitations of the study. The chapter ends with the thesis disposition.

1.1 Background

Corporate Social Responsibility (CSR) is a concept of growing attention among media, academia and the corporate world (Andersen & Skjoett-Larsen, 2009). Especially events like the atomic catastrophe in Fukushima or the fact that the amount of CO₂-emissions has never been as high as it was in 2011, have resulted in an energy revolution and numerous discussions regarding responsibility and sustainability (Englisch, Sahr, Volkmann, Blank & Tokarski, 2012). Many politicians have been discussing CSR strategies of the European commission and reporting requirements on enterprises. Furthermore, pressure has increased from stakeholders, employees, customers, governmental associations and non-governmental organisations (NGO) (Kumar, Palaniappan, Kannan & Shankar, 2014).

CSR is not a new concept since modern CSR originates back to the 1950s (Carroll, 1999; Elg & Hultman, 2011; Tolhurst & Embaye, 2010). The term CSR has been defined in many different ways throughout the decades. However, generally, there are two main characteristics of CSR. First, it is related to a company’s voluntary activities in the field of social and environmental issues. Second, the relationship between the larger society and business is described (Andersen & Skjoett-Larsen, 2009).¹

“A firm’s sensitivity to stakeholders’ perspectives on responsibility and its effect on competitiveness is being stressed more and more” (Elg & Hultman, 2011, p.446). Pressure from stakeholders to ensure social and environmental standards have arisen from changing contexts companies operate in. Moreover, profit generation has pushed an increasing awareness of CSR, since competition is getting stronger constantly. Other influencing factors have been the globalisation, ethical thinking, sustainability awareness and fast-growing socially responsible investments (Idowu & Filho, 2009). Higher concerns about social and environmental impacts of production and consumption have developed through an increased amount of outsourcing activities to developing and low-cost countries (Andersen & Skjoett-Larsen, 2009).

As companies increasingly shifted from wholly owned manufacturers to supplier-based manufacturing and outsourcing activities, many multinational companies (MNCs) were faced with their stakeholders’ expectations and pressure to assure that environmental and social standards are also employed at their suppliers. Thus, CSR transformed from a company’s domain to social and environmental responsibility for its suppliers and trading partners. “However, despite many companies’ efforts to engage in CSR-related activities in their supply chains, there is often a gap between the ethical standards expressed and the actual conditions at the suppliers” (Andersen & Skjoett-Larsen, 2009, p.78).

In terms of supplier management, an effective purchasing function is crucial for successful supply chain management (SCM) (Kumar et al., 2014). As mentioned above, CSR influences a company’s competitiveness significantly and one of a supplier’s tasks is to enable a

¹ See Appendix 1 for a more detailed definition of CSR.

² See Appendix 2 for more details about the importance of SMEs in Germany.
buying firm to maintain its competitive position (Xu, Kumar, Shankar, Kannan & Chen, 2013). Additionally, the shift to supplier-based manufacturing and outsourcing leads to an increasing dependence on suppliers and their performance (Nagati & Rebolledo, 2013). When aiming to implement socially responsible behaviour among suppliers, close and long-term buyer-supplier relationships are preconditioned (Ciliberti, Pontrandolfo & Scozzi, 2008).

According to Elg and Hultman (2011), the size of a company plays an important role in terms of setting CSR requirements on suppliers. Generally, taking their social responsibility is more difficult for small than for large companies (Lepoutre & Heene, 2006). It "is quite reasonable to assume that large firms have more power to impose their will on their suppliers and that the suppliers are more dependent on maintaining the relationship" (Elg & Hultman, 2011, p.455). In comparison, small and medium-sized enterprises (SMEs) seldom maintain the bargaining power and resources which are necessary to successfully integrate sustainability requirements in their supplier contracts and relationships (Ayuso, Roca & Colomé, 2013). Besides power, Lepoutre and Heene (2006) state that lack of time, financial resources, knowledge and functional expertise prevailing in SMEs are further barriers for applying CSR. Their environmental and social impact is considered minimal by their owner-managers. Sometimes they never thought of CSR at all. Stakeholders seem to share this view as their pressure on small businesses regarding sustainable responsibility is rather low.

Nonetheless, when comparing CSR in SMEs and MNCs, there is no consensus in literature as to which kind of organisation is better provided when organising CSR (Baumann-Pauly, Wickert, Spence & Scherer, 2013). Despite the barriers for smaller firms mentioned above, Lepoutre and Heene (2006) claim "that small firms are better positioned and equipped for socially responsible behaviour than large firms. Small businesses are often celebrated for such social benefits as creating jobs, inducing economic growth and introducing innovation" (p.258). However, Englisch et al. (2012) state that scarce resources and strong competition do not facilitate spending money on responsible and sustainable strategies. In family organisations, most of the time societal engagement is being conducted intuitively and depending on the economic situation. Quite often, SMEs do not know that they are socially responsible because it is in their very nature (Lepoutre & Heene, 2006) and not conducted due to marketing reasons. Thereby, the focus of their responsible behaviour is particularly on internal stakeholders (Ciliberti et al., 2008). However, SMEs also exercise regional and local responsibility. Donations and sponsoring might be the most popular activities in terms of external CSR. Though, the strategic direction of CSR goes beyond these actions (Snee-Hamburg, 2007). Acting in a socially responsible way requires the contribution and involvement of a whole supply chain in order to ensure effectiveness regarding CSR (Ciliberti et al., 2008).

"Currently, most companies working systematically with CSR in supply chains are large multinational companies" (Andersen & Skjoett-Larsen, 2009, p.83). However, the majority of their suppliers are SMEs. Thus, making a supply chain truly sustainable depends on the SMEs’ ability to impose CSR practices on their suppliers (Andersen & Skjoett-Larsen, 2009; Ayuso et al., 2013). Considering the limited resources and power of SMEs mentioned above, they might experience difficulties when trying to enforce their own suppliers to implement CSR practices (Ayuso et al., 2013).

"Currently, most companies working systematically with CSR in supply chains are large multinational companies" (Andersen & Skjoett-Larsen, 2009, p.83). However, the majority of their suppliers are SMEs. Thus, making a supply chain truly sustainable depends on the SMEs’ ability to impose CSR practices on their suppliers (Andersen & Skjoett-Larsen, 2009; Ayuso et al., 2013). Considering the limited resources and power of SMEs mentioned above, they might experience difficulties when trying to enforce their own suppliers to implement CSR practices (Ayuso et al., 2013).
1.2 Problem Statement

The majority of literature regarding business management either does not consider firm size or it focuses on large companies. The same applies to CSR literature; only a minor part of it has paid attention to SMEs and their context (Vázquez-Carrasco & López-Pérez, 2013) and therefore, comparatively little knowledge exists about CSR in SMEs (Baumann-Pauly et al., 2013) especially with regard to their supplier management. Additionally, only a small amount of studies were conducted considering the SME perspective in terms of sustainable SCM (Ayuso et al., 2013). Some argue that the small size, small amount of resources and minor influence of SMEs lead to their inability to address the upcoming issues in terms of CSR (Nejati & Amran, 2009). However, for at least two reasons the relevance of examining CSR in SMEs is high: First, 99 percent of companies in the European Union (EU) are SMEs. Considering this fact, the impact of SMEs on society is still underestimated. Second, due to the peculiarities of SMEs in comparison to large enterprises, CSR practices and their implementation differ significantly (Ciliberti et al., 2008; Lepoutre & Heene, 2006). Therefore, the European Expert Group on CSR and SMEs states that there “is a need for more research across different EU countries […] how SMEs themselves make CSR requirements on their suppliers” (European Commission, 2007, p.30) as there is a lack of research in the field of CSR practices in supplier management.

In Germany, SMEs play a key role in the country’s economy. The so-called German “Mittelstand” covered more than 99 percent of all German companies in 2013 (Bundesministerium für Wirtschaft und Energie, 2014). In 2012, SMEs contributed to more than 56 percent of the overall economic performance of Germany. Thereby, about 60 percent of employees and about 84 percent of all apprentices are working in SMEs (Institut für Mittelstandsfororschung Bonn, 2014). Consequently, the German “Mittelstand” is an important job engine for the country (Bundesministerium für Wirtschaft und Energie, 2014).

“Long before the emergence of CSR as a worldwide phenomenon, the idea that business has duties to society has always occupied a central place in political and philosophical debates in Germany” (Tolhurst & Embaye, 2010, p.158). Therefore, the social and environmental concerns implied by CSR have a long tradition (Federal Ministry of Labour and Social Affairs, 2012). Increasing image-based competition, reputation and prominence of CSR on a global basis forced German companies to use CSR as a proactive approach and competitive strategy (Tolhurst & Embaye, 2010).

Considering the long tradition of CSR and the specific key role of SMEs in Germany the authors aim to focus on SMEs situated in Germany.

Besides the theoretical contributions to fill this gap, the investigation of this topic might also be of commercial interest for SMEs as CSR can constitute a main source for competitiveness (Tolhurst & Embaye, 2010; Hammann, Habisch & Pechlaner, 2009). Furthermore, a sustainable supply chain can contribute to the good reputation of a company (Deutsches Global Compact Netzwerk, 2012) and create new business opportunities (Ageron, Gunasekaran & Spalanzani, 2012).

1.3 Purpose

The purpose of the thesis is to explore CSR in the context of SMEs’ supplier management.

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2 See Appendix 2 for more details about the importance of SMEs in Germany.

3 See Appendix 3 for more details about the importance of CSR in Germany.
1.4 Delimitations

This thesis focuses on the perspective of manufacturing-oriented SMEs in Germany and their view on CSR-oriented supplier management. The thesis does not intend to be industry specific. Consequently, SMEs were drawn from a variety of industries.

Questions concerning the SMEs’ supplier management were targeted to their direct suppliers independently of their size. “Given the novelty and complexity of issues surrounding social and environmental sustainability [and considering the resource limitations of SMEs], managers often find it difficult to manage more than the first-tier of suppliers” (Welford & Frost, 2006, cited by Grimm, Hofstetter & Sarkis, 2014, p.3). Therefore, the authors decided that exploring those issues beyond the 1st-tier suppliers is hardly expedient, also as quite often SMEs are already located rather upstream in the supply chain.

The choice of the geographical location is caused by the long tradition of CSR and the specific key role of SMEs in Germany. Furthermore, a higher concentration and consistency of the study is ensured by focusing on one country.

The studied SMEs are of different size measured by the number of employees with a maximum of 250. The criterion is deduced from the EU definition for SMEs. The authors decided to build their thesis on this definition as the mainly relevant theory is based on it as well. Furthermore, it allows a comparison of the results within all EU countries.

The EU definition also comprises the criteria turnover, balance sheet total and independence of the enterprise. Due to German legislation, reliable information regarding balance sheet total and turnover are rather difficult to find out. Further, the independence of the enterprise is hard to prove from an outside position (Lanninger, 2009). Therefore, the study only considers the number of employees for primary data collection.

1.5 Thesis Disposition

<table>
<thead>
<tr>
<th>1) Introduction</th>
<th>The topic is introduced and background information provided. The problem statement, purpose and delimitations of the thesis are determined.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2) Frame of Reference</td>
<td>The theoretical framework of the study clarifies the theory related to CSR, SMEs and supplier management. Thereof, research questions are deduced.</td>
</tr>
<tr>
<td>3) Methodology</td>
<td>The employed method to conduct the study is described. It includes the approach, design, data collection and analysis techniques. Credibility concerns are addressed.</td>
</tr>
<tr>
<td>4) Empirical Findings</td>
<td>The empirical findings are presented. They are gathered through interviews with SMEs in Germany and corresponding secondary literature.</td>
</tr>
<tr>
<td>5) Analysis</td>
<td>Based on the frame of reference and considering the research questions, an analysis of the empirical findings is conducted.</td>
</tr>
<tr>
<td>6) Conclusion</td>
<td>The key results of the study are highlighted and summarised including theoretical and managerial implications, limitations and further research options.</td>
</tr>
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</table>

Figure 1 - 1 Thesis Disposition

4 See Appendix 4 for a detailed definition of SMEs.
5 See Appendix 5 for a definition of the German “Mittelstand”, which is a special term in Germany.
2 Frame of Reference

This section presents the theoretical framework. It is based on previous research findings within the main areas of CSR, SME, and supplier management. Based on the discussed literature and the purpose of this thesis the research questions are presented.

2.1 Corporate Social Responsibility

2.1.1 Importance of CSR

The stakeholders’ influence on companies has increased significantly as they are more and more interested in social and environmental issues. Moreover, multimedia communication technology speeds up global information flows, thus it is more complicated for firms to hush up unethical practices and environmental offences. Consequently, the importance of CSR has increased as companies are pressured by both external and internal stakeholders to follow CSR requirements (Andersen & Skjoett-Larsen, 2009). Accordingly, Carroll (1999) forecasted that the “CSR concept will remain as an essential part of business language and practice, because it [...] is continually consistent with what the public expects of the business community today” (p.292).

Furthermore, the scarcity of natural, environmental but also of human resources forces companies to consider CSR in their processes (Moore & Manring, 2009). “However, CSR refers not only to responsible behavior within the organization itself but also to ensuring proper social and environmental conditions throughout its supply chain” (Ayuso et al., 2013, p.497). Global competition has enhanced the strategic importance of SCM. Today, competition is rather between supply chains than only between firms (Andersen & Skjoett-Larsen, 2009). As sustainability is a critical factor for the success of an entire SCM (Ageron et al., 2012), companies need to implement CSR requirements along their whole supply chain in order to ensure its competitiveness.

2.1.2 CSR in Germany

It is a broad consensus in Germany that companies have a responsibility towards society. This central idea shapes the companies’ operational business. Consequently, many companies in Germany have made CSR to the core of their business philosophies (Federal Ministry of Labour and Social Affairs, 2012). For these firms, CSR serves as a competitive strategy in order to respond to image-based competition and the stakeholders’ increasing social and environmental concerns on an international level (Tolhurst & Embaye, 2010).

Idowu and Filho (2009) state that German companies perceive CSR as mentioned in the following five characteristics:

- “CSR is a company’s contribution to sustainable development.
- CSR embraces social and environmental responsibility.
- A dialogue with stakeholders is embedded in CSR.
- CSR is a voluntary engagement and no legal enforcement is to be anticipated.
- CSR is company specific and its implementation will vary from organization to organization” (p.64).

However regarding the fourth point, the voluntary aspect should be interpreted carefully as the German government has recently introduced several requirements that oblige companies to undertake sustainable economic practices (Maaß, Chlost, Icks & Welter, 2014).
2.2 SMEs in Comparison to MNCs

Considering both the importance of SMEs mentioned earlier and the increasing number of CSR-related literature and practices, comparatively, there is a rather small amount of literature having a SME perspective on CSR issues while the main focus is on MNCs. However, SMEs’ characteristics are unique and not comparable to MNCs, thus SMEs are no smaller versions of large firms. Consequently, that literature and its results might not be suitable for them (Vázquez-Carrasco & López-Pérez, 2013). Due to this fact the question of distinction between MNCs and SMEs arises.

In contrast to MNCs, the smaller size of SMEs results in a rather simple but innovative organisational and managerial structure and allows a higher agility of the firm as well as faster response and adaptability to change and opportunities (Gunasekaran, Rai & Griffin, 2011). Quite often, the management and owner of the firm are one entity in SMEs (Vázquez-Carrasco & López-Pérez, 2013). Thus, the decision making process is more likely centralised which benefits a smooth communication flow due to informal and personal relationships and interactions between different departments (Gunasekaran et al., 2011).

However, the smaller size of SMEs also means lower bargaining power (Ciliberti et al., 2008). The same applies in respect of selling and purchasing power as well as managerial resources which are necessary in order to well develop long-term buyer-supplier relationships as they often exist in large companies. In addition, SMEs often lack resources in terms of employees, time, capital, organisation and physical facilities. As a consequence, management specialisation like in MNCs is rather difficult as multiple responsibilities are transferred to one person (Adams, Khoja & Kauffman, 2012) and multi-tasking strategies are applied to managers holding critical company roles (Gunasekaran et al., 2011) thereby concentrating on day-to-day issues rather than on long-term goals (Adams et al., 2012).

The SMEs’ lower bargaining power and their lack of resources as well as competencies may not only result in less effective buyer-supplier relationships but in difficulties to apply CSR practices on their suppliers. MNCs can use their high power to foster a more socially responsible behaviour among their supply chain partners (Ciliberti et al., 2008), while “[…] SMEs tend to be strong in actually implementing organizational CSR-related practices in core business operations” (Baumann-Pauly et al., 2013, p.697). Thus, SMEs often put their CSR efforts on internal stakeholders rather than stakeholders in their supply chain (Moore & Manring, 2009). Moreover, a survey conducted by Jenkins (2009) found out that the main understanding of CSR in SMEs comprises to support the local community and economy by offering employment and working successfully and profitably. However, Ciliberti et al. (2008) see the SMEs’ difficulties in adopting CSR practices at all.

The personality and value structure of the owner can influence SMEs significantly and more often result in a human management as he or she frequently behaves altruistic in nature and aims at personal satisfaction rather than profit ratios (Vázquez-Carrasco & López-Pérez, 2013). At the same time, to a lesser extent external influences but personal values of an SME’s owner are key drivers for the firm’s engagement in CSR (Seuring, Sarkis, Müller & Rao, 2008). ”Factors contributing to this motivation may include the embeddedness of SMEs within their local communities, and their close personal relationships with key suppliers, community partners and employees which shape SME owner/managers’ ethics and behavior” (Fenwick, 2010, p.154). Thus, SMEs as buying firms are also able to apply pressure through the supply chain e.g. by functioning as best practice example and, in this way, encouraging and supervising their partners to behave more socially responsible (Ciliberti et al., 2008).
Generally, the stakeholders’ pressure to adopt a formal CSR strategy grows with a company’s size. Consequently, especially smaller firms do not experience high stakeholder pressure in terms of CSR and are little familiar with CSR-oriented strategies. A tailored CSR package for SMEs is required aiming at increasing the degree of CSR implementation (Agudo Valiente, Garcés Ayerbe & Salvador Figueras, 2012; Lepoutre & Heene, 2006).

2.3 CSR in SMEs

2.3.1 Motivations and Benefits of CSR Implementation in SMEs

The implementation of CSR can generate significant benefits for a company and motivational reasons therefore are diverse. However, the “economic, social and environmental benefits achieved when adopting socially responsible behaviors go beyond the boundaries of a single firm and involve wider communities” (Ciliberti et al., 2008, p.1579).

As mentioned above, SMEs are highly shaped by their owners’ personal values, thus, their CSR engagement is often motivated by ethical and moral reasons (Nejati & Amran, 2009). Additionally, there is a belief that responsible behaviour might contribute to the value of the firm (Longo, Mura & Bonoli, 2005). In sum, Jenkins (2006) states that rather the internal and intrinsic motivation drives SMEs to implement CSR activities.

Some authors express a contrary position and highlight external pressure as the only motivation for CSR implementation of SMEs (Nejati & Amran, 2009). In this regard, a further reason for following CSR engagement is that supplier firms are confronted with certain certificates and social standards that are required by buying firms. Competitiveness is a big motivational factor here. Nowadays, a high number of enterprises have implemented sustainability strategies and concepts in order to assess social and environmental issues in their supply chains. This ultimately increases the pressure on the competitors to follow them.

Increased competitiveness, new market entry possibilities as well as security and expansion of the market position are generated with the help of CSR (Sneep-Hamburg, 2007).

Since SMEs are rather embedded in their local communities and environment, they have a quite high awareness of local issues and sensitivity (Laudal, 2011). Consequently, SMEs mainly exercise regional and local responsibility because they identify themselves mostly with their region or town in which they are located, and thus, social, economic and environmental CSR impacts can best be felt (European Commission, 2007). In comparison to large anonymous cities, it seems to be even more important to represent CSR activities in local areas as a good reputation in a local surrounding is of importance especially for SMEs (Sneep-Hamburg, 2007).

“But even though SMEs are unlikely to see CSR in terms of risks to public reputation and brand image, they are often likely to follow sentiments closer to home such as employer motivation and retention, and community involvement” (Laudal, 2011, p.239). Regarding a company’s staff, the employees’ motivation may increase as well as their identification with the business may rise. Soft skills may be shaped due to CSR activities which can help in the employee development process (Idowu & Filho, 2009; Sneep-Hamburg, 2007). In return, this could lower the absenteeism and turnover of employees and attract more qualified employees (Schreck, 2009). Simultaneously, the employees’ productivity may increase (Kechiche & Soparnot, 2012).

Generally, “the direct perception of how CSR impacts positively on managing the business also represents a leading factor” (Santos, 2011, p.492). Thereby, good relationships with the community, clients, public authorities and business partners but also customer loyalty and employee satisfaction are
all benefits which result directly of CSR implementation (Santos, 2011). Additionally, costs might decrease when implementing a CSR strategy, and further an enhanced efficiency results in financial benefits (Kechiche & Soparnot, 2012).

2.3.2 Barriers and Challenges of CSR Implementation in SMEs

Even if the CSR integration in the SMEs’ daily business management proceeds more and more (Kechiche & Soparnot, 2012), the characteristics of SMEs (see 2.2) bring some disadvantages which result in barriers and challenges that need to be overcome when implementing CSR.

