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Exploring the Role of Buyer-Supplier Relationship and Organizational Culture in Supplier Social Compliance

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ABSTRACT
This paper presents a hypothesized model which seeks to argue that the impact of buyer-supplier relationship on social compliance of supplier is moderated by supplier’s organizational culture. Review of supply chain management literature provides the foundation for operationalization of the model. Empirical data regarding social compliance practices of apparel industry of Pakistan, which houses supply base of a large number of international brands, will provide insights into social compliance in global buyer-supplier relationship.

KEYWORDS: Buyer-Supplier Relationship, Organizational Culture, Supplier Social Compliance
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INTRODUCTION

Supplier social compliance (SSC) is accountability and responsibility of a supplier with regard to human rights, working conditions, and environmental concerns (Yeung et al., 2008). Buyers from the developed countries usually demand their supplier in developing countries to meet their social obligations in terms of child labor, forced labor, wages and
benefits, working hours, disciplinary practices, the right to freedom of association, and health and safety, among many others (Jiang, 2009b). Ensuring social compliance of suppliers, however, is not straight forward as it requires managerial efforts, time, and use of resources. Developing social compliance procedures, practices and changes in existing routines may make social compliance a challenge.

The purpose of this paper is to investigate the role of two types of BSR in social compliance of supplier. More specifically how transactional and relational BSR influence social compliance of supplier (Williamson, 1991). Organizational culture can influence the role of BSR in social compliance of supplier. However, this role has not been investigated in prior studies. This paper seeks to explore the role of organizational culture in the relationship between BSR and SSC.

The next section provides a review of literature on transactional and relational BSR, their theoretical underpinnings, their role in SSC, and the role of organizational culture in SSC. Theoretical discussion leads to development of hypotheses, which needs further refinement. Empirical data regarding social compliance practices will be collected from apparel industry of Pakistan which houses supply base of a large number of international brands. The empirical investigation of the hypothesized model will provide insights into social compliance in global buyer-supplier relationship. However, the scope of this paper is restricted to the development of the hypothesized model.

**HYPOTHESESIDED MODEL**

**Transactional Approach**

Multinationals companies buying goods from developing countries require their suppliers to comply with the policies and practices that reflect the corporate culture, social values, and strategic imperatives of the buyer (see e.g., Lubatkin et al., 2007 and Lyles, 1994). The idea of transactional approach in buyer-supplier relationship is that the buyer and supplier seek to develop and enforce a contract, which is usually settled through extensive bargaining and hard negotiations, to reduce the risk in the transaction (Lusch & Brown, 1996; Blome et al., 2013). An implicit consideration in this approach is one-time agreement with no implications for long term relationship (Macneil, 1978). Buyer monitors the social compliance of supplier, and in case of unsatisfactory performance may terminate contract with supplier. Obviously, the buyer does not make any investment in suppliers’ premises; that makes it easier for the buyer to manage its partner (Ring & Van de Ven, 1994; Larsson et al., 1998).

**Relational Approach**

When buyers from developed countries outsource from suppliers in the developing countries, they encounter a political, economic, demographic, legal, social and cultural environment that is different from that of host country (Jiang, 2009a). To make sure that the objectives, management policies and practices of the supplier are aligned with that of
buyer, the latter should help the supplier to understand their requirements and reward the desired behaviors. Such a relationship that is based on asymmetrical level of information and competencies between two partners cannot be developed mere with threats, penalties, or outlining a contract rather requires mutual adaptation (Larson, 1992; Gundlach et al., 1995; Liu et al., 2009) where some investments (such as \textit{ex ante} training or \textit{ex post} incentives) have to be made (Heide & John, 1990; Ring & Van de Ven, 1994). The concern for safeguarding these investments promotes cooperative behaviors and discourages opportunism (Blome et al., 2013; Cao & Lumineau, 2014).

**Theoretical Underpinning of Transactional and Relational BSR**

The underlying theoretical foundation of transactional and relational BSR can be understood in terms of three main theories, i.e., transaction cost economics theory (TCE), social exchange theory (SET), and relational exchange theory (RET). According to TCE theory, in the absence of individual bounded rationality, opportunism, and asset specificity, every economic exchange would take place economically through some form of market arrangements; however, in the inevitable presence of these factors appropriate governance mechanisms should be adopted to control deviant behaviors, facilitate role adaptation, and distribute rewards and responsibilities so that exchange objectives are accomplished with minimum transaction costs and uncertainties (Williamson, 1975; 1981; 1991; Mahapatra et al., 2010).

SET provides another perspective to understand the nature of BSR (Blau, 1964). According to this theory, the nature of relationship among partners (i.e., buyer and supplier) is not only economic but also sociological. At the core of this theory is the role of social exchange which is defined as voluntary actions of partners that are motivated by the expectations of returns (Blau, 1964; Cropanzano & Mitchell, 2005). Exchange partners discharge their obligations and invest in the relationship to show their commitment to the relationship (Lambe et al., 2001). Consequently, such exchanges have the potential to generate high quality relationships among partners (Cropanzano & Mitchell, 2005).

