

## Effects of Socially Responsible Purchasing on Supply Chain Performance. Evidence from Kenya Supermarkets

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### Abstract

The purpose of the study will be to determine effect of purchasing social responsibility on supply chain performance of supermarkets in UasinGishu County. The study was guided by Stakeholder Theory and Legitimacy Theory. For this study, questionnaire was used to collect data. The target population for the study was owners/managers of supermarkets. Multiple regression model was used to test hypothesis. We found that environment, diversity, human rights and safety constitute responsibility have a positive and significant effect on supply chain performance. However, purchasing social responsibility was found to be less practiced in supermarkets. Therefore, there need for firms to purchase from different ethnic groups and minority/women-owned business enterprises so as to bring value and innovation to the supply base, to work with suppliers to ensure that their processes and products are environmentally sound, to support and respect the protection of human rights and to ensure suppliers' locations are operated in a safe manner.

**Keywords:** Purchasing Social Responsibility, Environment, Diversity, Human Rights And Safety Constitute

### 1.0 Introduction

Many companies have already accepted corporate supply chain sustainability as a precondition for their business performance (Dyllick and Hockerts 2002). According to the Danish Council on corporate social responsibility (2010), the concept of sustainable supply chain management deals with the dialogue companies create with their suppliers in order to prevent violations of fundamental human rights and international environmental standards. This therefore means companies are expected to deliver on social and environmental responsibility in accordance with internationally recognized principles and rights. Van Weele (2010) also talks about sustainable development, purchasing and profitability. He further asserted that sustainable profitability can only be achieved if the company is able to balance the interest of customers, employees, the environment, and its shareholder In the globalized world, it's becoming increasingly obvious that besides managing organization's own social and environmental impacts, aspects and impacts of the entire supply chain need to be managed, since suppliers' performance affects the buying organization's performance and reputation (Bacallan 2000). Purchasing activities therefore become important for developing and setting social and environmental criteria for its suppliers and for improving overall supply chain performance. The application of non-economic considerations in procurement practices implies anactivity with bearing both on organizational strategy and operations. Therefore, over time, management of the purchasing function has changed in importance: from serving a company with the lowest unit price, to coordinating procurement between different business units, to an internal integration of cross functional procurement, to the external integration of supply chain management and finally to a greater value chain orientation (Van Weele 2000).

Following Maignan et al. (2002), companies may adapt different strategies in terms of responsible purchasing. The most basic strategy is reactive, when the company has the duty to respond to stakeholder expectations or requirements. Accommodative strategies are employed when the organization undertakes actions to satisfy stakeholder demands; however, at the same time the company avoids to transform and employ a long-term CSR based strategy. These actions are carried out to meet immediate stakeholder requirements. The proactive strategy is employed when an organization takes a continuous and comprehensive approach to integrating social and environmental issues in their practices and business structure. CSR starts with management's belief that CSR is

strategic for the company and to what extent socially responsible purchasing is to be implemented in the company and how proactive they may be (Paulikas and Brazdauskaite, 2010)

One of the key internal drivers for all organizations is to maintain their reputation (Fombrun 2005). They can do this by developing and implementing SRP practices that help avoid risks to brand names and reputation, which are key intangible assets of organizations (Roberts 2003). This risk-averse behavior of organizations has been classified as internal driver of organizations, although it is very much influenced by external forces. "With consumers' confidence in the leaders of major corporations at an all-time low, individuals want and expect corporations to behave more socially and environmentally responsibly" (Webb, Mohr et al. 2008). Following this change in consumer awareness, some companies have started to see SRP and CSR activities as a competitive advantage. Introducing SRP may lead to significant changes in supply chain. For example it may necessitate changes in processes and systems for supplier selection, level of employee training, and procedures of verification and performance assessment. It may also impact product design, logistics and maintenance processes, as well as skills and competencies of procurement staff (Vassallo, Cacciatore et al. 2008)

It has been only more recently still that researchers have empirically investigated the dimensions of activities that comprise purchasing social responsibility (PSR) (Carter and Jennings, 2004). These activities include environmental purchasing, sourcing from minority-owned suppliers, and human rights, safety, and philanthropy issues relating to supply management. For example, Carter and Jennings (2004) show that firms that are highly involved with PSR tend to have a people-oriented organizational culture which is fair and supportive and which considers the welfare of others, and where individual employee initiatives and decision making regarding PSR can occur. However, research has only recently begun to empirically test the idea of SRP within a supply chain management context.