One barrier already arises from the term “corporate” comprised in CSR. Especially owners from small firms claim that debates, perceptions and understandings in terms of social responsibility are not sufficient and suitable for them and demand a reconceptualisation. Therefore, they have distanced themselves from the “corporate” social responsibility (Fenwick, 2010). “[…] [The] generic term can even become inoperative and counterproductive in the case of SMEs because standards of reference were established with large corporations in mind” (Vázquez-Carrasco & López-Pérez, 2013, p.3212).

The small size of SMEs, high competitive pressure and the low availability of financial resources are features which do not favour CSR investments. Many CSR activities require high expenses but SMEs are usually not able to benefit from economies of scale as MNCs do. Thus, the cost/benefit ratio is rather low in small companies (Laudal, 2011). In addition, it is rather difficult to measure the impact of such investments and activities (Santos, 2011) and benefits are rather intangible (Jenkins, 2006). As a result, managers who already lack sufficient financial resources might believe that the compensation is not adequate. As some are generally not convinced of CSR benefits, these managers are often not willing to do more than legally required (Kechiche & Soparnot, 2012).

Besides lack of financial resources, Laudal (2011) also states that the lack of knowledge and expertise affects SMEs negatively as it lowers the recognition of CSR issues, e.g. the awareness of specific CSR standards. Some even state that managers never considered CSR at all or complain the missing relationship between the SMEs’ strategies and CSR activities (Santos, 2011).

Furthermore, managers often emphasise a lack of time and capacity which is needed for gaining and reviewing relevant information in order to push CSR engagement through SMEs and their whole product range. Especially “SMEs with a diverse product range usually limit themselves to monitoring products that may lead to risks, or products that are strategically important” (Laudal, 2011, p.237). Managers are often overwhelmed by their daily business operations and have no time for concerns about society without seeing direct benefit or return (Lepoutre & Heene, 2006). In the worst case, the lack of capacity might even lead to a complete disinterest of SMEs regarding CSR activities (Laudal, 2011), also because they might fear bureaucracy arising from CSR (Castka, Balzarova, Bamber & Sharp, 2004).

Public support might help SMEs to overcome at least the lack of information. However, in a study of Portuguese SMEs, 41 percent of them complain its unavailability (Santos, 2011). Similarly, a study from 2008 found out that the knowledge about support organisations is quite low. Less than 30 percent of SMEs knew that these organisations offer assistance for new CSR initiatives (Kechiche & Soparnot, 2012). However, transparent, simple and local support is urgently required (Castka et al., 2004). Social and environmental laws are quite
complex and SMEs have difficulties with applying them to their business and market. Available tools are often not adapted to SMEs’ requirements (Kechiche & Soparnot, 2012).

As described now, there are several barriers SMEs might face when aiming to implement CSR. However, challenges implied by CSR are not necessarily an obstacle but should rather be seen as a challenge which needs to be overcome (Jenkins, 2006). “Being aware of the challenges of CSR can actually constitute the basis of competitive advantage for the business and enhance corporate image” (Kechiche & Soparnot, 2012, p.101).

2.3.3 CSR Activities

Despite all barriers mentioned above, SMEs already implemented several CSR activities in their business practices. In order to give only some examples of CSR actions, Fenwick (2010) mentions respecting ethical values, protecting natural environment, efforts to support local community and to enhance human quality of life. She also addresses issues like transparent accountability, intellectual property rights, privacy, reliability and quality of information as well as freedom of speech. Perrini (2006) describes training activities, protection of employees’ health, support of cultural activities and local communities, safety of products and control of environmental impacts as the most common CSR activities. In order to conduct these actions, the companies use tools like sponsorships, donations and employee involvement programmes.

In literature, much more CSR activities are outlined (e.g. Jenkins, 2006; Kechiche & Soparnot, 2012; Moyeen & Courvisanos, 2012; Perrini, 2006; Santos, 2011). However, all these activities can be classified in different ways. To name some examples, Santos (2011) classifies the most common CSR practices into internal social, external social, environment and business CSR practices each with some sub-categories. Pedersen (2009) splits CSR practices into workforce activities, charitable and voluntary activities, environmental activities, customer activities, stakeholder engagement and supply chain activities. Also Jenkins (2006) lists supply chain/business to business as one category additionally to the categories employees, environmental and community/society.

“CSR in the supply chain is a relatively new phenomenon compared with internal environment- and employee-oriented CSR initiatives” (Pedersen, 2009, p.111). Consequently, looking at CSR activities described in literature, the number of activities in the context of suppliers is rather low. However, as this thesis focuses on CSR in the context of supplier management, the categories regarding supply chain and business and their implied CSR activities needs to be presented more precisely. The category “business CSR practices” described by Santos (2011) comprises the sub-category commercial partners/suppliers. In her article the author investigates Portuguese SMEs; 68 percent of them guaranteed to pay their invoices for services or products by the agreed deadline, thus this is the most common CSR practice regarding suppliers and is a prerequisite for trustful supplier relationships. Other aspects are the consideration of environmental and social criteria in the selection process and respect for human rights.

Jenkins (2006) portrayed CSR activities of British SMEs. In her category “supply chain/business to business” CSR activities such as open house policy, feedback and measurement of key performance indicators and participation in best practice programmes are included. Additionally, the category comprises actions like supplier learning schemes, quality standard, development of long-term relationships and the encouragement as well as assistance for suppliers to behave more socially responsible.
Pedersen (2009) investigated Danish SMEs and found out that less than three out of four companies had implemented CSR activities regarding their supply chain. Based on his survey, he concluded that SMEs extend their CSR activities rather gradually from internal to external. This means that they do not engage CSR in relationships with suppliers and other supply chain partners until they are able to manage and control their social and environmental initiatives internally. “However, despite the growing popularity of CSR in the supply chain, it is still difficult [especially for SMEs] to manage social and environmental issues that exist outside their direct control in different geographical, economic, political and cultural settings” (p.113). SMEs which have CSR initiatives in their supply chain are rather large as measured by the number of employees and generally cover more fields of CSR than other firms. Nevertheless, SMEs are often not able to influence their suppliers’ social responsibility practices which likely constrain a greater SME involvement (Santos, 2011).

Overall, CSR activities are initiated rather local in scope (Jenkins, 2004) and focused on internal aspects in SMEs (Castka et al., 2004). Still, they are often not aware of CSR and, therefore, do not recognise their actions as CSR practices (Jenkins, 2004).

2.3.4 Informal Instead of Formal CSR

Even if the familiarity with CSR-oriented strategies is rather low in SMEs, this does not necessarily mean that they are non-existent in these firms; similar to their management systems, the smaller firms’ CSR strategies are rather informal in comparison to MNCs’ (Agudo Valiente et al., 2012). Therefore, literature describes CSR in the context of SMEs as sunken or silent (Russo & Tencati, 2009), unstructured and non-systematic (Vázquez-Carrasco & López-Pérez, 2013). However, “the perception of CSR is biased by the way the information is reported and measured. CSR that is not formalized nor reported on may be considered non-existent” (Demuijnck & Ngodjome, 2013, p.654).

Generally, companies using more formal CSR vocabulary or publishing CSR reports do not necessarily behave more socially responsible. “CSR’s essence resides in the adoption of socially responsible business practices; it is more about the successful application of appropriate attitudes and business cultures than the mere formalization of the concept and its processes, or the use of one term or another” (Vázquez-Carrasco & López-Pérez, 2013, p.3212). SMEs become more and more aware and familiar with CSR. However, at the same time they are unwilling to create specific managerial systems in order to set up their CSR strategies in a formalised way (Russo & Tencati, 2009).

The important role of informal CSR strategies in SMEs is emphasised by the fact that the use of formal CSR language is not common in SMEs when describing their activities (Agudo Valiente et al., 2012; Russo & Tencati, 2009). Instead, the language used is more intuitive (Vázquez-Carrasco & López-Pérez, 2013). Reports, codes, environmental, social and ethical standards or other formal tools are rather seldom in smaller firms. One reason for this may be financial and time resources as well as competence required when aiming at incorporating new organisational routines (Russo & Tencati, 2009). Additionally, due to its likely ineffectiveness ”the implementation of a standardised CSR concept in an SME cannot be considered as the best alternative for any company that wishes to embed social and environmental issues efficiently in its company strategy” (Russo & Perrini, 2010, p.209). However, even if the majority of SMEs prefer informal CSR strategies, they cannot fade out the existence of certificates and Codes of Conducts due to both customer pressure and also the certificates’ general advantages.
2.4 Certificates and Codes of Conduct

Competitiveness on the market increases pressure to meet the CSR requirements with the help of certifications. Since this pressure is forwarded throughout the supply chain, SMEs acting as suppliers are increasingly forced to comply with certificates for social standards and Codes of Conduct. Often, it is a prerequisite for organisations to follow for example ISO standards in order to further be able to act as a supplier (Sneep-Hamburg, 2007). Ciliberti, de Haan, de Groot and Pontrandolfo (2010) call those a “tool to manage suppliers” (p.887) and Preuss (2009) considers Codes of Conduct as likely the most often used way to manage CSR. Thus, CSR will most probably increase in importance within SMEs, since ethical codes are more often integrated and especially larger customers put pressure on them (Baden, Harwood & Woodward, 2009).

Examples for Codes of Conduct that reflect commitment to CSR are ISO 14001 regarding environment (Ciliberti et al., 2010), ISO 9001, which is a quality management system certification (Sampaio, Saraiva & Rodrigues, 2009) and ISO 260006, a global guidance document for social responsibility (Moratis & Cochius, 2011).

Boström (2014) mentions that the audits or controls are conducted as often as necessary. Generally, audits comprise the checks of several documents, observations of working conditions within or outside the factory, and personal dialogues with randomly selected employees and representatives. In case of suggestions for improvements, these are reported in the audit documents, and the particular supplier is asked for correcting its measures within a particular time frame. If a supplier fails to integrate the improvement, respective action will be taken depending on the context. Terminating or not terminating a contract with a supplier should be considered carefully, since mutual dependencies are created with buyer-supplier relationships.

2.4.1 Benefits of Certification

By developing ecological and social standards, e.g. in the form of Codes of Conduct, the risk of reputation damage can be minimised. Furthermore, it is emphasised that long-term, trustful supplier relationships support bundling of resources and cooperation in CSR activities (Sneep-Hamburg, 2007). The usage of resources may be coordinated in a less wasteful way, so that cost benefits can be achieved. Marketing benefits are also created when using formal standards. By publicising the certifications, a statement is made and potential new customers can be attracted, which may lead to higher profits. Doing business in a sustainable and efficient way is an advantage, since business credibility and a stronger positioning of the firm to target customers can be realised. Finally, it is important to find the right standard for the company in order to achieve the business’ goals (BSI Group, 2015).

When codes are used as add-on to a contract, no re-negotiations or incorporations are necessary. Moreover, codes allow an easier communication between partners with indirect relationships along the supply chain (Ciliberti et al., 2010). Boström (2014) mentions the trust base, which many selecting firms rely on when it comes to the certifications of standards. Sending questionnaires and conducting product tests, audits or inspections are perceived as unnecessary when a supplier has already been certified by some other institution. Then, mutual business is done more easily as there is no distrust between actors.

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6 See Appendix 6 for a more detailed description of ISO 26000.
2.4.2 Barriers of Certification

When implementing codes, great financial resources are required (Pressey, Winklhofer & Tzokas, 2009). Ciliberti et al. (2010) estimate that the integration of a new code including a planning phase of three years would create costs between $20,000 and $40,000 for one company. Other costs associated with certifications are preparation efforts for the audit. Often corrective and preventive actions need to be undertaken to ensure compliance with the requirements of the certifying institution. All in all, these processes tend to be time-consuming.

Boström (2014) also mentions some negative critique when checking if certificates are existing and implemented at the suppliers. Since these checks can be done with the help of questionnaires or safety data sheets that are sent to suppliers, the way data are reported may differ significantly throughout the supply chain. Often, those checklists cause problems and are insufficient due to their lack of clarity, substance and depth. Clearly defined evaluation criteria are very important but may not prevent from problematic data reporting (Sneep-Hamburg, 2007). On-site visits are also possible, however, they also require notable resources, such as e.g. transportation to the location, eventually accommodation and employees that are experienced and knowledgeable when conducting the checks. Often it is not allowed by the factories to conduct unannounced visits, which may blur impressions. However, one should be careful of not over-regulating and inspecting a supplier, since distrust can harm doing business with a partner (Boström, 2014).

2.5 Supply Chain Pressure: SMEs as Transmitters of CSR

Up to now, investigations about firms’ efforts and approaches to ensure their suppliers’ compliance with CSR-related standards are mainly aimed at MNCs’ perspective in their function as buying firm (e.g. Andersen & Skjoett-Larsen, 2009) and original-equipment manufacturer (OEM). These buying firms put pressure upstream the supply chain by determining CSR criteria and Codes of Conducts as a prerequisite and qualifier for tendering to supply and include them in their purchasing decision (Baden et al., 2009). CSR requirements are comprised in their supply contracts or purchasing specifications and, further, they can monitor the CSR performance and compliance of their suppliers through audits, inspections and other means (Ayuso et al., 2013).

Specific circumstances for SMEs exist as quite often they are not the OEM in the supply chain but suppliers of them. Thus, when it comes to implying social and environmental initiatives on suppliers, a SME often constitutes the role of transmitter for its customers’ CSR requirements aiming to make their supply chain truly sustainable. The SME suppliers’ perspective and how they handle CSR-related requests as well as forward them to their own suppliers is explored rather less (Ayuso et al., 2013).

The European Commission (2007) states that most of the time, CSR-related buyer requirements are seen as an increased administrative burden. “In order not to lose out on contracts SMEs will often state that they meet buyer requirements, but in reality such requirements may have little or no real effect on the actual practices and policies of the SME concerned” (p.27). This is also caused by the fact that fulfilling the buying firms’ stringent CSR requirements often conflicts with meeting traditional buyer requirements such as delivery time and price. Additionally, SMEs perceive the CSR requirements as rather latent, neither verifiable nor contractual. As a result, there is a gap between making the rules and keeping them (Jørgensen & Knudsen, 2006).
Despite the importance of SMEs’ double role as supplier and buyer, “SMEs will frequently have limited resources and a weak position in supply chains and, as a result of this, they may face more difficulties in influencing their own suppliers” (Ayuso et al., 2013, p.497). However, most SMEs are suppliers of large companies which impose the most CSR requirements, probably as they hold more bargaining power, are able to invest resources on CSR implementation and receive high pressure from their stakeholders (Ayuso et al., 2013). Therefore, SMEs need to familiarise their own supplier management towards these requirements and circumstances in order to avoid a potential loss of customers which could result in an exclusion from supply chains (Roberts, Lawson & Nicholls, 2006).

2.6 Supplier Management

After an extensive literature research the authors can argue that – to their knowledge – literature regarding SMEs’ supplier management in terms of CSR is somewhat lacking. However, there is academic research about CSR issues in supplier management. In this context, the topics supplier selection, relationships and development emerged most often during the literature research. Even if this research often does not consider the special characteristics and issues of SMEs, this chapter aims at giving an overview about those topics.

2.6.1 Supplier Selection

When aiming to fulfil customer needs the suppliers’ material and service input have a great impact. Therefore, managers focus increasingly on their sourcing strategies and supply base (Tan, Smith & Saad, 2006). In order to participate in a competitive supply system, suppliers need to offer a suitable set of competencies (Genovese, Lenny Koh, Bruno & Esposito, 2013). The selection of potential suppliers is influenced by the results of the needs assessment in which buying firms define their requirements and desired criteria on suppliers (Irlinger, 2012). By assessing the suppliers based on these pre-defined criteria, the focal firms can verify the availability of required competencies in the supplier selection process (Genovese et al., 2013). Developing and standardising a supply selection process or system might be laborious and long but is critical in order to find a compatible partner (Tan et al., 2006).7 However, this makes the supplier management a complex interface between supplier and buyer, which is also reflected in the development of buyer-supplier relationships (Irlinger, 2012) (see 2.6.2). Considering the SMEs’ resource limitations, the complexity of issues described above might increase even more if feasible at all. This is confirmed by Xu et al. (2013) who state that SMEs “do not select their suppliers based on CSR because of lack of knowledge, inefficiencies of their purchasing managers, and so on” (p.914).

In many SMEs operational purchasing plays an essential role. Though, purchasing procedures are rarely developed (Adams et al., 2012). However, it is crucial to remind at this point that “simply having the required systems and procedures in place does not necessarily ensure an effective or “good” supplier” (Purdy, Astad & Safayeni, 1994, p.102). In order to have a well-functioning system though, every system existing in literature needs to be adapted to an enterprise’s specific context. Due to significant differences in the characteristics of MNCs and SMEs (see 2.2), not only systems need to be individually adapted to the company. Also the criteria are to be specifically adjusted to the interests of an organisation, including CSR criteria (Eisenschmid, 2013), as establishing the right evaluation criteria is essential (Tan et al., 2006). While traditionally, supplier evaluation was mainly based on financial criteria, also quality, performance history and delivery punctuality were added to the list of prioritised

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7 See Appendix 7 for a description of an exemplary supplier evaluation process in the supplier selection.
considerations later on (Genovese et al., 2013). However, Baskaran, Nachiappan and Rahman (2011) confirm that these traditional criteria do not support all situations. Sustainability factors and sustainable performance criteria have increased in importance (Govindan, Khodaverdi & Jafarian, 2013) as the focal firm’s reputation and perception regarding sustainability certainly depend on its suppliers’ operations (Leppelt, Foerstl, Reuter & Hartmann, 2013). Therefore, relevant environmental and social criteria need to be implemented in the processes of supplier evaluation and selection as well as supplier development (see 2.6.3) (Govindan et al., 2013).

2.6.1.1 Socially Responsible Supplier Selection

As mentioned by Genovese et al. (2013), “the degree of sustainability awareness is mainly concentrated on environmental issues [e.g. Handfield, Walton, Stroufe & Melnyk, 2002; Humphreys, Wong & Chan, 2003; Lu, Wu & Kuo, 2007]; social criteria are not yet being incorporated in evaluation models” (p.2875). Nevertheless, there are also some social criteria identified. Kumar et al. (2014) mention human rights as the highest concern and add child labour, long working hours and feminist labour as sub-categories of that criterion. Xu et al. (2013) also define human rights as the main criterion but name death penalty, one child policy and minority rights as its sub-criteria. Among others, corruption is a social criterion further investigated by Baskaran et al. (2011). Also Wong, Lee and Sun (2012) describe four social criteria adopted by firms to evaluate before selecting their suppliers: (1) discrimination, (2) occupational health and safety which refer to both mental and physical safety, (3) child labours and rights and (4) internal training programmes. However, it is noteworthy that in the same article, Wong et al. (2012) mention thirteen criteria in terms of environment, thus the assessment of the prevailing situation made by Genovese et al. (2013) mentioned above, might not be wrong.

2.6.1.2 Environmentally Responsible Supplier Selection

According to Genovese et al. (2013), “[t]he greener supplier selection problem can be defined as a classical supplier selection problem in which, among the others, environmental criteria are also taken into account in order to select and monitor suppliers’ performances” (p.2871). In recent years, environmental criteria were increasingly considered in supplier selection problem, at least in academic literature. Except for increasing awareness of green issues, environmental restrictions and regulations initiated by public authorities might have favoured that increase. However, “[…] despite the growing interest emerging from the analysis of the academic literature, the focus on green issues in supplier selection in the corporate practice is at an early stage” (p.2881). Still, in SMEs’ but also in large companies’ supplier selection, traditional criteria rather than environmental criteria are focused. Additionally, some mention that quite often environmental criteria are set after a pre-selection was already made (Boström, 2014) and, thus, “environmental selection and evaluation criteria are “just another” set of criteria according to which suppliers are evaluated” (Kovács, 2008, cited by Boström, 2014, p.9).

Nonetheless, in case of incorporating environmental selection, criteria related to waste management, e.g. recycling, are most frequent, probably also caused by legislation mentioned above. When companies are interested in integrating further criteria, environmental staff training, energy efficiency programs and use of green materials in the production are only some possible examples which could be evaluated in the supplier selection (Genovese et al., 2013).

For some reasons, especially the measurement and evaluation of environmental variables raise difficulties for companies and impede them to put theory into corporate practice. Lots of these variables are qualitative and, thus, intangible rather than numerical indicators. In addition, current supplier selection models are often based on traditional criteria and, thus, an incorporation of environmental considerations would require a complete re-
conceptualisation of the model used by a firm. Lastly, the suppliers’ lack of transparency further complicates the evaluation. Even if suppliers are poised to share their environmental performance data, their reliability is quite often questionable (Genovese et al., 2013). This requires the SMEs’ trust and, therefore, buyer-supplier relationships are very important to SMEs (Kulik, 2010).

