

Exploring socially responsible purchasing in Swedish organisations

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1 Introduction

The role of businesses in contemporary society is changing. Many companies experience rapt attention to their actions from a number of stakeholders, among others customers, media, governments and investors. The popular press and academic literature alike point to many examples: mining companies have come under attack for collusion with corrupt governments (IIED and WBCSD, 2002); apparel retailers have faced scandals over the use of sweatshop or child labour (Henkle, 2005; Nijhof, Forterre et al., 2008), oil companies were criticised for engaging in activities that drive people from their settlements or for sponsoring military actions in developing countries (Frynas and Scott, 2003), while toy industry (Bjurling, 2004) and major mobile manufacturers (Chan, de Haan et al., 2008) got under scrutiny for breaching international conventions on working conditions and workers' rights. Even public organisations are getting under public scrutiny, as for example in case of street stones used in Swedish municipalities that were produced in poor working conditions in China (Johnson, Huitfeldt et al., 2006). Over time this attention has compelled the organisations to incorporate non-economic criteria into their purchasing and procurement practices. Despite the growing attention to social issues, little knowledge exists regarding the incorporation of social aspects into procurement activities by both businesses and public organisations. Although much can be learned from looking at the green purchasing literature, it is a fact that many of the preconditions and practices are different in socially responsible purchasing (Carter, 2004).

There appears to be a gap between the societal desire of more socially responsible purchasing and the slow implementation and uptake of socially responsible purchasing at the aggregate level across companies and organisations. And although many companies have some kind of policy for including social aspects in dealing with suppliers, the extent of deployment and integration of these policies can differ significantly (Murray, 2003). Therefore, there is need for an in-depth investigation of available experiences from pioneer companies. The purpose of this study is to empirically examine how social issues are addressed in purchasing activities in 20 Swedish public and private organisations and what are the existing and potential drivers and barriers for socially responsible purchasing.

This study builds on the data collected from interviews with Swedish organisations regarding the ways they incorporate social aspects into their purchasing activities and stimulate social improvements in their supply chains. The organisations represent the public sector, as well as private companies from the business-to-consumer sector and the business-to-business sector. For the study, a total of 20 interviews were conducted in the period May-October 2008, each lasting on average 1-1,5 hours. The interviews comprised 30 questions, some of which were close-ended, multiple-choice questions, while others were open-ended questions. Each interviewee received

the questions prior to the interview. After each interview, the transcript was sent to the respective interviewee for check-up, comments and feedback.

Though exploratory in nature, this study furnishes managers and public procurers with an understanding of the dimensions and drivers of socially responsible purchasing, as well as of steps for how organisations incorporate social issues into their structures, procedures and everyday practices. The study is also useful for public authorities, businesses and public sector, as well as for broader audience, including NGOs, academia and other stakeholders interested in the current situation with social issues in supply chains of Swedish organisations.

Section 2 is based on literature analysis and further explores existing knowledge regarding the process of developing socially responsible purchasing in an organisation, as well as drivers and barriers. Section 3 summarises the findings from interviews with 20 Swedish companies and presents them according to the same structure as in the section on literature analysis: process of developing socially responsible purchasing, drivers and barriers. Then it reports on the best practices and lessons learned from the Swedish companies. Section 4 analyses the literature knowledge and the empirical data and aims to answer the question: how socially responsible purchasing can be promoted in many more organisations by outlining a process model and by discussing organisational capabilities needed for implementing socially responsible purchasing in an organisation. Section 5 outlines main conclusions, provides recommendations for future research and to companies and organisations involved or interested in socially responsible purchasing.

2 Socially responsible purchasing in literature

2.1 Defining socially responsible purchasing

Many companies have already accepted corporate sustainability as a precondition for their business activities (Dyllick and Hockerts, 2002). In the globalised world, its becoming increasingly obvious that besides managing organisation's own social and environmental impacts, aspects and impacts of the entire supply chain need to be managed, since suppliers' performance affects the buying organisation's performance and reputation (Bacallan, 2000). Purchasing¹ 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 an activity with a bearing both on organisational strategy and operations. Therefore, over time, management of the purchasing function is changing its 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).

The names and definitions that are used to denote socially responsible procurement vary. Examples include purchasing social responsibility (Carter, 2005), corporate social responsibility in the supply chain (Maloni and Brown, 2006), socially-responsible buying (Maignan, Hillebrand et al., 2002), responsible procurement (Allen, 2006), socially responsible purchasing and disposal

¹ In this paper, we use the term procurement as a general term interchangeable with procurement, buying or sourcing. As such it does not single out certain elements in the operational process nor does it focus on any particular products.

(Webb, Mohr et al., 2008), and ethical purchasing (Wells, 2004). For public procurement, the terms, such as ethical public procurement, green public procurement, green public purchasing, Fair Trade public procurement and ethical assurance schemes (EFTA, 2007) are used.

Exactly what aspects organisations choose to incorporate in their SRP activities differs significantly. There seems to be a rather unsystematic inclusion of the social, environmental and ethical notions in CSR. There is also a certain *overlap of issues addressed in environmental, ethical and socially responsible purchasing*. The work on green purchasing has been taking place for a number of years and many more organisations have established routines and developed tools for introducing and implementing green procurement. The social and ethical issues, on the other hand, have not received the same level of attention or have not resulted in the same level of formal and structured work as environmental issues. In this report, we define socially responsible purchasing as “the inclusion in purchasing decisions of the social issues advocated by organisational stakeholders” (Maignan, Hillebrand et al., 2002). We also subscribe to the definition by Drumwright (1994) that socially responsible buying “attempts to take into account the public consequences of organisational buying or bring about positive social change through organisational buying behaviour”.

The few studies published in the field of socially responsible purchasing attempt to provide guidance on how the process of socially responsible purchasing takes place in an organisation.

For example, Vassallo, Cacciato et al. (2008) suggested organisations to start implementing socially responsible purchasing with 1) identifying expectations of stakeholders, including suppliers, NGOs and regulators, not only customers. The next step is then to 2) identify the level of ambition of working with social issues. The third level is to 3) identify barriers that may or do prevent the company from adopting socially responsible purchasing and finally to 4) understand the position of the company with regard to socially responsible purchasing of other companies, i.e. to benchmark.

Another approach suggested by Maignan, Hillebrand et al. (2002) outlines seven steps for introducing and implementing socially responsible purchasing in an organisation: 1) define social responsibility goals for the purchasing function; 2) designate organisational members in charge of socially responsible purchasing; 3) educate suppliers; 4) monitor suppliers; 5) sanction suppliers; 6) communicate achievements to stakeholders; and 7) receive stakeholders’ feedback.