Corporate Social Responsibility (CSR) has become mandatory in the current economic era. Socially Responsible Purchasing (SRP) is a derivative of CSR: while purchasing relates to the acquisition of external resources at the most favorable conditions, socially responsible purchasing adds sustainability and environmental requirements to the pre-mentioned set of conditions. At the same time, little is known about what organizations can do to ensure social responsibility throughout their supply chain. This paper addresses the topic of how the purchasing function in organizations can provide a window of opportunity for creating sustainable supply (Kibbeling et al., 2009).

No comprehensive study about PSR has been made conducted in developing countries like Kenya. Still, companies in the industry are aware of its growing importance. Thus, there is a lack of knowledge about PSR in general, and about what PSR behavior toward supply chain performance. This study therefore, attempts to investigate the effect of purchasing social responsibilities on supply chain performance.

### **Theoretical literature review**

Few studies that consider the content of the disclosures, most support the role of legitimacy theory. Many studies of CSR explain their findings through legitimacy theory (Deegan, 2002; O'Donovan, 2002). Legitimacy requires a reputation that must be retained, that is, it requires a company to convince its relevant publics that its activities are congruent with their values. Issues such as industrial conflict, social and environmental incidents, fraudulent or unethical management behavior may threaten corporate legitimacy. However, a company can lose legitimacy even though it does not change its activities, either due to changes in the composition of its relevant publics or changes in their values (O'Donovan, 2002: 348). Legitimacy theory suggests that CSR provides an important way of communicating with stakeholders, and convinces them that the company is fulfilling their expectations even when actual corporate behavior remains at variance with some of these expectations.

Stakeholder theory is based on the notion that companies have several stakeholders, defined as groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions" (Freeman, 1998: 174), with an interest in the actions and decisions of companies. Stakeholders include in addition to shareholders, creditors, employees, customers, suppliers, local communities, government, interest groups, etc. stakeholder theory sees the organization as part of the wider social system but this approach focuses on the various stakeholder groups within society

Two variants of stakeholder theory can be identified (Gray et al., 1996; Deegan, 2002). The first variant, which

Deegan (2002) designates as ethical (or normative), holds that all stake- holders have the right to be treated fairly by a company. This view is reflected in the Gray et al. (1996) accountability framework, which argues that the company is accountable to all stakeholders to disclose social information. The second variant, which Deegan (2002) designates as managerial (or positive), explains CSR as a way of managing the company's relationship with different stakeholder groups (see, for example, Roberts, 1992; Ullman, 1985). Ullmann (1985) suggested that CSR is used strategically to manage relationships with stakeholders. Stake- holders are considered as having varying degrees of power or influence over a company, the importance being associated with control of resources. The more important (influential or powerful) the stakeholders are to the company, the more effort will be made to manage the relationship.

## **Empirical Review**

There is an abundance of literature sources that investigate drivers for organizations to engage in CSR activities, e.g. (Palazzi and Starcher 2000; European Commission 2002; SustainAbility 2002; WBCSD 2002; Graafland and van de Ven 2006; Mackey, Mackey et al. 2007). There is also a sufficient body of literature that examines drivers for green procurement, e.g. (Carter and Dresner 2001; Zsidisin and Siferd 2001; Coggburn and Rahm 2005; Walker, Di Sisto et al. 2008; Vassallo, Cacciatore et al. 2008). However, for SRP, there is a very limited number of studies that specifically analyses drivers for organizations.

A study of 111 Dutch companies demonstrated that the moral motive of developing CSR strategies induces a stronger involvement with CSR work than the strategic motive of seeing CSR as the financial success of the company in the long run (Graafland and Eijffinger 2004; Graafland and van de Ven 2006).

Allen, (2006) in her study argues that supplier diversity in social purchasing responsibility is a broad concept, describing the inclusion of groups that have traditionally found it difficult to break into the systems that large organizations have set up to buy in goods and services. Supplier diversity issued to refer specifically to programs aimed at increasing the number of ethnic minority-owned businesses (EMBs) that supply goods and services to public, private and voluntary organizations, either directly or as part of a wider emphasis on smaller enterprises in general thus increasing enterprise performance.