RET also provides a useful lens to understand relational BSR. Behaviours in relational norm are controlled not through threats (i.e., contractual governance), or incentives (i.e., relational governance) rather through a system of mutual and self-regulation (Gundlach et al., 1995; Jiang, 2009b). Relational norms are based on the expectation of mutual interest, prescribing stewardship behaviour, and are shared by a group of decision makers. Further they are meant to enhance the well-being of the relationship as a whole (Lambe et al., 2000). In the literature TCE is used to support transactional approach, whereas SET and RET are employed to explain the effect of trust and relational norms in inter-firm relationships (see e.g., Cao and Lumineau, 2014; Jiang, 2009; Liu et al., 2010).

**BSR and Social Compliance**
In Pakistan a large number of apparel products manufacturers sell their products in North American and European markets (SMEDA, 2014). These firms sell to several renowned brands including Nike, Levi Strauss, JC Penny, H&M, Walmart, and Marks & Spencer (SMEDA, 2014). Selling to Western buyers offers these suppliers a lucrative business opportunity. The buyers demand social compliance from their suppliers and social compliance requirements are usually posed in the form of CoCs. Walmart, for instance, has developed ‘Standards for Suppliers’, and categorizes suppliers’ compliance through a colour rating scheme: green, yellow, orange, and red. The green category represents minor violation while the red category means serious violation by the supplier, and may warrant business termination with the supplier.

Previous research has explored the role of transactional approach in different aspects of supply chain management. Liu (2009) in a study of manufacturer-distributor dyad found that transactional BSR is effective at restraining opportunism. Dahlgaard and Nygaard (1999) found that transactional approach reduces opportunism in franchisees. Carson et al. (2006) also hypothesised that transactional approach provides safeguard against opportunism in environmental ambiguity. However literature on the role of transactional BSR in SSC is scarce and still developing (see e.g., Jiang, 2009a). Since transactional BSR makes use of a formal contract it has the potential to undercut opportunism and ensure social compliance of supplier. By making social compliance requirements contractually explicit, behaviours desired from the supplier are clearly stipulated. Therefore, transactional approach in BSR will improve social compliance of supplier. Hence we hypothesise:

**Hypothesis 1:** Transactional approach in BSR is positively associated with supplier’s social compliance performance.

Relational BSR nourishes cooperation between buyer and supplier and can foster SSC. By developing trust and solidarity between partners, relational BSR encourages mutually beneficial behaviours, of which social compliance is one example (Rokkan et al., 2003). In relational BSR both partners acquire symmetric information through communication and harmonization within the exchange (Liu et al., 2010). This motivates both partners to act in congruence with mutual expectations regarding SSC. Therefore relational BSR can be leveraged to promote SSC. Hence we hypothesise:

**Hypothesis 2:** Relational BSR is positively associated with supplier’s social compliance performance.

**Supplier organizational culture**

Organizational culture is built on shared values and ideas. Values are primary building-block of culture. The framework used in this study to conceptualize and measure organizational culture is Competing Values Model (CVM) (Cameron & Quinn, 2011). The CVM describes organizational culture along two dimensions: flexibility-control and internal-external focus. The first dimension (i.e., flexibility-control) represents independent desire for a focus on stability or change (McDermott & Stock, 1999). Flexibility is the capability of
an organization to adapt to the demands of the environment; it allows an organization to
counter, resolve, and when feasible, exploit an unexpected opportunity (Skipper &
Hanna, 2009). Control orientation, on the other hand, reflects stability, control, and order
(Cameron & Quinn, 2011). Organizations which emphasize the control end of the dimension
stress on rules, policies, and enforce compliance with behavioural norms (Zammuto &
O’Connor, 1992; Zammuto, 2005). While the organizations which emphasise flexibility tend
to rely on social coordination, control through internalisation of beliefs, participation,
commitment, socialization and peer pressure to achieve desired outcomes and behaviours
(Zammuto, 2005). Flexibility orientation of a supplier, therefore, can play a favourable role
in promoting social compliance. Thus we hypothesize:

Hypothesis 3: A flexibility orientation positively moderates the impact of
transactional and relational BSR on SSC.

The second dimension of the model is internal-external focus of the organization.
The internal focus emphasizes maintenance, smoothing, and integration of activities, i.e.,
improvement of the existing processes, while the external focus emphasizes competition,
differentiation, adaptation, and interaction with the external environment (Deshpandé et al.,
1993). External focus of a supplier makes it more sensitive to market requirements, and,
therefore, can facilitate the adoption of social compliance practices prevalent in market or
required by customer. Therefore, external focus will provide positive setting for the impact
of transactional and relational BSR on SSC. This leads to the following hypothesis:

Hypothesis 4: An external focus orientation positively moderates the impact
of transactional and relational BSR on SSC.

Figure 2: The moderating role of supplier culture on the influence of BSR type on SSC
This paper presents a research model that seeks to argue that buyer-supplier relationship impacts supplier’s social compliance practices. In addition the model argues that the impact of buyer-supplier relationship on social compliance practices of supplier is moderated by the supplier’s organizational culture. The empirical data collected through survey from manufacturers and exporters of apparel products from Pakistan will provide the basis for empirical investigation of the proposed research model. The empirical investigation will shed light on the factors, including the buyer-supplier relationship and organizational culture, which impact social compliance practices of suppliers in global buyer-supplier relationship. Thus from the practice standpoint the research based on data from a developing country will inform the buyers from developed countries regarding the impact of buyer-supplier relationship on supplier’s social compliance practices. In addition the empirical examination will inform whether organizational culture and value system, which seem to have less weightage in the current supplier selection process, influence the supplier’s social compliance practices.

REFERENCES