2.6.2 Supplier Relationships

2.6.2.1 Supplier Relationship Characteristics in General

Purchasing practices, which imply supplier management, are often characterised by relationships that are well developed in large organisations, based on long-term relationship development (Adams et al., 2012). However, even closer and more personal relationships and interactions among various SMEs have contributed to their success (Gunasekaran et al., 2011). For many years, longer-term contracts and greater commitment with single sourcing have increased in comparison to short-term contracts with numerous suppliers, called arm’s length relationships (Mudambi & Schründer, 1996). This becomes clearer with the reasoning that in manufacturing firms, products have become more complex, which results in the need for closer and more intense relationships with suppliers (Kulik, 2010). Although SMEs’ purchasing power or influencing ability is weaker because of small purchasing volumes and little amount of internal resources, they are able to build long-term relationships with the help of knowledge and process sharing, cost reduction and better efficiencies resulting from cooperation (Adams et al., 2012). Caniëls, Gelder and Ulijn (2010) state that dyadic relationships can only be developed when both relationship partners benefit from or find it worthwhile to cooperate for future business. Then, this buyer-supplier relationship serves as a strategy for cooperation and significantly improves sourcing performance (Kulik, 2010).

Literature describes different stages and types of relationships. To name an often cited example, relationships can be classified as Webster (1992) suggests. Thereby, (1) the first transaction is a onetime exchange between supplier and buyer, and hereafter (2) the repeated transaction and (3) long-term relationship follow. From the next stage, (4) a partnership is being developed that creates mutual trust and dependence. Consequently, partnerships can be assigned to a relatively high stage of relationships. There are various forms of partnerships, e.g. cooperations, collaboration and joint ventures. Finally, (5) strategic alliances, e.g. in form of a new product development team, can be created until (6) network organisations are achieved.

Caniëls et al. (2010) emphasise that both trust and commitment are essential for successful relationships, resulting in loyalty towards the other party. They found out that both characteristics increase simultaneously in a buyer-supplier relationship, thus, these related concepts lead to cooperative behaviour. Moreover, trust helps to develop commitment, whereas the trust is enhanced with the commitment of the other partner. Consequently, trust and commitment are key elements in buyer-supplier relationships. Further key elements are buyer’s as well as supplier’s dependence, transparency and willingness to share information. These elements create the hardest challenge for a firm to engage in a partnership (Caniëls et al., 2010; Kulik, 2010). Mudambi and Schründer (1996) add quality of products as one of the most important factors between buyers and suppliers. They also mention features like innovation, flexibility, technological ability and commerciality as well as culture of and communication with the supplier.

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8 See Appendix 8 for a more detailed description about trust and commitment as well as dependence.
The development of relationships is advantageous on both operational and strategic dimensions. Operational benefits can be quality issues, delivery service and cost reduction factors consisting of innovation possibilities or higher competitiveness. Strategic benefits can rather result from supplier relationship management, which enables to build on the success of strategic sourcing and procurement (Kulik, 2010).

### 2.6.2.2 CSR in Supplier Relationships

Hollos, Blome and Foerstl (2012) state that “firms with higher levels of sustainability experience competitive advantages” (p. 2698), which makes dealing with green and social issues essential and raises the need for sustainable upstream supply chains. Hoejmose and Adrien-Kirby (2012) also mention that Socially and Environmentally Responsible Procurement (SERP) could do both, harm an organisation’s reputation and improve its competitive performance. However, it is not easy to implement SERP.

As described in the chapters before, trust, collaboration and cooperation as well as power within buyer-supplier relationships have an influence on the success of appropriate SERP standards implementation (Hoejmose & Adrien-Kirby, 2012). There has been no proof that sustainable supplier cooperation directly affects cost reduction and operational performance, as on the contrary pure economic supplier cooperation does. However, Carter and Jennings (2002) emphasise that trust and commitment with suppliers can improve the supplier performance when purchasing managers involve socially responsible criteria. Synergy effects should be used when cooperating with other SMEs and partner institutions since these can help them to compete on the global market. In order to guarantee sustainable firms and to be able to cope with pressure and competition, conflicting constraints need to be conforming and balanced, such as win-win solutions that are culturally suitable (Gunasekaran et al., 2011). And because sustainable suppliers are rare, joint improvements need to be undertaken, such as joint planning activities and decisions, support, ongoing feedback and reliable promises. These elements from supplier management help to implement social and green requirements, and they overlap with literature that focuses exclusively on economic supplier cooperation (Carter & Jennings, 2002; Hollos et al., 2012). Among other advantages that SERP can bring, organisational learning could be improved as well as customer loyalty leading to long-term contracts and strengthened buyer-supplier relationships (Hoejmose & Adrien-Kirby, 2012).

According to Hollos et al. (2012), there are two options of how firms can implement sustainability. (1) Only sustainable suppliers can be selected and accepted while the ones not meeting certain standards are dropped. More relevant in this section are (2) cooperations with existing or new suppliers that can be formed in order to achieve higher sustainability levels. “Sustainable co-operation improves in response to a strategic orientation of procurement and has a positive impact on green and social practices” (p.2979). However, in terms of performance, cost reduction and operational performance were positively influenced with green practices. On the contrary, no direct effect on performance with social practices and sustainable supplier cooperation were found. Thus, only environmental supply management can improve efficiency and reduce costs of organisations (Carter & Jennings, 2002; Hollos et al., 2012). Nevertheless, strategic orientation in procurement is important when co-operating with sustainable suppliers and one can say that “a company is only as sustainable as its suppliers” (Hollos et al., 2012, p.2979).
2.6.3  Supplier Development

As reported by companies’ purchasers there is a need for improvement of the suppliers’ capabilities especially in the areas of cost, innovation, quality, delivery, product design and new technology adoption. A poor performance in these competitive dimensions directly impacts a buying company’s performance and its ability to compete in its respective market (Krause, 1999; Krause, Scannell & Calantone, 2000). In addition, the buying firms complain of discrepancies between their future expectations and needs and the suppliers’ future capabilities, thus they are required to intervene. Consequently, supplier development strategies are increasingly introduced by buying firms in order to heighten their suppliers’ performance and capabilities (Krause et al., 2000), to solve problems in their supply chains and to increase the suppliers’ efficiency (Ağan, Kuzey, Acar & Açıkgöz, 2014).

This trend also increasingly affects SMEs and involves them in supplier development initiatives which bring up new challenges in terms of resources and methods required. However, it should be mentioned that most SMEs are not undertaking those initiatives by themselves but are rather involved in development activities initiated from their customers. “It is therefore important for SMEs to prepare themselves and to think more about cooperation in order to meet demands on higher competence and large production volumes. To wait for a large buyer to take development initiatives might be risky since the alternative for the buyer is to find alternative sources of supply” (Larsson, 2005, p.20).

2.6.3.1  Definitions, Approaches and Strategies Regarding Supplier Development

There are several different approaches and definitions regarding supplier development. To give some examples, according to Krause et al. (2000), “supplier development is defined as any activity undertaken by a buying firm to improve either supplier performance, supplier capabilities, or both, and to meet the buying firm’s short- and/or long-term supply needs” (p.34). Thereby, supply needs are determined through a company’s operational and competitive strategies (Watts & Hahn, 1993). Supplementary, Watts and Hahn (1993) stress the cooperative behaviour between the buying firm and its suppliers as well as the long-term effort of supplier development. Fung (1999) as well as Sánchez-Rodríguez, Hemsworth and Marinez-Lorente (2005) define supplier development through a purchasing dimension and consider it as procurement or purchasing management. Larsson (2005) also suggests supplier development as a purchasing strategy. However, it depends on the buying firms’ resources and level of buyer-supplier relationship which approach will be applied. “The buyer with limited resources is more prepared to apply basic supplier development practices including supplier evaluation, feedback, supplier selection and supplier awarding” (Shokri, Nabhani & Hodgson, 2010, p.640).

There are many activities and strategies which can be initiated and followed up in supplier development programmes. They may range from rather limited involvement to more intense efforts (Talluri, Narasimhan & Chung, 2010). For example, Lo and Yeung (2006) classify supplier development into direct or indirect.9

Generally, supplier development is a resource-consuming undertaking and requires major commitment of capital, time and personnel from both parties (Ağan et al., 2014; Larsson, 2005). Thus, in case of a buying firm lacks power as it only purchases a low percentage of the supplier’s overall total output, the suppliers might hesitate to participate in development activities (Krause & Ellram, 1997). This prerequisite is especially worthy of attention for SMEs as their purchasing volume might be relatively low due to their size.

9 See Appendix 9 for a description of an exemplary supplier evaluation process in the supplier development.
10 See Appendix 10 for more detailed strategies and activities in supplier development.
Considering the resource consumption of development initiatives mentioned above, it seems obvious that companies cannot put these efforts into all of their suppliers. Consequently, the buying firms need to categorise their suppliers in some way and deduce a prioritisation. Thereby, the ABC analysis is a very common tool and can be applied on many management areas. It aims at evaluating the importance of certain business issues in order to pay specific attention and assign adequate activities to them while neglecting rather economically irrelevant issues (Cordts, 1992). In case of supplier management, it is advisable to categorise suppliers and the parts they deliver in terms of their strategic importance for the buying firm’s added value in production and competitiveness.

Some argue that especially small companies should be provided with supplier development programmes, thereby supporting their economic regeneration and raising the amount of world-class suppliers. However, for this purpose it is a prerequisite that small companies need to decrease their mistrust regarding the buying firms’ motives and rather start seeing the benefits of supplier development (Ahmed & Hendry, 2012).

2.6.3.2 CSR in Supplier Development

In literature many suggestions are made regarding the use of CSR aiming to improve a company’s ethical behaviour. Likewise, many suggestions are made regarding the use of supplier development aiming to improve suppliers’ capabilities. However, there is rather little research concerning suppliers’ business ethics. “While organizations are well aware that they will be adversely affected by the unethical behaviors of their suppliers, managerial guidelines on how a buying firm may proactively enhance its suppliers’ capabilities in implementing ethics-related practices are virtually unavailable in the literature” (Lu, Lee & Cheng, 2012, p.161).

Quite often suppliers might not be able to integrate CSR in their operations due to their unawareness of social responsibility and a lack of financial and time resources (Lee & Kim, 2009). Therefore, buying firms play a key role when it comes to the adoption of CSR to suppliers; support can be given through collaboration and inter-organisational learning (Andersen & Skjoett-Larsen, 2009; Lu et al., 2012).

In order to respond to the suppliers’ ethical problems, Lu et al. (2012) integrated CSR and supplier development in a new approach they call Socially Responsible Supplier Development (SRSD). It refers to “a buyer firm’s concerted supplier development efforts to improve its important suppliers’ capabilities and commitment to CSR implementation” (p.162). It is expected that by proactively implementing SRSD through buying firms, their suppliers are influenced and motivated to integrate CSR, and thus both parties are able to improve their ethical performance.

SRSD comprises three important dimensions. First, (1) socially responsible supplier evaluations in terms of CSR implementation processes and outcomes are required. Further, buying firms need to put effort on regular assessments of the supplier’s ethical behaviour. A feedback system helps buying firms to monitor suppliers (Lu et al., 2012).

Second, knowledge about CSR concepts and implementation need to be shared and discussed between suppliers and their buying firms. Through (2) socially responsible information sharing suppliers can achieve knowledge and learn fundamental concepts about CSR, its related practices, implementation guidelines or outcome measure. However, this dimension requires the buying firm’s willingness to share its CSR knowledge with its suppliers (Lu et al., 2012).

11 See Appendix 11 for further prerequisites and influence factors for supplier development.
12 See Appendix 12 for benefits of supplier development.
Third, buying firms need to identify deficits in the supplier’s CSR implementation. With (3) socially responsible supplier development they aim to undertake required activities in order to solve the determined problems, aiming to direct improvements. This dimension implies that “the buying firm has to be ready to get directly involved in suppliers’ CSR implementation or ethics-related problem-solving efforts” (Lu et al., 2012, p.166).

To sum up, SRSD is a new concept which follows a proactive approach. Its objective is to influence and develop the suppliers’ performance and ethical practices actively. This might be a counter approach to the rather frequently used concept to influence suppliers and business ethics rather indirectly through phasing out poor performing suppliers already in the selection process (Lu et al., 2012).

2.7 Research Questions

Literature has given an overview about CSR in SMEs and their supplier management. It is obvious that SMEs are already acting in a very CSR-oriented manner regarding internal and societal issues. This is especially noteworthy as, in comparison to MNCs, they seem to be clearly disadvantaged due to their special characteristics. Consequently, literature describes several barriers when it comes to CSR adoption. Nevertheless, literature did not sufficiently explore both CSR activities and barriers in the SMEs’ supplier management. Therefore, based on the identified gap in research and the reviewed literature, the following research questions have been derived for this paper in order to fulfil the purpose of this thesis:

RQ1: What CSR activities are undertaken by SMEs in their supplier management?

RQ2: What barriers do SMEs face when adopting CSR in their supplier management?
3 Methodology

In this section, the research approach and design of the study are explained. The research design comprises the strategy, method and time horizon of the study, which clarify the way how to answer the research questions. Furthermore, the data collection and data analysis techniques are described and quality concerns are addressed.

3.1 Research Approach

Followed by the theory that was reviewed in the previous chapter and the thereof deduced research questions, a research approach was concluded and used throughout the study, and framed the researchers' process of argumentation.

Generally, one can differ between the two basic forms of scientific reasoning: inductive and deductive research approach (Saunders, Lewis & Thornhill, 2009). However, both approaches did not match the authors’ research requirements sufficiently.

There is a rather uncommon approach called abduction, which is based on a real-life phenomenon and, thus, was a more suitable scientific reasoning approach here. With the help of an iterative process already existing theory about CSR, SMEs and supplier management was gathered, integrated and developed to a new frame of reference. Subsequently, the frame of reference was applied to the phenomenon that was explored after empirical research had been done. Accordingly, a learning loop was created by the overlap of empirical findings of the interviews and secondary data which overlapped with theoretical statements from the literature. Abductive reasoning thus “follows the process from rule to case to result” (Spens & Kovács, 2006, p.378). The general logic in abduction is that surprising facts are turned into naturalness and new theory contributions are suggested (Spens & Kovács, 2006). Abduction is further characterised as the main method when making everyday decisions and scientific inquiry. Abduction therefore seeks for the simplest and best explanation of phenomena, which broadly described the underlying research (Mantere & Ketoviki, 2013).

The abductive approach started with a review of relevant theory. With a more informed background about CSR in German SMEs and their supplier management, in general, a more focused decision about the study’s research design was made. Rather insufficient prior knowledge of supplier-related CSR in SMEs was identified. Therefore, this thesis focused on an initial kind of study as the phenomenon needed to be explored in a deeper way. After data collection and making analysis decisions, the abductive approach enabled the authors to interpret data gathered and draw conclusions in a better way for answering the research questions (Saunders et al., 2009).

3.2 Research Design

The research design – comprising the strategies, methods and time horizon – reflects the general plan of how to answer the posed research questions. It includes the information about what evidences were gathered and from where as well as how these were interpreted in order to ensure a good answer to the research questions (Flick, 2007; Saunders et al., 2009). It was a “reflexive process which [operated] throughout every stage of a project” (Flick, 2007, p.37).
A classification of the research purpose was made, deriving from the research questions which were based on the theory and problem statement. The literature mentions three different terms: descriptive, explanatory and exploratory (Saunders et al., 2009).

The formulation of the purpose of this study resulted in an exploratory study, since the researchers wanted to find out “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light” (Robson, 2002 cited by Saunders et al., 2009, p.139). The underlying thesis aimed to explore a phenomenon in a much deeper sense and from a CSR-oriented perspective by exploring what interviewees of German SMEs actually thought about their supplier management in terms of CSR criteria, which was a new combination of already academically examined terms.

In exploratory studies, three actions can be taken in order to understand and clarify a problem: (1) searching the literature, (2) interviewing “experts” in the field, or/and (3) carrying out interviews within focus groups (Saunders et al., 2009). Within this research, the first two actions mentioned were of importance when (1) writing the frame of reference and (2) holding semi-structured interviews (see 3.3.3). (3) Conducting focus groups was not realisable for this study, as the participating German SMEs are situated widely spread throughout Germany while the authors were writing their thesis in Sweden.

The research questions’ answers went beyond literature and descriptive answers, since a phenomenon was explored in its context. The study aimed at making obvious characteristics visible and “[i]n addition, the researcher[s] were able to capture various nuances, patterns, and more latent elements that other research approaches might overlook” (Berg & Lune, 2012, p.327). In order to answer RQ1 regarding CSR activities undertaken by SMEs in their supplier management, a deep understanding of the companies’ objectives was required. The answer to the “What”-question was not complete by barely listing CSR-related activities undertaken by SMEs. Information about a firm’s CSR-oriented goals, its representatives’ opinions and estimations of their firms’ activities in their supplier management were required when going more into depth and exploring the companies’ motivations for their activities undertaken or reasons why they were not undertaken.

Not undertaking CSR-related activities indicated that problems and challenges were faced. Therefore, it was important to answer RQ2 regarding barriers that SMEs face when adopting CSR in their supplier management. In order to ask beyond the traditional, obvious barriers of SMEs, it was crucial to ask interviewees for giving real-life examples. This helped to determine in the end, what other problems and barriers SMEs actually faced when adopting CSR, or especially the mentioned CSR-related activities from RQ1 in their supplier management, and why they were (not) able to implement them.

Furthermore, the exploratory design offered advantages of flexibility and adaptability to change. Thus, new insights gained from the empirical findings and analysis may have influenced the authors’ direction taken. In the beginning of the research the focus had been very broad but narrowed down when the research progressed (Saunders et al., 2009). Exploratory studies support that different statements of the interviewees were linked to key concepts of CSR and supplier management from the theory accordingly (Mantere & Ketokivi, 2013) while, nevertheless, the context of the SMEs’ operational field was considered when conducting interviews. Thereby, the researchers were part of the exploratory research process (Saunders et al., 2009).
3.2.1 Research Strategy

There are several research strategies to choose from when doing exploratory research: experiment, survey, case study, action research, grounded theory, ethnography and archival research (Saunders et al., 2009). For this research a multiple case study was suitable, which is described as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Saunders et al., 2009, p.145f). Thus, in order to explore the SMEs’ supplier management regarding their CSR-related actions and barriers, multiple cases consisted of interviews with representatives of manufacturing-oriented SMEs for generating primary data about this phenomenon. Furthermore, since case study data come from multiple sources of evidence to go beyond studying isolated variables (Berg & Lune, 2012), secondary data was collected as well (see 3.3.4).

3.2.2 Research Method

For the research plan, the authors decided between a qualitative, quantitative and mixed method respectively. This decision influenced the techniques and procedures in terms of data collection (see 3.3) and analysis (see 3.4) later on. The selection of non-numeric data was decided as the suitable method. Thus, a qualitative method applied as the purpose of this thesis was to explore CSR in the context of SMEs’ supplier management, which aimed to achieve a deep understanding of this phenomenon. Qualitative research uses text as empirical material; so, participants’ perspectives, everyday practices and knowledge were gathered (Flick, 2007). As this thesis not only comprises data from semi-structured interviews but also from secondary literature, a multi-method qualitative study applied (Saunders et al., 2009).

3.2.3 Time Horizon

There are two basic distinctions of time horizon: cross-sectional and longitudinal studies. In qualitative research, the distinctions relate to the number of empirical contacts made in the field. As the authors conducted only one interview per company, it could be argued that the thesis followed a cross-sectional time horizon. However, the interviewees gave opinions, estimations and examples regarding CSR in their supplier management that have developed or happened over months or years. Thus, the researchers focused beyond the current situation although they only had one occasional empirical contact. This was realised with the help of retrospective interviews in order to get impressions about first, what the firms had implemented until the time of the interview, and second, the worthiness of further studying the topic. Therefore, it is rather determined as a longitudinal study (Flick, 2007; Saunders et al., 2009).

3.3 Data Collection

3.3.1 Company Selection

When the multiple case study was chosen, sampling was a central feature whereby “researchers decide not only which material, which cases, persons or groups will be involved in [the] study. It also determines which comparative potential a study involves” (Flick, 2007, p.39). Since the dimensions of the cases included in the sample should be comparable as far as possible, specific criteria were defined for the underlying study: (1) Companies should be manufacturing-oriented SMEs (2) and originated in Germany. Further, (3) the number of employees should not exceed 250. Thus, as most of the time, sampling had a purposeful characteristic (Flick, 2007).
Prior to conducting the interviews, initial contacts were made on the 28th February 2015, when first e-mails were sent out to eight German SME associations. One replied to provide its support, and additionally, a request in six topic-relevant groups in the professional network XING enabled the authors to find two interview partners.

Meanwhile, the authors made a list of about 170 companies collected from the German webpage https://www.wlw.de/. This was a helpful source to gather companies since a large collection of SMEs of all kinds of branches was available supporting the authors’ intention of not researching in an industry specific context. When selecting various potential SMEs, filter options facilitated the searching process regarding the amount of employees working there and if they were manufacturing or service oriented companies. Before contacting the identified firms, their webpages were double-checked for meeting the defined criteria.