Bjurling, (2004) in his study asserts that supplier diversity has the potential to bring real organizational benefits and to help the enterprise perform better, both economically and socially. Supplier diversity improves supply chain performance through encouraging competition within the supply chain, winning new customers and improving community relations, winning public sector contracts, meeting corporate social responsibility (CSR) objectives, encouraging local economic development. (Bowen, 2001)

Dresner, (2001) in his study argues that currently many EMBs buy and sell within their own ethnic communities. For organizations outside those communities such co-ethnic trading can represent an untapped source of supply and/or sales which ultimately could provide a means of adding value through the supply chain. Chevron, for example, claims that its diverse suppliers contribute to the firm's overall vision of sustained performance by providing cost-effective solutions and processes. Such considerations could be particularly significant in internal markets where local content issues are important business drivers.

Coggburn, (2005) in his study argues that managers should encourage their own organization and others to be proactive in examining opportunities and to be responsible within their supply chains either upstream or downstream thus improving supply chain performance. They should encourage the environmental responsibility of their suppliers. They should also encourage the development of environmentally friendly practices and products throughout the organization thus high supply chain performance.

Survey research has also been employed to study environmental purchasing, including its antecedents (Carter & Carter, 1998; Carter et al., 1998) and economic consequences (Carter et al., 2000). In the area of transportation management, the environmental focus has included carrier selection for hazardous materials, private transportation of hazardous materials, and reduction of fuel consumption and emissions. It has been argued that improvement in these aspects help to improve organizational performance.

Frankental, (2001) in his study argues that human rights issues such as ensuring that suppliers do not use child labor are generally more applicable to firms involved in international sourcing, while environmental issues such

as identifying and sourcing non-hazardous alternatives for purchased parts and materials are more applicable to firms that purchase a large amount of such hazardous materials. All these aspects serve to ensure that human rights are adhered to hence the workers will be protected hence improving their organizational and supply chain performance.

In a study by ILO, (2008) higher levels of safety in the working environment PSR also lead directly to improved levels of supplier performance, irrespective of improvements in commitment and cooperation. PSR safety activities are more than just window dressing that can be used for marketing campaigns that emphasize the firm's social responsibility. Instead direct, tangible benefits result in the form of improved supplier performance.

Wallace, (2006) in his study argues that PSR safety working environment conditions that improve supply chain performance could include: abiding by hours of service requirements, ensuring vehicles are adequately maintained, avoiding contamination/spoilage of food, including making sure that trailers and tankers are properly cleaned/purged, proper securement of load (not dumping product on roads), ensuring the safety of for-hire carriers: accident records, operating ratios, insurance, training, including Safety as election criteria of for-hire carriers, driver certification and training, drug and alcohol testing and performing internal safety audits. From the above afore mentioned studies no study has directly related PSR with supply chain performance, therefore this paper hypothesized that:

- H<sub>01</sub>: Diversity SRP has no significant effect on the supply chain performance
- H<sub>02</sub>: Environment SRP has no significant effect on the supply chain performance
- H<sub>03</sub>: Human rights SRP has no significant effect on the supply chain performance
- H<sub>04</sub>: Safety constitutes SRP has no significant effect on the supply chain performance

## Research Methodology

The study employed explanatory research design. This is because the research is a cause- effect relationship. This design was the best for ascertaining the effect of PSR on performance of firm. The target population for the study was owners/managers of supermarkets (County Trade Office, 2014). From a sampling frame of 171 owners/ managers of supermarkets in UasinGishu County, The study used systematic sampling design. For this study, questionnaire was used to collect data. Reliability was determined by administering Cronbach alpha test to evaluate the alpha value for all the variables under study. Statistical values of alpha above 0.7 was regarded significant in terms of internal consistency of the variables under study.

## Data Processing and Analysis

The study used descriptive statistics which enabled the researcher to describe and compare variables numerically such as; mode, mean and median. The analysis was also done using correlation and multiple regression techniques. While multiple regression techniques was used to bring the amount of variations explained by the independent variables through the coefficient of determination ( $R^2$ ). Hypothesis testing will be done using a relevant test statistics which will be done with an aid of a computer package for analysis (Hyuha, 1996).

## Model Specification

Multiple regression model was used to test hypothesis. The multiple linear regression models are shown below;

$$y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \varepsilon$$

- y Supply chain Performance
- $\beta_0$  Is the constant of the equation?
- $x_1$  Diversity responsibility
- $x_2$  Environment responsibility
- $x_3$  Human rights responsibility
- $x_4$  Safety constitute responsibility
- $\beta_1 . \beta_3$  are the coefficient regression or change induced in y by each x

$\varepsilon$  error term

## Findings

The data was checked to verify that the assumption of multivariate normality will be met. In a strict definition of a normal distribution, the skewness of the data would equal zero (Hair et al. 1998). In a practical sense, normality is defined as “a range of scores that span either side of zero”. In the current study, following the definition, skewness scores of the current data indicate an approximately normal distribution. Findings showed that environment responsibility and safety responsibility were somewhat high, while diversity responsibility and Human rights responsibility were less practiced in supermarkets.

