

Effects of Socially Responsible Purchasing On Firms Performance A Survey Of Flower Firms In Kenya

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Abstract: *Purchasing entails the activity of acquiring of goods and services at the best cost and quality. Socially responsible purchasing adds sustainability and environmental requirements to the pre-mentioned set of conditions. However there is little knowledge on what organizations can do to ensure social responsibility throughout their supply chain. The study sought to know what organizations can do to ensure social responsibility throughout their supply chain and determined effect of purchasing social responsibility on performance of flower firms in Kenya. The study specifically established the effect of diversity responsibility on flower firms performance, assessed the effect of environment responsibility on flower firms performance, the effect of human rights responsibility on flower firm performance and effect of safety constitute responsibility on flower firm performance. The study was determined by Stakeholder Theory and Legitimacy Theory. Explanatory research design was employed. Data was drawn from target population of 172 respondents' from all the 43 registered flower firms in Kenya. For the study, questionnaires were used to collect data and quantitative data analysis was done using Statistical Package for Social sciences (SPSS) while qualitative data was been analyzed by use of descriptions. The tools used for analysis were measures of central tendency which were mean, mode and standard deviation. The study found out that embracing socially responsible purchasing has a significant effect on the flower firms' performance. This study has however recommended that there is need for firms to invest in socially responsible purchasing to enable them improve on their performance. Future research should focus on a larger scope which can complement this result to obtain further insight in this area and may be introduce moderating factors which will provide an interesting input.*

I. Introduction

Many companies have already accepted corporate sustainability as a precondition for their business performance (Dyllick and Hockerts 2002). In the globalized world, it's becoming increasingly obvious that besides managing organization's own social and environmental impacts, aspects and impacts of the entire supply chain need to be managed, since suppliers' performance affects the buying organization's performance and reputation (Bacallan 2000). Purchasing activities therefore become important for developing and setting social and environmental criteria for its suppliers and for improving overall supply chain performance. The application of non-economic considerations in procurement practices implies inactivity with a bearing both on organizational strategy and operations. Therefore, over time, management of the purchasing function has changed in importance: from serving a company with the lowest unit price, to coordinating procurement between different business units, to an internal integration of cross functional procurement, to the external integration of supply chain management and finally to a greater value chain orientation (Van Weele 2000).

Following Maignan et al. (2002), companies may adapt different strategies in terms of responsible purchasing. The most basic strategy is reactive, when the company has the duty to respond to stakeholder expectations or requirements. Accommodative strategies are employed when the organization undertakes actions to satisfy stakeholder demands; however, at the same time the company avoids to transform and employ a long-term CSR based strategy. These actions are carried out to meet immediate stakeholder requirements. The proactive strategy is employed when an organization takes a continuous and comprehensive approach to integrating social and environmental issues in their practices and business structure. CSR starts with management's belief that CSR is strategic for the company and to what extent socially responsible purchasing is to be implemented in the company and how proactive they may be (Paulikas and Brazdauskaitė, 2010)

One of the key internal drivers for all organizations is to maintain their reputation (Fombrun 2005). They can do this by developing and implementing SRP practices that help avoid risks to brand names and reputation, which are key intangible assets of organizations (Roberts 2003). This risk-averse behavior of organizations has been classified as internal driver of organizations, although it is very much influenced by external forces. "With consumers' confidence in the leaders of major corporations at an all-time low, individuals want and expect corporations to behave more socially and environmentally responsibly" (Webb, Mohr et al. 2008). Following this change in consumer awareness, some companies have started to see SRP and CSR

activities as a competitive advantage. Introducing SRP may lead to significant changes in the focal organization. For example it may necessitate changes in processes and systems for supplier selection, level of employee training, and procedures of verification and performance assessment. It may also impact product design, logistics and maintenance processes, as well as skills and competencies of procurement staff (Vassallo, Cacciatore et al. 2008)

Specific Objectives

- i. To establish effect of diversity social responsible purchasing on firm performance
- ii. To assess effect of environment social responsible purchasing on firm performance
- iii. To find out effect of human rights social responsible purchasing on firm performance
- iv. To determine effect of safety constitute social responsible purchasing on firm performance

Theoretical Review.