First reminders were sent out approximately one week after the initial contact. As the authors paid specific attention to schedule interviews only with company representatives who are informed on the company’s supplier management, frequent reasons for returning rejections were absence of persons appropriate for the purpose of the interview or insufficient time, while others were already supporting their internal graduating students. Nonetheless, three interviews could be scheduled in this way.

Additionally to the five scheduled interviews so far, direct calls to suitable companies were initiated in order to ensure a sufficient data saturation for the study. Some were contacted on the basis of newspaper articles that had occurred about them regarding different contexts. This enabled a more personal initial contact and allowed the authors to schedule five further interviews. The online telecommunication service provider Skype supported making affordable international calls from Sweden to Germany. Interviews were conducted between 09th March and 14th April 2015. Choosing their preferred time and date offered flexibility to the interviewees in order to arrange enough time for a comprehensive conversation. A brief introduction about the firms will be given in the next section.

### 3.3.2 Sample

Company 1 was founded in 1951 with only 10 employees producing lamps and light pointers at that time. Today, the firm has 57 employees and manufactures incandescent and precision lamps. These products are used within industrial automation and medical applications. Thereby, the firm emphasises its focus on quality and is specifically characterised by its regional integration.

Since its foundation in 1960, Company 2 has been following the market impulses with changing consumer desires and its hereof resulting adaptations when producing basic baking ingredients and primary products of the food industry. The firm emphasises “undertaking” instead of “managing” with some preparedness for risk, personal engagement and long-term perspective. Responsible thinking as well as social and societal commitment are reflected in the firm’s values and lived by about 70 employees.

When Company 3 was founded in 1918, different kinds of fat, edible oil and detergent were produced. Nowadays, 200 employees produce high quality greases and corrosion protection, which are the core products applied in the metal and automotive industry for smooth production processes and optimised working processes. Modern technology supports the quality level of production as well as protection of environment.
Founded in 1956, Company 4 produces turning parts which are of use in diverse industries, e.g. automotive, electro, precision engineering and medical technology. These products themselves are relatively low priced, while the price segments of end products with the processed turned parts are relatively high. Continuity is key word as well as the regional integration of the firm with its 120 employees.

Since 1950, Company 5 has been manufacturing work stations, including factory equipment, diverse factory or assembly tables and transfer systems within the metal industry. For laboratories, also integrated measurement technologies are offered. The family firm and its 140 employees are aware of their responsibility towards customers and focus on short decision paths as well as high competency. Therefore, ergonomics, functionality and design are characteristics of its products.

Company 6 was founded in 1983 and is one of the world’s leading commercial armoured vehicle providers in a high-price segment, specialised in armoured limousines e.g. for Heads of States. About 50 employees ensure that the international customers’ quality expectations are met at a world-class level by individually tailoring motor cars made in Germany.

While it was founded in 1899, Company 7 is owned in fourth generation today. With its ascending solutions it is one of the leading companies in the sector and, thus, achieved worldwide presence. Nevertheless, the firm clearly commits to its home region and their German production site. About 245 employees are responsible for fulfilling the high quality standards of the firm’s serial products but also customer-tailored solutions.

Company 8 was established in 1901 and is still family-owned. Today it belongs to one of the leading spinning mills within Europe. About 160 employees produce high-quality yarns and twisted yarns in raw white and dyed exclusively in Germany on two production sites. Thereby, innovation and sustainability are the principles of the firm’s actions and philosophy.

Since Company 9 founded its organic dairy in 1908 the firm has developed to the largest one in Europe with about 200 employees today. By using the best raw materials from regional and organic farm partners the firm produces trustworthy quality products in Germany. As an ecological pioneer, the firm follows the guideline “leave natural things natural”.

Company 10 was founded in 1962 and produces analytical instruments and systems mainly for the medical sector but also, e.g. for breweries. The family business has about 125 employees who create sophisticated and eco-friendly solutions supporting customers worldwide. Thereby, quality and innovation but also experience and know-how are values ensuring the firm’s future business.

Table 3-1 gives an overview about the time frames of the interviews conducted and summarises the characteristic factors of the participating companies and its representatives.
3.3.3 Primary Data Collection

In order to collect primary data semi-structured interviews were conducted, which equalled neither a closed, structured questionnaire nor a completely open everyday conversation (Mayring & Gläser-Zikuda, 2008; Kvale, 2007). An interview reflects the views of two persons having a conversation about a topic of common interest (Kvale, 2007), hence, interviews as a “purposeful discussion between two or more people” (Kahn & Cannell, 1957 cited by Saunders et al., 2009, p.318) were conducted. Thus, the interviews with SME representatives helped to reflect on the particular phenomenon, leading to new insights and generating new knowledge.

For conducting semi-structured interviews an interview guideline\textsuperscript{13} was conceptualised. The guideline was of advantage when gathering empirical data. It helped to structure the questions, and supported the interviewers’ orientation and memory containing several important questions, hints as well as introducing single question blocks. Moreover, the process of setting up a guideline helped to prepare the interview talk. During the interview, a certain degree of flexibility was guaranteed since questions could be reordered, wordings rephrased, the level of language adjusted, and spontaneous upcoming questions or remarks clarified, which again characterises the exploratory research (Berg & Lune, 2012; Stigler & Reicher, 2004). Furthermore, there was more room for the interviewees to mention real-life examples from their work and their experiences.

In order to get high quality answers it was crucial that interviewees understood the researchers’ questions correctly. From the beginning it was clear that interviews must be conducted in the mother tongue, as Germans would probably feel uncomfortable or would not be capable of responding in English, especially when it comes to CSR-related formula-

\textsuperscript{13} See Appendix 13 for the Interview Guideline.
tions. Therefore, the guideline was first set up in English for having it double checked with the supervisor. In order to eliminate any language barriers with the interviewees, it was translated into German.

The guideline comprised a briefing explaining the aim and purpose of the study (Kvale, 2007). In order to follow ethical principles, anonymity was provided for the interviewees and their companies. Furthermore, the interviewee’s informed consent was asked for in order to audio-record the interview. This enabled a stronger focus on the conversation flow. After clarifying this, it was asked for basic company-related details (e.g. number of employees, branch, etc.). An introduction of the term sustainability was offered in order to build a joint basis and an open and positive atmosphere for the upcoming conversation. According to Baden et al. (2009), most SMEs have not heard of CSR, which was also concluded from literature which emphasised the unawareness of some SMEs regarding CSR and its implied language. Therefore, the authors were aware of the fact that this term might not be familiar to all the interviewees. Consequently, they used the terms “socially responsible” and “environmentally responsible” and gave specific examples where necessary.

Besides experiences, opinions and actions of the chosen SMEs, also precise descriptions of what the supplier management and relationships looked like were of interest. Instead of general opinions about supplier relationships, the interviewers asked for specific situations and actions that were undertaken, while arriving at a very concrete level, as the interviewees named specific examples. Thereby, the interviewers were open to new and unexpected phenomena, even though a certain literature background was already known. A certain level of curiosity and sensitivity allowed the interviewers to think critically about what was said, but also what was not said. After going through all the question categories, a debriefing took place, which rounded off the interview by giving the chance for adding some other information interviewees wanted to bring up (Kvale, 2007).

### 3.3.4 Secondary Data Collection

As already mentioned, in order to have a fundamental background secondary data were collected. Company reports or internal documents of the interviewed SMEs, newspaper articles and corporate webpages helped to get further insights for this research. Saunders et al. (2009) categorise these sorts of data as documentary written materials. Although these secondary data were originally gathered for a different purpose than for this study, significant information was delivered from these sources.

### 3.4 Data Analysis

Analysis is the most difficult aspect of any qualitative research project, but it is also the most creative one (Berg & Lune, 2012). Therefore, it was important to identify the relevant statements step-by-step in the gathered data from the audio-records and notes, which were ordered in an MS-Excel sheet before summarising them in the empirical findings with a categorised structure. Here, only relevant and valuable material was represented in a readable, interlinked and authentic way in order to understand the holistic interview content as basis for the study’s analysis (Flick, 2007; Berg & Lune, 2012; Kvale, 2007).

For analysing the interviews, Kvale (2007) suggests several modes to analyse the meaning of interview texts. The researchers chose the modes of analysis that were consistent with the project: (1) focusing on meaning and (2) theoretical reading.
To start with the analysis (1) focusing on meaning comprises actions of (a) coding, (b) condensing and (c) interpreting meanings which are also characteristics for content analysis (Kvale, 2007). Content analysis is a “careful, detailed, systematic examination and interpretation of a particular body of material in an effort to identify patterns, themes, biases and meanings” (Berg & Lune, 2013, p.349). It supported the data analysis of the underlying empirical data. In order to identify meaningful statements, (a) coding was helpful for analysing the categorised findings, when statements in the findings were ordered according to key words “supplier selection, supplier relationships or supplier development”. An example: The answers to the guideline’s ninth question “Apart from traditional criteria (e.g. costs, quality) when selecting new suppliers, do you also consider sustainability criteria?” were thus related to supplier selection (see 5.1.1) within the category CSR activities in supplier management (see 5.1). The so-called (b) meaning condensation helped to compress long and very subjective or specific statements into briefer statements, by keeping the main sense in rephrased, shorter sentences. Main themes of complex and extensive interviews were thus condensed in order to conduct interpretations and theoretical analyses. With the next step, (c) meaning interpretation went beyond what was literally said, since linkages were required and statements set into broader context for generating a structure, which resulted in longer interpreted statements than the originals (Kvale, 2007).

(2) Theoretical reading included repeatedly reading through the interview notes in order to theoretically reflect on particular interesting themes. Their interpretations were written out without following a systematic approach or combination of techniques (Kvale, 2007) but every researcher contributed with independent interpretations which were finally combined.

As Flick (2007) suggests, comparisons were made on three levels. (1) Within a category; relevant parts e.g. CSR-related activities were taken from the different interviews for one of the particular categories supplier selection, relationships or development. (2) Within a case; where the interviewee’s statements and secondary data about different issues, such as firm-related internal requirements for selection criteria, were analysed in terms of consistency or contradiction across categories. And (3) between cases; where various interviewees’ responses were compared on the level of one topic, category or the whole interview, such as the firms’ overall values and goals having an effect on their activities. A fruitful method to compare various interviews was putting them into contrast with each other by making assumptions about expected similarities or differences. This helped “to develop a more systematic understanding of the material you analyse and the structures in it” (p.40). Thus, within this thesis, comparisons were made on all levels.

3.5 Quality of the Study

Traditionally, various quality criteria and methods, such as validity and reliability have been applied for quantitative and qualitative studies. Since the underlying study is qualitative in nature, alternative quality criteria that are rather favouring qualitative approaches, e.g. trustworthiness could be chosen in addition (Halldórsson & Aastrup, 2003). To ensure reaching a certain level of trustworthiness, most qualitative researchers support the opinion that the four criteria need to be fulfilled: (1) credibility, (2) transferability, (3) dependability and (4) confirmability (Lincoln & Guba, 1985).

(1) Credibility is the confidence in the “truth” of the findings. In order to ensure the credibility in this thesis the risk to get wrong answers in the interview was minimised by clarifying the term CSR as a basis for the interview. Moreover, examples were offered when someone could not come up with an answer. Furthermore, the “truth” of the responses
was ensured as anonymity was guaranteed from the beginning of the interview and a friendly atmosphere was generated. All interviews were allowed to be audio-recorded, which enabled the researchers to re-listen to the interview in order to accurately take notes and directly quote interviewees, which also contributed to the credibility (Kvale, 2007; Saunders et al., 2009).

(2) Transferability comprises that the findings show their applicability in other contexts (Lincoln & Guba, 1985). It is closely related to generalisability (Saunders et al., 2009). “Internal generalisability refers to the generalizability of a conclusion within the setting or group studied, while external generalisability refers to its generalizability beyond that setting or group” (Flick, 2007, p.42). The internal generalisability can be applied to qualitative research with its theoretical instead of numeric generalisation (Flick, 2007). Kvale (2007) also mentions analytic generalisation, which allows judgements of how far conclusions from interviews to other people or other situations can be drawn. Since the interviews represent a small number of SMEs in Germany with particular characteristics and only one representative of that particular SME was interviewed, no external but internal generalisation to manufacturing-oriented SMEs situated in Germany and with a size of up to 250 employees was possible.

As the interview guideline enabled some consistency, the scope of the results could be extended by focusing on the principle of completeness and testing the results for similarity and dissimilarity. Interviews were done until reaching a point of saturation after the amount of ten interviews, so that no new insights or perspectives were added with conducting more interviews. Moreover, the researchers also tried to keep most of the conditions as constant as possible in the case, meaning that all relevant criteria were fulfilled and interviewees were responsible or knowledgeable about the supplier management at their company. In best case the interviewees could name some examples when CSR was of importance to the supplier management in their company (Berg & Lune, 2013; Flick, 2007).

(3) Dependability means that it should be checked if the findings show consistency and the same results would be achieved, and if there is transparency of the sense-making from raw data (Lincoln & Guba, 1985; Saunders et al., 2009). Although the interviews were not standardised, other researchers should disclose similar information when conducting the same interviews, this was of concern regarding the study’s reliability. Therefore, the guideline was tested twice with two different interviewees of manufacturing firms prior to conducting the interviews in order to build competence. Some practical hints for conducting interviews with SMEs helped to make small adaptations to the guideline and learn from the way questions were asked (Saunders et al., 2009).

(4) Confirmability is a certain degree of “neutrality or extent to which the findings of a study are shaped by the respondents and not by researcher bias, motivation or interest” (Lincoln & Guba, 1985 cited by RWJF, 2008). Biases play a significant role in the data collection. First, there is the interviewer bias, whereby the interviewers’ non-verbal behaviour, comments, or tone can influence the responses of participants. The interviewer bias is evaluated as relatively small, since two researchers could interpret the responses and contributed to generate trust of the interviewees. Second, there is an interviewee or response bias which deals with the perceptions the interviewees get about the interviewers or the flexible interview structure. The researchers felt that the interviewees did not fear talking about sensitive information, since an open discussion led to detailed descriptions of practical situations.

Participant error was avoided by allowing the participants to name their preferred date and time for conducting an interview in a concentrated and focused manner. Regarding the participant bias, the researchers were aware of the problem that interviewees may want to give
answers that they think are expected from them to say. However, when drawing the guideline, anonymity was emphasised to the participants. The observer error was reduced in that the guideline was pre-structured, which lessened the different ways of asking questions. Moreover, a cut-down version of the guideline was sent to all of the interviewees prior to conducting the interview, which provided a rough overview of the different topics addressed. The examples for answering the questions were excluded in this version in order to stimulate own thinking of the respondents. However, interviewees were able to prepare a little in order to feel more comfortable for the upcoming interviews. Lastly, the sample of data collection could be biased through the fact that the length of the interviews kept some firms and contact persons from agreeing on participation (Saunders et al., 2009).

Because the study was conducted by two researchers, advantages were generated in many facets, such as in the data collection when two researchers asked questions in the interviews, selected most important statements and interpreted these results (Saunders et al., 2009). Coordination of the work and different views generated a creative and mutually supporting atmosphere. For some parts of the thesis, labour division helped to work on different parts in order to examine different settings. Good communication was ensured by availability via Skype and regular face-to-face meetings when comparing the written results or conducting the interviews. Mutual access to data was ensured via Dropbox, Google Drive and a joint email account for the Master thesis partners.

Quality also comprises ethics, whereby the authors cared about the “safety” of their respondents in the interviews. Furthermore, there is moral responsibility which is about the constructs made by the interviewees (Halldórsson & Aastrup, 2003). When the interviewees of the research reached a point during the interview where they expressed some kind of insecurity, e.g. when they thought that they should improve in some points of CSR integration, the authors made clear that they would not judge them and their behaviour in order to make them feel comfortable during the interview. This is also represented in the success of having 10 interview partners agreed on participation, implying that legitimacy was established and the potential subjects were convinced that their participation was of importance (Berg & Lune, 2012).
4 Empirical Findings

This chapter deals with the results from the empirical study. The empirical data collected through ten interviews and secondary literature is presented. The description of the findings starts with the companies’ goals and CSR efforts and is followed by their supplier management including supplier selection, relationships and development.

4.1 Company Goals and CSR Efforts

All companies noted that economic goals such as profitability need to be considered as otherwise they cannot survive in a competitive market. Company 5 described economic goals as one basis for their business. Moreover, Company 6 is “almost exclusively economically oriented”. In contrast, Company 2, 7, 8 and 9 specifically named sustainability as a goal of high importance. Company 3 even stated to have integrated CSR in its overarching strategy. However, even though to different degrees, all companies have included social and environmental goals in their firms’ objectives. These could also be found on their corporate webpages; some even offered more detailed information under an extra “sustainability tab”.

4.1.1 Social Goals and Efforts

Regarding social objectives employee orientation and satisfaction plays a central role, as confirmed by Company 7. Company 2 has affirmed respect and equality in their quality management. Additionally, Company 4, 5, 7 and 9 mentioned responsibility for their employees but also stress the interdependence of this social goal and economic goals as employment can only be guaranteed when economic objectives are fulfilled. Company 8 confirmed that “even if sustainability is very important and [the firm] tries to live this principle, sustainable means are only introduced when economically efficient”. Company 6 described this interdependence as a cycle: “If a company cares for their employees, they are satisfied and produce good quality, resulting in customer satisfaction and repeated purchases; then we can pay our employees leading to satisfaction again. If one of these elements does not work, the circle turns in a negative direction”. When giving examples for social activities towards employees, Company 6 and 8 mentioned part-time work schemes and Company 5 adds partial retirement. Company 4 offers flexible working schedules, supports young families and ensures women have a presence in top positions. Company 10 even offers possibilities for child care in-house. Company 7 employs some disabled people and supports sheltered workshops.

Social activities conducted towards society, e.g. sponsoring and donations with a main focus on regionally located clubs and associations were highlighted by all companies. Only Company 6, which is situated in a bigger town of Germany, neglected a closer connection to its direct society and, thus, is not focused on regional support. Company 1 releases its employees to do social work. The head of Company 2 has established an own foundation for which he collects money and organises charity campaigns published in a regional newspaper. Company 9 donates food as stated in an article on the webpage. Company 10 supports schools with playful research lectures. Company 3 was mentioned in several articles due to its participation in diverse social and ecological activities. Furthermore, the firm is

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14 Due to guaranteed anonymity regarding the firms’ and interviewees’ names, no references can be named.
very active in knowledge management and youth development. Therefore the firm has established cooperations with schools and universities with the “aim to sensitise them for CSR and sustainability already at a young age in order to ensure that these topics are assimilated by them when having decision-making positions later on”.

4.1.2 Environmental Goals and Efforts

Environmental objectives are mainly considered in the production process but also in the product itself. Thereby, durability and quality but also environmental protection were the most often mentioned objectives. Company 1 emphasised “focus on quality” on its webpage and confirmed it in the interview as its highest value since quality leads to durability. This focus is already considered as contribution to environmental protection through waste reduction. In terms of production processes, the company avoids unnecessary resource consumption and reuses packaging. Same aspects were mentioned by Company 3 while, in addition, this firm already considers environmental aspects in the product development process as mentioned on its webpage regarding its ISO 14001 certificate. This helps to ensure low environmental risk by substituting potentially harmful substances. Similarly, Company 2 avoids one specific ingredient because it is known that the certificates for that special raw product are questionable and, therefore, sustainability cannot be ensured.

Company 10 determines an ecological assessment of their products, which was explained in detail in a company report published on its webpage. The product of Company 9 is ecological in nature and, thus, raw materials used in production processes are ecological and environmental-oriented as well, also reflected in the ISO 14001 certification as evidenced online. As an example this firm keeps water consumption as low as possible and uses packaging with low plastic and reusable packaging if possible. Company 5, 7 and 10 produce with green energy. Further, Company 2, 4 and 7 established a packaging cycle for waste reduction or at least appropriate disposal. Company 1, 3 and 7 even stated that their environmental activities exceed legal requirements.

4.2 Supplier Management

4.2.1 Supplier Selection

4.2.1.1 Supplier Locations and Origins

Except for Company 6, regional origin plays a significant role in supplier selection for the interviewed companies. Company 1 and 4 are located within an important sector-specific cluster, which facilitates regional supplier selection. Company 2, 3, 7, 8, 9 and 10 mentioned their preference to buy regionally if the resources are available. However, Company 10 stated that sometimes its research and development department buys very specific products without paying attention to regional sourcing. For specific ingredients, Company 9 focuses exclusively on regional suppliers in order to ensure short delivery distances which are essential for perishable food products. Additionally, the firm only purchases acknowledged organic supplies, thus, the assortment is low. On the firm’s webpage the customer is able to locate the origin of the product’s main ingredient. Company 5, 7 and 8 highlighted advantages of regional suppliers such as no language barriers and more flexibility through faster reactions and shorter delivery times. Company 7 added high quality requirements as reason for the selection of German suppliers. However, all companies are obliged to purchase ingredients required for production internationally in case of no availability in Germany.
4.2.1.2 **Selection Criteria**

Except for Company 4, all other companies see a risk that negative affairs at the suppliers’ sites would have a negative impact on their company respectively. Company 2 specifically mentioned that negative influence would cause e.g. image damage. Therefore, Company 3 and 7 emphasised that in order to minimise the risk of negative affairs, the supplier selection is especially important.

