

Balancing Control and Trust to Manage CSR Compliance in Supply Chains

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Abstract- This study examines how buyers and suppliers balance control and trust to manage compliance with corporate social responsibility (CSR) requirements in supply chains (SCs). Two in-depth, qualitative case studies of the Bangladesh apparel industry on two multinational companies of the same European country were conducted. This study indicates that a buyer's need for control and trust is important in contact with other actors for managing CSR compliance. Formal control is found to generate competence trust, whereas intentional trust is achieved through informal control. Intentional trust is helpful for competence and capacity development, but for it to continue the supplier needs to fulfill the buyer's expectations. Competence of the supplier is viewed as a prerequisite for developing competence trust. This study analyzes control and trust to fill an important gap in SC theory on relationships by stressing how these constructs interact and complement each other to manage CSR compliance in apparel industry. Firms must focus on a balanced relationship between trust and control to manage CSR compliance. Willingness to collaborate can only work when supplier competence and managerial resources are ensured. This study notes that managers need both formal and informal control to create competence and intentional trust in the supply chains. Capacity building is viewed as a complement, not an alternative to CSR compliance. With its closer attention to control and trust, this study fills an important gap in SC theory on relationships by stressing how these constructs interact and complement each other for managing CSR compliance in supply chains.

Keywords- *Supply chain management, Buyer-supplier relationships, Trust, Corporate responsibility, Clothing industry*

1. Introduction

Corporate social responsibility (CSR) is seen as a managerial process, with corporations ethically driven to meet social and stakeholder obligations [49]. These social obligations, which are usually known as CSR compliance, have become an important research area in the supply chain field [56], [52], [12], [61], [40]. CSR compliance, also called "supplier codes," includes, among other

operations issues, working conditions that are safe and hygienic, absence of child labor, non-excessive hours, and workers paid reasonable living wages [35]. There has been a long discussion on the implementation and management of CSR compliance, particularly in the developing countries, raising several questions that need to be addressed. Challenges relate mainly to the process of compliance management, i.e. how the compliance activity is carried out [11] and effectiveness of the implementation, i.e. whether the process has been successful [68]. Researchers report that compliance management has not been satisfactory for several reasons, including worker exploitation and use of child labor [60], inhuman working conditions [9], low prices [30], shorter lead times [22] and one-way initiative by the buyer without taking the supplier's situation into consideration [55]. These evidences underscore the need for investigation of the compliance process, as also proposed by [63].

Two streams of SC literature can be traced regarding buyer-supplier relationships for CSR implementation: one of them focuses on CSR practices through the implementation of supplier codes of conduct [3], [12], [40]; the other highlights the need for extensive collaboration between buyer and supplier together with some control efforts [44], [61]. The first stream of SC literature has concentrated on governance or control mechanisms to transfer CSR practices and behaviors to suppliers [25]. This stream assumes power asymmetry between buyers and suppliers as the traditional relationship for supplier compliance [32], [46].

The other stream stresses partnerships between buyers and suppliers and pays attention to reciprocity and the sharing of responsibilities [55]. It is argued that partnerships with suppliers have become the lifeblood of the SC, and the issue is not whether to build them with suppliers or not [43], [66] but how to develop and balance trust and control mechanisms. The SC literature discusses either of these traditions to deal with socially related CSR issues but makes no attempt, to our knowledge, to go into the problems in depth or to observe how both control and trust-based partnerships can coexist in the buyer-supplier relationship [59]. The aim of this article is to fill this gap by exploring how buyers balance trust and control to manage CSR compliance in suppliers' factories.

Ref. [52] however, argue that a company's sustainability profile is dependent not only on its direct suppliers but also on its extended SC or even the wider network in which it operates. By adopting a network

perspective, Ref. [28] emphasize that two roles of the partnering firms are required, one related to the interactions between buyers and suppliers, the other their extended networking with other actors. Trust and control are regarded as important properties in the network perspective in developing relationships [17]. SC studies also stress the importance of long-term relationships between buyers and suppliers [6], [10], [13] but do not really examine how control mechanisms can be handled in the spirit of collaboration.

Based on the above discussion, this paper argues that trust and control in buyer-supplier relationships need to be understood in relation to external actors who can affect the management of CSR compliance. By focusing on the trust-control mechanism, this study addresses one main and two sub-questions:

- How do buyers balance control and trust to manage CSR compliance in supplier organizations?
 - How do buyers and suppliers interact and engage to manage CSR compliance?
 - How do buyers and suppliers interact with external actors to manage CSR compliance?

The next section reviews the literature and presents a theoretical framework to conduct the study. The methodology section discusses the method used and how data is collected and analyzed. In the empirical study two cases are thoroughly discussed by following the theoretical framework. Thereafter the data is analyzed and linked with the literature. Finally, we draw conclusions, discuss theoretical and managerial implications, and suggest further research areas.

2. Theoretical background

In this review, CSR issues and their importance are discussed in the SC and particularly in relation to buyers. Control and trust are taken up as mechanisms for managing CSR compliance.

2.1 CSR Overview

CSR represents the business response to minimizing the negative social impact of global business operations [55]. In a survey on organizational commitment, Ref. [63] observes that employees prefer to work in socially responsible organizations and are positively affected by CSR issues. Researchers find that activities for sustaining strategic CSR are assumed to improve corporate image and increase motivation and loyalty, primarily among employees and customers but also among others such as suppliers and retailers [42], [64]. Ref. [54] argue that companies are now evaluated not only on the products they sell but also on their CSR practices in the SC. Thus, for multinationals it has become important to discern how managers deal with the moral aspect of employee issues in global SC while working to maximize profits [55].

Researchers argue that CSR is achieved when socially responsible behaviors go beyond the boundaries of a single firm and involve wider communities [48], [7], [13]. From a network perspective, Ref. [28] also recognize

that business relationships are not limited to a couple of firms or dyads but also link other actors to generate resources and support. Thus, involvement of a variety of parties can complicate the CSR compliance process, since communication can go wrong or the generation of important resources may not function as expected. This has driven multinational enterprises to consider the risks and vulnerabilities, e.g. by designing codes of conduct aimed at supplier compliance [39].

CSR studies have discussed different issues in relation to managing supplier CSR compliance in global SCs. And many of the issues have complicated the process of compliance rather than handling it. Ref. [65] identify several obstacles, including lack of resources and skills, lack of awareness of stakeholders' demands and inefficient production techniques in implementing CSR. However, larger firms are in a better position than smaller ones to handle these difficulties. The problem of ethical conduct in the apparel industry and the complex nature of global subcontracting relationships are two issues often named in CSR studies in developing countries [45]. There is evidence that the CSR literature largely focuses on large firms [3], [61], [62], [68] and academic research on small firms is scarce. As the current study concern SC relationships it focuses on both types of firms to explore their situations in implementing CSR compliance. From an empirical study, Ref. [22] recognize that the apparel industry is characterized by powerful global buyers and relatively weak suppliers. Ref. [36] argues that imbalance in power can make the relationship unstable, particularly on the part of the suppliers. This fact raises the importance on how SC buyer-supplier relationships are managed based on the need of control or trust.

