From Governance to Supplier Development

A Qualitative Study of Sustainability in the Textile and Apparel Industry

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A QUALITATIVE STUDY OF SUSTAINABILITY IN THE TEXTILE AND APPAREL INDUSTRY

BY
ULLA NORMANN

DISSERTATION SUBMITTED 2017

AALBORG UNIVERSITY
DENMARK

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by
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CV

Ulla Normann has studied a Master of Science (MSc) in International Business Economics at the Aalborg University, Denmark, completed in 1991.

Subsequently, she has worked in procurement jobs in the textile and apparel industry in Denmark. The past 12 years she has been a lecturer at Via Design, Via University College, where she primarily teaches Supply Chain Management, specializing in Purchasing Management.

Her Ph.D. was initiated by Via University College which represents the primary funding of the project, with a contribution from the Christian Frederik Madsen Foundation. The collaboration is made along with the Center for Industrial Production, Aalborg University.

ENGLISH SUMMARY

Sustainable sourcing has been on the purchasing and supply chain management research agenda for more than a decade and is among the most popular topics in the field today. Meanwhile, companies have developed a range of methods and tools for managing sustainable sourcing, which has grown to be an integrated part of purchasing strategy. Both in practice and in the sustainable-sourcing literature, we still see examples of these methods not always having the desired effect. In particular, we see that the most common method of assessment-based sustainability-governance structure with governance mechanisms such as codes of conduct, certificates, and monitoring is used on a large scale, and often results in a lack of supplier sustainability compliance. This Ph.D. dissertation aims to explore and expand knowledge about the causes underlying this lack of supplier compliance. The focus is on suppliers' perception of buying companies' used assessment-based methods and how these affect the supplier–buyer relationship and hence the suppliers' ability toward sustainability compliance.

The following two research problems are addressed throughout this paper-based dissertation:

Research Problem 1:	What governance structures and governance mechanisms are used by buying companies to achieve supplier sustainability compliance and how do these governance structures affect suppliers' sustainability compliance?
Research Problem 2:	How do suppliers perceive the present sustainability related governance structures and governance mechanisms utilized by buying companies and what impact do the sustainability governance structures and governance mechanisms have on the buyer-supplier relationship?

The theoretical background of the dissertation is sustainable-sourcing theory, transaction cost theory, and aspects of social exchange theory. These aspects deal with the concepts of relational norms and distributive justice, which relate to the underlying mechanisms that can affect the relationship between buyer and supplier, thus sustainability supplier compliance.

The empirical basis for this dissertation is 30 interviews conducted in India, Bangladesh, and China. These qualitative data were collected using semistructured interviews with suppliers, where the respondents were fabric owners or managers. The qualitative approach was chosen due to the design of the research problems and the explorative approach to suppliers' perceptions, as this approach allows you to get the respondents' opinions on the subject. This provides the knowledge and insight necessary to understand the challenges seen for suppliers in connection with the sustainability-related requirements from the buying companies.

The dissertation contributes to the sustainable-sourcing literature by giving an overview of the governance structures used by the buying companies and the associated governance mechanisms used. At the same time, the dissertation provides an overview of what works and what does not work. Furthermore, a contribution is given by an insight into the underlying mechanisms that may contribute to suppliers' ability and the potential for sustainability compliance. By examining these underlying mechanisms as distributive justice and relational norms in relation to the assessment-based governance structure, the dissertation contributes to sustainable-sourcing literature as this has not been done previously. Moreover, the dissertation shows that suppliers' perception of distributive justice and relational norms affects the relationship, which can be a cause of suppliers' lack of sustainability compliance.

Based on the above, buying-company managers are advised to take aspects such as equity and norms into consideration when requiring sustainability compliance of their suppliers. At the same time, by closer cooperation and stronger relationship, they must, together with suppliers, agree on their mutual expectations.

DANSK RESUME

Sustainable sourcing har været på dagsordenen indenfor indkøb og supply chain management i mere end et årti og er blandt de mest populære emner indenfor feltet i dag. Samtidig har virksomheder udviklet en lang række metoder og værktøjer for netop at gennemføre sustainable sourcing, hvilket samtidig er blevet en integreret del af virksomhedernes indkøbsstrategi. Vi ser stadig eksempler på metoder som ikke altid har den ønskede effekt både i praksis og i sustainable sourcing litteraturen. Især ser vi, at den mest anvendte metode, evaluerings-baseret sustainability governance med governance mekanismer som codes of conduct, certifikater og monitorering er hyppigt anvendt og ofte resulterer i manglende overholdelse af sustainability fra leverandørernes side. Denne Ph.d. afhandling har til formål, at udforske og udvide viden om årsagerne bag denne manglende leverandør overholdelse. Fokus er på leverandørernes opfattelse af købervirksomhedernes anvendte evalueringsbaserede metoder og på hvordan disse påvirker leverandør-køber relationen og dermed leverandørernes evne til at overholde sustainability relaterede krav.

De følgende forskningsspørgsmål indgår i afhandlingen:

- Hvilke governance strukturer og governance mekanismer er anvendt af køber virksomhederne for at opnå leverandørernes overholdelse af sustainability relaterede krav og hvordan påvirker disse governance strukturer leverandørernes evne til overholdelse af sustainability krav?

- Hvordan opfatter leverandørerne de nuværende sustainability relaterede governance strukturer og governance mekanismer anvendt af køber virksomhederne og hvilken påvirkning har de sustainability governance strukturer og governance mekanismer på køber-leverandør relationen?

Den teoretiske baggrund for afhandlingen er hhv. sustainable sourcing teori, transaktionsomkostningsteori og aspekter indenfor social exchange teorien. Disse aspekter omhandler begreberne relational norms og distributive justice, som relaterer til de bagvedliggende mekanismer, som kan påvirke relationen mellem køber og leverandør og dermed leverandørernes evne til at overholde de sustainability relaterede krav som stilles af køber virksomhederne.
Afhandlingens konklusion bygger på 30 interviews foretaget i hhv. Indien, Bangladesh og Kina. Denne kvalitative data blev indsamlet ved hjælp af semi-strukturerede interviews med leverandører hvor respondenterne var virksomhedsejere eller ledere. Den kvalitative tilgang er valgt grundet udformningen af forskningsspørgsmålene og den explorative tilgang i forbindelse med leverandørernes holdninger, da den netop giver mulighed for, at høre respondenternes meninger om emnet. Herved opnås den viden og indsigt som er nødvendig for at kunne konkluderer med hensyn til de udfordringer der ligger for leverandørerne i forbindelse med de sustainability relaterede krav som køber virksomhederne stiller.