Besides these, no other studies have been found that would provide guidance on the process of developing socially responsible purchasing system in an organisation. This clearly demonstrates a gap and the need for a thorough and step-by-step outline of a SRP process that can assist companies in starting up the development and/or implementation of a socially responsible purchasing and this gap is addressed by this study.

2.2 Drivers for socially responsible purchasing

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

studies outline *internal and external factors* that drive organisations to practice socially responsible purchasing and these are summarised below.

2.2.1 External drivers

External drivers are often associated with *stakeholders* that trigger organisations to integrate social aspects into organisational purchasing practices. They can do it in direct and indirect ways. They can directly place demands on organisations' purchasing processes, e.g. through legislation, or may indirectly influence organisation through consumer boycotts against child labour that is used in the production of products.

Consumers are undoubtedly an increasingly important force that shapes social responsibility of organisations. According to the latest UK report, in the last five years household expenditure on ethical products has almost doubled (Co-Op Bank, 2007a). In 2006 there was an increase in ethical purchases by 81% compared to year 2002 (from £366 per household up to £664). And since 1999, there has been 3 times increase in ethical shopping by the UK consumers (Co-Op Bank, 2007b). An increasing number of business consumers - retailers - are also shifting their buying preferences towards suppliers that have proven track records of corporate social responsibility (Vassallo, Cacciatore et al., 2008).

One of the growing forces that shapes how organisations and companies do business is *NGOs*. Some say that "the rising influence of NGOs is one of the most significant developments in international affairs over the past 20 years" (Guay, Doh et al., 2004: p. 129).

Media attention and the work of investigative journalists and various types of NGOs, e.g. Clean Cloth Campaign (Clean Clothes Campaign, 2005) definitely becomes more and more important a driver for including social issues in ongoing efforts of companies and organisations to improve existing purchasing practices.

Another rather new, but increasingly important group of stakeholders is the socially responsible *investors*. However, their influence differs substantially depending on the sector. Some studies demonstrate that in, for example, mining and retail sectors, the proportion of socially responsible investors is so small, that their impact on the overall behaviour of companies in these sectors is minimal (Whitehouse, 2006).

Finally, a potential group could be suppliers. So far, however, for both environmental and socially responsible purchasing, there is little evidence of suppliers being the drivers of change (Maignan and McAlister, 2003; Walker, Di Sisto et al., 2008).

2.2.2 Internal drivers

Internal drivers stem from ethical or instrumental grounds. They arise when socially responsible purchasing is presented as the "correct thing to do" or as an activity that is linked to organisational pragmatism with regard to future benefits. According to Carter (2005), companies engage in socially responsible purchasing for this reason, but with the thought that these activities might not benefit organisational performance". However, although there is no proven direct effect on supplier performance, socially responsible purchasing and the involvement of the purchasing personnel of the focal organisation in the management of the supply chain helps *building trust* and *increase commitment* in the buyer-supplier relationship, which increases *organisational learning* in the supply chain, thereby *improving supplier performance* and,

ultimately, *reducing costs* (Worthington, Ram et al., 2008). However, 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 van de Ven, 2006; Graafland and Eijffinger, 2004).

One of the key internal drivers for all organisations is to *maintain their reputation* (Fombrun, 2005). They can do this by developing and implementing socially responsible purchasing practices that help avoid risks to brand names and reputation, which are key intangible assets of organisations (Roberts, 2003). This risk-averse behaviour of organisations has been classified as internal driver of organisations, 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 socially responsible purchasing and CSR activities as a *competitive advantage*. The competitive advantage may also be translated into the possibility of improving supplier performance or finding alternative suppliers, and thereby also finding new sources for innovation, new marketing opportunities and improved production processes (Maignan, Hillebrand et al., 2002).

Another important driver for companies is their own values. Levi Strauss & Co. is an example of a company with a proactive and value-driven SRP strategy (Levi Strauss & Co., 2008b). The company developed its first Code of Conduct - Global Sourcing and Operating Guidelines – already in 1991 (Levi Strauss & Co., 2008c).

Levi Strauss & Co. also mentions that one of the important drivers to start developing the Code of Conduct were the *employees*, who in the late 1980s began raising concerns about the working conditions of people making Levi Strauss products in various countries (Levi Strauss & Co., 2008a). Similarly, other companies may discover that socially responsible purchasing leads to increasing organisational commitment of employees.

For public organisations, e.g. municipalities and authorities, one driver to practice socially responsible procurement is to *achieve social outcomes* (McCrudden, 2004). Socially responsible purchasing also helps strengthen the profile of the public sector by demonstrating that the products and services organisations buy are not associated with violated human rights or child labour (Thorsell, 2008). It helps ensure that citizens and voters see them as having ethically and socially considerate and responsible behaviour (Minaskattepengar, 2007). As soon as public organisations set social and ethical aspects into their purchasing criteria, they immediately make socially responsible purchasing as competitive advantage for business and industry, and in this way they can stimulate more socially responsible practices of suppliers and general improvement of ethical and social profile of the entire society. They also send very clear signals to those companies and organisations who do not yet address ethical and social problems in their supply chain.

2.3 Barriers for socially responsible purchasing

There are very few authors who specifically investigated barriers for socially responsible purchasing, e.g. (Maignan, Hillebrand et al., 2002; Welford and Frost, 2006), (Vassallo, Cacciatore et al., 2008). They usually distinguish between external and internal barriers.

2.3.1 Internal barriers for focal organisation

One of the barriers to initiating socially responsible purchasing is *the need to justify the activity and its cost to the Board of Directors* based purely on the business benefit or profit for the company, since neither private nor public organisations are run as charity institutions (Whitehouse, 2006). Business logic and bottom-line steers Board rooms and therefore the right arguments need to be found to justify the undertaking.

Some companies *lack top management commitment*, or the commitment ends when resources are needed for implementation of the policy or the Code of Conduct (Maignan, Hillebrand et al., 2002), especially if the company in order to comply with its Code of Conduct needs to choose better performing and therefore more expensive supplies. The level of top management commitment therefore is decisive for purchasing managers to decide to what extent socially responsible purchasing is to be implemented in the company and how proactive they may be with introducing social responsibility to their supply chains.