2.2 Control and trust

Ref. [57] argue that trust and control are vital for a better understanding of the possible interactions among context, intervention and outcome in the SC network. Trust and control are relevant in two ways: (a) in relationships between buyers and suppliers and (b) in their relationships with other stakeholders, who can particularly influence the implementation of CSR issues

Interdependence gives actors control over each other but becomes less important as trust develops between the actors [58]. However, control and trust are two important concepts that reduce the probability and impact of undesirable outcomes [41], [53]. Typically, the level of trust in a relationship tends to vary with the control mechanisms that are used [51].

The concept of control refers to the formal mechanisms of governance employed in the relationship, such as contracts, arrangements for monitoring and the exchange of 'hostages' [41]. Ref. [51] argues that contracts are used as a means of controlling the supplier - especially when conflicts arise. Contracts can be used to specify responsibilities, to limit the spread of information, to agree on cost-sharing and on the specification of exclusivity periods [5]. Contract as a source of control has been criticized in industrial network research [20]. For exercising control, maintained is that at least two parties are involved in the relationship. A relationship gives each firm a certain influence over the other, which means that

each firm gains control of at least one part of its environment while giving away some of its internal control [21].

Ref. [13] discuss two strategies for CSR management in the SC: compliance with suppliers' requirements and capacity building. The first strategy sets standards for suppliers and implements exercise of control following strict monitoring program. Capacity building, on the other hand, aims at building up the supplier's own CSR capacity through long-term trust related relationships. From this view, compliance and capacity building are two alternatives that compete with each other, which means that firms need to make a choice among the strategies. We, however, argue that capacity development in the supplier organization is essential even when strict monitoring is practiced by the buyer.

Ref. [34] claim that most CSR efforts are targeted at monitoring first-tier suppliers while ignoring second-tier suppliers or relying on first-tier suppliers' responsibility towards their own suppliers. This kind of secondary trust may be practical for cost reduction but requires that the first-tier supplier has necessary capacity, proper training or interest to develop rules for compliance. Trust has been defined as a positive expectation regarding the competence or intentions of a partner [41]. Empirical evidences indicate that trust is essential for successful SC relationships, as it can make the chain more agile and responsive [29], [32]. An important question is how buyers consider trust and apply it in relation to control in managing CSR compliance.

Two types of trust are commonly identified: competence trust and intentional trust [41]. The first category expresses the level of trust one has in the technical, organizational and managerial competence of a trustee [38]. This trust is skill based and argued to develop through training and learning [57]. To develop competence trust, particularly in a developing country, direct involvement of buyers in education are seen as necessary to ensure skill development and capacity building in the supplier organization. Competence trust development is resource dependent, and a buyer who provides resources and engages in activities can easier exercise control in supplier relationships [19]. There will be systematic pressure on the supplier to be in compliance and strictly follow the buyer's standards [13]. Competence trust requires formal control that emphasizes the establishment and utilization of formal rules, procedures and policies to monitor and reward desirable performance [19]. Ref. [8] argues that formal control may induce trust by offering confidential or unavailable information to improve inter-organizational relationships. Intentional trust refers to the willingness of a partner to become involved in the relationship and to support and develop it. Trustees use their ability to conform to a trustor's expectations and do not behave opportunistically [36]. To build trust, the partners solve problems through mutuality and dialog. Understanding and obligation are the keys, while social (informal) control plays a vital role when formal control is absent. Ref. [8] introduced the concept of social control when other control mechanisms did not function. Intentional trust induces social control and vice versa. Organizations commonly sign an initial contract with SC parties to avoid unpleasant surprises. This view is

close to the complementary perspective, which suggests that trust and control are mutually reinforcing when it comes to combatting risk [58].

2.3 Networking

The logic and dynamics of network relationships can be understood and analyzed by identifying critical actors, activities and resources. [14]. Actors, are analyzed due to their role as having certain roles that allow recognizing critical issues of the network. They have also own goals and perceptions of the interacting parties' activity pattern necessary to understand [28]. Resources include goods and services, manufacturing facilities, finance, technology, knowledge and personnel that companies develop and share [1]. In the case of employee-related CSR implementation in developing countries, the question of who will pay the cost is often an unresolved issue. By increasing their understanding of suppliers' conditions, buyers can make better use of own resources invested in the relationships, as well as activate and utilize the suppliers' resources for mutual benefit [24]. However, business relationships are more than the sum of their parts; their effects are transmitted along complex threads that stretch across the business landscape [27]. Complexity contributes to supply chain relationship uncertainty making it difficult to assess external actors' impact on CSR management in SC.

A distinction between primary and secondary functions of business relationships can be drawn. The primary functions work to gain efficiency through interlinking of activities, creative leveraging of resource heterogeneity, and mutuality based on the self-interest of actors. The activities are carried out by two main actors (i.e. buyers and suppliers) based on exchange of resources for mutual benefit. By combining critical resources, the parties gain additional values and advantages [24]. Secondary functions arise from the connections between relationships. With regard to the three components—activities, actors and resources—the secondary functions concern chains of activities involving more than two firms, constellations of resources controlled by more than two firms and shared network perceptions by more than two firms. The components are interrelated and are the cornerstone in developing relationships between buyers and suppliers and with other actors in the SC. Ref. [21] claim that business networking is not simply the implementation of the independent company strategies of one or more actors but a continuing interaction between interdependent actors, activities and resources. Network coordination refers to a chain's overall structure and the control mechanisms that influence the relationships involved [17]. From CSR in SC perspective important is to consider how buyers and suppliers identify strategic important network partners and develop contacts to apply control-trust relationships in SCs.

2.4 Theoretical framework

The theoretical framework is presented in (Figure 1). Depending on the buyer's dominant role in the buyer-supplier relationship, control and trust are central

mechanisms having influence on the network. Assumed is that to manage CSR compliance the buyers have to develop strategies on how to exercise control and trust in the relationship. Based on the chosen control-trust strategy, the partners engage in relationships with different actors to acquire the resources needed to manage CSR compliance in the SC. Inter-organizational researchers found that interdependence between control and trust across all levels in organizations affects firms' relational commitments and willingness to develop enduring networks [2], [31].