Afhandlingen bidrager til sustainable sourcing litteraturen ved, at give et overblik over de governance strukturer som anvendes af køber virksomheder samt de tilhørende governance mekanismer. Samtidig med gives der et overblik over, hvad der virker og hvad der ikke virker. Yderligere bidrager afhandlingen med en indsigt i de mekanismer som kan være medvirkende til bidrage til leverandørernes evne og muligheder for sustainability compliance. Ved at undersøge bagved liggende mekanismer som distributive justice og relationelle normer i forhold til den evalueringsbaserede governance struktur som køber virksomhederne anvender, bidrager afhandlingen til sustainable sourcing litteraturen, da dette ikke tidligere er gjort. Desuden viser afhandlingen, at leverandørernes opfattelse af distributive justice og relationelle normer påvirker relationen hvilket kan være en årsag til leverandørernes manglende overholdelse af de sustainability relaterede krav.

Baseret på ovenstående rådes køber virksomhedernes ledere til at tage aspekter som retfærdighed og normer med i deres overvejleser når de kræver overholdelse af sustainbility relaterede krav af deres leverandører. Samtidig bør de forstå, at ved et tættere samarbejde og gennem stærkere relation skal de sammen med leverandørerne blive enige og deres fælles forventninger og tage mere ansvar i forhold til leverandørerne.

A PAPER BASED THESIS

This is a paper based thesis based on the scientific papers listed below. The four papers are made available to the assessment committee. Co-author statement is also made available to the assessment committee and to the Faculty as a part of the assessment of the thesis.

The following four papers are included in the dissertation:

Paper 1: Normann, U., (2013), "What are Buying Companies Doing to Influence Suppliers to Act Sustainable?". Extended version of Paper presented at the 18th IFPSM Summer School, Salzburg, Austria.

Paper 2: Normann, U., (2015), "Sustainability Exchange Governance in the Textile and Apparel Industry – "Why Do Suppliers Find It Hard to Comply with Buying Companies Sustainability Requirements?". Paper presented at the 24th Annual IPSERA Conference, Amsterdam, Netherlands.

Paper 3: Normann, U., Ellegaard, C. and Møller, M. M. (2016), "Supplier Perceptions of Distributive Justice in Sustainable Apparel Sourcing". Conditional accept with *International Journal of Physical distribution and Logistics Management*. Earlier version presented at 31st IMP conference, Kolding, Denmark

Paper 4: Normann, U. (2016), "Inconsistent Norms in Buyer-Supplier Relations – A Study of Sustainability Introduction in the Textile and Apparel Industry". Paper presented at the 32nd Annual IMP Conference in Poznan, Poland. Invited to *Industrial Marketing Management* special issue 2017 – rejected after 1st round review. Excerpts accepted as contribution to the book "Sustainable Operations management – new perspectives". Edited by Poul Houman Andersen and Luitzen de Boer. To be published 2018 by Palgrave MacMillan

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Ulla

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CHAPTER 1. INTRODUCTION

Over the past twenty years, myriad stories have emerged regarding improper working conditions and environmental and safety violations in many of the world's industries, and many companies have been and remain the focus of media attention around sustainability issues.

"The clothing company Gap made a declaration publishing a shocking 'social responsibility' report that revealed terrible working conditions in its factories in Mexico, China, Russia and India" (*The Independent 2005)*.

According to a National Labor Committee (2006) report, an estimated 200 children, some 11 years old or even younger, are sewing clothing for Hanes, Wal-Mart, J.C. Penney, and Puma at the Harvest Rich factory in Bangladesh (*Institute for Global Labour and Human Rights 2006)*.

"Swedish fashion chain H&M worked with clothing factories in Myanmar where children as young as 14 toiled for more than 12 hours a day" *(The Guardian 2016*).

"Around 150 Chinese workers at Apple manufacturer Foxconn, the world's largest electronics manufacturer, threatened to commit suicide by leaping from their factory roof in protest of their working conditions" (*The Telegraph 2012)*.

"More than 100 people died Saturday and Sunday in a fire at a garment factory outside Dhaka, Bangladesh" *(The New York Times 2012*).

"The Rana Plaza factory collapse was the worst garment disaster in history, leaving 1,129 dead and many hundreds with devastating injuries, including lost limbs" (The Guardian 2013b).

"Textiles leave one of the largest water footprints on the planet and dyeing poses an especially big problem" (*The Guardian 2013a)*.

Such exposure has pushed companies to increase their efforts to meet requirements for proper social and environmental conditions, and the pressure on manufacturing organizations to adopt benign processes and develop greener products has increased significantly around the world over the last decade (Vachon 2007). Sustainable development is of growing interest, as managers are forced to deal with social and environmental issues, not only for their own firms, but also related to their supply chain partners (Vachon & Klassen 2006). This growing interest has also moved sustainable supply chain management (SSCM) in the past two decades from being a fringe topic to the mainstream (Pagell & Shevchenko 2014). The growing interest in and need for sustainability in the supply chain, along with the obvious problems that come with sustainability compliance, are the starting points of this thesis.

1.1. RESEARCH BACKGROUND

Sustainable supply chain management is part of supply chain and purchasing management. It is recognized that the purchasing function already holds a strategically important position in companies, and this importance has led to an increasing recognition of the role of purchasing, which has evolved and expanded from ‘‘buying’’ to ‘‘procurement’’ and ‘‘supply management’’ (Paulraj et al. 2006). Furthermore, the purchasing function is an important contributor to the strategic success of the company and contributes to the sustainable competitive advantage (Ellram & Carr 1994; Mol 2003). With the buying company situated at the center, a supply chain encompasses both the customer side and supply side. The buyer–supplier dyad forms the core of the supply side and is of fundamental importance to the effective integration of supply chain activities (Paulraj et al. 2006). This contribution of the purchasing function to a sustainable competitive advantage and to the company's strategic success depends to a great extent on the company's ability to achieve the sustainability compliance demanded from the external environment (i.e. stakeholders such as NGOs and customers), and is also important for avoiding the above-mentioned media attention.

This growing strategic importance of sustainability in the up-stream supply chain is also reflected in research in the sourcing and supply chain management (SCM) fields. The number of articles dealing with subjects connected to sustainability sourcing, sustainable supply chain management, green supply chain management, etc., have soared in recent years (Beske et al. 2014; Fahimnia et al. 2015; Govindan et al. 2015; Tachizawa & Wong 2014). Much of this research deals with whether or not the various initiatives around sustainability actually lead to compliance, and which initiatives have

the best success. As examples non-compliance are continuously shown in the media, the research also shows that many of the mechanisms used by buying companies to lead suppliers to sustainability compliance have failed to achieve the desired effects (Blowfield 2005; Egels-Zandén 2007; Vachon & Klassen 2006).