Company 3 would not choose the supplier with the lowest prices but focus on a holistic examination and decide for the one generating the best impression. When positioning CSR requirements, the firm stated that some suppliers are aware of their monopoly position, which makes it harder to push them through. Transparency is a difficult topic here, since suppliers who deliver raw materials from Asia or USA only offer limited information about their origins and processing, which is especially difficult to control for SMEs.

Also Company 9 watches out for the organisational structure and the suppliers’ appearance to absorb negative entanglements from the beginning. Company 6 makes on-site visits in the selection process in order to get an impression about the suppliers’ processes, circumstances and employees’ motivations, which are indicators for the quality of their products. Quality as selection criterion is especially of importance with potential suppliers of system critical components and should meet the firm’s expectations regarding “a world-class level”, as mentioned on the webpage.

In terms of sustainable supplier selection, Company 1, 4, 5, and 10 do not specifically ask for social or environmental requirements as long as prices, quality and performance are fine. Company 1 stated that “there must be a reasonable ratio (e.g. I would not buy if the supplier would burn its cars on their site in order to dispose it)” when it comes to sustainability criteria in the supplier selection. Company 4 would most probably decide based on the regional criterion if cost differences were within this reasonable ratio. Cooperative, trustworthy handling and cultural similarity were mentioned as additional selection criteria by Company 10.

Company 2 requires the signature of a supplier agreement, asking for certificates, adherence of rules and ethical principles, and if sustainability and sustainable production were considered. The firm has not yet thought seriously about making these rather intangible criteria more measurable, “since other topics are of higher priority, e.g. quality, price, deliverability, hygiene, etc”. But it is faced with sustainability when purchasing raw materials, as the production process is of importance. With every order placed, Company 3 points out its defined purchasing requirements, which comprise work, environment and health protection. Fair payments are important but often competitors do not comply with it and customers decide for the lower prices.

For Company 7 sustainability results from quality as durability of the products is ensured. Hence, quality as a sustainability criterion is more important than costs when selecting suppliers. This is also supported by Company 6. Company 9 added transparency as sustainability criterion, which signalises credibility and trust towards the customer. “Customers also demand transparency and they are willing to pay a higher priced product and want to know what they are buying”. For the firm, selecting suppliers on the basis of matching philosophies is important, whereas companies without ecological thinking would be rejected.
4.2.1.3 Certificates

Many of the interviewed firms give information on their webpages about their certifications and documents. Company 9 exclusively purchases from EU organic certified suppliers that are member of an organic cultivation association. Fair Trade plays a role if it is available for the raw material; otherwise there are no regulations.

Company 7 and 8 begin by checking if certificates of a potential supplier are available, which indicate basic requirements and help to make a pre-selection. Furthermore, questionnaires are sent out and site-visits are done if possible. However, Company 8 almost exclusively uses the availability of industry specific certificates as well as ISO 14001 and Fair Trade certificates as supplier selection criteria since the complete supply chain needs to guarantee Fair Trade products. Thereby, the firm pays special attention to the trustworthiness and validity of the certificates of suppliers. The firm stated that “even if a supplier was lower in price, we would not decide for it if it misses one of the essential certificates”. On the contrary, Company 10 mentioned that certificates are not a “must-have”, but any evidences of sustainable activities are of interest as the lack of certificates does not mean a supplier acts unsustainable. However, if costs are slightly higher because a supplier has an ecological certificate, it is mandatory to decide for this one anyway.

Company 6 sees no demand to ask for certificates since the market is very specific and so are the suppliers. With some parts there are only few or even no suppliers available in Germany. Then development processes are started in cooperation with suppliers which is quite difficult anyway and would not allow also requesting certificates. Consequently, besides one big concern there is no supplier that has the environmental certificate ISO 14001. More important for the firm is the ISO 9001 certificate which aims at quality and, therefore, the firm would accept higher prices from suppliers that are certified accordingly.

Company 7 requires the ISO 9001 certificate from all suppliers. It is always good if a company has the environmental certificate additionally but it is no exemption criterion, also since Company 7 is not certified itself. Also Company 1 and 4 request an ISO certificate which primarily aims for quality targets. Certificates regarding quality, production safety of raw materials, organic food and environment are requested by Company 2. Sometimes a supplier has the ISO 26000, but it is not required.

4.2.2 Supplier Relationships

When asking the companies for their interest to build rather long-term relationships or make temporary contracts with their suppliers, Company 6 claimed that it would prefer long-term and partner-like relationships but “it is a sneaky business and many suppliers are not very reliable and in this case contracts need to be terminated”. If the relationships have existed for a long time, suppliers might get a second chance but openness regarding potential problems is very important in this case.

All other companies see their suppliers as partners and long-term relationships are perceived as advantageous, thus, their interest is very high. Company 9 explained this attitude with a more reliable raw materials supply. Additionally, it is easier to attune to the other party and the firm can be sure that their philosophies are equal. Company 4 added that changes to other suppliers due to better prices are quite often not necessary as “it can just be talked about this kind of issues and many long-term suppliers are willing to lower their prices”. Also Company 5 tries to negotiate better prices with their long-term suppliers before changing to another supplier with same quality and delivery reliability but better prices. Supplier relationships at
Company 2 have existed for 30 years which reflects the firm’s long-term focus. However, changes become necessary due to e.g. quality issues and frequent complaints.

Company 1 mentioned that long-term relationships enable an open and early communication of problems, facilitating problem solving. Company 10 confirmed this and stated that this open communication and cooperative behaviour are expected in long-term relationships. Otherwise, the supplier’s contract could get terminated due to unreliability. Company 3 tries to define fair conditions and common values in order to build long-term relationships. Trust and loyalty to suppliers are important as well, also for Company 4 and 7.

For Company 8, “developing supplier relationships is a never ending process with many little steps”. Understanding each other’s mentality and mediating the firm’s high standards for quality takes years. Therefore, cooperation is not ended due to some complaints but deficits are dealt partner-like and solved together. This loyalty to suppliers is also a facet of sustainability for the firm. It mentioned communication, trust and respective behaviour as partnership requirements. However, if a supplier lost its Fair Trade certificate, this would result in dissolution of the partnership.

Company 4 explained that quality issues are discussed with the supplier and problems solved jointly. Generally, reliability and trust arising from long-term relationships are often mentioned terms in the interviews. Company 3 stated that paying a supplier’s bill on time is an important issue and one way to build trust. Company 6 confirmed that it is one element for a trustful supplier relationship as the firm “cannot expect to achieve reliable deliveries if [it does not] pay punctually”. Company 4 and 7 also stated to pay their invoices by the agreed deadline but getting a discount is their prevailing motivation.

4.2.3 Supplier Development

4.2.3.1 Supplier Evaluations and Control

All interviewed firms evaluate their suppliers in some way. The management of Company 10 receives the results of each supplier evaluation and some suppliers come for a visit and discussion. Furthermore, telephone feedback is given since many suppliers ask for feedback in order to develop through improvement. The evaluations are the only control tool to check quality, price, goodwill, certificates and delivery reliability once a year. The aspect environment will have more importance in its future evaluations.

For Company 3, classic supplier evaluations are considered as standard procedures nowadays. Thereby, it compares the evaluation results with specific objectives set. If the deviation factor is too high and critical the supplier is requested to formulate a catalogue of measures with concrete optimisation activities, which is a continuing process. Furthermore, if weaknesses are discovered, the lively partnership seeks for mutual learning and joint solutions. Similar procedure is conducted once a year by Company 4 and 9. Suppliers usually are willing to put the feedback into practice.

Company 5 tries to consider general environmental aspects in their evaluation. A Code of Conduct was defined in their purchasing requirements because a customer requested it. The internal document comprises e.g. compliance of the law, corruption, restriction of child labour, health criteria, etc. However, Company 5 has no clear regulations of evaluation frequency, but suppliers that seem problematic are evaluated. Hereby, the supplier management is quite dynamic and situation-dependent. Results are mainly used internally but not directly discussed with suppliers, thus feedback is given through the decision for or
against a supplier. Company 6 also discusses evaluations mainly internally, since problems are usually identified in a much earlier stage and implied consequences are taken directly.

The Companies 3, 9 and 10 stated that there are quantitatively measurable requirements and qualitative ones, such as soft skills. According to Company 3, it is necessary to have a scenario that arises when the requirements are mistreated by a supplier. “If sanctions cannot be realised because of not having the authority or too few alternative suppliers, written rules are useless”. Therefore, partnerships are needed in order to develop an interlinked cooperation leading to fewer problems. Company 9 preferred tangible results. Company 10 added goodwill and delivery reliability as quantitatively measurable values. The necessity of trying to stay objective was added by Company 7 and 10, since often subjective impressions play a role when checking requirements and making decisions.

Company 1, 2, 4, 7 and 10 do not seek specific external support for supplier evaluation and control but internal employees enforce the adherence to the standards. Company 3 stated that if external or process partners have something positive to contribute they are welcome to do so, but it is rather exceptional. As mentioned by Company 1, 2, 3, 4, 7 and 9 supplier control is mainly conducted for their A-suppliers.

### 4.2.3.2 On-Site Visits, Audits and Self-Disclosures

Regular on-site visits are done by Company 1, 2, 3, 5 and 8. Company 1 visits its suppliers at least once per year in order to check their products’ quality, which is the main focus. Company 2 makes scheduled round tours with a team of three at some of its German suppliers’ sites in order to get deep insights into their processes and check their hygienic circumstances. Usually two to three suppliers are checked by Company 3 per year, audits are conducted and checking documents can be of importance. Company 3 and 7 find talking to the employees in the operational field important to figure out if the written statements are actually lived. Company 7 checks the German suppliers once a year during on-site visits. Mainly quality of the products is discussed, but also sustainability criteria, such as working conditions and environment. Company 5 conducts no formal audits but evaluates its suppliers with the help of on-site visits or self-disclosures. Only when problems occur or the firm is interested in becoming familiar with its suppliers’ technologies, Company 10 visits them; but no real audits are made. The management of the company has not seen it as necessary until today and there is not enough personnel to conduct these activities; however, the suppliers would not mind. Company 8 said that the firm is “not able to ensure 1000 percent that the supplier does not employ children at its location, since it is impossible to judge if the children are sent away on the scheduled day for onsite-visits and afterwards, the kids come for work again”.

Due to time and financial reasons, Company 2, 7 and 10 are not able to conduct on-site visits at their international suppliers. Therefore, they have dealers in Germany to place material orders and who are responsible by law to conduct these product and site checks at the suppliers. Results in terms of ecological standards and other sustainable topics are summarised in reports and sent out to the buying firms.

Company 8 sensitises its dealers for sustainable issues; furthermore, auditors, e.g. of Fair Trade, are assigned to the firm’s suppliers, since the firm is too small to do audits itself. Nevertheless, if possible Company 8 meets its A-suppliers, including international suppliers, up to four times per year for discussing quality issues and potential innovations. Additionally, self-disclosures are required once per year, including topics like child labour and social standards.
When visiting suppliers internationally, Company 6 stated that it is important to keep an eye on employee treatment, payments and conditions as well as the employees’ further education, know-how of operating the machines, knowledge about the meaning of quality and how quality checks are conducted. “These points need to be in order at the suppliers’ site, since otherwise as a customer in Germany one would feel the consequences very soon, in terms of inferior products”. When it comes to the treatment of employees, the firm neither has any influence nor see it as its task.

4.2.3.3 Collaboration and Joint Projects

Company 5 seeks joint product improvements with its suppliers. Often even suppliers themselves approach the firm with improvement suggestions. Company 1, 5 and 7 emphasised that communication is important to improve joint development continuously and determine new opportunities. Therefore, trust and an existing partnership are crucial in order to collaborate effectively. Additionally, Company 6 and 7 value the special know-how of their suppliers and collaborate with them in order to develop advancements and innovations.

Company 9 described interdependencies with some suppliers when it comes to certain product developments which are, therefore, done jointly. Similarly, Company 4 already developed more efficient production instruments with suppliers in common. They also established a joint container management system in order to avoid waste caused by packaging. Both parties pay attention to bundle orders aiming to achieve synergy effects and reduce transport ways.

Supplier relationships also imply joint projects, e.g. joint product development, for Company 2. Nevertheless, there are only few and small cooperation projects such as mutual problem solving. However, as these have been very successful efforts these should be intensified.

For Company 3, raw material availability is a highly present topic but it is the association’s work to build cooperations towards certain developments and interest. “One single company especially when small or medium-sized is overstrained to solve such issues as there are not enough resources”.

4.2.3.4 Training

Special supplier training regarding sustainability is not offered proactively by Company 10. However, as the firm has a reputation as pioneer in CSR, especially its SME suppliers sometimes ask them for concrete support in certain issues. In this case, the company supports and advises its suppliers in order to pass on its experience. Similarly, Company 8 advises its suppliers in their own supplier selection if demanded. In order to outsource part of the production, Company 8 even trained and provided one supplier with know-how about producing a certain product which was developed by Company 8 itself. Also if the firm feels some deficiency at its suppliers, it supports and trains them in order to achieve higher quality. However, this is only done by really long-term suppliers as it requires trust to give away knowledge which allows them to develop to a competitor of the company itself.

As part of the ISO 26000 introduction in its own firm, Company 3 wrote to its suppliers in order to sensitise them for this topic and to brief them. Company 7 offers trainings for their suppliers’ employees at its own site. Thereby, the focus is rather on quality but – indirectly – also on sustainability as antecedent of quality.

Even if Company 9 evaluates its suppliers as very CSR-oriented, the firm regularly offers seminars regarding sustainable topics in order to sensitise them even more, also for topics
which are not included in certificates anyway. Additionally, suppliers are supported in fault finding and problem solving.

Company 1 does not see any necessity to train its suppliers on sustainability as the majority of them already have good standards.

4.2.4 Difficulties and Challenges of Sustainable Supplier Management

It was advised by Company 3 that the focus for the supplier selection needs to be clearly defined in order to address sustainability topics to the supplier; thus, the focus should not solely lie on the price. However, it also stated that sometimes there is a lack of choices of suppliers which complicates enforcing sustainable criteria since the choice becomes even more limited and difficult. Company 9 faces the challenge of differentiating from the concurrency because of high competition for organic raw material. Therefore, suppliers need to be convinced of its philosophy, openness and truthfulness, to become a partner. The geographical supplier portfolio should not be enlarged, since quality, freshness and costs play an important role and customers demand regionality. Company 10 mentioned globalisation as the reason for sometimes purchasing in countries without German standards, whereby cutbacks need to be accepted.

Generally, the majority of the firms face challenges regarding sustainable supplier management such as lack of time, financial resources and personnel missing the needed competencies.

4.2.5 Estimation of Future Role of Supplier Management

Company 1 generally sees a high significance in supplier management since it is mandatory for mutual understanding and functioning. Also Company 3 determined supplier management as core process increasing in importance, especially due to rising complexity of legal requirements. Suppliers with the know-how about these requirements, resources and capabilities to realise it are needed. “The more the suppliers do, the less the purchasing firms need to control and resources can be saved”. Company 9 stated that customers require more and more certificates and evidences; therefore, supplier evaluation systems become increasingly important. Company 8 predicted more caution will be necessary regarding reliable and valid certificates since too many certificates have little value overall. End customers often cannot question what action is right, but they are the ones with the highest influence. Politicians should withdraw unreliable certificates from the market.

Company 2 stated that the communication of CSR-related issues needs to be taken seriously and its importance needs to be highlighted. Eventually, margins would increase if sustainability was actively announced. However, “nowadays it is too expensive and no one dares to do it yet”. Company 2 would have the willingness and retail markets could standardise these sustainable criteria but finally the customer makes the buying decision.

According to Company 4, it is important to keep an eye on its suppliers’ purchasing in other countries, which often might imply long delivery distances and poor working conditions. For this task, the firm would prefer to hire an external consultant due to a lack of internal competency. Further, collaborations with regional firms could be established to fulfil this task. Company 10 mentioned the importance of supplier selection, evaluation and development, and that in practice the realisation is more difficult than in theory. Audits become more important as well as the firm’s familiarity with its suppliers and their production processes.
4.2.6 Potential Influence on Suppliers

Regarding firms’ possibilities to influence their suppliers towards CSR efforts, only few examples were named. Company 10 gives its suppliers feedback if it sees improvement potential in their processes. However, it also explained to have too many suppliers. “It would be necessary to bundle them in order to achieve higher purchasing volumes and, consequently, better relationships which might result in more influence to set CSR requirements on [its] suppliers”.

Company 1 referred itself as pioneer in CSR but does not communicate its social responsibility values to its suppliers. “But [the firm] should do it in a better way in future”. Up to the interview, there was no sufficient awareness and consideration of this topic. Further, the firm did not see any demand as at least its German suppliers are already quite sustainable. Nevertheless, reducing the amount of suppliers was a good step as this allowed them to have better supplier relationships and a better overview in general. The firm also mentioned that the certification of its supplier is currently in progress, since its customer also requires it.

Due to its high amount of suppliers, Company 5 stated that communicating the requirements and clarifying the relevance of particular criteria with all their suppliers is impossible. In many cases one has to trust the suppliers in what they agree on.

Company 9 stated that information events are organised at the suppliers’ sites and monthly newsletters are sent out, that discuss recent and critical topics, also including CSR issues.

Company 4 is not able to evaluate social and environmental conditions at their suppliers and does not apply special requirements no matter if rather big or small suppliers. While Company 4 does not feel unequal treatment from its suppliers, Company 6 described specific power structures between the firm and its suppliers. “The party with more power more or less dictates the rules”. Suppliers which depend on Company 6 pay special attention to the high quality demand of the firm but do not especially consider environmental and social issues in order to impress it. Company 8 specifically selects medium-sized suppliers as they have a similar culture and structure. “[It] experienced that it does not work with big firms”. As the range of possible suppliers is quite big, the firm has the possibility to apply certain criteria on its suppliers.

There are diverse opinions about the suppliers’ motivations to fulfil the firms’ requirements. Company 1 stated that self-interest could be one reason. Company 5 mentioned the strong existence of socially responsible awareness of suppliers due to the fulfilment of its Code of Conduct. Additionally, the legal requirements cover many points, which make it almost impossible to not fulfil certain criteria; however, some standards are set higher than by law. Generally, the firms stated that the wish to stay a customer of the firm was an important motivational factor. Company 7 stated that some suppliers can be influenced by demanding sustainable criteria while others already fulfil them. It also mentioned sustainability criteria are partially required by their customers, especially the big ones.

Company 3 and 8 highlighted the suppliers’ satisfaction and long-term contracts as well as trustful partnerships as a reason for fulfilling the firm’s criteria. Company 3 added profitability as a motivational reason as complaints mean time and money expenses and influence the image negatively.
5  Analysis

The analysis chapter deals with a comparison of the frame of reference and empirical findings as well as an interpretation of them. The analysis is categorised regarding the research questions. Their contents are sub-categorised into supplier selection, relationships and development, as in the previous chapters.

5.1  CSR Activities in Supplier Management

When asking the companies to exemplify their social and environmental activities, they mainly named actions regarding employees, society or environment. This mostly reflects the categories defined by Jenkins (2006): employees, environmental, community/society. Regarding her fourth category supply chain/business to business it is noticeable that, in comparison, examples of activities which can be assigned to this category were quite limited. This confirms Pedersen (2009) who describes the number of activities in context of suppliers as relatively low as CSR in supply chain is rather a new phenomenon compared with internal environment- and employee-oriented CSR. However, in the process of the interview, many supplier-related CSR activities were determined and extracted which verifies that SMEs often do not recognise their activities as CSR practice (Jenkins, 2004) and, therefore, do not point them out. As a reason, Jenkins (2004) states the SMEs’ general unawareness of CSR which cannot be confirmed by this thesis. Instead, most companies showed their familiarity with the concepts of CSR and sustainability which agrees with Russo and Tencati (2009) who said that SMEs become more and more aware and familiar with CSR. Thus, it is rather caused by unknowingness that CSR can also be applied to supplier management. This confirms that SMEs mainly focus on internal CSR aspects (Castka et al., 2004) and corresponds with Laudal (2011) who states that the lack of expertise negatively affects the SMEs’ recognition of CSR issues.

Many companies also used CSR-related language which contradicts the literature stating that the use of formal CSR language is not common in SMEs when describing their activities (Agudo Valiente et al., 2012; Russo & Tencati, 2009). Half of the companies even named CSR or sustainability as specific company goal. This fact of including CSR in many firms’ philosophy was mentioned by the Federal Ministry of Labour and Social Affairs (2012) and, obviously, some interviewed firms have realised that CSR can serve as competitive strategy (Tolhurst & Embaye, 2010; Hammann et al., 2009; Hollos et al., 2012). Thus, they implemented CSR-related practices in its business operations (Baumann-Pauly et al., 2013).