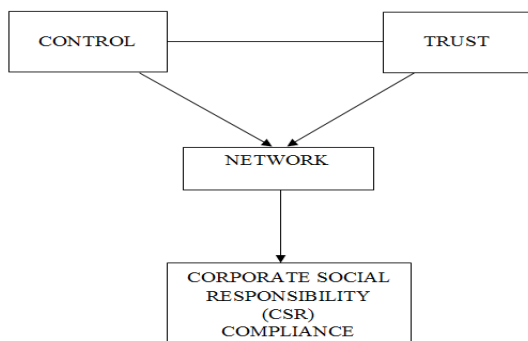


Figure 1. A theoretical framework on managing CSR compliance

3. Method

3.1 Choice of method

It is important for the method selected to correspond with the aim of the study. Our case study approach follows Ref. [67]'s suggestion to answer how and why questions when the researcher has little control over events and when the focus is on a current phenomenon in a real-life context. Ref. [23] has found four advantages to case studies: (1) deeper understanding by providing rich descriptions of real phenomena, (2) their contextuality, (3) prospect for theory building and (4) permitting the investigation of a phenomenon from a variety of viewpoints covering a period of time and crossing the boundaries between different factors. Considering CSR as a complex and current issue, this study went into depth in the data collection process by combining different data sources to investigate how CSR is implemented in a cross-cultural setting. More specifically, the case study approach is suitable for examining how networks work in different settings and contexts [37], [20].

This study concerns two cases in Bangladesh, involving one large and one small buyer from a European country, which we will call Alpha and Beta. Alpha is one of the world's largest apparel firms, while Beta is relatively unknown in the world market. Further, Alpha is one of the main buyers of local products, while Beta is a small player with a limited amount of procurement from the local market. These unequal buyers have been chosen to observe how trust and control are applied in the buyer-supplier relationship. A second reason for the choice is that both buyers come from the same country with a comparable style of managing business relationships. A third reason is that both firms are active in the market and engaged in collaborating with other actors to manage CSR

compliance. Finally, these buyers have given us access to interview their officials in their home country and Bangladesh, as well as to contact their suppliers.

Bangladesh was selected for several reasons. First, it is the world's second-largest exporter of apparel after China, a status the company achieved within a period of around 20 years. Recently, the Bangladesh government and garment exporters set a target to export apparel items worth US \$50 billion by the end of 2021 [15]. Second, 90% of the employees in the apparel industry are women, making the achievement of employee empowerment challenging. Third, Bangladesh came to the attention of the world's media in April 2013, when an apparel factory in the capital city of Dhaka collapsed, causing the death of more than 1000 workers [26]. Fourth, surprisingly even after the tragedy, interest in buying from Bangladesh has not decreased but instead focuses on the implementation of CSR in the factories on the initiative of large foreign buyers including Wal-Mart, Gap, H&M, Macy's, Sears and JC Penny.

For this study, one researcher's continuous presence in Bangladesh kept us updated with the current situation and development of the industry. Ref. [16] states that qualitative research creates close contacts with the respondents and therefore helps in dealing with contextual sensitivity and perceptual insight. Theory development proceeded by contrasting the existing theory with the empirical data and comparing the cases to find commonalities and differences. This study utilized the advantage of different viewpoints by including workshops and discussions with different people from buyers' and suppliers' firms over a period of two years.

3.2 Data collection

Data was collected mainly through face-to-face interviews with first- and second-tier suppliers in Bangladesh. Managing directors or general managers of the supplying firms were interviewed, since they had the primary contacts with buyers and oversaw the implementation of CSR in their organizations. The authors did not find any manager who deals with CSR specifically. Before the interviews, a short description of the research project and a list of themes for discussion were sent to the respondents via e-mail. A total of 21 people were interviewed in Bangladesh and the multinationals' home country in Europe; each interview took between 40 and 120 minutes. People responsible for CSR in the buyers' and the suppliers' companies were interviewed. Further main partners involved in the supply chain CSR network were contacted and interviewed. This contact net gave us a complete view of how the supply chain worked, particularly in relation to the implementation of CSR. A detailed overview of the informants and the data collection is presented in Table I.

Table 1. A detail description on the sources of data

Function/place	Type	Organization	Location	Duration (minutes)	Period
Manager, CSR & quality	Interview	Beta, European buyer	Home Country, Europe	90	Feb 2013
Manager, Global CSR	Interview	Beta, European buyer	Hong Kong	120	May 2013
CSR executives	Interview	Beta, European buyer	Dhaka, Bangladesh	50	May 2013
CSR Manager	Interviews	Alpha, European buyer	Home Country, Europe	120	Sept 2012
				90	Feb 2013
CSR Manager	Interview	Alpha European buyer	Dhaka, Bangladesh	120	Oct 2012
CSR officer	Interview	Alpha European buyer	Dhaka, Bangladesh	90	Oct 2012
President	Interview	Chamber of commerce	Dhaka, Bangladesh	50	Oct 2012
Director, Training institute	Interview	Chamber of commerce	Dhaka, Bangladesh	90	Oct 2012
Consultant	Interviews	IDO, Head office	Home Country, Europe	70	Jan 2013
Local representative	Interview	IDO, Office	Dhaka, Bangladesh	90	Oct 2012
Experts, Academicians	Workshop	ATUB auditorium	Dhaka; Bangladesh	150	Apr 2013
Experts, Academicians	Workshop	University seminar room	European Country	120	May 2013
Managing Director	Interview	First tier supplier (Alpha)	Dhaka, Bangladesh	90	Oct 2012
Clothing Factory	Observation	First tier supplier (Alpha)	Dhaka, Bangladesh	100	Oct 2012
General Manager	Interview	First tier supplier (Beta)	Dhaka, Bangladesh	80	Oct 2012
Clothing factory	Observation	First tier supplier (Beta)	Dhaka, Bangladesh	100	Oct 2012
General Manager	Interview	Fabrics manufacturer	Dhaka, Bangladesh	90	Oct 2012
Fabrics factory	Observation	SAME	Dhaka, Bangladesh	90	Oct 2012
Managing Director	Interview	Button manufacturer	Dhaka, Bangladesh	50	Oct 2012
Button factory	Observation	SAME	Dhaka, Bangladesh	30	Oct 2012
Manager	Interview	Zippers manufacturer	Dhaka, Bangladesh	60	Oct 2012
Zippers factory	Observation	SAME	Dhaka, Bangladesh	40	Oct 2012
Manager	Interview	Poly bags manufacturer	Dhaka, Bangladesh	40	Oct 2012
Poly bags factory	Observation	SAME	Dhaka, Bangladesh	30	Oct 2012
Manager	Interview	Labels manufacturer	Dhaka, Bangladesh	50	Oct 2012
Plastic labels factory	Observation	SAME	Dhaka, Bangladesh	40	Oct 2012
Managing Director	Interview	Logistics supplier	Dhaka, Bangladesh	60	Oct 2012
Head, Training center	Interview	Alpha, European buyer	Dhaka, Bangladesh	50	Oct 2012
Instructor, Training center	Interview	Alpha, European buyer	Dhaka, Bangladesh	40	Oct 2012
Vocational training	Observation	Training center, Alpha	Dhaka, Bangladesh	90	Oct 2012

*IDO- International Development Organization

Interviews in Bangladesh were exclusively conducted in English, while the buyers' home country language was used for interviews in Europe, except in one case where the English-speaking researcher was present at the meeting. Two of the authors spoke the buyers' country language and all were fluent in English, so all the transcriptions could be prepared in English. Anonymity of the buyers and suppliers was promised and maintained throughout due to the sensitivity of the market situation. The semi-structured interviews covered CSR implementation, codes of conduct, working conditions, collaboration, development of trust and networks, CSR training, and the reputation of suppliers and buyers. To understand the role of context, representatives of the Dhaka Chamber of Commerce, one apparel employee training center, and the international development organization of the buyers' country in Europe were interviewed both in Europe and Bangladesh.