Legitimacy Theory

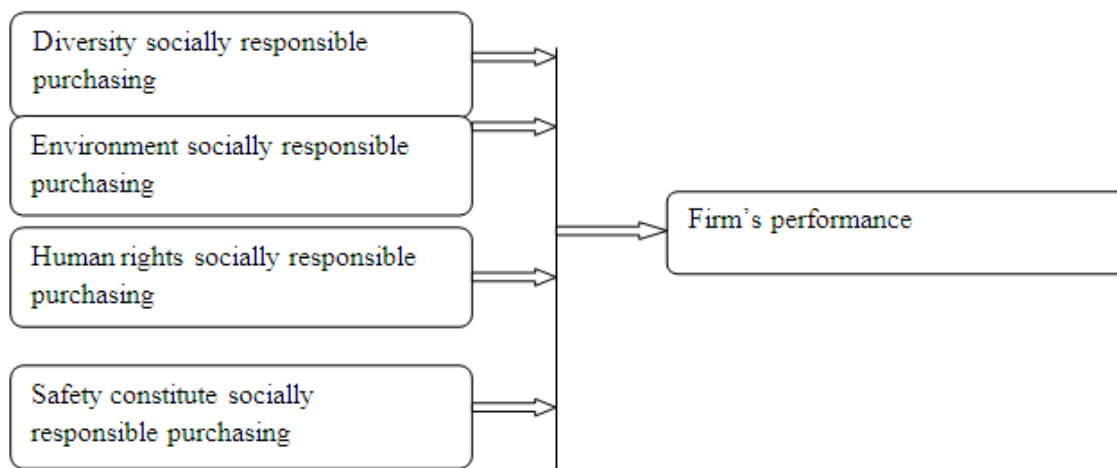
Few studies that consider the content of the disclosures, most support the role of legitimacy theory. Deegan, Rankin, and Voght (2000) showed that subsequent to events producing significant negative media coverage firms provided greater disclosure on matters directly pertaining to the event (not simply social and environmental information generally), however, that information was overwhelmingly positive. Many studies of CSR explain their findings through legitimacy theory (Deegan, 2002; O'Donovan, 2002). Legitimacy requires a reputation that must be retained, that is, it requires a company to convince its relevant publics that its activities are congruent with their values. Issues such as industrial conflict, social and environmental incidents, fraudulent or unethical management behavior may threaten corporate legitimacy. However, a company can lose legitimacy even though it does not change its activities, either due to changes in the composition of its relevant publics or changes in their values (O'Donovan, 2002: 348). If a company is seen to lack legitimacy then, at best, profits are short-term. This occurs because if a company is perceived by stakeholders not to comply with their expectations, those stakeholders may withdraw the support needed to ensure its continued existence (Deegan, 2002). Legitimacy theory suggests that CSR provides an important way of communicating with stakeholders, and convinces them that the company is fulfilling their expectations even when actual corporate behavior remains at variance with some of these expectations.

2.1.2 Stakeholder Theory

Stakeholder theory is based on the notion that companies have several stakeholders, defined as groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions" (Freeman, 1998: 174), with an interest in the actions and decisions of companies. Stakeholders include in addition to shareholders, creditors, employees, customers, suppliers, local communities, government, interest groups, etc. stakeholder theory sees the organization as part of the wider social system but this approach focuses on the various stakeholder groups within society. Two variants of stakeholder theory can be identified (Gray et al., 1996; Deegan, 2002). The first variant, which Deegan (2002) designates as ethical (or normative), holds that all stakeholders have the right to be treated fairly by a company. This view is reflected in the Gray et al. (1996) accountability framework, which argues that the company is accountable to all stakeholders to disclose social information. The second variant, which Deegan (2002) designates as managerial (or positive), explains CSR as a way of managing the company's relationship with different stakeholder groups (see, for example, Roberts, 1992; Ullman, 1985). Ullmann (1985) suggested that CSR is used strategically to manage relationships with stakeholders. Stakeholders are considered as having varying degrees of power or influence over a company, the importance being associated with control of resources. The more important (influential or powerful) the stakeholders are to the company, the more effort will be made to manage the relationship.

Conceptual Framework

The conceptual framework is a basic study that consists of certain abstract blocks which represent the observation, analytical, and synthetic aspects of the system being analyzed. The diagrammatic representation of the conceptual framework shows how variables relate.



Independent Variables

Dependent Variables

Figure 1 Conceptual Framework

Research Gap

It has been only more recently still that researchers have empirically investigated the dimensions of activities that comprise purchasing social responsibility (PSR) (Carter and Jennings, 2004). These activities include environmental purchasing, sourcing from minority-owned suppliers, and human rights, safety, and philanthropy issues relating to supply management. For example, Carter and Jennings (2004) show that firms that are highly involved with PSR tend to have a people-oriented organizational culture which is fair and supportive and which considers the welfare of others, and where individual employee initiatives and decision making regarding PSR can occur. However, research has only recently begun to empirically test the idea of SRP within a supply chain management context. Corporate Social Responsibility (CSR) has become mandatory in the current economic era. Socially Responsible Purchasing (SRP) is a derivative of CSR: while purchasing relates to the acquisition of external resources at the most favorable conditions, socially responsible purchasing adds sustainability and environmental requirements to the pre-mentioned set of conditions. At the same time, little is known about what organizations can do to ensure social responsibility throughout their supply chain (Kibbeling et al, 2009). This paper addresses the topic of how the purchasing function in organizations can provide a window of opportunity for creating sustainable supply. No comprehensive study about PSR has been made conducted in flower firms Kenya. Still, companies in the industry are aware of its growing importance. Thus, there is a lack of knowledge about PSR in general; in what way PSR will influence a firm's performance. This study therefore, sought to investigate the effect of purchasing social responsibilities on firm performance.