Generally, most of the purchasing and supply management research has focused on the buyer perspective, the network, or the dyadic relationship, whereas research with a supplier perspective has been limited (Spina et al. 2013). The same is true in the sustainable purchasing and supply management field, where suppliers have rarely been investigated (Gimenez & Sierra, 2013; Seuring & Müller 2008b). In relation to the stakeholders that affect sustainability requirements, such as NGOs and the media, suppliers are also very important stakeholders in that they have a decisive effect on corporate strategy and firm operations (Freeman 1984). The suppliers play a key role when buying companies aim to increase sustainability, but less is understood about the implications of suppliers trying to meet the sustainability requirements of buying companies (Brindley & Oxborrow 2014; Seuring & Müller 2008a).

1.2. EMPIRICAL MOTIVATION

The empirical motivation for this thesis stems from my past involvement and present interest in the apparel and textile industry. This industry has experienced significant environmental problems linked to production processes, which are characterized by intense use of chemicals and natural resources, resulting in a high environmental impact. Moreover, the search for low production costs has led to the relocation of production facilities to the Far East, bringing consequences such as challenges with working conditions, and also transport-related increases in energy consumption (Caniato et al. 2012). Another empirical motivation is my employment with VIA Design, an educational institution focused on this specific industry, and which funded this study. Therefore, the data for the thirty cases covered in this thesis were collected in the textile and apparel industry.

1.3. RESEARCH OBJECTIVE

This thesis is focused on the sustainable sourcing process between the buying company and the supplier. To broaden the knowledge in the field beyond a primarily buyer focus, the research largely focuses on the perceptions of suppliers. More specifically, it focuses on three objectives within sustainable

sourcing, which, when combined, constitute the overall objective of the thesis. The objectives are:

- To explore what efforts are made by buying companies in their relationship with suppliers to achieve sustainability compliance, and to explore the effect of these efforts.

- To explore why a large proportion of suppliers struggle to meet the requirements stipulated by buying companies around sustainability compliance, and to explain the underlying mechanisms that may cause this struggle.

- To explain the significance of the buyer-supplier relationship in the sustainable sourcing process.

The aim of this study is to contribute to an understanding of the structures and mechanisms that affect the buyer-supplier relationship, thus providing an overview of possible causes for the suppliers' inability to comply with buying companies' sustainability requirements.

1.3.1. RESEARCH PROBLEMS

The term *research problem* refers to the overall issue addressed in the thesis, which the research will seek to answer with its overall conclusion. The more specific concept of *research question* is applied in the individual papers, where specific delimited issues will be explored and explained. The two overall research problems under examination are:

Research Problem 1:	What governance structures and governance mechanisms are used by buying companies to achieve supplier sustainability compliance and how do these governance structures affect suppliers' sustainability compliance?
Research Problem 2:	How do suppliers perceive the present sustainability related governance structures and governance mechanisms utilized by buying companies and what impact do the sustainability governance structures and governance mechanisms have on the buyer-supplier relationship?

The aim of the first research problem is to gain an overview of the literature on governance structures and governance mechanisms used by buying companies to achieve supplier sustainability compliance. The second research problem is addressed by applying concepts from Transaction Cost Economics (TCE) and governance theory. Furthermore, relational and social exchange theories are applied by using the concepts relational norms and distributive justice to elaborate on suppliers' perception of sustainability compliance requirements. Relational and supplier development theories are utilized to clarify how the applied sustainability governance structure has an impact on the supplier sustainability compliance.
Figure 1 illustrates the links between the broad objective and aim of the thesis.

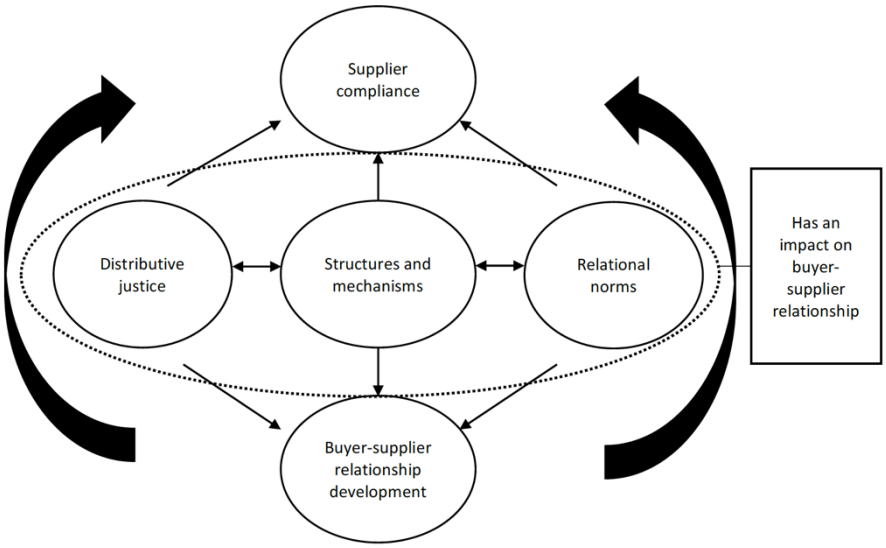

Figure 1: The overall links between the objective and the aim of the thesis.

To answer the two research problems, four papers are presented; they include papers presented at international conferences and papers submitted to peer-reviewed journals (with one conditional acceptance). The empirical portion of the dissertation is elaborated and analyzed in the four papers. Table 1 shows the links between the research questions posed in the four papers and the two overall research problems of the thesis. The content of the four papers is presented in greater detail in Chapter 4.

Table 1: The links between the papers and the research problems.

Paper 1. *RQ: What mechanisms do buying companies adopt to manage supplier sustainability and how do they affect supplier sustainability performance*?	→	**Research problem 1.**
Paper 2. *RQ: Why do suppliers find it hard to comply with buying companies' sustainability requirements?*	→	**Research problem 2.**
Paper 3. *RQ 1: Do suppliers perceive distributive injustice when their most important customers use assessment to govern their sustainable sourcing initiatives?*	↘	**Research problem 2.**
RQ 2: How do the different perceived costs, rewards, and investments of the perceived equity equation combine to form overall supplier impressions of inequity?	↗	
Paper 4. *RQ: What is the set of norms present in the textile and apparel industry and how has this norm set developed over time*	→	**Research problem 2.**

The two concepts of structures and mechanisms are used in two different contexts in the thesis. First, governance structures may be defined as institutional arrangements that govern exchange by controlling opportunism (Dyer 1996). They can be formal or informal and they vary with the characteristics of the exchange (Palay 1984). Governance mechanisms, on the other hand, refer to practices used by companies to manage relationships (Gimenez & Sierra 2013). Second, the terms are used in the methodological approach (Chapter 3) here both concepts are important when we are dealing with the philosophical direction of critical realism, where structures and mechanisms refer to object structures, and causal powers and liabilities, respectively (Easton, 2010). Furthermore, the concepts control-based governance and assessment-based governance are used interchangeably in this dissertation.

