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Tensions in sustainable supply chain management: instrumental, institutional, and paradoxical perspectives

Xiao, Chengyong

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Document Version
Publisher's PDF, also known as Version of record

Publication date:
2019

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):
Xiao, C. (2019). Tensions in sustainable supply chain management: instrumental, institutional, and paradoxical perspectives. [Groningen]: University of Groningen, SOM research school.

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Chapter 5

Conclusions

Prior studies have reported on the multiple tensions that exist in the processes of SSCM, but rather limited studies have systematically explore how the social, economic, and institutional context influences organizational experiences of and responses toward the tensions in developing sustainable supply chains. Moreover, rather limited insights have been developed on how tensions are addressed by the ones working toward supply chain sustainability. In this thesis, we presented three empirical projects that directly or indirectly explored tensions in SSCM. In this final chapter of the thesis, we first summarize the main findings of these three empirical chapters. Second, we highlight the managerial implications of this thesis for improving sustainability in global supply chains. Third, we introduce three avenues for further research on tensions in SSCM.

5.1 Main findings

Chapter 2 explored the time-contextual variations in the relationship between corporate sustainability performance and corporate financial performance. Drawing upon instrumental stakeholder theory, we hypothesized that the financial effect of sustainability improvement will gradually attenuate for individual firms, as sustainability becomes increasingly institutionalized in the broader socio-economic context. In countries like China and India where sustainability is yet to become highly institutionalized, firms making efforts in improving social and environmental performance can financially benefit from these investments, as stakeholders will respond positively toward the firms' sustainability improvement. In contrast, in countries like Switzerland and Germany where sustainability is already highly institutionalized, investments in improving sustainability may not trigger adequate positive responses from stakeholders. As a result, the relationship between corporate sustainability and financial performance becomes insignificant in these countries. Although this chapter did not directly address tensions, it shows that the socio-economic environment can have profound influence on the relationship between corporate sustainability and financial performance. Moreover, this chapter suggests that sustainability tensions may become increasingly salient along with the institutionalization of sustainability in the broader socio-economic context. First, companies will have to go beyond the low-hanging fruits and to make substantial and probably costly investments to meet higher sustainability standards. Second, financial returns from such investments will gradually

attenuate, partly due to changes in stakeholder responses. These two forces/trends can jointly exacerbate the tensions between cost competitiveness and sustainability experienced at the firm level. Moreover, this chapter shows that firms' internal financial motivation for sustainability improvement may very likely attenuate, raising the important role of external forces, such as institutional pressures and stakeholder pressures, for driving supply chain sustainability.

Chapter 3 explored the effect of institutional pressures and slack resources on influencing organizational responses toward stakeholder requests for supply chain sustainability. In countries like China and India where sustainability is not yet highly institutionalized, firms having limited slack resources are less responsive towards stakeholders' requests for long-term supply chain sustainability, in comparison to their peers that have abundant slack resources. In contrast, in countries like Switzerland and Germany where sustainability is already highly institutionalized, firms having limited slack resources are comparably responsive to stakeholders' sustainability requests, in comparison to their peers having abundant slack resources. This chapter contributes to a better understanding of organizational responses to stakeholders' requests for supply chain sustainability. Moreover, this chapter shows that external institutional forces are indeed very effective in driving firms to overcome temporal tensions between short-term profitability and long-term supply chain sustainability. When emerging-country firms experience tensions between short-term profitability/survival and long-term supply chain sustainability, they are less likely to give much priority to the latter.

Chapter 4 explored how purchasing and sustainability managers within buying firms are coping with the tensions in SSCM. Drawing upon an in-depth case study of Western buying firm sourcing extensively from emerging countries, we found that the gaps that exist between sustainability standards and the socio-economic reality of emerging countries can exacerbate the sustainability tensions experienced by emerging-market suppliers. As a response, purchasing and sustainability managers of the buying firm were "contextualizing" sustainability standards to make them more applicable in the emerging-country context. Although contextualization does not readily transcend the sustainability tensions, it helps to alleviate the sustainability tensions and also prepares individual managers to develop the capability of paradoxical sensemaking, which is essential for transcending tensions in SSCM. Prior studies (Yu, 2008; Neilson & Pritchard, 2011) have too readily dismissed Western buying firms' responses to tensions as no more than suppression. This chapter contributes to the SSCM literature by empirically exploring how managers are coping with the sustainability tensions.