II. Research Methodology

The research problem was studied through the use of explanatory research design. The research focused on the effects socially responsible purchasing on firms performance by flower firms in Kenya. The population was 172 managers of the 43 registered flower firms in Kenya.

| Target Population Level | Total Number of staff |
|----------------------------|-----------------------|
| Procurement managers | 43 |
| Finance Managers | 43 |
| Human resource managers | 43 |
| Quality assurance managers | 43 |
| Total: | 172 |

III. Analysis And Findings And Discussion

Descriptive statistics was used to discuss the findings of the study. The study targeted a 172 respondents from which 43 failed to return making the response rate of 75% this rate of response satisfies Cooper and Schindler (2003) which states a response rate of 30 to 80 percent of the total sample size can be used to represent the opinion of the entire population.

Table 4.2 Firm performance

| | Mean | Std. Deviation |
|---|------|----------------|
| Growth in sales in relation to your expectations | 4.54 | 0.57 |
| Growth in sales in relation to your competitors | 3.88 | 0.97 |
| Growth in profits in relation to your expectations | 3.6 | 1.09 |
| Growth in profit level in relation to your Competitors | 3.86 | 0.873 |
| Increase in number of employees | 4.05 | 0.794 |
| Increased market size in new markets in relation to your expectations | 3.7 | 1.143 |
| Increased market size in new markets in relation to your competitors | 2.55 | 1.581 |
| Growth in capital from operations | 1.9 | 1.402 |
| Improvement in efficiency | 2.08 | 1.407 |
| Successful creation of positive reputation | 2.27 | 1.424 |
| Increase in perception of customer satisfaction | 2.06 | 1.356 |
| High level of customer loyalty | 1.98 | 1.237 |
| High level of new customers | 2 | 1.358 |
| High ability to develop new products | 2.14 | 1.356 |

The study sought to establish to what extent respondents agreed with the above statements relating to firms performance. From the findings majority of the respondents agreed that there was growth in sales in relation to expectations. Respondents strongly agreed that there is growth in sales in relation to their expectations (mean = 4.54, SD =0.57).Similarly majority respondents agreed that there is increase in the number of employees (mean = 4.05, SD = 0.794) and growth in sales in relation to their competitors (mean = 3.89,SD = 0.97).In a similar vein, profit level in relation to their competitors (mean = 3.86, SD = 0.873).Further the respondents strongly agreed that there is increased market size in new markets in relation to their expectations (mean = 3.7, SD = 1.143).Besides the respondents agreed that there is growth in profit in relation to their expectation (mean = 3.6, SD = 1.09).

Diversity responsibility

| Currently, our purchasing function.... | Mean | Std. Deviation |
|--|------|----------------|
| purchases from minority-/women-owned business enterprise (M/WBE) suppliers | 3.87 | 1.50 |
| has a formal M/WBE supplier purchase program | 4.03 | 1.12 |
| Currently, purchases from disabled people | 4.25 | 1.03 |
| Currently, purchases from other ethnic groups | 4.18 | 0.90 |

Diversity responsibility

The study sought to establish to what extent the respondents agreed with the above statements relating to diversity responsibility. The results are as presented in table 4.3.It was established that the respondents strongly that currently, their purchasing function purchases from disabled persons (mean = 4.25, SD = 1.03),that their purchasing function purchases was made from other ethnic groups (mean = 4.18, SD = 0.90),that their purchasing function had a formal M/WBE supplier purchase program (mean = 4.03, SD = 1.12).Finally that at the moment, their purchasing function purchases from minority/women-owned business enterprise suppliers (mean = 3.87, SD = 1.50).This findings concurs with study findings by Barner (2007) Supplier diversity has also leveled the playing field in a way that women or people from ethnic minorities to compete for order to be suppliers on equal terms thus improved organizational performance. (Barner, 2007).Further support to the study is by Bowen, (2001) echoes that supplier diversity improves firm performance through encouraging competition within the supply chain ,winning new customers and improving community relations.