As mentioned above, different CSR activities in the companies’ supplier management could be identified through the interviews. In line with the theory and findings, they can mainly be assigned to the categories supplier selection, relationships and development. Nevertheless, the interviews showed that there are already activities which are conducted upstream the other categories. Before actually selecting suppliers, the development of products plays a significant role since the decisions for a supplier are mostly dependent on the characteristics of the product. Consequently, a product primarily consisting of sustainable material and components results in selection of CSR-oriented suppliers. As an example, two companies offer products that are sustainable in their nature, which means that their whole supply chain needs to use sustainable materials in order to assure their reputation credibly. Another company pursued an alternative way by developing products in which a certain in-
ingredient was substituted as the firm knows that this ingredient’s cultivation harms the environment significantly.

Another CSR activity was identified regarding the assurance of transparency along the supply chain, which can be experienced by customers on one company’s webpage. By entering certain product-specific information, the customer can find out more about the origin of the main ingredient of the product bought. This results in a higher degree of transparency towards the customers. However, this customer service can only be offered when, in turn, transparency is already expected from the very beginning of the supply chain, which will be further explained later on.

5.1.1 Supplier Selection

Almost all companies agreed that their reputation can be negatively affected by suppliers’ unsustainable behaviour, thus they agreed with Leppelt et al. (2013). In order to minimise this risk, some companies pay special attention to their supplier selection. Thereby, it can be argued that considering risk management itself might already be a CSR activity as it aims at avoiding negative impact on the company and, thus, ensures future business and saves employment which is sustainable from a social perspective.

Santos (2011) determined environmental and social criteria in the selection process as a supplier-related CSR practice. Also Hollos et al. (2012) mentioned supplier selection based on sustainable criteria as one way to implement sustainability in a company. Though, in contradiction to Govindan et al. (2013), some interviewed firms do not specifically ask for environmental and social requirements. These companies rather decide on criteria such as regional origin, cultural similarity and trustworthiness. However, these criteria are at least indirectly CSR-related. More than half of the companies stated to prefer regional suppliers due to shorter delivery times and no language barrier. However, even though not specifically mentioned, these reasons underlie sustainable aspects. Shorter delivery times imply shorter transport routes and, thus, lower CO₂-emissions. Moreover, this could generate cost savings, which might in turn lead to more available budget for investments into other CSR-related activities. Another advantage is the support of these local and regional suppliers that can result in stimulating their own businesses, preserving jobs and making the region more vital and attractive which is a sustainable contribution to society. This is in line with literature which confirms local support of SMEs (Jenkins, 2009) and describes local embeddedness as a motivator for CSR effort (Fenwick, 2010). The non-existence of language barriers relates to cultural similarity and common values which ensure a specific standard of sustainability considerations as governmental regulations are quite high in Germany and, thus, companies are often required to conduct sustainable practices (Maß et al., 2014). Due to these reasons, two companies mentioned to pay attention that their suppliers have a similar culture, philosophy and structure (Mudambi & Schründer, 1996). Lastly, closely situated suppliers enable the companies for a better control but also facilitate relationship building.

For most companies, the supplier with the best impression is selected and the overall framework needs to be satisfying. Thereby, no certain criterion is dominant but an often named selection criterion is quality. This confirms Mudambi and Schründer (1996) who describe quality of products as one of the most important factors between buyers and suppliers. One company even named it as a reason for the selection of German suppliers. As some companies consider quality to ensure durability of the product, this criterion also implies sustainability which corresponds to Jenkins (2006) who defined quality standards as a supplier-related CSR activity. By generating products of durability, it can be assumed that it
would take a relatively long time until replacement of the product becomes necessary. In turn, this saves resources in manufacturing and waste does not increase due to poor quality and, thus, short lifespan. However, durability as mediator of quality might only be applicable for commodity products but no food products.

One firm also added transparency as CSR selection criterion which allows the companies but also society to achieve knowledge about the products bought. As companies described problems in controlling especially their international suppliers, almost all companies ask for general and sector-specific certificates from their suppliers in order to cover relevant risks and ensure transparency. Thereby, one company even bases its whole supplier selection on the availability of specific certificates and most companies stated that not having a specific certificate could be an exclusion criterion for suppliers. In this way it can be said that requiring certificates is a kind of outsourcing control and responsibility to auditing firms due to the companies’ own lack of resources and competencies. Furthermore, by setting certain certificates as supplier selection criteria, the suppliers receive a comparable parameter regarding CSR which is based on a more objective estimation. However, most companies do not base their supplier selection solely on certificates. One reason stated is that the companies do not want to force their suppliers for certification if they already behave accordingly (Russo & Perrini, 2010). Thereby, they might follow Boström’s (2014) advice not to over-regulate suppliers as it creates a feeling of distrust. Mutual trust due to long-term relationships might be a second reason why most companies do not base their supplier selection exclusively on certificates but also on overall impression, which is characterised by more subjectivity. Consequently, certificates are advantageous but not a prerequisite to act as supplier which contradicts to Sneep-Hamburg (2007).

Certificates regarding quality (e.g. ISO 9001) and environment (e.g. ISO 14001) are the certificates most often requested from the companies’ suppliers. Social certificates (e.g. Fair Trade) are required much less. This confirms the literature stating that social criteria are incorporated more seldom in supplier selection as the awareness for environmental issues is significantly higher, also caused by governmental restrictions and environmental regulations (Genovese et al., 2013). Accordingly, one company emphasised that relevant laws are already quite strict and, thus, environmentally harmful behaviour is almost impossible in Germany. This should not mean that automatically, when being able to proof having a certain certificate, a supplier does more than legally required. But it could imply that the risk of mistreating certain standards could be lower and the selection decision influenced, because the supplier shows awareness about the existence of certifications and the willingness to invest into this official evidence.

### 5.1.2 Supplier Relationships

Development of long-term relationships is a CSR activity described by Jenkins (2006) in her category supply chain/business to business. Through applying this action to the interviewed companies it can be said that all act sustainable in this regard as – if possible – they establish close and personal long-term relationships instead of short-term relationships with their suppliers (Gunasekaran et al., 2011; Mudambi & Schründer, 1996) and even see them as partners. Considering Webster’s (1992) reflections on different types of relationships, the companies’ descriptions of their supplier relationships can be assigned to the fourth level which is a partnership based on mutual trust and dependence which both are key elements of buyer-supplier relationships (Caniëls et al., 2010; Kulik, 2010). However, it needs to be said that, of course, not all suppliers achieve this level but the strategically important ones, which are categorised as A-suppliers (Cordts, 1992).
As long-term relationships lead to trustful relationships, problems can be addressed more openly at an early stage and, therefore, better solutions can be found which might increase competitiveness and ensure future of both parties’ business. Thus, partnerships could even reduce risks since “giving and taking” is ensured. Furthermore, long-term partnerships are based on fair conditions, mutual understanding and common values, also resulting in loyalty. Especially common values imply that if a buying firm values sustainable operations it can be argued that suppliers do as well; thinking one step further, suppliers pass this value to their sub-suppliers which creates – in the long-term – sustainability along the supply chain. When negotiating fair conditions for both parties the companies follow Caniëls et al. (2010) who state that development of relationships succeeds in case of both benefiting from or finding it worthwhile to cooperate for future business.

Two companies emphasised punctual payment of invoices as important means in order to build trustful supplier relationships and, thus, confirm Santos (2011) who has integrated this CSR activity in her sub-category commercial partners/suppliers. However, two companies which named this activity as well mentioned getting a discount as a more self-beneficial motivation. This exemplifies all companies’ statement that they cannot neglect economic considerations. However, this CSR activity does not imply high expenses as they normally do and, thus, CSR and economy obviously do not mutually exclude themselves. This shows that SMEs, and not only MNCs, can also benefit from CSR, which is a deviation from Laudal (2011).

5.1.3 Supplier Development

In general, while Shokri et al. (2010) state that SMEs with limited resources rather apply basic supplier development practices, this cannot be confirmed by this study as many of them also conduct more resource-consuming efforts such as on-site visits and joint projects. Consequently, the results of the thesis also contradict to Larsson (2005) who claims that most SMEs do not undertake supplier development initiatives by themselves even though they are increasingly important.

One of the less resource-consuming activities is publishing certificates on the corporate webpages. Many interviewed firms do so, which could be regarded as an indirect tool to not only influence customers but also suppliers to make an effort in becoming certified as well. This is in line with Ciliberti et al. (2008) who mention that SMEs as buying firms could apply pressure throughout the supply chain by functioning as best practice example. BSI Group (2015) states that besides of marketing benefits such as attracting potential customers, a statement is made. Partners could be encouraged to behave more environmentally and socially responsible and develop accordingly also in terms of getting more competitive and profitable.

Feedback and measurement of key performance indicators is one supplier-related CSR activity listed by Jenkins (2006). In order to give feedback, suppliers need to be evaluated before, which is done by all companies in some way. Even if this is very resource-consuming in terms of personnel and time (Boström, 2014), half of the companies visit their suppliers regularly at their sites. This demonstrates the companies’ significant effort and interest in their suppliers and practices. On-site visits aim to develop mutual understanding and identifying deficiencies in order to avoid potential risk from the very beginning and, thus, ensure future business. Some interviewed firms send up to three employees for on-site visits for receiving an impression. The evaluation can therefore turn out more objectively due to putting several opinions into perspective. However, some firms do not evaluate their suppliers regularly and often criteria are insufficiently directed towards social and environ-
mental aspects. Both aspects show that the first dimension of Socially Responsible Supplier Development (SRSD) is not satisfactorily realised (Lu et al., 2012). At least, one firm stated that environmental considerations become more important in the future. Further, some firms only use their results for internal purpose and do not give feedback to their suppliers at all or only in case of bad evaluations. Thus, without a feedback system, these firms miss their opportunity to monitor their suppliers (Lu et al., 2012). Interestingly, there are statements which show the suppliers’ demand for feedback as one firm described the suppliers’ willingness to put it into practice and another firm explained that suppliers ask for feedback even proactively.

Except for sustainable supplier selection, Hollos et al. (2012) see a second way to implement sustainability in companies by building cooperations with suppliers in order to achieve higher sustainability levels. Thereby, cooperations are one form of partnership and are assigned to a relatively high stage of relationships (Webster, 1992). Most companies interviewed collaborate with their suppliers in different kinds of projects or initiatives aiming at quality improvements or innovation development. Even though indirectly, both project goals can be labelled as sustainable as improving products results in higher efficiency and durability and, thus, are resource-friendly. A more direct sustainable example was mentioned by another company which has developed more efficient production instruments together with its suppliers and established a joint container management system aiming at waste reduction in terms of packaging. Furthermore, bundling orders lead to synergy effects (Gunasekaran et al., 2011) and reduced transport ways.

Inter-organisational learning and collaborations are further supplier development initiatives which can increase CSR adoption of suppliers (Andersen & Skjoett-Larsen, 2009; Lu et al., 2012). Thereby, supplier learning schemes and assistance for suppliers to behave more socially responsible are supplier-related CSR activities which are also stated by Jenkins (2006). Training is not conducted by companies so far. However, many of them assist their suppliers in other ways, e.g. through advices regarding sustainable practices, seminars or knowledge transfer in order to achieve higher quality and reduce deficiencies. When doing so, the companies conduct the second dimension of SRSD and show their willingness to share CSR knowledge with suppliers (Lu et al., 2012). Simultaneously, companies are able to build long-term relationships e.g. through knowledge sharing and better efficiencies resulting from cooperation (Adams et al., 2012). Imposing Codes of Conduct could be regarded as more indirect supplier education tools since one firm mentioned that they always refer to their Code of Conduct when placing orders at the suppliers. It is considered the most often used way to manage CSR (Preuss, 2009); however, it seems that this indirectness is considered as small prints which can be quickly checked off with a cross by the supplier in order to proceed the order quickly. Therefore, it is supposed that more direct development activities, such as training and information events regarding CSR might be more effective.

Pedersen (2009) describes that SMEs having CSR initiatives in their supply chain have a rather large number of employees and, in general, cover more fields of CSR than other firms. However, in this thesis it was not possible to identify a corresponding pattern between the number of employees and CSR engagement or between CSR engagement in general and supplier-related CSR activities. Pedersen (2009) also states that less than 75 percent of companies examined had implemented supplier-related CSR activities. The sample of this thesis shows a quite higher engagement since CSR activities directed towards supplier management were identified in all firms. The revealed CSR activities in supplier management are summarised in Figure 5-1. The impression was given that the awareness
most of the time was there, but several challenges were faced to integrate CSR effectively and more comprehensively into supplier management.

5.2 Barriers of CSR Adoption in Supplier Management

Adoption of CSR in the companies’ supplier management comprises several barriers that need to be overcome. Most interviewed firms mentioned insufficient competencies and human resources as well as lack of financial resources and time, which are general drawbacks of SMEs (Adams et al., 2012; Russo & Tencati, 2009), as the main barriers when aiming at implementing an entirely sustainable supplier management, confirmed by Xu et al. (2013), Lee and Kim (2009) and Giliberti et al. (2008). From these barriers, various additional barriers are deduced.

5.2.1 Supplier Selection

Jørgensen and Knudsen (2006) mention that the CSR requirements of buying firms conflict with the traditional requirements. However, this thesis shows that there are already difficulties in classification of criteria. Many companies interviewed quoted quality and performance as important factors which both are criteria assigned to traditional ones in literature (Baskaran et al., 2011). In contrast, the majority of the sample considered quality as a sustainable criterion since sustainability results from the quality mediated through durability of products. It could be interpreted that SMEs are not familiar with the use of formal CSR language as literature states (Agudo Valiente et al., 2012; Russo & Tencati, 2009). However, it can also be argued that SMEs limit their comprehension of CSR not only to its obvious social and environmental context but consider CSR in a more comprehensive way which demonstrates their awareness of the issue.
Furthermore, literature states that for SMEs it is rather difficult to integrate sustainability requirements in their supplier contracts which arise from a lack of resources and bargaining power (Ayuso et al., 2013). During the interviews it became clear that lack of bargaining power can result from two sources which are either a low number of possible suppliers available or a low purchasing volume. Regarding the first source, some companies stated that for specific products the choice of suppliers is quite small anyway. One company explained that the choice of suppliers is even smaller when selecting only CSR-oriented suppliers and focusing on criteria other than traditional. Consequently, from an economical perspective, the already low bargaining power decreases the more criteria are required from suppliers, as dependence and, thus, price might increase which conflicts with economic goals. Thereof, barriers could be seen in the trade-off when selecting suppliers after specific criteria including sustainable ones, since all companies need to have economic goals in order to survive on the market. Regarding the second source, some companies mentioned low purchasing volumes as their problem which can be solved through bundling the suppliers, leading to higher volumes and, thus, resulting in lower unit costs. However, one company claimed that this can only be done for B- and C-suppliers as the important A-suppliers most probably were selected carefully for one particular component. Furthermore, it is very time-consuming, thus, other tasks are prioritised due to lack of human resources.

Moreover, Jørgensen and Knudsen (2006) describe a gap between making the rules and keeping them since CSR requirements are often perceived from suppliers as rather latent and not contractual. This suppliers’ perception might arise from insufficient possibilities to control suppliers, lacking standardisation of CSR criteria and dependency on suppliers. One company highlighted that the more independent party dictates the rules and another company stated that some suppliers are aware of their monopoly position. Consequently, especially if companies do not have alternative suppliers, introducing sustainable criteria is difficult as it requires having a certain scenario in case they are not fulfilled. However, drawing conclusions is not possible without alternative suppliers. Additionally, Santos (2011) stated that sometimes a relationship between an SME’s strategy and its CSR activities is missing. Then it is obviously even more difficult to react with reasonable follow-up actions.

Transparency was a term often mentioned by the sample and related barriers and problems were described. First of all, transparency needs to be guaranteed in terms of company goals as ensuring a sustainable supply chain might be difficult without having the objectives of a firm clearly stated and lived. A lack of transparency and communication of the firm’s focus among the various organisational departments may have led to inconsistencies in the buying behaviour of one company interviewed. While the purchasing department aims at buying in consideration of CSR, its research and development department does not focus e.g. on regionality when purchasing specific products. This might happen due to a lack of awareness and knowledge regarding the firm’s objectives. However, it is also quite reasonable that the department just prioritises other selection criteria than determined through company goals as there is no agreement, hence, it behaves in an opportunistic way.

Transparency is not only an internal problem but also an issue directed to suppliers. Some companies stated that transparency and trustworthiness of suppliers’ information given is sometimes difficult for them to evaluate. When selecting suppliers they often need to complete self-disclosures due to the buying firms’ lack of human resources and time required to evaluate them by themselves. Although suppliers are willing to share e.g. environmental performance data as stated by Genovese et al. (2013), one company confirmed the difficulty of evaluating the supplier’s accuracy. Furthermore, one company admitted that its se-
lection criteria in terms of CSR are rather soft and intangible, thus, suppliers are able to sugar-coat their CSR efforts. Another company even stated that some firms might agree criteria just to get the contract. These circumstances confirm literature which claims that checklists sent to suppliers often are insufficient due to their lack in clarity, substance, and depth (Boström, 2014).

Certificates might be one way to “harden” soft and intangible criteria. However, the buying firms’ trust is required regarding the suppliers’ certificates as today so many different ones exist. According to BSI Group (2015), it is important to find the right standard for the company in order to achieve the business’ goals. Therefore, when choosing the suppliers to cooperate with, one company interviewed pays special attention to the certificates since it is an exclusive Fair Trade and organic firm. As the firm considers certificates as primary selection criteria, it particularly stressed that their value and underlying evaluation criteria need to be assessed. However, this requires high competence and lots of knowledge which not all firms might have. Consequently, buying firms could be blinded by suppliers having certificates which do not underlie sufficient criteria. Opacity of certificates is one reason why another company of the sample does not rely on a specific certificate for a certain raw product supplier. The impression it has about the validity of the certificate is not 100 percent trustworthy. Thus, having the required certificates is important but having the right and trustworthy ones is even more important.

Lack of transparency might be the reason why one interviewed company clearly stated that it does not base its supplier selection just on certificates and price but focuses on the best holistic impression. Nevertheless, those impressions could be subjective estimations and opinions. This issue is connected to the problem of intangible and soft criteria which often occur in CSR context. However, obviously, total control is not possible which might be the reason why all companies confirmed to prefer trustful and long-term supplier relationships, even described as partnerships. Nevertheless, also supplier relationships imply some barriers and problems.

5.2.2 Supplier Relationships

Tan et al. (2006) argue that although the supplier selection process can be laborious and long-lasting, it is crucial for building beneficial partnerships. Further, the literature confirmed that Socially and Environmentally Responsible Procurement (SERP) is not easy to implement and requires that the firms are aware of relationship building actions undertaken in order to succeed in partnerships. Therefore, trust, collaboration and cooperation need to be established with the right and matching suppliers and dependencies examined before developing partnerships (Hoejmose & Adrien-Kirby, 2012). Many of the interviewed firms highlighted the necessity of getting to know a supplier well in order to develop a trustful partnership as basis for potential cooperations. Concerning this, Larsson (2005) highlights that SMEs should think about cooperations for gaining more competence and being able to purchase higher volumes. However, building relationships requires time and human resources’ effort which both is not sufficiently available in SMEs, confirmed by the companies interviewed. Additionally, one firm claimed to have too many suppliers which is an aggravating factor when aiming to build relationships with suppliers. As a consequence, supplier relationships are mainly developed with A-suppliers while others are rather neglected (Cordts, 1992). It can be supposed that the mutual loyalty as well as the willingness of these other suppliers to implement CSR requirements is rather low. This can result from a low degree of trust and commitment that could not be developed. As Caniëls et al. (2010) state,
trust helps to develop mutual commitment, and this can only be realised with close partnerships.

Bundling suppliers and therefore reducing the number might be a solution. One company was worried about unreliable suppliers that lead to contract terminations and other companies mentioned that although long-term relationships exist, terminations are necessary when quality issues or complaints occur frequently. However, this is rather a reactive approach as supplier contracts are only cancelled in case of negative occurrences. A proactive approach, thus, bundling suppliers by terminating supplier contracts without special occurrences but with the aim to focus rather on few suppliers intensively, was only applied by one company. Another company really appreciated this approach but is, at least currently, not able to follow it due to time restrictions and, therefore, the focus is on daily business instead of strategic projects (Adams et al., 2012). It can also be assumed that some firms fear the risk of having only few suppliers as dependence increases when the number of suppliers decreases. Therefore, the one company with the proactive approach highlighted both the need for trustful partnerships but also the requirement of alternative suppliers for strategic important components as part of their risk management.