**Table 1 Descriptive statistics**

	Mean	Std. Deviation	Skewness	Kurtosis
Supply chain performance	3.3654	0.84003	0.583	-0.403
Diversity responsibility	3.1401	0.95333	0.57	-0.638
Environment responsibility	3.7984	0.9103	-0.004	-0.436
Human rights responsibility	3.2913	1.06537	0.268	-0.336
Safety Constitute responsibility	3.7128	0.94909	-0.492	-0.404

## Correlation Results

Pearson Correlation results in table 3 showed that diversity responsibility is positively and significantly correlated with supply chain performance ( $r = .812, p < 0.01$ ). The findings also shows that environment responsibility is positively and significantly correlated with supply chain performance ( $r = .777, p < 0.01$ ). Similarly, human rights responsibility and human rights responsibility is positively and significantly correlated with supply chain performance ( $r = .744, p < 0.01$ ) and  $r = .471, p < 0.01$ ). From the foregoing, there is a linear relationship between diversity responsibilities; environment responsibility, human rights responsibility and safety constitute responsibility. This provided more ground to perform multiple regression analysis.

**Table 3 Correlation Results**

	Supply Performance	Diversity responsibility	Environment responsibility	Human rights responsibility	Safety Constitute responsibility
Supply performance	1				
Diversity responsibility	.812**	1			
Environment responsibility	.777**	.634**	1		
Human rights responsibility	.744**	.565**	.687**	1	
Safety Constitute responsibility	.471**	.301**	.439**	.432**	1

## Testing hypothesis

In this study, the multiple regression analysis is used as a statistical technique to analyze the linear relationship between a dependent variable and multiple independent variables (Hair et al, 2006). According to Hair et al., (2006), the test will be significant if the p-value is less than 0.05. The beta coefficient is used to determine which independent variables have the most influence on the dependent variable. Table 4 illustrates the model summary of multiple regression model, the results showed that all the four predictors (diversity responsibilities, environment responsibility, human rights responsibility and safety constitute responsibility) explained 82.2 percent variation of supply chain performance. Study findings also indicated that the above discussed coefficient of determination was significant as evidence of F ratio of 143.498 with p value  $0.000 < 0.05$  (level of significance). Thus, the model was fit to predict supply chain performance using diversity responsibilities; environment responsibility, human rights responsibility and safety constitute responsibility.



The results of multiple regressions, as presented in table 4 revealed that diversity responsibility has a positive and significant effect on supply chain performance ( $\beta_1 = 0.475$ , p-value =  $0.000 < 0.05$ ). Therefore, the researcher rejects the null hypothesis and it is accepted that for each unit increase in diversity responsibility, there is 0.475 unit increase in supply chain performance. Further support to the study is by Bowen, (2001) echoes that supplier diversity improves firm performance through encouraging competition within the supply chain, winning new customers and improving community relations. Concurrently, broadening of the supply base provides an organization with greater flexibility in procurement decisions and can enhance its security in the event of supply chain problems which ultimately enhances the firm performance (Cramer, 2008).

The results of table 4 showed that the standardized coefficient beta and p value of environment responsibility were positive and significant ( $\beta_2 = 0.253$ ,  $p < 0.05$ ). Thus, the researcher rejects the null hypothesis and it is accepted that, environment responsibility has a positive and significant effect on supply chain performance. Also, for each unit increase in environment responsibility, there is 0.253 unit increase in supply chain performance. In line with the findings, Coggburn, (2005) argues that managers should encourage the environmental responsibility of their suppliers so as to enhance supply performance. Additionally, Rahm, (2005) is of the opinion that sourcing from environmentally sound suppliers, purchasing recyclable and reusable packaging and containers, using life cycle analysis and participating in design for reuse and recycling creates an effective environment for the adoption of socially responsible purchasing practices thus creating high supply performance (Rahm, 2005).