The researchers visited eight factories producing clothes, fabrics and accessories and a number of institutions that influence the networks and relationships between the buyers and suppliers. Although factories were selected through our references, all of them had to be directly or indirectly connected to the buyers. Direct observations gave the researchers a real picture of CSR implementation relating to work environment, employee situations, codes of conduct, availability of information, process of learning and quality control. These sources were particularly beneficial to observe how control and trust were exercised in the workplace, as well as to compare the outcome of the discussions with the buyers and suppliers. Two workshops were organized, one in Bangladesh and the other in Europe, to get feedback from

the academics and the experts on the outcome of the study. Newspaper coverage, particularly in the local country, complemented and also verified the collected data. The buyers' websites were used as secondary source of data. Triangulation, which is highlighted in qualitative research, was ensured by combining different sources of data [12], [33]. The data were transcribed by both assistants and researchers to reduce any risk of error. The researchers made final corrections to avoid confusion.

3.3 Analysis and validity

In accordance with the aim of the study, a coding framework was first established with the aid of conceptual understanding. Following Ref. [4], transcripts were then dissected, classified and organized according to these codes for developing themes. Identifying themes involved a great deal of interpretative work observing as new themes emerged and evaluating how they matched with the old ones. As expected, control and trust were found as the main themes in understanding the process of managing CSR compliance in SC. The themes that appeared were categorized according to theoretical aspects and different links with the main themes could be identified. Thus, we found that informal control was related to collaboration and willingness to trust, while formal control was an essential element to develop competence trust. Analysis of the links between the themes led us to formulate a couple of propositions and draw conclusions on the CSR compliance in this study.

For research validity, the authors took several measures. First, all the suppliers were approached through our own contacts, even though the buyers could have introduced the researchers to the suppliers. This helped to avoid any possible bias, because the suppliers were dependent on the buyers for orders. Second, the anonymity of the suppliers was maintained all along so that they could talk freely and describe the real situation. The researchers felt it was important to understand power-trust issues between buyers and suppliers and how the CSR implementation process really proceeded. Third, primary and final results were presented in workshops, seminars, conferences and informal discussions with research colleagues and business people, as suggested by Ref. [37]. Managers responsible for CSR in the buyers' and the suppliers' companies were interviewed. Further other main partners involved in the SC CSR network were contacted and interviewed. These contacts gave us a comprehensive view of the SC network relationships related to CSR context. Fourth, the data was presented to key contact persons to ensure that researchers understood them correctly and to inform how data was used.

4. The empirical study

In this section the two buyers from the same European country are presented. The data used in the description comes mainly from the interviews but also from observations, buyer websites and newspaper articles covering issues in the apparel industry.

4.1 The Alpha case

4.1.1 Background

Alpha is a leading European apparel buyer with a sales volume of US \$20.8 billion in 2014. It has more than 2700 stores around the world and employs more than 72,000 people. It does not own any factory but outsources its production to independent suppliers, mainly in Asia and Europe, through local offices. In Bangladesh, 350 people work in design, quality control, purchasing and CSR.

Factories that supply Alpha are required to be fully compliant with the buyer's codes of conduct; regular audits to assess their level of compliance are carried out by the use of full audit program. The code, developed to follow international standards, covers seven issues: legal requirements, a ban on child labor, health and safety, workers' rights, housing conditions, environment and systems approach. Codes relating to child labor, health and safety, and worker's rights are particularly emphasized in the compliance agenda, which must be fulfilled at the suppliers' factories. The buyer tries to be clear about what it wants from suppliers on CSR issues and thoroughly applies a zero-tolerance principle. Alpha states that:

Code of compliance determines which suppliers can and cannot be used and can also play a role in defining order quantities placed with certain suppliers. We clearly inform suppliers about the business risks that can result from noncompliance and seek to educate them and support their development.

(Alpha website, accessed July 3, 2013)

4.1.2 Supplier selection and CSR compliance

In 2012, Alpha had 250 suppliers as business partners. The suppliers are grouped into three categories depending on the degree of CSR compliance achieved. The first category suppliers enjoy trust from Alpha as long-term partners and usually undergo routine controls. This group gets regular orders and support with training and other resources to work towards 100% compliance. The second and third categories go through strict scrutiny, including announced and unannounced audits. Alpha puts costly resources into control activities to maintain its reputation in the local and world markets. All CSR categories need to improve, and there is a specific plan for improvements. If a fault is detected, the supplier is given one month to fix it; during this time, no new order is placed with the company.

Suppliers who show strong improvement in terms of business performance and code of conduct compliance are rewarded with regular or higher order volumes. A supplier is not allowed to continue if the company fails to rectify the faults within stipulated time. One first-category supplier was denied orders for failing to meet set requirements, and gradually the supplier went out of business because Alpha was their main customer. Alpha claims to offer reasonable time to the supplier to resolve the issue if the code requirements are not achieved.

If the first-supplier needs to subcontract to meet an acute demand, the company is only allowed to place an

order with Alpha-nominated subcontractors accepted by Alpha. Accessory suppliers like fabric manufacturers and zipper factories need to follow the buyer's codes. As fabrics are mainly procured from the local suppliers, it becomes easy for Alpha to check and accept the quality of the products and to observe whether second-tier suppliers work according to the code for SC compliance.

When a new supplier is recruited Alpha visits the factory to gather initial information on the company's capacity, need of resources, management and CSR practices. If satisfied, the buyer makes an unannounced visit, and goes through CSR documents with management and meet the workers. Every supplier needs to have a correction plan for each deficiency. Three follow-up visits are made to the factory, and the whole process takes four to nine months. It is a joint effort between Alpha and the supplier, involving a substantial resource base comprising manpower, competence, experience, time, willingness and mutual understanding.