5.2.3 Supplier Development

Generally, rather a small amount of sustainable suppliers is available which requires a lot of improvement and development efforts (Carter & Jennings, 2002). However, not only in the supplier selection but also in supplier development transparency problems occur. As a supplement of own supplier evaluations, self-disclosures are an often mentioned tool when it comes to assessment of existing suppliers, again, used due to the buying firm’s lack of time and human resources. Thereby, evaluating the accuracy of information given by suppliers and the lack of clarity, substance, and depth of the checklists (Boström, 2014) are problems which are also experienced in supplier development. As explained by the European Commission (2007), one company agreed that its suppliers often confirm to meet sustainable buyer requirements although nothing really changes in their actual practices. In order to control and clarify the information given, additionally, site-visits at the suppliers’ sites are effective for getting an overall impression and are conducted by many firms of the sample. However, according to Boström (2014) these impressions can be blurred as site-visits are normally scheduled and, thus, the suppliers can prepare for it and solve potential problems momentarily. One company especially mentioned same concerns and concluded that implementing time- and resource-intensive site-visits at potential suppliers should be traded off very well since blurred impressions due to lacking transparency could lead to wrong supplier evaluations, which can have severe consequences. From the problems regarding self-disclosures and on-site visits it can be determined that controlling and evaluating suppliers is a general difficulty for SMEs. This is especially drastic as almost all interviewed firms believe that if any negative affair of their suppliers became public, it would have negative influence on their business as well. Nevertheless, considering this fact, it can be interpreted in two ways why the companies do not put more effort in controlling their suppliers: It might be either the case that the lack of resources required is really that high or the trust in suppliers is sufficient enough. A combination of both is very likely.

It is assumable that the companies also think about the administrative effort an action would cause without having real sustainable effects on supplier management. As mentioned earlier, some firms stated to neither have the time and personnel nor financial resources to conduct an increased amount of administrative work or real audits which require corrective and preventive actions as well as preparation efforts (Adams et al., 2012; Ciliberti et al.,
Though, audits are a good method to evaluate and control suppliers on a regular basis. However, especially controlling international suppliers can be difficult due to those reasons (Pedersen, 2009). Many firms stated therefore that certain dealers take over the responsibility hereof. Thus, similar to demanding certificates, it can be argued that responsibility for control is outsourced to third parties again.

Literature recommends decreasing mistrust and starting to see benefits of supplier development (Ahmed & Hendry, 2012), which is already realised by many interviewed firms to a certain degree as sometimes developmental activities are offered to the firms’ long-term A-suppliers. A barrier hereby can be seen in knowledge sharing with the supplier, which may result not only in developing mutual benefits but also in creating concurrency from the own supplier. Consequently, as is often the case, trust is indispensable. According to Krause et al. (2000), although it is resource-consuming the development of suppliers is increasingly important when solving problems and enhancing a supplier’s efficiency in the supply chain (Ağan et al., 2014). Most of the interviewed firms stated that trustful, close partnerships help to collaborate more effectively and create significant advantages. Though, as mentioned above, building relationships requires investments from both parties which, again, is a barrier due to restrictive resources (Ağan et al., 2014; Larsson, 2005).

The revealed barriers when adopting CSR in supplier management are summarised in Figure 5-2.

<table>
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<th>Overall Supplier Management</th>
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<td>Supplier Relationships</td>
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<td>Supplier Development</td>
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<td>Barriers of CSR-Adoption</td>
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</tbody>
</table>

- Lack of competencies, human resources, financial resources and time
- Difficulty in criteria classification
- Dependency on suppliers
- Lack of supplier control
- Complex certificate evaluation
- Subjectivity in supplier evaluation
- Resource-consuming relationship building
- Too many suppliers aggravate close relationships
- Too few suppliers increase fear of supplier dependency
- Resource-consuming development activities
- Insufficient supplier evaluation and control possibilities
- High administrative effort
- Concurrency due to knowledge sharing activities

Figure 5 – 2 Summary of Barriers of CSR-Adoption in Supplier Management
6 Conclusion

This thesis explored CSR in the context of SMEs’ supplier management, whereby CSR-related activities and barriers when implementing them were determined. Thereby, an important contribution is made to fill the identified gap regarding insufficient CSR-related research in the supplier management of SMEs.

Literature states that SMEs are often unaware of CSR issues which cannot be confirmed by this study as companies demonstrated to have a specific idea of CSR and sustainability in general which results in several CSR activities. However, when it comes to CSR in supplier management, partly, this thesis identified unknowingness that CSR can also be applied on this context. Thus, it appears arguably that CSR has reached the SMEs’ awareness but not sufficiently in all business operations. Nonetheless, many supplier-related CSR activities conducted by the sample were determined. However, the thesis also shows that CSR-related supplier management already starts before any supplier is involved as it is already considered in company goals, product development and customer services offered which all determine requirements on suppliers and, thus, shape the supplier selection process followed.

In supplier selection, the thesis revealed several selection criteria which might not be associated with CSR directly. Nevertheless, at second glance, these criteria significantly contribute to CSR of the companies itself but also to their customers’ sustainable efforts. This thesis also shows that the sample has clearly recognised the advantages of long-term partnerships and, therefore, put high effort on building them. Thereby, it can be argued that building supplier relationships is the main CSR activity in terms of supplier relationship management. Lastly, regarding supplier development there are various CSR activities determined which require different extents of resources. In deviation from literature, resource-consuming activities are conducted as well, even if to a lower extent. From the evidences it can be confirmed that interest in supplier development is existent at buyers’ and suppliers’ sides as both have recognised its advantages.

All firms could state at least one activity in one of the supplier management steps and the authors were able to identify some more activities in the process of the interviews. Nonetheless, no patterns could be identified when trying to relate the companies’ size or general CSR engagement to their CSR efforts in supplier management. All companies mentioned that many activities depend on the available resources a firm can offer. Thereby, this thesis confirms that lack of competencies, human resources, financial resources and time are general drawbacks of SMEs. Thereof arising, the sample faces several other barriers when adopting CSR in their supplier management.

In terms of supplier selection, low bargaining power due to low purchasing volumes lies in the very nature of SMEs. In turn, bundling suppliers in order to increase purchasing volumes and, thus, bargaining power evokes dependency on them. Ensuring transparency through control is also difficult for SMEs due to a lack of resources. Therefore, resource-
poor methods of valuation are often used which cause problems regarding trustworthiness. The thesis shows that this should be compensated through building trustful relationships with suppliers. However, as building relationships requires time and resources as well there is a contradiction in terms. Building relationships with international suppliers is even more resource-consuming while control and transparency are even more important due to other legal frameworks than the German standards. In terms of supplier development, knowledge sharing is significantly important in order to bundle competencies and expertise which is crucial for innovativeness. However, as is often the case, this requires trustful relationships. Thus, it can be said that the SMEs’ characteristics regarding resources are their biggest drawback in supplier-related CSR adoption.

To summarise, all firms faced barriers regarding the adoption of CSR in their supplier management. However, many have already overcome some important barriers which is evidenced by several CSR activities determined. Regarding to their statements, future importance of CSR in supplier management will increase and, thus, more barriers need to be overcome. It appears relatively likely that supplier-related CSR activities will increase.

6.1 Theoretical Implications and Contribution to CSR

The authors consider this thesis as a contribution to new knowledge regarding CSR in SMEs’ supplier management, especially regarding CSR activities and barriers in CSR adoption. While literature describes CSR in a supply chain context as a rather new phenomenon and, consequently, the number of supplier-related CSR activities as comparatively low (Pedersen, 2009), the thesis shows that nowadays, the phenomenon is – consciously or unconsciously – understood by SMEs which is evidenced by the SMEs’ meanwhile usage of CSR language but also by the number of CSR actions conducted. Thus, the authors were able to extend and develop existing academic literature depicting CSR activities in supplier management. When determining supplier-related CSR activities this thesis broadened the view upstream traditional processes in supplier management described in literature, as preliminary business processes can already define and influence following CSR actions. Further, it became obvious that SMEs often set rather indirect CSR criteria in their supplier selection or criteria normally assigned to traditional supplier selection. Thus, the thesis developed current criteria classification and complemented existing literature about social and environmental selection criteria. Through acknowledging indirect CSR criteria in literature, it can also be ensured that they are not underestimated by decision makers. Literature which doubts SMEs conducting supplier development initiatives especially resource-consuming ones (Shokri et al., 2010; Larsson, 2005) is progressed but contradicted by describing various CSR activities in supplier development. Thus, this thesis shows that – within its abilities – SMEs endeavour to encourage their suppliers in CSR thereby aiming at mutual benefits.

While there is sufficient literature regarding barriers in SMEs’ CSR adoption in general (see 2.3.2), the thesis extends this knowledge towards supplier management and its specific problems occurring. Thereby, it became obvious that barriers mainly develop from the SMEs’ size and lack of resources which lie in the very nature of these companies and are their general drawbacks. In terms of certificates existing literature states that formal tools are used rarely by SMEs (Russo & Tencati, 2009). However, this thesis alters this theory and shows that the SMEs interviewed are often certified by themselves and certificates are popular when selecting their suppliers as a way of outsourcing responsibility for control due to lack of own resources.
6.2 Managerial Implications

The thesis explores CSR and supplier management from a SME perspective and, thus, is beneficial for SME owners and managers as decision makers. It should stimulate their thoughts about CSR-related activities and encourage for implementing them even though barriers are faced. Contribution to the knowledge about what barriers can be faced should increase the awareness upstream the supply chain even more about adopting CSR in supplier management as only barriers which are well-known can be overcome. Thus, the CSR adoption process might be faster and more efficient. Further, this could help to integrate risk management strategies for prevention from the very beginning.

Managers should expect that the demand for transparency and true sustainability along entire supply chain will increase in importance. Consequently, efforts of making supplier-related processes more sustainable and transparent would be crucial. In order to master this challenge and to ensure consistency in behaviour, it is suggested that the CSR values of a company should already be included in its vision and philosophy, also as it was often seen as competitive strategy when conducting supplier management. Further, it is important to focus on not getting impressions about suppliers blurred but to find a way to overcome these challenges for SMEs.

6.3 Limitations

The semi-structured interviews were conducted via telephone due to geographical constraints and cost issues. This method is different from personal interviews since indirect communication (mimic, body language) gets lost. However, it was an efficient and economic manner to collect data. Additionally, the geographical and cost constraints also mean that no observations were made, also since especially a supplier relationship is rather of intangible nature. For gathering secondary data, sensitive documents were only provided by one firm. Therefore, the authors were dependent on the data shared with the public, which resulted in relying on newspaper articles and information on corporate webpages. Newspaper sources usually take on an external view and do not have the internal knowledge of a firm. Furthermore, corporate webpages are used as marketing tool representing the firm’s image. Consequently, the firms show themselves at their best and do not present potential weaknesses.

The studied companies are all located in Germany, whereby eight are located in Southern Germany, and two are located in the North-Eastern and Western parts of the country. This fact could have had some influence on the received results since there can be differences amongst the different federal states in different contexts, e.g. supplier availability, CSR awareness, economic trends and educated personnel.

Furthermore, the country specific cultural values can play an important factor in the businesses’ behaviour and morale thinking regarding the study’s topic. From these circumstances in combination with the country specific laws and regulations, a certain existing cultural dependency can arise and could have influenced the firms’ views on CSR adoption, and herewith influenced the study’s conclusions.
6.4 Further Research

Even if this initial study could confirm the availability of CSR in supplier management at all, empirical findings could be diverse in different contexts, e.g. due to cultural dependency. Therefore, similar research should be done in other countries in order to approve the results. Further, a quantitative study regarding adopted CSR-related activities and barriers in CSR adoption would be possible aiming at generalising the findings across German boarders.

Some companies’ representatives stated that the interview inspired them to think more about adopting CSR in their supplier management. Additionally, many firms predicted increasing the importance of sustainable supplier management. Consequently, it can be suggested to re-conduct interviews in order to research changes that may occur after a certain time. These could be explored by doing action research, where researchers and subjects act jointly on the basis of the knowledge produced in the interviews.

The CSR activities and barriers described are determined from a SME perspective as focal firm of a supply chain. To further develop this research, it is suggested to also take the supplier perspective. How do they perceive the CSR activities conducted by their customers? How do they handle the CSR-related criteria set on them? Do MNC suppliers handle them in another way than SME suppliers? Additionally, an inter-organisational study could be conducted to examine how joint CSR initiatives and CSR-related knowledge transfer encourages each party.

One main distinction between the interviewed manufacturing-oriented SMEs could be identified. Some SMEs had a product portfolio which was already sustainable in its nature, thus CSR was already integrated in product development while others focused on sustainability within other criteria. Therefore, it would be interesting to put the focus more onto one particular group only, in order to explore their specific challenges and motivations in supplier management. Further it can be examined how exactly the first group handles its specific CSR requirements. How do those firms overcome their barriers and drawbacks underlying in SMEs. How can these results serve as best practice example for other SMEs?
List of References


List of references


Appendix 1 – Definition of CSR

The concept of CSR is very diverse in the literature, thus there is no uniform definition. Schreck (2009) and Kumar et al. (2014) confirm that no consent has been reached, as a social issue can be defined in many ways. However, according to Carroll (1999), Howard Bowen is said to be the Father of CSR. He refers CSR “to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 1953, p.6). In the last decades, further definitions were developed and specified (Carroll, 1999).

CSR comprises the three columns of economic, environmental, and social responsibility. Their combination is generally known as the Triple Bottom Line (Kumar et al., 2014). The World Business Council for Sustainable Development states that CSR is “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (Idowu & Filho, 2009, p.63). According to Andersen and Skjoett-Larsen (2009), CSR “is a broader concept and not limited to supply chains, but to the companies’ overall treatment of human beings and the environment” (p.77). Economic responsibility is only considered in the first definition but both definitions emphasise the companies’ social and ethical behaviour in relation to CSR concepts. Additionally, the second definition relates CSR to environmental concerns and considers the entire supply chain of a business, which would include upstream and downstream actors like e.g. customers, customer’s customers, suppliers and supplier’s suppliers.

As cited by Kumar et al. (2014), the European Commission defined CSR depending on different perspectives. First, from the stakeholders’ perspective, CSR is “a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment” (p.268). Hereby, the voluntary aspect of implementation is emphasised. Second, from the business owners’ perspective, CSR is a “process by which companies manage their relationships with a variety of stakeholders who can have an important influence on their license to operate” (p.268). In this definition, especially the stakeholders’ influence on the company is stressed.
Appendix 2 – Importance of SMEs in Germany

In 2012, 99.3 percent of all 2.2 million enterprises in Germany were SMEs, indicating their high importance to the German economy. More than 60 percent of employees were employed at SMEs (Statistisches Bundesamt, 2014). Due to the high revenues and a large number of employees as well as trainees, SMEs support the growth of the German economy significantly (Sneep-Hamburg, 2007). Moreover, SMEs develop entrepreneurial skills as well as innovation, and they contribute to economic and social solidarity (European Commission, 2007). The German “Mittelstand” companies are the most innovative ones on the European market (Bundesministerium für Wirtschaft und Energie, 2014).

One reason for the innovativeness is the governmental policy that supports the German “Mittelstand” strongly when it comes to investments into research and development, demand for experts, foreign trade policy, financing demand and founding of companies. Moreover, SMEs focus on long-term orientation, comprising strong customer relationships, steady personnel policy and strong connection to the region they operate in (Bundesministerium für Wirtschaft und Energie, 2014).

In 2011, the German “Mittelstand” contributed 55 percent of the value creation to the German economy. The total revenues amounted to more than €2.1 trillion. The enterprises are strongly involved in industrial activities, and more than one fifth of working people are employed within this sector. Furthermore, a lot of investment goods are offered worldwide, and about 1,300 “Mittelstand” companies have reached world leading positions with their niche products. These products are most often found in the mechanical engineering and electronics industry. In addition, the export results are very high. In 2011, the export turnover amounted up to €195.2 billion, whereby every second German small enterprise is active within export either directly or as a supplier (Bundesministerium für Wirtschaft und Energie, 2014).
Appendix 3 – Importance of CSR in Germany

CSR in Germany might have a longer tradition than in some other countries and the relationship and responsibility between business and society has been basis for many political debates and laws (Tolhurst & Embaye, 2010). For example already in 1869, the North German Confederation banned child labour. Two decades later, a compulsory health and pension insurance was established. Environmental initiatives started in 1882 with building the first sewage treatment plant in continental Europe. The first environmental agency was opened in 1906. Followed by those initiatives, Germany introduced several social and environmental laws and regulations. Latest, in 2011, the country decided to conduct an energy policy transformation by renouncing nuclear power (Federal Ministry of Labour and Social Affairs, 2012).

Besides projects on a European level, there are also campaigns and initiatives on a national level which should support the CSR efforts of SMEs. SMEs in Germany can participate in e.g. an EU project, where ethical acting of organisations is evaluated. Participants are assessed regarding their trustworthy and sustainable fulfilment of legal requirements. If an organisation is held exemplary, it is given the certificate of “Ethics in Business” (Sneep-Hamburg, 2007).

Another example is the “CSR in Germany” Action Plan, which was initiated by the German Federal Government in 2010. This plan should promote CSR activities, such as strategies including “responses to climate change, good and fair working conditions, globally binding labour and social standards, the fulfilment of social responsibility through civic engagement and corporate citizenship, and, mostly important sustainable consumption” (Federal Ministry of Labour and Social Affairs, 2012, p.8). Thus, generally, its objective is to encourage social responsibility by companies which should use the action plan to make their business strategies sustainable. Thereby, the government mainly aims to attract SMEs for its idea of CSR “Made in Germany” (Federal Ministry of Labour and Social Affairs, 2012).
Appendix

Appendix 4 – Definition of SMEs

There are two different quantitative definitions regarding SMEs, one published by the European Commission and the other by the German “Institut für Mittelstandsforschung Bonn (IfM)”. The European Commission (2005) defines SMEs according to the number of employees and the company’s annual turnover or the balance sheet total. The SMEs are accordingly subdivided into micro, small and medium-sized categories (see Table A4-1).

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>Number of Employees</th>
<th>AND</th>
<th>Annual Turnover</th>
<th>OR</th>
<th>Annual Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Up to 9</td>
<td></td>
<td>&lt; €2 Million</td>
<td></td>
<td>&lt; €2 Million</td>
</tr>
<tr>
<td>Small</td>
<td>10 to 49</td>
<td></td>
<td>&lt; €10 Million</td>
<td></td>
<td>&lt; €10 Million</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>50 to 249</td>
<td></td>
<td>&lt; €50 Million</td>
<td></td>
<td>&lt; €43 Million</td>
</tr>
<tr>
<td>SMEs together</td>
<td>&lt; 250</td>
<td></td>
<td>&lt; €50 Million</td>
<td></td>
<td>&lt; €43 Million</td>
</tr>
</tbody>
</table>

The Institut für Mittelstandsforschung Bonn (2015) subdivides SMEs into small and medium-sized categories, whereby SMEs are quantitatively defined by the number of employees and the annual turnover. Thereby, in contrast to the definition of the European Commission the maximum number of employees is doubled, while the annual turnover is the same amount (see Table A4 - 2).

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>Number of Employees</th>
<th>AND</th>
<th>Annual Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>up to 9</td>
<td></td>
<td>&lt; €1 Million</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>10 to 499</td>
<td></td>
<td>€1 to €50 Million</td>
</tr>
<tr>
<td>SMEs together</td>
<td>&lt; 500</td>
<td></td>
<td>&lt; €50 Million</td>
</tr>
</tbody>
</table>

Besides quantitative definitions, both the European and German definitions of SMEs additionally comprise the company’s independence as a qualitative criterion. This means, as soon as a large enterprise is having a shareholding quota of more than 25 percent in a previously considered SME, this is not categorised as an SME anymore since its dependence on the large company is too high.
Appendix

Appendix 5 – Definition of the German “Mittelstand”

For the sake of completeness the German “Mittelstand” needs to be mentioned as well. “Mittelstand” is a specific term in Germany and considers only qualitative criteria. Hereby it is crucial that ownership and management structure are one entity (Institut für Mittelstandsforshung Bonn, 2015). Consequently, “Mittelstand” companies are always owner-managed family enterprises (Sneep-Hamburg, 2007). To better understand the term “Mittelstand”, one should focus on additional qualitative aspects, such as understanding the motives, values and behavioural determinants of “Mittelstand” companies in Germany. Instead of looking at tax statistics only, one should consider “the specific liberty-oriented mind-set and behaviour of the [“Mittelstand” companies], their long-term orientation, their loyalty to their employees, their region and all their stakeholders that account for their huge importance for the German economy and society” (Institut für Mittelstandsforshung Bonn, 2015).

Lastly, it is emphasized that the term “economic Mittelstand” is exceptionally used in Germany. Whereas other countries use the term SMEs, it generally comprises only a statistically defined part of the overall economy (Institut für Mittelstandsforshung Bonn, 2015). Table A5 -1 gives an overview of all definitions.