Additional costs are one of the important barriers for incorporating social issues into purchasing process. Additional costs may arise in short run from the need to develop additional systems to collect information about stakeholder expectations, to process the information and to develop internal and external SRP strategies and procedures and to implement them (Maignan, Hillebrand et al., 2002).

Other internal barriers can be *lack of training and lack of information* in the focal organisation regarding social and ethical aspects in the supply chain. Organisations may have advanced systems for dealing with social issues within the organisation, but have very little understanding of what issues can arise upstream the supply chain, how they can affect the reputation and how to develop a system for addressing supply chain related social issues.

Some studies also discuss *lack of legislation* on socially responsible purchasing as a barrier for both companies and public organisations. Studies also mention *legal uncertainty* that can serve as barrier to promotion of socially responsible purchasing or fair trade principles (EFTA, 2007). Not even the EU interpretative communication for public procurement “Commission Interpretative Communication on the Community law applicable to public procurement and the possibilities for integrating social considerations into public procurement” provides clear answers to all the questions and perhaps only gives rise to more uncertainties (European Commission, 2001).

Finally, one can also distinguish barriers that do not necessarily prevent actors from introducing social criteria in purchasing, but rather from implementing them, thereby resulting in non-attainment of the main goal of working with social issues, i.e. improvement of human rights or working conditions for people. For example, while working on social issues, organisations sometimes are faced with the need to end the contract with the supplier if it cannot fulfil the conditions of the contract. This leads to a moral problem for the focal organisation since it knows that this *may cause job loss* in the supplier company (Welford and Frost, 2006). In addition, switching supplier may be a very expensive activity for the focal organisation, not least due to potential loss of technical or other types of know how of the supplier (Vassallo, Cacciatore et al., 2008).

2.3.2 External barriers for focal organisation

A general problem for incorporating social and ethical issues is that both focal organisation and its suppliers have difficulties with imposing changes or checking the performance *beyond the first*

tier suppliers. This does not mean that organisations do not recognise the possibility of problems upstream the supply chain, but that they lack resources to address these potential problems (Welford and Frost, 2006).

Audits for socially responsible practices require *significant input of time and financial resources from focal organisations*. In order to reduce the costs, focal organisations often hire external auditors, but then they might be unsatisfied with the quality of the conducted work. Especially problematic seem to be local auditing companies working in the country where suppliers are operating. Welford and Frost report the problem of *increasing competition among auditing companies*, which leads to drastic decrease of audit price, in some cases being under US\$300 (Welford and Frost, 2006). This further *reduces the quality of audits* and increases difficulties with acquiring educated auditors. The authors even state that with these conditions auditors become as exploited a workforce as factory workers.

In order to partially solve the problem of high costs for audits, focal organisations are looking for the opportunities to reduce the number of their suppliers and to establish long-term relations with the remaining companies, who ideally share customers' set of values, have adequate training and are working on improving conditions for workers and on other social issues, thereby reducing the need for audits and inspections. On the one hand, establishing long-term relations with suppliers is of course a welcomed change. On the other hand, it can lead to that *small and medium size suppliers have no chance* of competing with larger companies, who have more resources and internal capabilities to invest into social and ethical improvements. Welford and Frost (2006) foresee that if SMEs will not get support with complying with Codes of Conduct, they are very likely to be excluded from the future market or will remain on the market with focal organisations who do not care about social and ethical issues, but only for price.

One of the external barriers is also the *difference in expectations* between the producing and consuming markets with regard to social and health and safety, as well as environmental issues (Vassallo, Cacciatore et al., 2008).

Another barrier is the culture of the *management style* in some regions, e.g. Asia. For example, Welford and Frost (2006) call it the fire-fighting style of management, i.e. solving problems as they come and lack of strategic planning and preventative approaches. Therefore, another barrier is the possibility of *establishing long-term and cooperative relations* with suppliers aiming at meeting socially responsible purchasing criteria.

3 Socially responsible purchasing in Swedish organisations

3.1 State of the art in SRP in Sweden

3.1.1 Social aspects in focus

For the majority of companies labour practices and working conditions together with child and forced labour are the main aspects addressed in purchasing. In addition to these aspects, many companies include a much longer list of issues (e.g. SKF, SCA). For example, Skanska asks foreign suppliers about their employment practices, labour/management relations, health and safety, whether employees receive any training, if they can ensure legal compliance and whether they have product labelling or can provide environmental product declaration. FMV also asks about animal welfare, which is not common for the rest of the interviewed organisations. Table 1

provides an overview of aspects specifically mentioned or introduced directly into purchasing criteria in different organisations (out of 15 organisations that answered this question). The list of aspects and indicators is taken from the Global Reporting Initiative (GRI, 2006).

With such a long list of supplier requirements each company has to identify the most critical aspects, non-compliance with which may lead to the breach of the contract. For example, child and forced labour and discrimination aspects are typically the decisive criteria in the purchasing process. If they are not satisfied, then the contract cannot be signed. Other softer social issues can be a subject to negotiation with the supplier and demands on improvement can be put on the supplier especially in the case of longer-term relations. For example, SKF asks suppliers about community involvement and encourages suppliers to participate in community development, but does not put this as a requirement.

Table 1 Social aspects and indicators (GRI, 2006)

Social aspect	Indicator	Number of times mentioned
Aspects of labour practices and decent work	employment	10
	labour/management relations	9
	occupational health and safety	12
	training and education	7
	diversity and equal opportunity	3
Human rights performance indicators	investment and procurement practices	1
	non-discrimination	9
	freedom of association and collective bargaining	10
	child labour	12
	forced and compulsory labour	12
Society performance indicators	community	3
	corruption	5
	public policy	1
	compliance	7
Product responsibility performance indicators	customer health and safety	2
	product and service labelling	4
	marketing communications	-
	compliance	3

3.1.2 Developing Code of Conduct

All the interviewed organisations have developed a *purchasing policy and/or a steering document*, such as a Code of Conduct, that includes social aspects. Based on these documents, many organisations devise action plans for integrating social aspects into purchasing criteria and procurement guidelines. The Code of Conduct is valid for the entire company, so all departments should translate it into specific procedures and actions relevant for their activities. As a way of providing access to the Code of Conduct and all the relevant information not only for the focal organisation, but also for its suppliers, ITT has developed an IT system – e-purchasing – to which each supplier is connected. The system contains all the relevant documents, including the Code of Conduct, and suppliers are asked to get acquainted with them.

A majority of companies and organisations attach *General terms & Conditions or Code of Conduct* containing social aspects to every procurement contract. Suppliers are then asked whether they fulfil these conditions and whether they can sign the contract (Stora Enso).