It was observed during the factory visits that communication with the suppliers may be a one-way process. However Alpha has regular dialog particularly with the first-tier suppliers on the issues of quality control, codes of conduct, order placement and engaging subcontractors when the order volume increases. The CSR manager of Alpha describes the process:

It is a transparent system. They know what we want them to do and what the consequence could be if things go wrong. We have a capacity department to assess the total need and sustainability auditors to scrutinize the suppliers' activities and CSR performance.

One first-supplier expresses satisfaction with its relationship with Alpha. They have signed contract with the buyer that will last several years. This supplier feels that CSR guidelines are helpful to plan their activities and to achieve compliance with the requirements. The expertise of Alpha helps in developing the competence to handle CSR issues. Alpha personnel not only give instructions but follow up recommendations to ensure that the factory employees understand the requirements and carry out the functions as outlined. Clear codes of conduct serve as important documents for relying on Alpha's competence as a solid buyer. The issue of compliance has been crucial in building its relationship with Alpha and to increase the supply of apparel.

Alpha finds that middle management, which is responsible for CSR implementation in the factories, lacks CSR understanding and competence. These are often promoted from a lower level, and lack understanding of the importance of the buyer's code of conduct. This issue has made Alpha uncertain about the performance of certain suppliers. Another sensitive area is the use of second-tier suppliers when first-tier suppliers outsource. Alpha wants control over these suppliers to be sure that the codes of conduct are followed. The first-tier supplier sees the recruitment of business graduates to the factories as problematic, as they are more interested in working at the corporate level. There is a gap between what the buyer wants and what the suppliers can deliver. A functional network of actors consisting of local universities, the

garment industry association, a government representative, buyers and suppliers is largely missing to handle the educational shortage on CSR issues. One supplier stated:

The buyers do not always understand the suppliers' situation, as they have limited resources; they work within a short time framework; they have to strictly implement the code of conduct and also maintain the delivery time. All these activities need to be coordinated and supported.

4.1.3 Networking

A buyer not only depends on the fabric suppliers but also must be aware of the CSR activities of other actors in the supply chain. The major Bangladesh incident in 2013 affected the whole SC, including apparel suppliers, accessory suppliers and logistics companies, since the buyer slowed down the procurement of goods from Bangladesh to avoid antagonizing the final customers in the Western world. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is closely linked with local suppliers to ensure that local labor laws are respected and followed. The Dhaka Chamber of Commerce, an extension of the government, has no direct contact with the suppliers but works closely with BGMEA. One important role of BGMEA is to deal with media and other local and international contacts on behalf of the suppliers.

A Buyers' Forum was initiated in 2006 by Alpha, along with a number of international buyers. A World Bank organization also collaborates with the Forum, which functions as a meeting place for around 20 brands to discuss topics such as workers' rights issues and local labor laws, to find consensus among their viewpoints. Alpha is involved in many CSR projects with local and foreign actors to develop better working conditions for apparel workers. In 2011, Alpha's managing director met the prime minister of Bangladesh to discuss the wages of apparel workers and directly worked with the BGMEA to improve the overall SC situation. The government and the association put pressure on Alpha to make direct contributions to improving security and other standards of the factories, rather than only continuing with control measures. The interacting parties understand that employees must be educated to follow CSR effectively, but there are no concrete programs arranged to do this. The buyer considers it a responsibility of the suppliers. The chamber of commerce offers training programs on CSR practices, but so far neither the buyer nor its suppliers have utilized them.

Alpha has run a training school for young people from slum areas for several years. The youths gain both vocational training and insight into the codes of conduct. After the completion of their education, trainees can get employment in the suppliers' factories. The trainees bring fresh knowledge of CSR practices to the factories and can be a source of inspiration for the existing employees to follow the guidelines. Alpha's network is presented in Figure 2. First-tier suppliers collaborate with second-tier suppliers and accessory suppliers like zipper, plastic and fabrics manufacturers. Alpha is very careful with the

quality of fabrics, so it maintains direct contact with the fabrics manufacturers. The chamber of commerce has little contact with suppliers but collaborates with the garment industry association, which sharpened its control over the supplier factories after recent accidents.

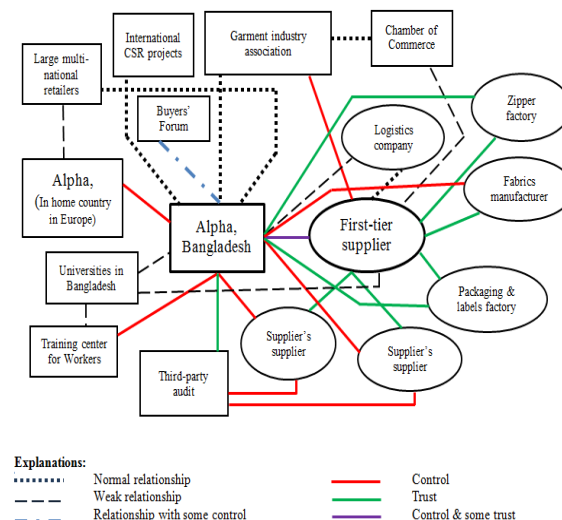


Figure 2. Network of Alpha showing the actors and the flow of control and trust in the relationship

4.2 The Beta case

4.2.1 Background

Beta is a smaller European fashion chain with 400 stores and 4500 employees in Europe. Sales were US \$558 million in the financial year 2013-2014. Beta's business concept is to offer affordable fashion with wide appeal by applying a sustainable approach through the entire product flow, from design and production to transport and warehouse and into the store. Beta has almost 35 suppliers in Bangladesh and places its work with around 50 factories. It procures 25% of the supplies from the local market. Compared to the other buyers, Beta procures only 0.4% of the country's total apparel exports.

4.2.2 Supplier selection and CSR compliance

Beta's supplier selection process starts when the company's personnel visit the factory to see whether it fulfills basic code of conduct requirements, including safety, fire alarms, no child labor, freedom of association, no harassment, no discrimination and availability of clean drinking water. Beta does not see much difficulty with the quality of products, price or lead time with local suppliers. Most attention is paid to safety issue. Gender equality, salary, health care and sanitary facilities are also on their agenda. This buyer applies a "business partner" concept, based on collaboration, freedom of work and trust. It has a program to develop "key suppliers" to ensure good quality, to maintain a delivery schedule and to resolve

CSR-related problems quickly. In general, Beta follows a liberal policy to develop its suppliers:

We tell our suppliers to make an action plan. We don't really say how they will do it or when they will start. We tell them what to do and want them to tell us how they will fix the problems. The suppliers work with less stress as we don't push them towards a deadline.