Through taking the paradoxical perspective, this chapter reveals a more nuanced picture and shows that sustainability managers in buying firms are also engaging with alternative responses in coping with sustainability tensions.

To summarize, in this thesis we have applied multiple theoretical perspectives to explore the tensions in SSCM. Together, these chapters jointly highlight the important role of social, economic, and institutional context for sustainable supply chain management: the context can profoundly influence the financial returns of sustainability improvement (Chapter 2), the context can significantly shape how companies allocate slack resources to address stakeholder requests for supply chain sustainability (Chapter 3), and the context can also shape the tensions experienced by managers from buying firms and suppliers (Chapter 4). Hereby, we highlight three key managerial implications of these chapters and provide three avenues for future research on tensions in SSCM.

5.2 Managerial implications

Tensions are an inherent element in SSCM, due to the comprehensive scope and complicated nature of sustainability. Improving supply chain sustainability entails addressing tensions (Hahn et al., 2015). Chapter 2, 3, and 4 collectively highlight the important role of the social, economic, and institutional environment of emerging countries for addressing tensions in SSCM. First, Chapter 2 shows that sustainability improvement can be financially beneficial for emerging-market suppliers, where sustainability is not yet highly institutionalized. More importantly, main findings from this chapter suggest that emerging-market suppliers can, to certain extent, proactively manage sustainability tensions by effectively timing their sustainability investments. We suggest that emerging-market suppliers should make proactive investments to reap the first-mover advantage in the “sustainability market”, as sustainability followers will have to make due investments at a later stage as sustainability becomes institutionalized, but the financial effect will probably have attenuated. In other words, for the same sustainability issue, first-movers will very likely experience less tensions than followers. As such, stakeholders working on supply chain sustainability, including NGOs and environmental activists, can use the “business case” to persuade emerging-market suppliers to contribute to sustainable development.

Second, the finding of Chapter 3 has implications for stakeholders that are committed to improving supply chain sustainability. Stakeholders need to develop appropriate strategies

that will effectively force firms to address their requests. Our finding suggests that the strategies that stakeholders use to compel firms to improve their social and environmental performance may vary depending on the national institutional environment. In countries with low levels of sustainability performance, stakeholders such as consumers, NGOs, and environmental activists may need to focus first on firms that have considerable slack resources, since pursuing firms with limited slack resources may not deliver substantial results. In the longer term, once firms with considerable slack resources have substantially improved their social and environmental performance, this will contribute to the development of formal and informal institutions that support sustainability more broadly (Rivoli & Waddock, 2011). Thus, over time, stakeholder pressures will become effective in driving firms with limited slack resources to address sustainability issues. In contrast, stakeholders in countries with high levels of sustainability performance can follow a more direct strategy because firms in these countries are generally responsive to stakeholder pressures.

Third, Chapter 4 suggests buying-firm managers to take a “time-contextual dynamic perspective” (Rivoli & Waddock, 2011) toward tensions in sustainable supply chain management. Sustainability issues in global supply chains, such as overtime, generally have multiple causes rooted in the local socio-economic context. This Chapter, along with the other two Chapters, shows that the context does matter for SSCM. When there exist significant gaps between the sustainability standards and the context, buying firms and suppliers alike will have to cope with significant tensions which can sometimes be overwhelming. Managers working on supply chain sustainability need to take a long-term perspective and develop dynamic strategies accordingly. Standards for suppliers’ social and environmental practices should be dynamically adjusted to match with the evolving norms of emerging markets. For example, Western buying firms can enhance the standard on overtime control in China, where the second-generation migrant workers are showing less strong demand for overtime works, compared to the first-generation migrant workers (Ngai & Chan, 2012). Likewise, the requirement on social security can also be enhanced in China, as the central government has started to seriously enforce related laws. With growing institutional support, Western buying firms can expect less resistance from Chinese suppliers related to this requirement. As buying-firm managers working toward supply chain sustainability dynamically adjust the standards and strategies, they will very likely experience less tensions in SSCM. Moreover, emerging-market suppliers will probably experience lower levels of tensions accordingly.