Although according to the Code of Conduct all purchases should follow the social principles, social aspects are rarely developed into purchasing criteria for all types of purchases and products.

3.1.3 Developing purchasing criteria: information sources

Companies use variety of sources in order to develop specific purchasing criteria that would include social issues.

Social labels and Fair Trade label are one such source. Several companies revealed that they analyse the criteria of Fair Trade to learn what issues can be included into their purchasing or consult OGC guidance on fair and ethical trading. However, these criteria are perceived to be relevant mainly for consumer product manufactures, not for business-to-business companies. Other labels that are typically consulted are Forest Stewardship Council label and Marine Stewardship Council label.

In addition to social labels, organisations use *general international principles*, such as UN conventions, ILO principles or Global Compact - the UN Code of Conduct, as a basis for developing Codes of Conduct and other main documents. In addition, companies use more sector-specific sources of information, such as *industry associations*, e.g. FBWW - International Federation of Building and Wood Workers or ITGLWF – the International Textile, Garment and Leather Workers’ Federation or *sector-oriented initiatives*, such as BASTA for construction industry and Fair Wear Foundation (FWF) or Rena Kläder – a network of trade unions and NGOs working together to promote better working conditions in the global garment industry. Some companies mentioned that they also learn how to work with social issues in supply chain from other leading companies, e.g. Levi Strauss, NIKE, or Walmart or a number of Danish companies, who seem to be ahead in social issues, e.g. Coloplast, Novo Nordisk, Novozymes and Danfoss.

Many companies participate in various types of *business forums*, where companies share experiences with working with social issues and suppliers, e.g. Business Social Compliance Initiative (BSCI) and Business for Social Responsibility (BSR), Business Leaders Initiative on Human Rights (BLIHR), Swedish Teknik Företagen and Swedish Environmental Management Council (MSR).

There are also numerous *initiatives* started at different levels and supported by various authorities and aid agencies. One of them is Globalt Ansvar² (the Swedish Partnership for Global Responsibility), an initiative of the Swedish government to help Swedish multinational companies in dealing with social concerns, human rights and sustainability issues. The main principles are based on UN Global Compact.

Companies and organisations also search assistance from international *NGOs*, e.g. Fair Labour Foundation (FLA), as well as Swedish organisations, such as the SwedWatch – an NGO that specifically focuses on Swedish business relations with developing countries, or Global Utmaning, an organisation that identifies and drives globalisation issues that are important for Swedish people.

Some companies and organisations actively participate in the work of the *International Standard Organisation* on preparing new international standards or Swedish standard organisation (SIS).

² <http://www.sweden.gov.se/sb/d/2657/a/14557> So far 18 Swedish companies support the initiative, including ICA, Löfbergs Lila, the Body Shop, Folksam, H&M, OMX, ITT Flygt, Vattenfall, KPA, Sweco, Banco, V&S Group, Lernia, Apoteket, Sveaskog, SJ, Swerod and Akademiska Hus.

For example FMV takes part in the SIS work on preparing ISO 26000. Other companies obtain information from international standards, such as Social Accountability International's SA 8000:2001 and the recently released SA 8000:2008.

Consultancies e.g. KPMG and PriceWaterHouseCoopers that are working with social responsibility also become a source of knowledge for companies and organisations.

3.1.4 Assurance practices

Although the Code of Conduct or purchasing policy is applicable to all products, what differs among products is the target setting for follow-up and assurance and check-up of the actual supplier conformance to the social criteria. So far, few companies and organisations actually take a further step to develop procedures to follow up supplier practices, and even fewer companies take steps to establish a long-term relation with their suppliers. Thus, the *practices* of companies differ very much.

To illustrate this, IKEA, for example, audits all 1300 of its suppliers. In many cases IKEA checks compliance of suppliers twice per year, but at least once a year. IKEA audits usually take 1-2 days and comprise 4 elements: 1) reality check – the actual go-through the premises, observation of production lines and activities; 2) interviews with top management, 3) document control, and 4) confidential interviews with employees to capture the “workers’ voice”. At IKEA, purchasing and sourcing managers are responsible for audit and follow-up of the suppliers’ work and for finding new suppliers and for phasing them out in case they are not able to comply with IKEA requirements. Increasingly often, IKEA conducts unannounced audits, which they claim can better stimulate continuous work compared with announced inspections. IKEA does not only audit suppliers, but also helps them with environmentally black-listed and grey-listed products and substances, and assists them with identification of alternatives and with finding better second tier suppliers and with improving performance of the second tier suppliers. Every three years, the Code of Conduct and criteria are changed and upgraded, but the basic criteria remain the same.

Another end of the scale of auditing activities is often represented by public organisations, who neither can perform audits with own personnel, nor have financial means to hire external auditors. They have to resort to other means of evaluating suppliers, by either hiring external auditors for specific products that became the focus of public attention, e.g. street stones. To afford external auditors, municipalities have to work together.

The *level of progress in assurance practices* differs significantly between organisations: from public organisations with few audited suppliers to almost 100% suppliers being audited by IKEA who is now working with second tier suppliers. IKEA has developed supplier requirements, a system called IWAY comprised of 90 questions. IKEA audits nearly all suppliers. Compliance rate of the suppliers to the Code of Conduct is 85-90% and 50% of them comply with all the requirements. The company is aiming at establishing long-term relations with suppliers with help of support tools and consultations with suppliers.

Indiska is also auditing close to 100% of the suppliers and has already started working with second tier suppliers on quality, health and safety issues and on questions of logistics. As a result, when Indiska asks for supplier evaluation, not only does it check authorities’ reports, labels, Codes of Conduct, supplier policies, supplier procedures and audit results, but also information about second tier suppliers.

Also SKF regularly audits close to all of their 200 critical suppliers on their social performance and does so via regional commodity managers and their personnel, and auditors in the countries of SKF operations. The critical suppliers are chosen based on their importance in process quality, customers value and business considerations (production volume). There are also suppliers that might be critical from social point of view. SKF is one of the leading companies who has already developed own procedures and tools for supplier requirements, supplier audit and evaluation. The company has recently developed a tool for evaluation of other than critical suppliers and sub-suppliers – 5000 suppliers of the 80 operational facilities of SKF. The tool includes 8 criteria with an evaluation scale, which can be used by purchasing managers and other personnel working in operational facilities who best know their suppliers and who can easily evaluate the level of risks associated with different suppliers. The tool has been tested in a couple of facilities in China. After the level of risk has been identified, SKF started auditing high-risk suppliers with own trained social auditors. It took 4 weeks for the test facilities to evaluate suppliers. In order to develop the tool, SKF invited both internal and external experts.