1.4. ABBREVIATIONS

The following abbreviations are used in the thesis:

BSCI: The *Business Social Compliance Initiative*

COC: Codes of Conduct

CSR: Corporate Social Responsibility

GOTS: Global Organic Textile Standard

GSCM: Green Supply Chain Management

ILO: International Labor Organization

NGO: Non-Governmental Organization

RDS: Responsible Down Standard

RET: Relational Exchange Theory

RP(s): Research Problem(s)

RQ(s): Research Question(s)

SCM: Supply Chain Management

SEDEX: Supplier Ethical Data Exchange

SET: Social Exchange Theory

SSCM: Sustainable Supply Chain Management

TCE: Transaction Cost Economic

TBL: Triple Bottom Line

WCED: World Commission on Environment and Development

WRAP: Worldwide Responsible Accredited Production

1.5. READER'S GUIDE

The thesis is divided into four parts, and the aim of this reader's guide is to provide an overview. The content of the thesis is illustrated graphically in Figure 2.

The initial part introduces the study and its context, and presents the theoretical foundation of the thesis. The theory chapter is separated into three parts: sustainability sourcing, governance and relational exchange, and relationship development. Each part concerns one of the main theoretical themes that form the basis of this thesis.

The second part presents the methodology and the approach used in the study. This part present and justifies the philosophical positioning of the study, the research approach and design, the description of the unit of analysis, how cases are identified and selected, and the overall method of data analysis.

The third part contains a short summary of each of the included papers. Full-text versions of the papers are omitted from the publicly available thesis to avoid any copyright violations.

The fourth and final part concludes the thesis by presenting the discussion and conclusion based on the findings of the papers and the overall conceptual background. Managerial implications as well as the academic contribution are outlined at the end.

Part 1 ➢ Introduction ➢ Research objectives ➢ Theoretical foundation
Part 2 ➢ Methodology
Part 3 ➢ Summary of papers
Part 4 ➢ Discussion ➢ Conclusion

Figure 2: Illustration of the reader's guide

CHAPTER 2. THEORETICAL FOUNDATION

This chapter presents an overview of the theoretical positioning and analytical framework of the project. The sustainability focus of this project is limited to sustainability within a buyer-supplier exchange relationship. The chapter is divided into three sections to support the overall objective of the thesis: *sustainable sourcing*, *governance and relational exchange, and relationship development.*

The *first* section of the chapter will provide an overview of the literature on sustainability in the sourcing and supplier context, including insights into typical sustainability focused governance structures, as well as their effects on buyer-supplier exchange.

As shown in the literature review paper (Paper 1), the governance structure and its applied mechanisms play an important role in the buyer-supplier exchange. The *second* section of the chapter therefore clarifies the concept of governance in accordance with the transaction cost economic perspective (TCE). TCE has emerged as a common framework for understanding how managers craft governance arrangements (Poppo & Zenger 2002); it is used in this project to analyze the sustainability related exchange regulated by buying companies. An extension of the relational governance perspective is also outlined.

The *third* section of this chapter underpins the objective of the thesis by explaining how exchanges and relationships between buyer and supplier can develop to move toward sustainability compliance. However, we first need to understand some of the structures and mechanisms that may affect the relationship, thus impacting suppliers' sustainability compliance. Basic relationship theory will be outlined, together with perspectives of the norm concept from relational exchange theory (RET), and perspectives from social exchange theory (SET) in the form of distributive justice. Some highly recognized relationship and relationship development models are included to emphasize the importance of sustainability related supplier development. Finally, a theoretical recap of relationship development is provided.

Figure 3: The theoretical framework of the thesis.

2.1. SUSTAINABLE SOURCING

Over the years, growing competition, as well as an emphasis on efficiency, cost reduction, and satisfying consumer demand have increased the strategic importance of the purchasing function. A new aspect of purchasing has also been developed—that of contributing to a decreased impact on the environment and enhanced human rights, social climate and working conditions (Cruz 2013; Green et al. 1996; Zsidisin & Siferd 2001). Pressure from consumers, NGOs, and local communities, as well as from new legislation and regulations, has had a large effect on companies. Sourcing from a global supply base exposes buying companies to greater risk stemming from supplier irresponsibility in terms of violation of ethical, social and environmental standards; this risk therefore requires active management (Craighead et al. 2007; Reuter et al. 2010). Many buying companies are implementing programs and developing strategies within their supply chains aimed at ensuring that suppliers act in a socially and environmentally acceptable way and fostering the willingness of suppliers to take part in social and environmental supply chain initiatives (Boyd et al. 2007; Caniëls et al. 2013). These programs and strategies have made sustainability a prominent topic within the field of purchasing and supply chain management, and several streams of literature cover the role of sustainability. The most widely-adopted definition of sustainability is that of the World Commission on Environment and Development:

Sustainability is *"development that meets the needs of the present without compromising the ability of future generations to meet their needs"* (WCED 1987, p. 8).

This macroeconomic definition, however, is difficult to apply and provides little guidance for organizations (Hart 1995; Starik & Rands 1995). The triple bottom line (TBL) in Figure 4 is a central concept that helps to operationalize sustainability, where a minimum level of performance is to be achieved in the environmental, economic and social dimensions (Seuring and Müller 2008).

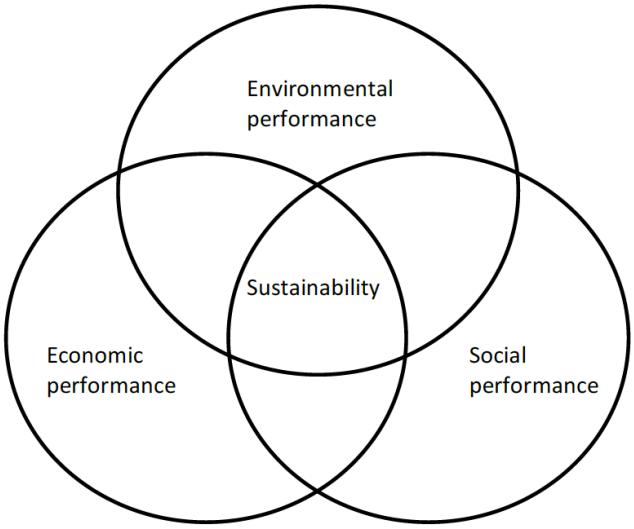

Figure 4: The triple bottom line by Carter & Rogers (2008).