(CSR Manager, Asia)

When it comes to audits, Beta largely relies on the suppliers who have been its business partners for some time. Beta claims to know what their suppliers are doing and encourages them to improve compliance with codes of conduct. Suppliers carry out internal audits, and third-party auditors are used as well as the buyer's own auditors. As a comparatively smaller player, Beta considers that it has limited resources to monitor second-tier suppliers. At peak times, the suppliers seek sub-suppliers to meet the demands of huge numbers of buyers. As a rule, a main supplier subcontracts up to 10% of the total amount of a big contract.

The second-tier supplier is considered as a part of the first-tier; therefore, all activities from quality control to implementation of CSR practices are responsibilities of the main supplier. It makes the buyer dependent on the first-tier supplier, because transferring control to them with low insight into this process. If something goes wrong, Beta contacts the first-tier supplier to rectify the shortcomings but has little influence in the short run for improvements.

Beta's policy is not to interfere in the main suppliers' area of activity. The buyer is involved when suppliers ask for support or advice, particularly in relation to CSR implementation. When second-tier suppliers are used, the first-tier supplier is, however, asked to evaluate them and inform about their CSR practices. The buyer is trying to minimize the use of second-tier suppliers to guarantee CSR compliance. Trust is vital at this stage, since the buyer lacks resources to monitor the suppliers' and subcontractors' activities, particularly relating to security and employee welfare issues. Beta mentions that suppliers face delivery time pressure when several buyers place orders and forcing them to give larger buyers precedence. Beta is looking for key suppliers, building on trust and close relationships. This project is under development and it has not been successful finding partners for long-term collaboration. One explanation is that it is a small buyer with less influence on the local business context. Beta supports the suppliers through training, guidance in implementing codes of conduct, and continuous dialog in solving supply-related problems.

Beta identifies middle management as the major source of problems for CSR compliance. Primarily, the mind-set of managers must be changed to understand the importance of CSR. Beta feels that the situation could be improved by recruiting business students, who would bring knowledge of CSR standards and practices to the apparel industry. Beta provides some training to employees but more resources are required to implement CSR in supplier organizations.

4.2.3 Networking

This buyer collaborates with different companies in the Buyers' Forum, where it confers on a variety of business issues, particularly CSR practices and how to deal with the basic requirements of the codes of conduct. Beta has tried to collaborate with large buyers but works better with similar-sized firms on long-term projects. Beta's contact with the multinational's home country development agency is mutual, as both focuses on capacity development of the suppliers. The company is engaged in collaborative projects with other fashion chains to guarantee sustainably cultivated cotton and participates in Business for Social Responsibility (www.bsr.org), a global, nonprofit organization that works for ethics and the environment. In 2013, Beta joined other buyers, trade unions and labor organizations to ensure a secure and safe working environment in the garment industry. Beta's network is presented in Figure 3.

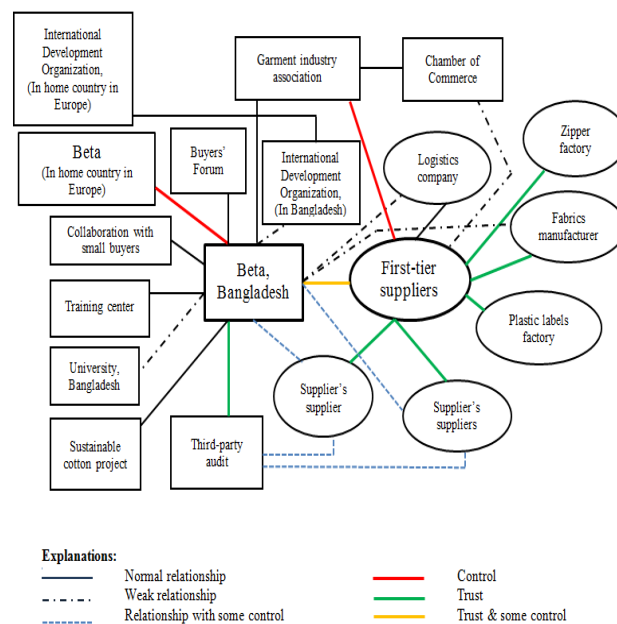


Figure 3. Network of Beta showing the actors and the flow of control and trust in the relationship

Unlike most buyers, Beta is not a member of the Business Social Compliance Initiative (BSCI), a Europe-based organization. This organization offers support to buyers in the form of control. Beta's strategy is, however, to develop close collaboration and trust with suppliers. The CSR manager for Asia has a clear opinion on the issue:

We are not looking for complaining about the suppliers but willingness to solve problems through collaboration and understanding. We don't put effort into auditing, policing and raising tough requirements which suppliers have difficulty in complying with. We like to be their partners and

support them all the way to maintain a good working environment in the organization.

Beta has developed video films showing the necessity and explaining how CSR practices can be applied in the supplier organizations. Collaboration with the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is important to distribute these films to the appropriate suppliers. Beta receives feedback from the association and discusses with other buyers how to further improve the standards of the supplier factories. Beta is also running its own school for vulnerable women ages 18 and above to offer vocational training. The training covers technical aspects of the work, quality control and basic issues relating to codes of conduct. The school is run together with suppliers and a local NGO. Beta recognizes that it has limited resources but is also under pressure from the local community to upgrade the safety situation. In this regard it works with many actors, including small buyers, suppliers, the garment industry association and the chamber of commerce. The process is described as follows:

We have limited control over the situation as the network is broad, and a lot of things have to be done to make the CSR practices more effective. I realize, this is a never-ending process. You need to carry on and come back again and again to see how things work.

(CSR Manager, Asia)

4.3 Case comparison

Company size makes a major distinction between the buyers to manage CSR supplier compliance. Alpha has a strong base in the local market with major contacts within and outside SCs. This buyer take part in different activities for mobilizing resources to act for the improvement of codes of conduct. The buyer has been actively involved in increasing employee salaries and also taking part in the delegation sent to the highest level of the government. Beta has been involved in CSR improvement activities in the country but mainly concentrated on dealing with the main suppliers. The two cases is presented and compared in Table II, following the constructs of the theoretical framework.