However, due to the large number of suppliers it is very difficult for many companies and organisations, even large ones, to audit and follow up all suppliers. Therefore, for example, Skanska sets basic social demands for all suppliers, but only foreign suppliers are audited. Social aspects are integrated into purchasing criteria and followed up with information requests and audits of the foreign suppliers. Skanska has purchasing offices in sourcing countries and the staff there is responsible for the assurance work, however sometimes even head office representatives visit and audit suppliers.

3.2 SRP drivers in Swedish organisations

The desire of respondent companies to incorporate social issues into purchasing process can be seen as a part of the overall strategy to run their business in environmentally and socially responsible manner, something which is broadly called Corporate Social Responsibility. An often stated internal driver - to preserve and improve reputation - can often be linked to the perceived by companies changes in the external environment, played out in the increasing societal expectations on the role of businesses. This shift has definitely taken place in recent years, as companies have been seen as responsible not only for increasing the stockholder's value, but also for satisfying expectations of other stakeholders.

3.2.1 External influences

For IKEA, the main external driver is the *expectations of stakeholders*, not only authorities, but media, and NGOs. For Kwintet and ITT the driver especially comes from customers, who are asking for social and environmental management in the focal organisations. ABB reported that investors are becoming an important driver for social activities especially in the last 5 years. For Stora Enso, social issues increasingly come in focus due to globalisation and the need to maintain the same standards in global supply chains.

For many companies not primary stakeholders, but “opinion formers” are considered as the most important influence, however subject to sector specificity (Whitehouse, 2006). The two groups that stand out among the opinion formers are *NGOs and media*. For many organisations risks associated with media attention and *public opinion* are important drivers. Some year ago, the initial driver for FMV to start working with social issues was the societal scrutiny of organisations purchasing textile due to poor social practices during textile production in

developing countries, including child labour. The same was the scandal with child labour in early 1990s for IKEA. After the disclosures, the companies started working seriously with these issues and nowadays are leaders in the field. However, it is almost impossible to secure that all the suppliers in all supply chains and tiers fulfil the Code of Conduct of the focal organisation, as recent reports demonstrate (de Haan and van Dijk, 2006).

For other companies, working on social issues can help *maintain legitimacy* in the eyes of stakeholders if new discoveries of inappropriate practices are made. For example, in 2007 SLL was in media focus due to the disclosures made in a “Kalla Fakta” report by SwedWatch, Fair Trade Center and Rena Kläder about child labour, poor working and health conditions among Indian and Pakistanis’ suppliers of surgical tools and patients clothing (Bjurling, 2007). However, because SLL together with Västra Götalandsregionen and Region Skåne had started working on a project on social issues in purchasing in 2006, it helped them demonstrate a good will and to regain legitimacy, see e.g. (Salo, 2008).

The possibility to *participate in tenders* was named by Kwintet as an important external driver for furthering social issues in purchasing. Nowadays, no company can enter a tender without showing record of working with social aspects. It is important to note that there are still huge variations in the conditions of tenders and so many do include social criteria, but far from all.

External evaluation and rating indexes are also becoming a driving force for improvement of company performance on social issues in purchasing and supply chain. The main driver for SKF to start working with social and ethical issues in supply chain was when the company applied for DJSI in 2004 to become best in class. The DJSI evaluation gave a low score to SKF for supplier management, after which, in June 2005, a management review meeting was organised with among others environmental manager to identify possible action. In the evaluation from 2006, SKF scored 71 out of 72 possible points for working with suppliers on social issues. To reach this result, the company had developed an Action Plan and set up objectives.

For FMV, *political vision in Sweden* – The National Strategy on Sustainable Development - was an important driver for incorporating social issues into purchasing. FMV made a gap analysis of the National strategy with the FMV performance, identified gaps and developed measures to address them.

The *need to report on sustainability issues* has been seen as a driver by many companies, but not all. For example, 2 years ago SLL started developing a suggestion for sustainable reporting, which identified gaps in social area, and this served as an initial driving force for working with social issues in supply chain. For IKEA the need to prepare a sustainability report is also a driver to include social aspects into purchasing activities. Since IKEA also drives other social projects and charity, about which it would like to report, it nowadays also includes information on working with suppliers on social issues.

For public organisations a *decision of politicians* to work with sustainability and social issues is the main driver to start working on social issues (SLL; Örebro municipalities).

Finally, *participation in development of international standards on social issues* can also become a driver. For example SLL has been involved in the design of the ISO 26000.

3.2.2 Internal influences

For majority of companies that have started including social issues in purchasing criteria the most important drivers are *risk reduction* and hence *cost reduction*. ABB reported that risk reduction is connected to quality issues: there is a close link between poor working conditions and poor product quality. Improving the first one leads to improved product quality and this is one of the drivers for the company to work with social issues.

In some companies, once a *vision, policy or Code of Conduct* becomes signed by *top management and CEO*, this becomes an important driving force for the entire organisation (e.g. in SKF).

Other companies, such as IKEA and SCA, talk about social considerations as a way to maintain employee loyalty and to make *employees feel good and proud* of the company they are working for. It is important for companies that employees share company values and are well disposed towards company policies and strategies.

Protecting the *brand name* is the often mentioned driver that stems from the external driver of societal pressure on the company. While this is relevant for both private and public companies, it seems that pressure is much higher on private businesses at the moment.

For IKEA the main driver nowadays is the internal drive of *finding suppliers that share IKEA's system of values*. And a number of other companies also reported this being one of the main drivers to engage with social issues.

For publicly owned organisations such drivers as preserving the *good name of Sweden* on international arena, as well as the good name in front of tax payers have been mentioned by e.g. FMV.

3.3 SRP barriers in Swedish organisations

3.3.1 Internal barriers

In some companies “*top management sometimes lacks understanding of what the social work in purchasing and with suppliers is about*”. The management may consider it sufficient to inspect suppliers and may not see the development of suppliers and improvement of their performance as an important part of the supplier relations. Therefore in some large organisations there is a certain level of inertia to embark on the journey of socially responsible purchasing.

Lack of resources for auditing of all suppliers, both strategic and non-strategic, was mentioned by many organisations. Lack of resources is then translated into lacking education and training of auditors and lack of competent local personnel who can assist with audits of suppliers and who can implement the necessary changes according to requirements of the focal organisation at suppliers' sites.