As shown in table 4, p-value is significant ( $p < 0.05$ ), and the beta value of human rights responsibility was positive ( $\beta_3 = 0.256$ ). Therefore, the researcher rejects the null hypothesis and concludes that human rights responsibility has a positive and significant effect on supply chain performance. Consequently, for each unit increase in human rights responsibility, there is 0.256 unit increase in supply chain performance. Cognate to the results, Barner, (2007) argues that it is utmost necessary for managers to treat people with dignity and respect since it creates motivation in the organization and its supply chain thus high supply performance. Also, Fombrun, (2005) echoes that protecting human rights in socially responsible purchasing entails ensuring suppliers do not use sweatshop labor and ensuring that suppliers comply with child labor laws which in turn improves supply performance

Table 4 further shows that safety constitute responsibility has a positive and significant effect on performance with a beta value of  $\beta_4 = 0.107$  (p-value = 0.015 which is less than  $\alpha = 0.05$ ). Therefore, the researcher rejects the null hypothesis and it is accepted that for each unit increase in safety constitute responsibility, there is 0.107 unit increase in supply chain performance. In agreement with the findings, Henkle, (2005) argues that a safe working environment improves the working conditions thereby improving the supply performance of the firm. Also, a safe working environment gains a lot of trust from potential customers thus improving firm performance (H & M, 2007). Furthermore, engagement in safety activities leads to the attainment of competitive advantage for firms which ultimately enhances firm performance (Newport, 2003).

**Table 4 Multiple Regression Model**

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	0.151	0.157		0.959	0.339		
Diversity responsibility	0.418	0.044	0.475	9.442	0.000	0.566	1.765
Environment responsibility	0.233	0.054	0.253	4.334	0.000	0.421	2.378
Human rights responsibility	0.202	0.043	0.256	4.684	0.000	0.480	2.082
Safety Constitute responsibility	0.094	0.038	0.107	2.479	0.015	0.775	1.291
R Square	0.822						
Adjusted R Square	0.817						
F	143.498						
Sig.	.000						

a Dependent Variable: supply chain performance

## Conclusion and recommendation

It is clear from the findings that the purchasing function has tapped its source of supply from different ethnic groups and from minority/women-owned business enterprise suppliers. This has enhanced diversity in the supply chain hence contributing to improved supply chain performance. The purchasing function participates in the design of products for recycling. Despite the fact that working in collaboration with suppliers ensures that their processes and products are environmentally sound, it was not fully established whether the purchasing function participates in the design of products for disassembly as well as asking suppliers to commit to waste production. This indicates that the development, respect and protection of human rights within the organization promotes high supply chain performance. As per the findings, the purchasing function ensures that the health issues are complied with. As well, the purchasing function has made it its responsibility to ensure that suppliers' plants are not using sweatshop labor. However, it was not fully established whether the purchasing function ensures that suppliers comply with child labor laws. The purchasing function ensures that ensures the safety of incoming movement of products so that they get to the facilities safely. This is essential to ensure that there is a safe working environment in the organization which is instrumental in enhancing supply chain performance. However, the safety of customers when transporting the goods was in doubt.

Based on the findings of this research, we therefore present the following recommendations

There is need for firms to purchase from different ethnic groups and minority/women-owned business enterprises so as to bring value and innovation to the supply base. Additionally, having a diverse range of suppliers opens the opportunity for innovativeness and tapping of resources that provides the firm with a competitive advantage.

Environment responsibility is also key if supply chain performance is to be enhanced. As such there is need for firms to work with suppliers to ensure that their processes and products are environmentally sound. Additionally, it is imperative for firms to conduct life cycle analyses and design products for reuse and recycling.

Human rights SRP is instrumental in enhancing supply chain performance. As a result, there is need for firms to support and respect the protection of human rights. Besides, health issues need to be complied with the firm. Further, firms need to ensure that that suppliers' plants are not using sweatshop labor.

Safety constitutes SRP is also of essence in enhancing supply chain performance. There is therefore need for firms to ensure suppliers' locations are operated in a safe manner. Also, there is need for firms to ensure the safety of incoming movement of purchased materials so as to have a safe working environment which is a motivating factor to employees and ultimately leads to improved supply chain performance.

The primary purpose of the study was to determine effect of socially responsible purchasing on supply chain performance. A survey of retailing firms in Uasin Gishu County. The sample size for the study was small and limited to Uasin Gishu County. This affects the generalization of our findings. Future research should focus on a larger scope. Future studies can complement this result to obtain further insight in this area. For instance, introducing moderator factors will provide an interesting input.

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