Table 2. Case comparison

Major issues	Alpha	Beta
Supplier requirement	CSR compliance, capable supplier to improve by own resources, willing to further improve	Positive to CSR compliance, internal auditing applied, helping suppliers through collaboration
Code of conduct	Ban on child labor, regulations on health & safety, worker's rights, housing conditions, environmental protection	No child labor, clean drinking water, fire alarm, freedom of association, no harassment,
Compliance process	Using different categories of suppliers, unannounced factory visits, third party audits, continuous improvement	Advice, internal control, teamwork expected from the main suppliers, dialog and inspection in case of need
Control	Zero tolerance, reward-punishment Strategy, dominant player, all suppliers under scrutiny	Flexible work plan, internal audit by suppliers, low priority from suppliers, role of adviser
Trust	Long-term partnership with first category suppliers, competence highlighted	Rely on first tier-suppliers for compliance and quality control of second-tier suppliers
Networking	Founder member of buyers' forum, contacting foreign buyers, World Bank organizations, trainees in supplier firms	Contact with buyers' forum, small buyers, sustainable fashion chains, local NGOs
Outcome	Efficient first-tier suppliers, Little communication with partners, Insufficient support from middle management	"Business partners" concept in trouble, supply uncertainty in high season, weak middle management

In the areas of trust and control, the buyers were found to differ most. Beta from the beginning was focused on a trusting relationship with the suppliers for CSR compliance. It played an advisory role and was not found to take a stiff stand against the suppliers, failing to fulfill the code of conduct requirements. Beta even relied on the first-tier suppliers in connection to the performance of the second-tier suppliers. It might happen that this buyer had little resources to keep contact with the second-tier suppliers. For Alpha, strict control was a central issue for CSR compliance. Creating different supplier categories was an attempt to secure control and had been directly linked to a reward-punishment strategy. This large buyer was not ready to take any risk considering its substantial role in the local and global market. It had some trust for the first category of suppliers, but zero tolerance was applicable to all. Even second-tier suppliers came under Alpha's direct scrutiny, showing its eagerness to implement codes of conduct throughout the SCs in the local market.

Another distinction was Alpha's expectation that the suppliers would carry out compliance activities with their own resources. The small buyer was willing to support the suppliers, but ran short of resources to fulfill the commitments. The suppliers in this case were expected to conduct internal auditing, while the large buyer conducted almost all auditing. Furthermore, Alpha looked for suppliers' competence while Beta relied more on the suppliers' intent for collaboration. Alpha put pressure on the suppliers for gradual improvement to reach total compliance, but no such clear ambition was found with Beta.

The major similarity between the cases is the absence of qualified middle management. Unless this group is capable and understands the need of CSR, it seems difficult for the suppliers to make substantial improvement in CSR compliance. A change of mind-set is therefore necessary at least at this level to bring changes in SCs. Capacity building was done in a limited way through vocational training and some education. Both

partners approached the suppliers to motivate them for CSR compliance, but in different ways.

5. Discussion

5.1 Overview

The principal actors in this study are two European buyers and their main suppliers. The buyers concentrate on developing relationships with the main suppliers for procuring apparel and ensuring that codes of conduct are followed to support employee well-being. The CSR activities include issues like health and safety, workers' rights, the abuse of child labor, legal requirements to follow and improvements to the work environment. The buyers carry out various forms of audits, depending mainly on the firm's ability and availability of resources. The large buyer, Alpha, is capable of conducting comprehensive audits at different supplier tiers, while the small buyer, Beta, with limited resources, has to be satisfied in collaboration with the main supplier and leaving the responsibility for the second tier to the latter.

The suppliers have been interested in getting regular contracts and support in capacity development for compliance. In one case, suppliers receive thorough guidelines and codes of conduct for managing CSR compliance independently. In the other case, suppliers are treated as partners and some joint efforts are made for capacity development and compliance. Indirect contacts with other suppliers are part of the purchasing process, particularly for the smaller buyer, confirming Ref. [27]'s argument that business relationships are not limited to direct contact.

This study shows that compliance development needs support by other actors in the SC, which is called secondary functions in the SC. Relationships with different actors such as the government, the garment industry association and the chamber of commerce, as well as for collaboration with other buyers and running schools for vocational training, are continuously reinforced and maintained from a long-term perspective. This is in line with Ref. [50], who identify the increased use of intra-functional, cross-functional and inter-organizational coordination in the SC. The buyers engage in the network depending on the extent of their businesses and the resources they possess. The small buyer has contact with actors of equivalent sizes. In contrast, the large buyer is a major player in the market, having contact with bigger buyers and policy makers in the local country. By its initiative, it has developed several collaborative projects to support compliance activities and capacity development efforts.

5.2 Control, trust, compliance and capacity development

Both buyers see it important that CSR compliance is carried out in the supplier organizations by capacity building and competence development. However, to reach that aim, the buyers follow two different strategies. The large buyer, for example, approaches compliance through formal control expressed in codes of conduct, announced and unannounced audits, zero tolerance and pressure for

continuous improvement of CSR performance, as described by Ref. [19]. The suppliers are expected to have the competence to do the work. The large buyer particularly stresses the need for a long-term relationship with the first-tier suppliers on the basis of good performance and compliance with CSR requirements. It invests vital resources and engages in activities with different SC actors to ensure a risk-free supply from the local market.

To develop competence and capacity in its suppliers, the large buyer has developed several tools such as guidelines for upgrading, support and inspection at the suppliers' sites, providing vocational training and education, building the buyers' forum to learn from other buyers in dealing with security and safety issues, and collaborating with local authorities to ease suppliers' compliance activity. The main supplier takes this support positively and relies on the competence of the buyer. Confidence earned through competence has been labeled competence trust by Ref. [41]. The strategy is twofold here: both control and trust are applied to the first-tier suppliers, but only control is exercised in the case of second- and third-tier suppliers.

The small buyer, on the other hand, has focused from the beginning on trust with suppliers in the belief that CSR implementation will take place through dialog. This buyer plays an advisory role and motivates first-tier suppliers for capacity building to comply with codes of conduct. Work-related factors, particularly factory security and health conditions, are important issues for the buyer. The practice here is to rely on first-tier suppliers for monitoring the performance of the second tier, as was also witnessed by Ref. [34] in their study.

In fact, the small buyer has little contact with its second-tier suppliers and is only in touch with them if something goes wrong. This has also made the buyer dependent on the local partner creating joint control in the SC. The control mechanism is an informal arrangement and is seen to be based on good intention and faith, particularly by the small buyer. Intentional trust, as outlined by Ref. [41], is practiced partly to minimize the cost of auditing and partly to create an atmosphere of collaboration. But the outcome has not been good, due to the absence of clear instructions and inability of the buyer to exercise control over the SC. The suppliers' problem has been competence and capacity, since small buyers mostly have to depend on less qualified suppliers. As a minor actor, the small buyer faces uncertainty in the timely delivery of goods and developing key relationships with solid partners. The buyer has neither resources nor a strong position to fully develop and control the quality of CSR implementation in the supplier factories.

5.3 Control-trust framework

From the above discussion, a framework of two mechanisms in managing CSR compliance in SCs can be identified (Figure 4). These mechanisms are quite extreme and either based on control or trust. Networking was found to be a supporting element in the buyer-supplier relationship rather than acting as an influencer. The control mechanism relies on exercising pure control by

focusing on concrete outcomes and competence in the SC. In this case, capacity building is considered to be a normal function of the supplier, which cannot expect much support from the buyer. The trust mechanism, on the other hand, rests on good faith and consists of less clear objectives from the buyer for the supplier to attain. In this case, control is weak and informal, and the intention of collaboration and developing intentional trust between the buyers and suppliers are emphasized to support capacity building efforts. For CSR compliance, capacity building is considered as a joint function of the buyers and suppliers. This study, however, indicates that the concept of joint effort cannot work unless better suppliers can be hired and the buyer can mobilize sufficient resources to supervise the supply chain.