Lack of knowledge about social aspects and how to develop specific purchasing criteria integrating social issues is a barrier for many organisations and companies who are in their initial stage or who experienced these barriers in their initial stages of work.

For some companies *information availability* is the main internal barrier for including social and ethical aspects into procurement process – “formulating what information is needed from suppliers is very difficult, since it is a “moving target” with continuously developing new products and continuous expansion of our knowledge about effects and impacts of various

materials. Suppliers often do not know themselves about possible negative environmental and social impacts and turn to focal companies for help”. One of the time consuming tasks is therefore *internal information collection* for all products, all types of suppliers and their activities.

Lack of practical tools and updated information is seen as a barrier by companies and organisations that are in the initial stage of their engagement with social work in purchasing and with suppliers. For example, one municipality mentioned lack of possibility to control suppliers and a lack of monitoring tools for following up and evaluating suppliers. Others say that “tools are out there, but we had hoped they would be even more developed” (Kwintet). It seems to be easier to develop environmental criteria for purchasing, because they concern the product, while social aspects often relate to the company performance and not a specific product, and therefore represent a more sensitive issue.

Lack of cooperation between different purchasing units leads to inefficiency of time and resources and has a potential to be handled in a more efficient way once a standard procedure and routines are in place.

3.3.2 External barriers

One of the barriers mentioned by the Fair Trade Center regarding the low uptake of socially responsible purchasing in Swedish companies is the *absence of legislation* that would demand European or Swedish companies to include social and ethical criteria in purchasing. The EU directives on social issues in procurement state that the public sector procurement officers can include these issues into their purchasing process, but it does not require them to do so. Having a common EU regulatory framework might speed up the incorporation of social criteria in purchasing of European companies. On the other hand, judging from the previous experiences with working with EU legislative mechanism – eco-labelling or GPP – it might take as well a long time to develop such legislation.

A lack of court cases that would help interpret how the law about public purchasing should be used in practice was mentioned by Mariestad municipality. According to SLL, “purchasers need to dare to enter grey areas that have not yet been well defined. The law on public procurement in Sweden came into force in January 2008 (SFS 2007:1091), but has not yet been tried in court, which would help to better define and interpret the text of the law. However, perhaps no supplier would dare bringing customers to court because of the inclusion of social criteria, since no one would want to defend child work, corruption, etc. in their practices. This situation however may delay more precise interpretation of the legal text and thereby delay the progress in the incorporation of social criteria into purchasing criteria in the future.” There are so far very few court cases that have addressed the issue of environmental or social criteria in procurement. One of them is a landmark decision in the Helsinki Concordia Bus Case, when the European Court of Justice determined that public authorities could spend more money on a product or service if it met key social and environmental criteria when awarding contracts for a public tender (European Court of Justice, 2002).

Another barrier for developing and integrating social aspects into purchasing criteria is the perception that *the market is not ready for strict criteria* and that organisations, such as municipalities, lack tools to follow upon them. For example, one municipality has “a well developed criteria document, but has not put them into procedures yet, because it lacks mechanisms for controlling their fulfilment. Therefore, there is no reason to develop too strict

criteria". So far suppliers of this municipality have to prove that they are following the purchasing policy of the municipality in any way they can.

Yet another barrier is the perception that in many cases it might be problematic to obtain lists of suppliers from Swedish suppliers and to check their performance. Thus, the Swedish suppliers of first tier have to guarantee the work with social issues in the next tier.

4 How to further socially responsible purchasing?

Based on the information obtained from interviews and literature, the following generic model for integrating social issues into purchasing process of an organisation and into its supply chain can be outlined. The purpose of devising this generic model is to provide an overview of the process of introducing, implementing and maintaining socially responsible purchasing in an organisation. The ambition is not to tell what and how should be done, but rather to provide a source of information and inspiration for organisations that are considering or are in the process of developing socially responsible purchasing in their activities. The model can also potentially be used as a benchmarking tool by organisations that are in the process of developing a system for socially responsible purchasing or are at the leading edge of this work. This model can also be of interest for organisations who would like to understand how far different organisations have proceeded in their work - it can thus be used for mapping out the state of the art in a large number of organisations and for comparing their progress in socially responsible purchasing.