Table A5 -1 SME Definitions of the EU, IfM Bonn and German “Mittelstand” in Comparison (adapted from Sneep-Hamburg, 2007)

<table>
<thead>
<tr>
<th>Definition</th>
<th>Quantitative Criteria</th>
<th>Qualitative Criteria</th>
<th>Linkage of Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs by EU</td>
<td>&lt; 250</td>
<td>&lt; €50 Million</td>
<td>&lt; €43 Million</td>
</tr>
<tr>
<td>SMEs by IfM Bonn</td>
<td>&lt; 500</td>
<td>&lt; €50 Million</td>
<td>-</td>
</tr>
<tr>
<td>German Mittelstand“ by IfM Bonn</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Table A5 -1 SME Definitions of the EU, IfM Bonn and German “Mittelstand” in Comparison (adapted from Sneep-Hamburg, 2007)
Appendix


Normally, certificates are focused on specific areas, such as ISO 14001 is focused on environmental management or ISO 9001 on quality management. “Within this jungle of CSR themes, initiatives and views, many organizations are urgently in need of an overview, structure and roadmap on how to engage with CSR in practice” (Moratis & Cochius, 2011, p.2). Thereby, the specific characteristics and context of the organisation need to be considered. Therefore, ISO 26000, a global guidance document for social responsibility, was released in November 2010 which aims to be a comprehensive social responsibility guideline. Through this, organisations should be enabled to identify their social responsibilities in order to act in accordance with them. The guidance deliberately dispenses with the “C” in CSR in order to ensure that ISO 26000 is suitable for all relevant organisations, including NGOs, governments and companies of all size. “ISO 26000 states that organisations should base their behaviour on standards, guidelines and codes of conduct that are acknowledged as being moral and justified in the context of specific organizations” (Moratis & Cochius, 2011, p.22). The guidance also includes an illustrative list of voluntary tools and initiatives for social responsibility (Balzarova & Castka, 2012).
Appendix 7 – Supplier Evaluation Process in Supplier Selection

The evaluation of suppliers has been identified as the final step of the supplier selection process, emphasised as being one key aspect of supplier management (Irlinger, 2012). Basically, “a supplier evaluation process (SEP) is [1] a regular process of operational management […] [for] finding suppliers for new products, parts, or materials, [2] or for assessing performance of the current supplier base in order to decide continuation of their services” (Sepúlveda & Derpich, 2014, p.966f.). The first part of the definition is important in this section, which reflects evaluating a new supplier regarding its essential criteria within the supplier selection process, which can be e.g. economic, political, or natural criteria.

On one hand, SEP is defined as “quantifying the efficiency and effectiveness of supplier action” (Hald & Ellegaard, 2011, p.890), which emphasises the quantitative method of evaluating a supplier. This method is based on calculative criteria, which offer an optimal solution. It is possible to get feedback on economic success of an enterprise, the liquidity, cost or price structure, performance or turnover development of a supplier. Moreover, suppliers may give voluntary disclosure of confidential information, showing their integrated quality management systems like certifications. Sometimes, deal-breaking criteria may disclose suppliers (Irlinger, 2012; Janker, 2008).

On the other hand, qualitative methods of supplier evaluation do exist. Qualitative methods are described as general influences on objectives without determining a precise scale, or they represent subjective estimations and opinions. These data can be presented with graphic, verbal and numeric methods (Irlinger, 2012). Table A7-1 gives an overview.

Table A7 - 1 Methods of Supplier Evaluation (adapted from Irlinger, 2012)

<table>
<thead>
<tr>
<th>Quantitative Methods</th>
<th>Qualitative Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis of balance sheet</td>
<td>Graphic representation</td>
</tr>
<tr>
<td>Price-decision analysis</td>
<td>Verbal representation</td>
</tr>
<tr>
<td>Cost-decision analysis</td>
<td>Numerical representation</td>
</tr>
<tr>
<td>Mathematical programming</td>
<td></td>
</tr>
<tr>
<td>KPIs</td>
<td></td>
</tr>
</tbody>
</table>

Another method for supplier evaluation in the selection process is the theory of Fuzzy sets. Only experts can evaluate fuzzy amounts, which is projected to the supplier evaluation process. These systems can be quite complex. There is for example an Analytic Network Process, which is an extension of the Analytic Hierarchy Process. This enables sequencing diverse alternatives that are based on relevant criteria and their degree of fulfilment. The alternatives finally lead to an evaluation of suppliers. Activity based costing and other multivariate methods have been developed. Causal models can be very complex and mathematical, where variables are set and analysed (Irlinger, 2012).
Appendix

Appendix 8 – Key Elements of Buyer-Supplier Relationships

Trust and commitment, buyer’s dependence as well as supplier’s dependence are key elements of buyer-supplier relationships. Trust is defined as behaviour, that “[relinquishes] of personal control in the expectant hope that the other party will honor the duties of a psychological contract” (Gullett, Do, Canuto-Carranco, Brister, Turner & Caldwell, 2009, p.329). It can be understood in two ways. On one hand, there is goodwill trust which is the partner’s interest in the belief in welfare and that no harmful actions are taken against the partner. On the other hand, there is competence trust which refers to the confidence in the exchange partner’s ability to perform according to agreements, resulting in positive outcomes for the firm (Caniëls et al., 2010; Carter & Jennings, 2002). When buyer and supplier work together it often results in goodwill and competence trust, also called relational capital. One requirement is that the parties have a broader view and see what else an agreement incorporates besides legal requirements while maintaining the ultimate purpose. Furthermore, trust is interrelated with distrust and trustworthiness, which both impact buyer-supplier issues. If partners trust each other it is usually decided on a subjective dimension based on their expectations about the relationship. Therefore, personal experiences are the decision basis (Gullett et al., 2009). Distrust can be determined as a “lack of confidence” (Govier, 1994, p.240) which comprises minimising the risk that the other party will not adhere to ethical duties. Distrust is based on historical evolution, which means that e.g. corporate restructuring, downsizing, or fundamental violations of psychological contracts would impact the relationship trust level.

Commitment of both parties helps to foster long-term buyer-supplier relationships in terms of increased or maintained specificity, including intentions, operational linkages, specific investments, etc. (Adams et al., 2012). Carter and Jennings (2002) emphasise that commitment is the strong desire for maintaining a valued long-term relationship with suppliers.

With a mutual trust basis in a relationship, a collective set of tasks can be satisfied when collaboration works well. This helps to solve problems and, thus, when both parties work together in a dyadic relationship, mutual goals can be achieved. Moreover, since coordination helps to exceed firms’ outcomes, cooperation is crucial for successful relationships (Carter & Jennings, 2002).

According to Caniëls et al. (2010), purchasers highly depend on suppliers while the purchasers underestimate the suppliers’ dependence. Dependence means that one party cannot do anything without the other party’s resource, or, whether no other sources are available that can be used as substitutes. In most relationships, suppliers are more dependent in the very beginning of the relationship; this changes with achieving the following stages when the relationship commitment and trust decreases due to saturation. Then the buyers are more dependent on their suppliers implying that buyers should always be aware of the vulnerability that can be caused by dependence within relationships. In case one of the parties is dominant over the other, this is often considered as instable and conflicting. However, as long as the trading partners’ behaviour is not influenced in a misusing way it is considered fine, since generally, even in desirable relationships dependencies occur.
Appendix

Appendix 9 – Supplier Evaluation Process in Supplier Development

As already mentioned, “a supplier evaluation process (SEP) is [1] a regular process of operational management […] [for] finding suppliers for new products, parts, or materials, [2] or for assessing performance of the current supplier base in order to decide continuation of their services” (Sepúlveda & Derpich, 2014, p.966f.). While the first part of the definition was already discussed (see Appendix 7), now the authors focus on the second part which emphasises key performance indicators when analysing existing suppliers. Commonly used indicators consider a supplier’s quality, on-time delivery, costs, prices and flexibility (Sepúlveda & Derpich, 2014; Govindan et al., 2012). The continuous control and surveillance of the performance of existing suppliers is also known as supplier controlling (Irlinger, 2012). In order to clearly differentiate the supplier evaluation in the selection process for new suppliers (see Appendix 7) and the supplier evaluation of the performance of existing suppliers, the term supplier assessment is used for the following section. Further, the term will occur again later on as part of the strategies and activities for supplier development (see Appendix 10) and its prerequisites and influence factors (see Appendix 11).

To first clarify the term supplier assessment, it needs to be noticed that the more urgent the supplier or an object is needed for a company, the more detailed the controls need to be. Existing suppliers can be classified into ABC categories according to their characteristics, known as supplier structure analysis. Thereby, suppliers can be controlled at an equal extent according to their groups (Irlinger, 2012).

A three-phase model of supplier performance assessment is introduced by Govindan et al. (2013). The process starts with (1) the design of supplier assessment system, whereby key objectives are defined in order to measure them. (2) The assessment system needs to be implemented, whereby data collection and processing need to be done at a regular basis. And (3) is the use of supplier assessment system, whereby performance data are collected, reviewed, and acted upon.
Appendix

Appendix 10 – Strategies and Activities for Supplier Development

In order to improve supplier performance, Krause et al. (2000) classified four supplier development strategies for buying firms: (1) supplier assessment, (2) instigating competition among the suppliers, (3) offering incentives for improved supplier performance and (4) the buying firm’s direct involvement.

Regular (1) supplier assessment and feedback activities are conducted with the objective to motivate suppliers to increase their efficiency and qualification and to communicate the buying firm’s expectations. Buying firms have a similar goal when putting (2) competitive pressure on the suppliers by using a multi-sourcing strategy. This creates a climate in which suppliers feel compelled to ensure the effectiveness and efficiency of their operations (Ağan et al., 2014). In case of performance improvement suppliers can be rewarded with (3) incentives. As an example, buying firms can share cost savings, increase their purchase volume (Modi & Mabert, 2007) or designate the supplier as preferred one (Nagati & Rebolledo, 2013). Different forms exist with regard to (4) the buying firm’s direct involvement. Thus, the supplier company can be wholly or at least partially acquired. Alternatively, the buying firm can invest in the supplier’s operations in form of capital or equipment (Ağan et al., 2014). Lastly, an operational knowledge transfer can be realised by investing the buying firm’s organisational and human resources to the supplier (Modi & Mabert, 2007) e.g. through initiating personnel exchange between both parties (Krause & Ellram, 1997).

According to Krause et al. (2000) the four approaches can be categorised in externalised and internalised supplier development strategies. The resource-based theory implies the idea that every company has a unique bundle of resources used to create competitive advantage. The externalisation/internalisation framework is a supplement to that theory and assumes that core capabilities are rather internalised while activities which are less critical to success are externalised.

Following this framework, (1) supplier assessment, (2) instigating competition among the suppliers and (3) offering incentives are externalised supplier development strategies. Instead of high involvement of itself, the buying company uses the external market for inciting supplier performance improvements. Thereby, “the buying firm is able to motivate suppliers to improve by providing positive market incentives (in the form of increased purchase volumes) or negative market incentives (in the form of decreased business or the threat of competition)” (Krause et al., 2000, p.36). All three strategies are independent but can be used supplementary and in combination (Krause et al., 2000). They require no direct involvement of the buying firm and, thus, low risk is assumed to these activities (Krause & Ellram, 1997).

In contrast, (4) the buying firm’s direct involvement is classified as internalised supplier development strategy as it requires transaction-specific investments of resources in the supplier company. Thereby, cost incurred by improving supplier’s performance are internalised in the buying firm. Associated activities to this strategy comprise education and training of the supplier’s employees. Further, the buying firm’s personnel can be dedicated temporarily to the supplier and site-visits can be undertaken (Krause et al., 2000).
Wagner (2006) introduced indirect and direct supplier development as synonyms for externalisation and internalisation. In indirect supplier development “the buying firm commits no or only limited resources to a specific supplier [...]. There is no active involvement of the buying firm in the supplier’s operation, and know-how transfer from the buying firm to the supplier does not occur” (p.687). On the other side, he describes direct supplier development as “besides the provision of equipment or capital, direct supplier development includes mainly activities such as on-site consultation, education and training programs, temporary personnel transfer, inviting supplier’s personnel, taken as a whole, the transfer of knowledge and qualifications into the supplier’s organization” (p.688). Even though both strategies underlie different approaches and are mutually exclusive, they can be used in parallel (Ahmed & Hendry, 2012).

Direct involvement is deemed as core practice of supplier development. Especially the number of joint activities increase which leads to closer collaboration and relationships. Practical examples for joint activities are joint development of new processes or materials, programmes to eliminate or at least reduce materials in products or manufacturing processes and programmes which focus on environmental practices of supplier operations (Li, Humphreys, Yeung & Cheng, 2007).

Generally, supplier development efforts vary depending on the goals and need to be context specific. For example, the objective of accelerating production can be achieved by investing in supplier’s production capabilities. However, it might be the case that purchasing volumes of the buying firm are just too low to attract the best supplier. Thus, offering supplier incentives or increasing competitive pressure could be sufficient – and less expensive – measures to achieve the desired goal (Krause et al., 2000).
Appendix 11 – Prerequisites and Influence Factors for Supplier Development

Supplier development is a long-term undertaking and can be targeted at a multitude of areas, e.g. quality; especially direct involvement is resource-consuming. The limited resources of the buying firm need to be allocated and invested in multiple suppliers. The optimal allocation aims to minimise risk while achieving an acceptable return on investment (Talluri et al., 2010). Therefore, a supplier strategy needs to be identified which defines key suppliers and their different treatment (Ahmed & Hendry, 2012).

Supplier development contains some challenges for both parties and necessitates some prerequisites in order to be successful. Li, Humphreys, Yeung and Cheng (2012) list seven influencing factors for effective supplier development. The factors should build a supportive and favourable foundation for the internalised development strategy of direct involvement. They include (1) supplier assessment, (2) top management support, (3) strategic goals, (4) supplier strategic objectives, (5) long-term commitment, (6) effective communication and (7) trust in supplier.

In order to avoid wasting resources (1) supplier assessment is required before initiating a supplier development programme as some of them might not be qualified for the programme or have no need for development assistance. In other cases, weaknesses and areas for improvement can be determined through supplier assessment, and thus a specified development programme can be offered which is consistent with the buying firm’s objectives and future requirements (Li et al., 2012). Buying firms can also use supplier assessment to downsize their supplier pool by measuring suppliers’ variability regarding terms of delivery, quality, ability to adjust, etc. When suppliers have a potential of or exceed in variability, they might be eliminated from the pool. This generates the benefit of focusing on high quality suppliers to be competitive on the market (Boström, 2014; Purdy et al., 1994).

A key enabler for introducing supplier development programmes is the (2) top management support. Top management needs first to recognise the necessity otherwise development activities are ineffective or not initiated at all. Purchasing management needs to be fostered and encouraged to extend their resources in supplier’s operations. Thereby, the supplier development activities should correspond to the buying firm’s competitive strategy (Li et al., 2012).

The effectiveness of supplier development programmes depends on the clearness of long-term (3) strategic goals (Li et al., 2012). Thereby, instead of improving current cost and quality, the development of the supplier’s future capabilities in product development and technology should rather be targeted (Watts & Hahn, 1993). Generally, developing future capability is deemed as a prerequisite from long-term strategic success of supplier development programmes (Ahmed & Hendry, 2012).

As supplier development programmes are of reciprocal nature and require mutual acceptance by both parties, (4) supplier’s strategic objectives need to match with the buying firm’s strategic goals and philosophy in order to ensure a successful management in the alliance (Li et al., 2012). “Scholars pointed out that suppliers with strategic partnership-like relationships with the buying firm should be considered as potential candidates for supplier development” (Wagner, 2011, p.277).
When suppliers are required to adapt their operations to meet the buyer’s demand, they claim the buyer’s (5) long-term commitment. Otherwise, they might be unwilling to make changes. However, quite often the buying firms perceive their suppliers as partners when being involved in supplier development programmes with them. “Such a long-term orientation can result in the supplier being more cooperative with the buyer and even be willing to invest in specific equipment to facilitate the dyadic relationship” (Li et al., 2012, p.362).

In order to ensure the supplier’s motivation (6) effective communication between both parties is a key approach. Furthermore, a higher degree of cooperation through long-term commitment requires more frequent and effective communication. Open communication channels and early involvement support conflict resolution and enhance mutual understanding (Li et al., 2012).

The buyer’s dependence on the supplier relationship is increased through investments for direct involvement activities. Additionally, greater uncertainty and risk occur. Specialised investments are often safeguarded through contracts. However, a less costly and more effective way might be (7) trust in the supplier. Long-term commitment and deeper cooperation might build credibility and trust in the supplier’s capabilities (Li et al., 2012).

On the other side, customer initiated development activities also require the supplier’s trust in its customers. Fear for customer opportunism might hinder suppliers to agree on involvement and participation in development programmes. Exchange of confidential information and problem solving through specific investments need a climate of trust and customer loyalty (Nagati & Rebolledo, 2013).

If buyers understand the supplier’s worries and motivations in participating in the development programme, they are able to better plan and apply their initiatives (Nagati & Rebolledo, 2013). However, many buying firms do not ask their suppliers for feedback or their expectations which both leads to dissatisfaction and influences the relationship quality negatively. One way to ensure supplier’s satisfaction is the perceived distributive fairness which mediates the perceived share of earnings achieved through supplier development. Suppliers agree with a high cost share as long as they benefit significantly from the earnings. These do not necessarily need to be monetary but can also be future advantages for example reputation, abilities or efficiency improvements which often are visible only in the long-term (Praxmarer-Carus, Sucky & Durst, 2013).
Appendix 12 – Benefits of Supplier Development

Some argue that “supplier development activities [...] do not translate into supplier performance improvement [...]”; some firms note that their supplier development efforts actually decrease satisfaction [...]”, perhaps due to misconceptions, misunderstandings, or mistrust in buyer–supplier partnerships” (Blonska, Storey, Rozemeijer, Wetzels & de Ruyter, 2013, p.1295). However, in case of successful supplier development and coordination efforts, both buying firms and suppliers might benefit (Arráiz, Henríquez & Stucchi, 2013). Especially the buying firm’s direct involvement, for example through supplier’s personnel training or site-visits, leads to great long-term benefits and enhances its financial performance (Talluri et al., 2010). At the same time the transfer of knowledge improves the supplier’s performance (Modi & Mabert, 2007).

On an operational level, supplier development initiatives result in reduced costs, improved product quality, shorter lead times and higher flexibility through enriching the supplier’s range of capabilities and competencies (Nagati & Rebolledo, 2013). “Suppliers increase their sales, employ more workers, and pay higher salaries, while also boosting their sustainability or survival capabilities” (Arráiz et al., 2013, p.279).

The supplier’s better delivery speed, higher product availability and enhanced reliability reduces the total transaction costs of the buying firm due to a higher certainty in operations. In terms of product design, engineering changes and, thus, operational costs can be reduced through a close cooperation between supplier and manufacturer (Li et al., 2007). Supporting the supplier through development activities enhances loyalty and might entail favoured treatment towards the buying company (Blonska et al., 2013). “In addition, expectations of enduring relationships and long-term business opportunities created under the policy of supplier development should deter opportunistic behaviours of suppliers” (Li et al., 2012, p.354).
Appendix 13 – Interview Guideline

Introduction
- Introducing researchers
- Explanation of the purpose of the study and research questions
- Assuring confidentiality, informing about recording and transcription
  → Allowance?

Company Details
- In which industry is your firm doing business?
- How many employees does the company have?
- Which function do you have within the company? What are your tasks?
- What kind of products does the firm produce?

Company Goals and CSR Efforts
1. Does your company include objectives that are not only economic? If yes, which ones?
2. In your opinion, what are the most important values of the company?
  → Clarification of the term CSR and sustainability as basis for the interview

Environment
3. Does your company take into account its impact on the environment?
   → YES: How do they do this? Can you name concrete actions?
   → NO: Do you think they should? Why (not)? How do you think they could do this?

Society
4. Does your company take into account its impact on the society?
   → YES: How do they do this? Can you name concrete actions?
   → NO: Do you think they should? Why (not)? How do you think they could do this?

Supplier Management

Supply Chain Structure
5. How many suppliers do you have?
6. What is the size of your suppliers?
7. Where are your suppliers located?
8. Are there reasons for these specific geographic constellations?

Supplier Selection
9. Apart from traditional criteria (e.g. costs, quality) when selecting new suppliers, do you also consider sustainability criteria?
10. Do you ask for specific certifications from your suppliers? Which certificates?
11. Why do you ask your suppliers for these certificates? Why not?
Appendix

Supplier Relationship
13. Do you put efforts on building supplier relationships? Why (not)? How? With whom?
14. How are relationships with suppliers maintained in your company?
15. Do you have periodic briefings with your suppliers?

CSR and Sustainability in Context of Supplier Management
16. How would you describe your suppliers’ social and environmental awareness?
17. What are the major social and environmental sustainability issues your firm is facing within your supply chains?
18. Do you think particular suppliers could harm your business, if any social or environmental non-compliance might be revealed? Why (not)?
19. What are your social and environmental requirements towards your suppliers?
20. Are these requirements measurable and verifiable?
21. How do you communicate your requirements to your supplier? Who is in charge?
22. What do you think are the main drivers for your suppliers to comply with your issued requirements?

Supplier Evaluation and Development
23. How do you control suppliers to ensure that they stick to your corporate sustainability standards? Who controls the suppliers?
24. What are the main problems at supplier sites?
25. Do you put this effort on all suppliers or which suppliers do you control?
26. Do you involve additional business partners to drive your suppliers’ compliance? Why (not)? In case of involvement, what is their role?
27. What capability building activities do you initiate for your suppliers in terms of social and environmental responsibility?
28. Do you implement training programs for your suppliers? Why (not)?
29. Do you have collaborations and joint projects with suppliers?

Supplier Management in General
30. What do you think are success factors for effective supplier management?
31. What are your barriers/main challenges in terms of supplier management?
32. When aiming at socially responsible supplier management, are there additional/other barriers occurring?
33. How do you see the role of managing your suppliers in the future?