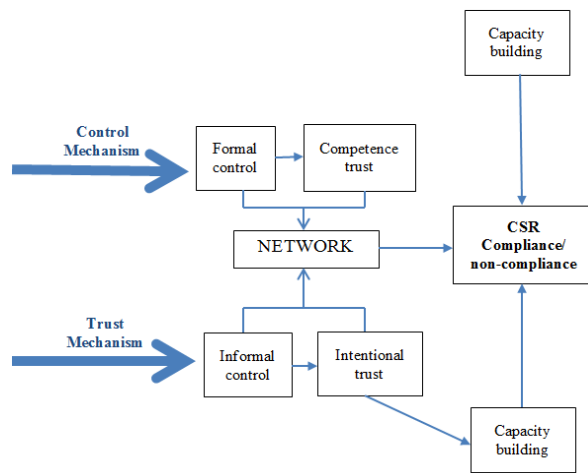


Figure 4. Applied CSR compliance framework

To summarize, the two case companies apply control and trust as isolated tools, making suppliers either totally dependent on or independent of the buyers. In the control-driven strategy, one-way communication dominates and does not help to develop a relationship based on dialog and collaboration. Along with competence trust, it may be necessary to allow for developing intentional trust in the relationship. In the trust-driven strategy, it is important that competence trust is stressed and that important functions are regularly supervised. Following Ref. [51], we argue that depending on the buyer's strategy, some combination of control and trust is necessary in CSR compliance management. We can now formulate two propositions:

P1: A control-driven strategy requires intentional trust and joint participation in capacity building for effective management of CSR compliance in the SC.

P2: A trust-driven strategy requires competence trust and some formal control for effective management of CSR compliance in the SC.

6. Conclusions

Buyers' management of CSR compliance in supplier organizations addresses three interrelated issues that this study has examined:

- synchronizing control and trust to manage CSR compliance in the SC
- creating interaction between buyer and supplier for CSR compliance in the SC
- developing buyer-supplier interaction with other actors who can influence CSR compliance in the SC

The first issue is the focus of the study, while the other issues are complementary. This study fills an important gap in SC theory on relationships by stressing how control and trust interact and complement each other in managing CSR compliance. It shows that control and trust are important but seldom used together for CSR compliance. However, classifying control and trust into subcategories offers a tool for integrating and balancing trust and control to ensure smooth operation of SCs. The degree of interaction between buyers and suppliers is found to depend on the need and capacity of the buyers. The large buyer knows what it expects from the interactions with suppliers, while the small buyer's aim from the interactions is quite diffused. Networking with other actors has been found helpful and seems to have both direct and indirect impact on the management of CSR compliance.

One important conclusion is that the large buyer exercises control to create trust, while the small buyer with limited resources depends on trust to secure control. The positive part of strict control is that the message is made clear to the whole SC and everyone knows the rules of the game. Buyer competence helps to develop overall SC competence, trust and long-term relationships with suppliers. The large buyer thus to some extent displays how trust and control can be combined to manage CSR. Wide contact networks and buyer resources in the SC were found to have a positive impact on the local market. Association with a resourceful buyer helps suppliers come in contact with other global buyers and gain further business. The first case shows that exercise of successful control breeds trust and not the other way around, confirming the observation of Ref. [8].

Another conclusion is that capacity development needs to be ensured for managing CSR compliance as a continuous process. This means that managerial competence requires support from the whole organization and employees to result in successful compliance. Therefore, capacity supplements the CSR process, not replacing compliance, which Ref. [12] claim.

A further reflection relates to the network perspective, which considers control and trust as a part of networking. We also see some interconnectedness between these issues but in a different way. In CSR compliance management, it seems more relevant to look at how control and trust form networks, rather than starting from the network to identify control and trust. The need for control in SC is probably an important issue; the buyer must decide which type of network it finds suitable or which contacts it wants to develop for ensuring compliance.

6.1 Theoretical and practical implications

Linking network and inter-organizational literature, this study analyzes control and trust in regard to management of CSR compliance in the SC. This research fills an important gap in SC theory on relationships by stressing how control and trust can interact and complement each other in the compliance process. It also shows how control and trust can be classified into subcategories and interlinked. Further, the role of context and its impact is discussed to better understand the buyer-supplier relationship and the role of other actors on the functioning of the relationship. This issue needs further inquiry. Finally, safety and working conditions, which are usually left out of CSR discussions, are particularly stressed and linked with the SC literature.

This research has several implications for practitioners. First, full control can work in the short run, but for total compliance, managers may need to develop a balanced combination of control and trust in the buyer-supplier relationship. Second, blind trust is seen to have a negative result in the management of CSR compliance. We acknowledge that willingness to collaborate is essential, but certain prerequisites, including supplier competence and managerial resources in the SC, are needed if collaboration is to be sustained. Intentional trust is prone to fail when the mutual expectations in the buyer-supplier relationship are not met.

Third, managers need to use both formal and informal control to create competence and intentional trust in the SC. Using only formal control is less dynamic and can negatively affect the buyer-supplier relationship. Finally, capacity building needs to be seen as a complement, not an alternative to CSR compliance. This confers an important responsibility to the buyers for extending support to the suppliers for doing a good job. A strong buyer can show willingness to share ideas with the serious suppliers to come up with long-lasting relationships. To solve any middle management recruitment problem, suppliers can improve their industry image by offering attractive benefit packages and highlighting their close associations with foreign buyers. Suppliers will gain a lot if they have CSR-competent staff, while buyers will save money and time on monitoring CSR compliance in their SCs.

6.2 Limitations and suggestions for further research

A comparative study between just two firms to analyze the CSR compliance process is inadequate, although it gives some understanding of the situation. A further study involving several buyers could give more insight into the challenges in managing CSR compliance in the SC. Another limitation is the focus on one country, which makes generalization difficult. Buyers from different countries in the apparel industry could be included in future research to reflect on the variation of buying strategies applied by different firms. This study dealt with competence trust and intentional trust and examined their relationship to formal and informal control, which is new in studying CSR implementation. To gain deeper insight into the issues and the impact on the overall SC, it is necessary to examine several cases. Although compliance and capacity building are complementary, this study has

not properly investigated the links between the concepts. A future study would be able to highlight the importance of this complementary relationship, investigate the gaps and suggest what could be done in the SCs to ensure capacity building and CSR compliance in the apparel industry. A further study on how networks influence CSR compliance is necessary, as this study partly focused on how buyers and suppliers are connected with external actors.

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