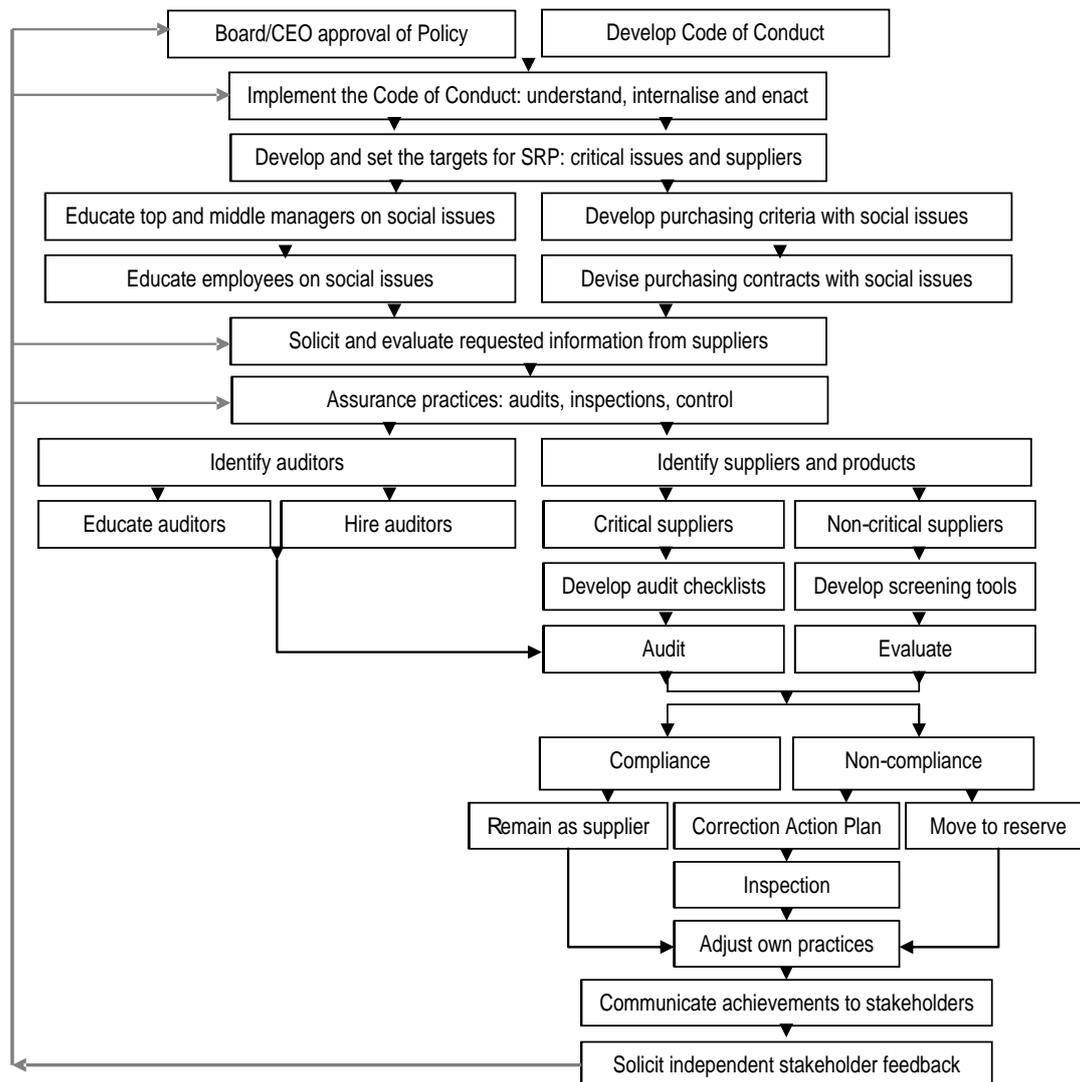


Figure 1 Process of making supply chain more socially responsible through focal company

4.1 Development of the Code of Conduct

The development of a system for socially responsible purchasing starts with the development of a policy or a Code of Conduct, in which the main values of the organisation are outlined and special issues that the organisation aims to work on are typically described. Whereas the set of organisational values usually stays unchanged, the issues of relevance for the organisation differ with time and in different sectors (Carroll, 1979). In some organisations, first a corporate policy on CSR is developed and then it is translated into a Code of Conduct that provides a more precise direction for the company and may specify directions for purchasing unit. Communication of organisations' policies and Codes of Conduct is an important part of gaining and maintaining legitimacy and this takes place through different means, such as manuals, websites and verbally at meetings, conferences and seminars. Once the Code of Conduct is finalised, the organisation implements it through the development of strategies and practices, but the first step is always informal policy communication within the organisation.

4.2 Implementation of actions in focal organisation

The first step in the implementation of the Code of Conduct is to *designate organisational members* in charge of socially responsible purchasing. It can be purchasing managers or social responsibility personnel, and sometimes there is a team of people or collaboration between responsible for the implementation of socially responsible purchasing personnel from different departments.

Then one needs to *define social responsibility goals* for the purchasing function and the more advanced step is to set measurable targets regarding purchasing performance. The goals can be expressed qualitatively or may also contain quantitative targets (Maignan, Hillebrand et al., 2002). Setting up quantitative goals helps organisations develop a set of indicators that can be used to trace the progress.

Once the goals and/or targets are defined, there is a need for *internal capacity building*, starting from educating personnel about the policy and the Code of Conduct to preparing own auditors, to educating managers and then the rest of the organisation about social issues.

The development of the internal capacity goes hand in hand with identifying specific measures and steps for various units with the goal of ensuring that social aspects are incorporated into daily routines and decisions. For purchasing department this means that the *Code of Conduct has to be translated into purchasing criteria*. An organisation can include a clause about organisational values and those related to social issues into a purchasing contract. Another way for including social demands for suppliers is to attach the entire Code of Conduct to each purchasing contract and ask suppliers to sign it. An organisation may develop specifications for strategic products regarding social criteria, or may have common criteria for all the products, including non-core or miscellaneous products, such as office supplies. Most often, there is a common set of values and priority social areas that are addressed in the contract with suppliers. What differs significantly is the extent, to which supplier claims and operations are audited and followed up. These activities are outlined in the next section.

4.3 Implementation of actions in supply chain

In order to incorporate social responsibility in the supply chain, the focal organisation needs not only to put demands on suppliers, but also to verify whether the provided by suppliers information is credible and complete. Focal organisations are in a position to choose suppliers based on their social performance because suppliers are competing for lucrative contracts and are willing to satisfy the requirements of large and important clients.

Of course, by the time they start developing socially responsible purchasing, it is likely that most of the focal organisations already have established a supplier base. Therefore, in the initial stage they always face the issue of evaluating old suppliers that have not been under scrutiny for their social performance. This means that there is always a transition period for the social qualification of suppliers to become systematic (Cramer, 2008).

Organisations may start with incorporating social aspects into supplier assessment system by requesting and evaluating information from suppliers and/or by conducting on-site supplier audits. The majority of organisations are satisfied with the information provided from supplier or have to rely on it since they do not have the means to control to what extent their requirements are fulfilled in reality. Very few companies can afford to check and follow up the information provided by suppliers. This is done by audits that can be conducted either with own personnel of

the focal organisation or by third-party independent auditors. Typically, organisations start with auditing their strategic suppliers and then later they may proceed to auditing or developing verification procedures for all suppliers – perhaps with a different extent of detail and level of credibility.

Auditing suppliers is an important decision, often driven by media attention to the organisation's performance in supply chain or by investors' concerns, or other triggers from stakeholders and the organisation itself and its Code of Conduct. In order to audit suppliers, an organisation needs to develop internal procedures for supplier evaluation, which may include supplier evaluation forms, setting specific targets regarding supplier social performance, specific indicators that can be used in supplier evaluation and of course education and training of internal auditors, or hiring external auditors.

In order to collect information and to answer questions in the audit checklists, investigative work on-site is required. Various tools can be used to collect that needed information, e.g. various types of written information requested from suppliers and face-to-face interviews with various representatives of the supplier. This information can be collected by external or internal to the focal organisation auditors. In both cases, suppliers are audited in terms of their compliance with local legislation and other standards, such as for example a social certification standard SA 8000 or forthcoming ISO 26000. Audits typically include visits and inspections of supplier factories and other facilities, e.g. dormitories for workers. The auditors are also checking supplier performance and its conformance to the Code of Conduct.