One of the major areas in the field of sourcing and supply management is generally termed *green supply chain management* (GSCM). GSCM can be explained as the plans and activities of a buying company that integrate environmental issues into SCM in order to improve the environmental performance of suppliers and customers (Bowen et al. 2001). It involves organizations assessing the environmental performance of their suppliers and requiring suppliers to undertake initiatives that eliminate or minimize negative environmental impacts (air, water and land pollution) and waste of resources (energy and materials), from the extraction of raw materials up to final use and disposal of products (Eltayeb et al. 2011; Handfield et al. 2005; Vachon & Klassen 2008). The motivation for companies to implement GSCM may be ethical and/or commercial, and it is a popular practice among companies trying to improve their environmental performance (Testa & Iraldo 2010). The GSCM literature has focused on encouraging existing suppliers to improve their environmental performance by 'requiring' these suppliers to acquire certifications or to introduce green practices (Govindan et al. 2013). Seuring and Müller (2008) broadened the view of GSCM to also include the social dimension, leading to *sustainable supply chain management* (SSCM). They define SSCM rather widely as "*the management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social, into account, which*

are derived from customer and stakeholder requirements. In sustainable supply chains, environmental and social criteria need to be fulfilled by the members to remain within the supply chain, while it is expected that competitiveness would be maintained through meeting customer needs and related economic criteria" (p. 1700). Pagell and Wu (2009, p. 38) state that "*to be truly sustainable a supply chain would at worst do no net harm to natural or social systems while still producing a profit over an extended period of time; a truly sustainable supply chain could, customers willing, continue to do business forever.*"

Sustainability is an important topic for most companies, and each organization is only as sustainable as its upstream supply chain (Handfield et al. 2005; Krause et al. 2009). Supplier involvement, supplier development and the establishment of environmental and social standards for supplier performance therefore become crucial to buying companies' aim of sustainability (Sharma & Henriques 2005; Simpson et al. 2007; Tate et al. 2010). Given that the purchasing function has become a strategic function in most companies, the purchasing function and purchasing professionals play a very important role in making sure that sustainability initiatives are extended beyond the boundaries of the company (Paulraj et al. 2014). This has triggered the implementation of *sustainable sourcing* in the purchasing function (Schneider & Wallenburg 2012). Research shows that sustainable sourcing practice has the potential to become a dominant dynamic in the supply chain context (Cruz 2008; Jayaraman et al. 2007; Pagell et al. 2010). Pagell et al. (2010, p. 58) define sustainable sourcing as "*managing all aspects of the upstream component of the supply chain to maximize triple bottom line performance."*

Focusing on sustainable sourcing, the social aspect often deals with establishing codes of conduct. Codes of conduct contain requirements for working conditions, human rights, health care, child labor, working hours and minimum wage (Egels-Zandén 2013; Jiang 2008; Mamic 2005). The environmental aspects of sourcing include purchasing's responsibility to facilitate recycling, reduced packaging, reduction of hazardous materials, waste reduction, reuse of assets, cleaner production, and more strategic topics such as green product development and risk minimization (Hoejmose & Adrien-Kirby 2012; Klassen & Vachon 2003; Lee & Kim 2011; Schneider & Wallenburg 2012; Theyel 2001; Zsidisin & Siferd 2001). The past decade has shown that an increasing amount of research within the sourcing and supply chain management field is concentrating on sustainability related subjects. Key aspects of the literature are featured in the many literature reviews published within this decade (see Table 2).

Table 2: Sustainability related research subjects and reviews within the sourcing and supply chain management field.

Sustainability related research subjects	Literature reviews within sustainability related sourcing and supply chain management
Green supply chain management, recycling, reuse, green purchasing, cooperation/collaboration/ coordination, social supply chain management, reverse logistic, green purchasing, Fairtrade, environmental management, social equity, close loop, performance measures, economic sustainability, ethics, life cycle analysis, CSR, social capital, remanufacturing, product stewardship, environmental standards, environmental sustainability, green supplier evaluation	*Carter & Jennings (2002), Srivastava (2007), Carter and Rogers (2008), Seuring and Muller (2008), Gold et al. (2010) , Sarkis et al. (2011), Ashby et al. (2012)), Gimenez and Tachizawa (2012), Hassini et al. (2012), Hoejmose and Adrien-Kirby (2012), Miemczyk et al. (2012), Walker et al. (2012), Ahi & Searcy (2013), (Gupta et al. 2013), Martínez-Jurado & Moyano-Fuentes (2013), Seuring (2013), Taticchi et al. (2013), Tachizawa & Wong (2014) Bush et al. (2015), Fahimnia et al. (2015)), Govindan, Soleimani, et al. (2015), Touboulic & Walker (2015), Govindan et al. (2016), Varsei (2016)*

2.1.1. SUSTAINABILITY GOVERNANCE

Buying companies face a key challenge in managing sustainability aspects along the supply chain. To extend sustainability to suppliers, buying companies have developed different sustainability governance mechanisms and structures (Gimenez & Sierra 2012).

As mentioned previously, each organization is only as sustainable as its upstream supply chain (Handfield et al. 2005; Krause et al. 2009), and the challenging aspect is that the boundary of responsibility often extends beyond the reach of a buying company's ownership and direct control (Gimenez &

Sierra 2012). Social issues with suppliers, such as child labor, product safety, building fire and construction safety, minimum wage and overtime work (Egels-Zandén 2007), are beyond the reach of a buying company's ownership and direct control, and the same applies to a buying company's environmental performance, which can be negatively hit by a supplier's poor environmental management (Faruk et al. 2002). Examples include the 2013 Rana Plaza collapse in Dhaka, Bangladesh, where more than 1,100 workers died, or Mattel's 2007 recall of 20 million children's toys due to led traces of lead found in them. In 1996, Nike took a lashing from the press, who accused Nike of profiting from 'sweat-shops' because some subcontractors were using child labor. Because of this challenge, buying companies have recognized the need to develop strategies that extend their traditional corporate governance processes beyond their own company boundary to their supply chain partners (Kytle & Ruggie 2005). These strategies and new ways of governing suppliers in a sustainability oriented direction are dealt with as *sustainability governance* structures in the sustainable sourcing literature.

Raynolds (2004, p. 728) defines governance as *"the relations through which key actors create, maintain, and potentially transform network activities."* A sustainability governance structure is what companies can use to coordinate other key actors in the supply chain. The main actor is typically a buying company in a developed country, who stipulates requirements and conditions in relation to supplier sustainability compliance (Bush et al. 2015). As mentioned above, the concept of governance is used in the sustainability sourcing literature to describe what buying companies are doing to reach beyond their borders to suppliers, and what strategies are being used to influence the suppliers and their sustainability related decisions. These strategies have gradually emerged in various sustainable governance structures, and are described by terms such as guidelines, supplier assessment activities and monitoring activities (Foerstl et al. 2010) (see Section 2.1.3). The governance concept, which was adopted from the transaction cost literature, is widely adopted in the sustainable sourcing literature, although with a different use. Concepts from different theories such as institutional theory, resource-based theory, stakeholder theory, relational view, and procedural justice (Adebanjo et al. 2013; Blome et al. 2014; Boyd et al. 2007; Brockhaus et al. 2013; Carter 2005; Vachon & Robert D Klassen 2008) are also mentioned and applied in the sustainable sourcing literature. Basically, these theories and areas of literature are applied to demonstrate what companies must do to have a sustainability-related impact on suppliers.