5.3 Future research directions

This thesis was motivated by the observation that there are still rather limited explorations into how tensions are addressed in the inter- and intra-organizational processes of SSCM. To fill this gap, this thesis has applied three theoretical perspectives (instrumental stakeholder theory, institutional theory, and paradoxical theory) to explore three highly relevant questions related to tensions in SSCM. All three projects have produced novel and interesting insights. Hereby, we introduce three avenues of future research into the tensions in SSCM.

First, we have explored how purchasing and sustainability managers within buying firms are coping with the tensions in SSCM. As emerging-market suppliers are the ones that need to implement sustainability standards into their daily operations, we have yet to explore how tensions play out within the suppliers' organizations. Specifically, it would be interesting to explore how "contextualization" (Chapter 4), applied by purchasing and sustainability managers within buying firms, can influence the suppliers' responses to the tensions in SSCM. Key managers within the suppliers may have rather divergent interpretations of "contextualization": cooperation would be a positive and constructive interpretation, whereas some managers can interpret contextualization as a hidden form of "greenwashing" taken by Western buying firms. The managers' interpretations can lead to rather different responses to the tensions. Prior studies (Egels-Zandén, 2007; Yu, 2008; Ruwanpura & Wrigley, 2011) have provided detailed accounts of the tensions, conflicts, and challenges entailed by implementing social and environmental standards in emerging markets. Several studies (Jiang, 2009; Egels-Zandén, 2014; Chung, 2015; Jamali et al., 2017) have taken steps to explain the varying levels of sustainability compliance for emerging-market suppliers. It is found that sustainability compliance of suppliers can be influenced by the governance structures in buyer-supplier relationships (e.g., Lim & Phillips, 2008; Jiang, 2009), capability development programs initiated by buying firms (e.g., Lee & Klassen, 2008), and the institutional environment of emerging markets (e.g., Chung, 2015; Egels-Zandén, 2014; Jamali et al., 2017). However, rather limited efforts have been made to understand how suppliers are closing the gap, although they are the ones that need to implement sustainability standards into their daily operations. We thus recommend future researchers to explore how tensions play out in buyer-supplier dyads in the processes of SSCM.

Second, like most prior studies, our conceptualization of sustainability tensions did not explicitly differentiate between the social and environmental dimensions of SSCM. There are strong indications that environmental and social dimensions of sustainability are not necessarily

implemented to the same degree by firms (Bansal et al., 2014). For example, the Taiyuan-subsubsidiary of Foxconn in (China) was exposed for its precarious labor practices that led to a series of worker suicides in 2001 and 2011, tarnishing the reputation of Apple and other customers. At the same time, Foxconn (Taiyuan) adopted systematic procedures for environmental protection stipulated in ISO 14001. Similarly, Nike's supplier compliance data indicates that suppliers seem to be struggling particularly with issues regarding labor (e.g., fair wages and overtime), while they largely complied with occupational health & safety issues after repeated audit cycles (Distelhorst et al., 2016). Our case study in Chapter 4 also shows that it is more challenging to implement social sustainability than environmental sustainability in emerging countries, as most of the thorny issues were related to social rather than environmental sustainability. Therefore, even though suppliers can show themselves compliant with one dimension of sustainability, they might be negligent of the other. We thus encourage future researchers to differentiate between the social and environmental dimensions of sustainability in exploring the tensions in SSCM.

Third, we have tried to explore the time-contextual dynamics of sustainability tensions by conducting cross-country comparative analysis (Chapter 2 and Chapter 3) and in-depth case study research (Chapter 4). To further corroborate and extend our findings, especially related to our findings in Chapter 4, we encourage future researchers to take a longitudinal perspective to understand how tensions are addressed in SSCM. As sustainability emerges as an increasingly important institutional logic in society, it will gradually gain more systemic power in the process of supply chain management. The dynamic change in the distribution of systemic power will have profound impact on how individual managers from Western buying firms and emerging-market suppliers respond to the multiple tensions that are inherent in SSCM, and these changes can be better captured in a longitudinal case study. For example, as sustainability gains support from formal institutions (laws, regulations, and policies) and informal institutions (norms, values, and shared beliefs), it would be interesting to explore how major managers from buying firms and suppliers make sense of sustainability tensions and adjust their responses to the tensions accordingly.