4.4 Monitoring of SRP in focal organisation and in supply chain

After initial audits, focal organisation may choose to establish longer relation with suppliers. *Monitoring suppliers* is another term for long-term relation with suppliers that includes regular surveys of supplier practices, common development of social targets and periodical reporting on indicators. In some cases, organisation chooses to find other stakeholders who can assist with monitoring supplier performance. In some cases organisations collaborate with NGOs or universities in the countries of suppliers.

Some organisations see long-term monitoring as *supplier development* and distinguish between reactive efforts to improve the performance of laggard suppliers and strategic efforts to improve capabilities in the supplier case and to enhance the competitive advantage of companies in the supply chain. Research demonstrates that a strategic approach was found to significantly increase the involvement of the focal organisation in suppliers' processes, and "required greater dedication of resources, personnel and communication" (Krause, Handfield et al., 1998). The focal organisation has to build capacity to instigate change in supply chain through follow-up activities aimed at supplier development.

Finally, in order to establish long-term relations and collaboration, *education and training programmes for suppliers* might play an important role in gaining trust and suppliers' support in disseminating more socially sustainable practices into suppliers' factories (Maignan, Hillebrand et al., 2002).

Sanctioning suppliers is also part of the system for improving social performance in supply chains. If suppliers are failing to satisfy criteria specified in purchasing contract or in the Code of Conduct, the focal organisation has to have clear routines and well-defined sanctions. Some organisations decline a contract; others may give the supplier some time to address the identified

problem – usually 3 month. Other organisations may shift the supplier from the list of main suppliers to reserve list until the problems are dealt with. And finally some organisations feel the responsibility for collaborating with suppliers on solving the problems.

As important for organisation to have sanctions against violators, as essential it is also to encourage and award suppliers for good work with social issues and for conformance with Code of Conduct. So far, it seems that not many organisations have realised the potential of the encouragement.

An extremely important step in monitoring and furthering socially responsible purchasing in the supply chain is for the focal organisation to be able to *adjust own internal practices* to make sure that they do not instigate supplier non-conformance and to ensure that there is fair conditions for suppliers to work in a socially responsible manner.

4.5 Communication, feedback and benchmarking

Communicating with stakeholders is an important strategy for any organisation. This is especially visible for companies that produce consumer products and seem to be under more pressure from consumers and media than companies that produce either semi-products or industrial products. Organisations use diverse *means for building capacity for communicating achievements to stakeholders and soliciting stakeholder feedback*. One approach is to attest their efforts according to Social Accountability 8000 *certification* that guarantees that the organisation and its suppliers meet verifiable standards on labour rights and discrimination. Another approach, chosen e.g. by H&M, is to apply for a third party *label* that signifies that products are produced without child or forced labour, e.g. a label of the Fair Labor Association (FLA, 2008).

A third group of organisations prefer to publish their achievements in purchasing activities and in supply chain on their *website* supported by evaluations of independent auditors. The extent of information provided to stakeholders depends on the pressure on the company to prove that they are taking their responsibility for social issues in purchasing and in supply chain seriously. There are so far very few large Swedish companies that provide comprehensive information on their websites about their social work. For example, ABB provides information about their social policy and all the documentation for putting demands on suppliers, for supplier evaluation, etc. are also available on their website (ABB, 2008a; 2008b). H&M seems to have gone even further in the information disclosure, because they provide information about their auditing practices, lists opportunities and barriers for working with suppliers, which creates the possibility for customers to assess themselves how the company is doing in terms of socially responsible purchasing and working with suppliers (H&M, 2007).

Soliciting stakeholders' feedback on the provided information is as important as providing information about socially responsible purchasing itself. Some companies organise conferences for stakeholders, including suppliers, retailers and local authorities, while others use online evaluation survey that all the visitors of the organisation's website are asked to fill in as evaluation of the organisation's practices. For some companies, e.g. Indiska, unedited answers are also available online (Indiska, 2008).

One of the important functions of communication is *benchmarking* – the possibility to compare how well an organisation is doing in comparison to other organisations in terms of socially responsible purchasing. Benchmarking can also serve as a learning tool or as a driver to further the work on socially responsible purchasing. Various help tools are available online that assist organisation with benchmarking activities.

5 Conclusions

The general conclusion from the interviews and analysis of academic literature is that there are still very few Swedish organisations that integrate social criteria into their purchasing practices. Among these companies, absolute majority are large international companies. Also, what becomes clear is that much of the reality of socially responsible purchasing in Sweden is still risk management. The type of strategy that organisations choose to work with in socially responsible purchasing reflects the development stage an organisation is at. Often, an organisation initially employs a reactive strategy having just faced the first hang-out in media for inappropriate action in the supply chain. With time, many organisations develop a more proactive strategy by shifting towards more hands-on, pre-emptive and systematic approach. Thus, there is a large difference between the level and extent of development of socially responsible purchasing in different organisations.

There is also a big difference in the level of efforts and available for socially responsible purchasing resources between public and private organisations, with latter having typically more resources to invest in social issues, but also being much more driven by media attention, investors and public interests. There is however a large degree of divergence also among organisations in public sector in the level of their efforts. There are still very few public organisations that have included social issues in their policies and are just few organisations that have placed requirements on suppliers and checked their performance.

The study found that in Swedish organisations, the main drivers for socially responsible purchasing include stakeholder influence and organisational values, media and NGOs attention and employees' concern. The main barriers are a lack of resources for supplier audits, difficulties to ensure that all suppliers fulfil the Code of Conduct, differences in culture and management style, low levels of social standards and high levels of corruption in some countries of supply, all of which makes assurance practices a very costly enterprise.

There seems to be a higher number of companies from private sector that develop their Code of Conduct with social aspects, include social requirements into their purchasing contracts, monitor supplier performance through evaluation of provided documentation or through audits, and that develop long-term relations with suppliers aiming at improving social standards in the entire supply chain. Among business companies, producers of consumer products seem to be under more pressure from media and consumers, than companies that supply to other businesses. Also companies that are on the stock market seem to have a drive from socially responsible investors and have therefore progressed further.

Reflecting on the difference in the scale of efforts and the progress, organisations express different needs for support tools, manuals and external support. However, the most problematic stage is when an organisation has to develop own tailor-made tools that suit the main set of organisational values and structure, the range of suppliers and types of products. Another problematic stage is the supplier audits. Organisations reveal that current tools and methods of

monitoring business practices of suppliers are unsatisfactory. They are too time and resource consuming, are often in need of external verification and are of seemingly decreasing quality if conducted by auditors located in the country of supply. This indicates that perhaps a more coordinated approach of collaborative and complementary monitoring might be a way forward.

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