2.1.2. TWO DIRECTIONS OF SUSTANABILITY GOVERNANCE

Sustainability governance and governance mechanisms are often divided into two main types: assessment-based and relationship-based. The assessment-based type is characterized by a buyer-dominated approach that is adopted by buying companies to protect themselves against opportunism in terms of suppliers acting unethically or even illegally (Alvarez et al. 2010; Gimenez & Sierra 2012; Jiang 2009). Relationship-based governance, on the other hand, is characterized by cooperative norms, trust and commitment (Paulraj et al. 2014). However, different authors sometimes use different terms for these governance structures.

Gimenez & Sierra (2012) and Klassen & Vachon (2003), for example, make a distinction between two main governance structures, termed *collaboration* and *assessment.* The collaboration concept is mainly associated with the GSCM literature and follows the relational view (Vachon & Klassen 2008). Klassen and Vachon (2003) explain collaboration as the buying company's direct involvement with suppliers in planning for environmental solutions. Environmental collaboration involves not only focusing on the products but also the production processes. The collaborative activities can, for example, result in product adaptations, fundamental process modifications, and cooperation in logistics (Klassen & Vachon, 2003). Control oriented activities such as monitoring and assessment are not included in environmental collaboration (Vachon & Klassen 2008; Sarkis 2003). The assessment governance structure, which is control based, is found in both the GSCM and the SSCM literature (Foerstl et al. 2010; Lee & Klassen 2008; Pagell & Wu 2009). Assessment activities include monitoring activities in the form of supplier questionnaires, non-regulatory standards, and third-party audits that also typically include the environmental criteria.

Jiang (2009) has yet another way of interpreting the two overall sustainable governance structures, calling them *buyer-to-supplier* governance and *peer-to-peer* governance. In *buyer-to-supplier* governance, buying companies from advanced economies require suppliers to comply with controlled based governance mechanisms such as codes of conduct and the execution of audits to monitor the suppliers' commitment. If suppliers are not compliant, the buying company may terminate the supply contract (Jiang 2009). In *peer-to-peer* governance, on the other hand, buying companies help their suppliers and reward their efforts. This structure relies not on threats or mandatory requirements, but on relational governance mechanisms such as mutual

adaption in which idiosyncratic investments (e.g., *ex ante* training or workshops, or *ex post* incentives) must be made (Jiang 2009).

Alvarez et al. (2010) distinguish between *informal* and *formal* sustainability governance structures. The formal structure can take the form of control and reporting systems such as codes of conduct (COC), requirements of standards, and monitoring activities. Informal systems, on the other hand, encompass additional governance coordination mechanisms characterized by relationships and norms rather than by bureaucratic structures (Alvarez et al. 2010). A distinct shared understanding of two main sustainability governance structures is apparent in the literature—an *assessment* structure on one hand and a more *relational* structure on the other—either of which can be used by buying companies to govern supply side environmental and social practices.

2.1.3. SUSTAINABILITY GOVERNANCE MECHANISMS

The sustainable sourcing literature revolving around governance often focuses on specific sustainability related governance mechanisms used in the exchange between buying company and supplier. Governance mechanisms refer to the means adopted by the buying company to influence suppliers to act in a sustainable way. A governance mechanism is created by the buying company and implemented in the exchange with the supplier, in an attempt to actively influence supplier practices.

Gimenez and Sierra (2012, p. 191) describe governance mechanisms as *"those practices used by firms to manage relationships with their suppliers with the aim of improving their sustainability performance."*

Depending on whether the focus is on environmental, social or economic sustainability, various sustainable governance mechanisms can be put to use. Both control-related and relational-based governance mechanisms include various requirements, and both are often implemented in buying companies (Reuter et al. 2010; Green et al. 1998; Large & Gimenez Thomsen 2011; Lee & Klassen 2008; Spence & Bourlakis 2009). A clear example of both would be a buying company that offers education and training in connection with demands for COC compliance. Within the sustainability sourcing and SCM area, the literature on sustainability governance mechanisms has been expanding over the past 10-15 years. Table 3 shows excerpts from the literature in this field.

Table 3: Literature within the sustainable sourcing and SCM area which encompass sustainability governance mechanisms.

Author	Year	Journal	Sustainability governance mechanisms
Alvarez et al.	2010	SCMIJ	formal/in-formal (assessment, development, collaboration, involvement)
Andersen & Skjoett-Larsen	2009	SCMIJ	COC, audit, certificates., training, dialog
Awaysheh & Klassen	2010	IJPOM	certification, COC, monitoring, collaboration
Azevedo et al.	2012	IEEE	certificates, co-operation, Lean mechanisms, support, purchasing guidelines
Baskaran et al.	2012	IJPE	pressure
Beske & Seuring	2014	SCMIJ	Power/pressure, COC, collaborative
Blome et al.	2014	IJOPM	certificates, COC, development, collaboration., education
Bourlakis et al.	2014	IMM	certification, power, cooperation, investments
Brockhaus & Knemeyer	2013	JBL	corporation
Caniato et al.	2012	IJPE	monitoring, collaboration, development, certification
Caniëls et al.	2013	JPSM	corporation, design, COC, certifications
Carter	2005	IJPDLM	certifications, assessment, innovation,
Carter & Rogers	2008	IJPDLM	communication, involvement
Carter &Jennings	2002	JBL	innovation, labelling, product development, audits
Chan et al.	2012	IMM	certifications, design
Cheng et al.	2008	SCMIJ	audits,
Czinkota et al.	2014	IMM	assessment, collaboration, COC, monitoring
Darkow et al.	2015	SCMIJ	green design, collaboration, investment recovery
de Brito et al.	2008	IJPE	re-design, design, wood standards/collaboration
Fernández & Kekäle	2005	JPSM	assessment, certifications, audits
Foerstl et al.	2010	JPSM	Design, ISO,
Giannakis & Papadopoulos	2016	IJPE	involvement, design, specifications, industry standard, certification, assessment
Gimenez & Tachizawa	2012	SCMIJ	design, COC, audits, training, re-cycling, assessment
Govindan et al.	2016	IJPR	audit, evaluation
Green et al.	2012	SCMIJ	pressure
Grosvold et al.	2014	SCMIJ	assessment, collaboration
Gualandris et al.	2014	SCMIJ	specifications, innovation, collaboration, education, higher price, training, assessment, audit
Handfield et al.	1997	JOM	development, assessment, certifications, training, audit, support, education
Handfield et al.	2002	EJOR	COC, monitoring, training, audits, assessment, collaboration
Hsu et al.	2013	IJOPM	higher price, long term contracts, paying the costs of certifications, training, development
Høgevold & Svensson	2012	JBIM	measurement, reward, development, collaboration, certificate, higher price, traceability
Jiang	2009	JOM	COC, audit, monitoring, standards, cooperation, training, information sharing, mutual adaptions
Kumar et al.	2012	IJPR	COC, Certifications, monitoring, audits, coop with NGO´s, collaborating, teaching, development
Kumar et al.	2013	Omega	design, process optimization, pressure, certifications, audits, training, financial
Kumar & Rahman	2016	JOCP	development, training, involvement, design
Lai & Wong	2012	Omega	awareness seminars, guiding, sharing know-how, specifications
Large & Gimenez Thomsen	2011	JPSM	development, assessment, audit, monitoring, cooperation,