Table 4. Environment responsibility

| Currently, our purchasing function.... | SA | Mean | Std. Deviation |
|--|----|------|----------------|
| uses a life-cycle analysis to evaluate the environment responsibility friendliness of products and packaging | | 2.53 | 1.11 |
| participates in the design of products for disassembly | | 2.62 | 1.18 |
| asks suppliers to commit to waste reduction goals | | 3.05 | 1.5 |
| participates in the design of products for recycling or reuse | | 3.51 | 1.15 |
| reduces packaging material | | 2.95 | 0.99 |

Environment responsibility

The sought to establish to what extent the respondents agreed with the above statements on environment responsibility. The results of the study found out that majority of the respondents agreed that their purchasing function participates in product life cycle, (mean = 2.55, SD = 1.12),that their firm participates in

product disassembly, (mean =2.63, SD = 1.19),that their firm asks suppliers to commit in waste reduction goals (mean = 3.04, SD = 1.40),participates in the design of products for recycling (mean = 3.50, SD = 1.20),Reduces packaging material (mean = 2.94, SD = 0.89)

Rahm, (2005) is of the opinion that sourcing from environmentally sound suppliers, purchasing recyclable and reusable packaging and containers, using life cycle analysis and participating in design for reuse and recycling creates an effective environment for the adoption of socially responsible purchasing practices thus creating high firm performance.

Table 4.5 Human rights responsibility

| Currently, our purchasing function: | Mean | Std. Deviation |
|---|------|----------------|
| visits suppliers' plants to ensure that they are not using sweatshop labor | 3.7 | 0.93 |
| ensures that suppliers comply with child labor laws | 2.68 | 1.3 |
| asks suppliers to pay a "living wage" greater than a country's or region's minimum wage | 3.27 | 1.4 |
| ensure that health issues are complied with | 4.27 | 0.77 |

Human rights responsibility

From the research findings the study established that majority of the respondents agreed that their purchasing function embraced human rights responsibility the respondents agreed that their purchasing function ensures that health issues are complied with (mean = 4.27, SD = 0.77), the respondents agreed that their purchasing function visits suppliers' plants to ensure that they are not using sweatshop labor (mean = 3.7, SD=0.92),purchasing function ensures that suppliers comply with labor laws (mean=2.68,SD 1.3),asks suppliers to pay a living wage greater than the regions minimum wage (mean=3.27,SD=1.4)

Also,Fombrun, (2005) echoes that protecting human rights in socially responsible purchasing entails ensuring suppliers do not use sweatshop labor and ensuring that suppliers comply with child labor laws which in turn improves firm performance.

Table 4.6 Safety Constitute responsibility

| Currently, our purchasing function: | Mean | Std. Deviation |
|---|------|----------------|
| ensures that suppliers' locations are operated in a safe manner | 2.37 | 1.13 |
| ensures the safe of product to our facilities | 3.55 | 1.48 |
| ensures the incoming movement of product to our facilities | 2.86 | 0.89 |
| Ensure safety of customer when transporting the goods | 2.94 | 0.95 |

Safety Constitute responsibility

The findings are shown above established that the respondents strongly agreed that at the moment their purchasing function ensures the safety of product to their facilities (mean = 3.55, SD = 1.48), ensured safety movement of products to the facility (mean=2.86, SD=0.89),ensure safety of customer when transporting goods (mean=2.94,SD=0.95),ensure suppliers location are operated in a safe manner (Mean 2.37,SD=1.13)

This was found to be in agreement with the findings,Henkle, (2005) argues that a safe working environment improves the working conditions thereby improving the performance of the firm. Also, a safe working environment gains a lot of trust from potential customers thus improving firm performance (H & M, 2007).

IV. Conclusion

The study has shown that diversity SRP has a positive and significant effect on the firm performance. It is clear from the findings that the purchasing function has tapped its source of supply from different ethnic groups and from minority/women-owned business enterprise suppliers. This has enhanced diversity in the supply chain hence contributing to improved firm performance.

Likewise, environment SRP positively and significantly influences firm performance. Particularly, the purchasing function participates in the design of products for recycling. Despite the fact that working in collaboration with suppliers ensures that their processes and products are environmentally sound, it was not fully established whether the purchasing function participates in the design of products for disassembly as well as asking suppliers to commit to waste production.

Similarly, human rights SRP was also found to have a positive and significant effect on firm performance. This indicates that the development, respect and protection of human rights within the organization promote high firm performance. As per the findings, the purchasing function ensures that the health issues are complied with. As well, the purchasing function has made it its responsibility to ensure that suppliers'

plants are not using sweatshop labor. However, it was not fully established whether the purchasing function ensures that suppliers comply with child labor laws.

Finally, safety constitutes SRP also had a positive and significant effect on the firm performance. Specifically, the purchasing function ensures that ensures the safety of incoming movement of products so that they get to the facilities safely. This is essential to ensure that there is a safe working environment in the organization which is instrumental in enhancing firm performance. However, the safety of customers when transporting the goods was in doubt.

V. Recommendations

Based on the findings of this research, we therefore present the following recommendations which will be useful to stakeholders.

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

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

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

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

Recommendations for Further Studies

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

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