Lee	2010	HBR	relation specific investments, certificate, contracts, monitoring, assessment, training
Lee & Klassen	2008	POM	monitoring, assessment, certification, relational
Leigh & Li	2015	JOCP	standards, contracts, certification
Locke & Romis	2007	SMR	audits, COC, accreditation schemes, training, collaboration
Luthra et al.	2016	JOCP	assessment, collaboration, certificates, audits, training, design, process development.
Marshall et al.	2015	PPC	COC, monitoring, collaboration, design, involvement, development, assessment
Pagell et al.	2010	JSCM	collaboration, certifications, monitoring,
Pagell	2009	JSCM	collaboration, monitoring, development, training,
Peters et al.	2011	TIJLM	product and process design, development, certificates, collaboration
Rao	2002	IJPOM	collaboration, certification,
Rao	2004	IJPOM	audit, certificates, COC, development, partnership/trust
Rao & Holt	2005	IJPOM	certificates, design, development, process, collaboration, monitoring, assessment
Reuter et al.	2010	JSCM	collaboration, design, audits, monitoring
Saunders et al.	2015	JPSM	collaboration, innovation, audit
Schaltegger & Burritt	2014	SCMIJ	design, cooperation, certification, pressure
Simpson et al.	2007	IJOPM	design, cooperation, certification, audit, pressure
Simpson & Power	2005	SCMIJ	pressure, certification, cooperation, audit, design
Snider et al.	2013	JPSM	assessment
Spence & Bourlakis	2009	SCMIJ	collaboration
Tachizawa et al.	2012	IEEE	COC, assessment, collaboration
Tate et al.	2012	JPSM	collaboration, cooperation
Thoman et al.	2016	IJPDLM	cooperation, training, audits, certificates, collaboration
Touboulic et al.	2014	DS	collaboration, involvement
Vachon	2007	IJPR	collaboration, training, certification, monitoring, COC, audit, involvement
Vachon & Klassen	2006	IJOPM	collaboration, involvement, COC, monitoring, certification,
Vachon & Klassen	2007	IJPR	collaboration, pressure, higher prices
Vachon & Klassen	2008	IJPE	certification, monitoring, collaboration, audits, product design, development
Varsei et al.	2014	SCMIJ	monitoring, training, education,
Walker et al.	2008	JPSM	COC, audits, monitoring, training, supplier development, collaboration, rewards, coercion
Walton et al.	1998	IJPMM	collaboration, information sharing, monitoring
Wilhelm et al.	2015	JOM	certification, collaboration, training, knowledge sharing, monitoring
Wu et al.	2012	IJPE	COC, audit, monitoring, collaboration, training, education, product and process development
Wu	2013	SCMIJ	collaboration
Xie	2016	JOCP	audits, education, training, supplier development, product development
Zhu et al.	2012	IJPR	collaboration, supplier development,
Zhu et al.	2013	JPSM	power, COC, audits, monitoring, certification, standards, collaboration, training, information /knowledge sharing
Zhu & Sarkis	2004	JOM	COC, audit, standards, monitoring,
Zhu & Sarkis	2007	IJPR	COC, audits, monitoring, certification, standards, collaboration, training,

Within the control-based structure, it is basically the same sustainable governance mechanisms that appear in the sustainability sourcing literature: codes of conduct, requirements of different standards, certifications, and monitoring procedures, including auditing.

The use of *codes of conduct* by buying companies is widespread and perhaps the most frequent tool used to manage sustainability (World Bank 2003). A code of conduct is a formal written sustainability tool employed by companies to establish and communicate responsible business practices (Erwin 2010). Codes of conduct are applied to corporate policies and actions, and are often drawn from the United Nations' Global Compact, which encourages corporations to embrace 10 principles incorporating the values of environmental sustainability, protection of human rights, fair treatment of workers, and elimination of bribery and corruption (Sethi & Schepers 2013). Codes of conduct are also inspired by other international conventions such as the ILO Declaration on Fundamental Principles and Rights at Work, or from different standards such as SA8000 (Andersen & Skjoett-Larsen 2009). Although codes of conduct in companies often signal a sustainability commitment, this commitment is frequently not converted into action. The development and implementation of systems and procedures to manage codes of conduct are complicated, and no single template exists that can be applied by all companies (Mamic 2005). Many codes of conduct do not provide operational definitions of key stipulations, reducing their value (Preuss 2010). Often, the implementation is not checked in practice and a code of conduct can be paradoxical in nature, for example, with strategic decisions as low cost will dominate daily practice (de Brito et al. 2008). This is also linked to the observation that codes of conduct are applied to corporate policies and actions rather than to goods (Boyd et al. 2007). Locke et al. (2007, p. 21) argue that the code of conduct approach is *"not producing the large and sustained improvements in workplace conditions that many had hoped it would*."

The *standards* used by buying companies include the UN Global Compact, AA1000, SA8000, ISO14001 and GRI Guide Lines[1], with only SA8000 and ISO14001 having a certificate. ISO 14001 is an environmental management standard system; however, the standard does not consider issues regarding purchasing and supply chain activities. In addition, ISO 14001 certification

[1] AA1000, AccountAbility Principles Standard (2008); SA8000, Social Accountability International; ISO14001, International Standard Organization – Environmental Management System; GRI Guide Lines, Global Reporting Initiative.

does not set out any specific standards for environmental performance, but rather certifies that the firm has an environmental management system in place with the purpose of improving the firm's environmental performance (Hoejmose & Adrien-Kirby 2012). In addition, more industry-related sustainability certificates are used by buying companies relative to suppliers. In the textile and apparel industry, the use of standards, all with nearly the same requirements, is widespread. For example, the *Business Social Compliance Initiative* (BSCI) is required by European customers, the Supplier Ethical Data Exchange (SEDEX) is required by British customers and Worldwide Responsible Accredited Production (WRAP) is required by US customers. All three standards are built on nearly identical principles and are, together with AS8000, often used in place of company-specific codes of conduct, although some companies require compliance to both. Other product-specific certificates are also widespread in the textile and apparel industry. Examples of these are the GOTS certificate, which indicates that the textiles are made from organic fibers; the Oeko Tex, which ensures that the product has been tested for harmful substances; and the RDS, which ensures that all of the down and feathers used in textile production come from ducks and geese that have been treated humanely. It is often seen that these standards, which are required by buying companies, are designed to protect those buying companies against reputational risks associated with unethical supplier behavior, rather than to encourage positive sustainability behavior (Baden et al., 2009). Furthermore, according to Baden et al. (2009, p. 431), "*the implementation of these standards generates costs, provides a low return on investment, does not necessarily lead to more business, and is easily evaded unless properly monitored*."

The use of COCs and specific sustainable standards and certifications is often followed by *audit* procedures implemented to monitor supplier compliance and ensure that geographically distant suppliers are acting in ways that are consistent with the firm's own standards (Awaysheh & Klassen 2010). These monitoring activities, which are clear sustainability-related governance mechanisms, are often conducted by the buying company itself or by third parties specialized in audits according to the different standards. Audits differ significantly from company to company, with durations ranging from a half a day to 4 days. Most of the audits are pre-announced but some are not. Most audits involve a factory inspection, talks with the managers, interviews with workers, and document checks (Gould 2005). Auditors face difficulties when seeking to collect accurate, objective and adequate information on working conditions and compliance with labor standards in the factories they inspect. This is because the audit process is often unsuitable for observing and

measuring the different labor standards, due both to lack of resources and to lack of auditor training and education (Locke et al. 2009).

Monitoring activities can have far-reaching negative consequences for buying companies striving to achieve supplier compliance. Boyd et al. (2007, p. 342) state that *"monitoring implicitly conveys a posture more akin to that of a supply chain 'bully' rather than a CSR 'champion,' seeking to gain compliance with its agenda through the use of coercive mechanisms, rather than working hard to achieve the shared goals of the different supply chain members."* Together with codes of conduct, certificates and standards, these control-based governance mechanisms may signal distrust between exchange parties and may prompt opportunism in uncertain situations (Das, T. K., Teng 2002; John 1984), such as supplier factories feigning compliance during audits. In China and other developing countries, fraud surrounding audits has escalated (Jiang 2009). Suppliers are adept at double book keeping and in coaching their workers to answer correctly during worker interviews. This does not help the auditing process and it also reduces the possibility of sustainability-related improvements (Jiang 2008). These are examples showing that the sustainability-related relationship between a buying company and its suppliers is often not reciprocal, which can lead to a perception of the relationship as unfair and unbalanced (Luo & Zheng 2012). Opportunistic behavior can instead be regulated by the adoption of relational governance (Lusch & Brown 1996). Close relationships and social connections can deter partners from acting opportunistically because they want to preserve cooperative agreement or their reputation. Trust can also be developed by the parties as they cooperate and become more engaged over time (Servais & Jensen 2012), which would benefit the firms through reduced monitoring costs, faster decision-making, and enhanced organizational learning and adaptation (Alvarez et al. 2010; Uzzi 1997).

Within the collaborative or relational sustainability governance structure, the most widespread sustainability-related governance mechanisms are mutual adaptations, idiosyncratic investments, supplier development, training, education, information exchange, and knowledge sharing (Gimenez & Sierra, 2012; Jiang, 2009; Klassen & Vachon, 2003; Mamic 2005). An especially important relational governance mechanism is supplier development, which can be said to be superior to a number of other sustainable governance mechanisms because it often involves relational governance mechanisms such as education, training, innovation and information exchange. Training could include formal and informal training of key supplier personnel. For example, Apple aligns its supply chain through training programs created to aid

suppliers with compliance (Kumar et al. 2012). This relational mechanism may lead to a change in behavior, unlike control-based monitoring, which can lead to distrust and cooperation termination.

2.2. GOVERNANCE

Sustainability governance mechanisms were described and discussed in the section above. Governance structures and mechanisms clearly play important roles in buying companies' efforts to achieve supplier sustainability compliance. This section therefore provides a more detailed description and explanation of the theoretical origins of the concept of governance. Before discussing the actual concept of governance, it is necessary to first explain some of the key concepts of transaction cost economics (TCE), because their existence is what makes governance a necessity.

2.2.1. THE ORIGINS OF TRANSACTION COST ECONOMICS

In 1934, John R. Commons realized that there were several variations of systems/structures that could be used to exchange goods and services between separate units. The assessment of the various structures' ability to harmonize relations between the parties, and the search for new structures were central to his research (Commons 1934). Ronald Coase (1937), on the other hand, faced a starker issue. He observed that the production of final goods and services involved a number of early stages and coordinating activities—e.g. collecting information and negotiating contracts—and that these were decision variables for an economic assessment that could determine whether a company will integrate or rely on the market. Coase (1937) suggested that the firm (hierarchy) is a governance structure that replaces the market because it can reduce transaction costs, and that the firm exists because it can mediate economic transactions between its members at a lower cost than a market mechanism can. Therefore, according to this view, which mode is adopted depends on the transaction costs attached to each transaction (Williamson 1985). However, under certain conditions, markets are more efficient because they can mediate without the costs of managers, accountants, etc. (Ouchi 1980). Coase's (1937) work and insight on transaction costs became relevant almost 40 years later, thanks to Williamson's (1975) pioneering work.

2.2.2. MARKET AND HIERARCHIES

As stated, transaction cost theory predicts that transactions will be executed through the governance structure in order to minimize the transaction costs. To grow – and sometimes to survive – companies must make wise decisions

regarding the right governance structures for efficient supply chains (Guan & Rehme 2015). The term governance structure covers the various options that exist to organize a transaction. The two most basic structures are market and hierarchy (Williamson 1975). The former is a contractual regulatory structure between two legally distinct entities and is used when purchasing a product or service in the market with no relationship between parties. It is the contract law of (ideal) markets and is known as *classical contracting* (Williamson 2002), which refers to the ideal transaction within law and economics, where the identity of parties is irrelevant: “Sharp in by clear agreement; sharp out by clear performance” (Macneil 1974). If there are disagreements between the parties, the contract is governed by formal rules and laws. The second structure, hierarchy, represents another way to arrange a transaction. Here, the transaction takes place within the framework of an individual organization. Adaptations and decisions can be made sequentially when the need arises. Thus, no formal contract is required for transactions that are organized in the hierarchy (Lippert-Rasmussen & Mols 1994). In transaction cost theory, the market is the *default* solution, i.e. the governance structure chosen, unless there is a specific reason to choose otherwise (Williamson 1985). This is because the market is said to rule "high powered incentives," a concept that covers the assumption that independent units can quickly adapt to changes and act in accordance with their own interests better than units within an organization. Thus, a so-called downgrading incentive exists in the hierarchy, i.e. a situation where the relationship between effort and outcome is less direct. Such cases are called low-powered incentives (Williamson 1991).

2.2.3. TRANSACTION COSTS

TCE refers to the organization of economic activity within and between markets and hierarchies, where the transaction is regarded as the basic unit of analysis (Williamson 1975). Transaction costs are simply the costs of conducting an exchange, such as those costs incurred between firms or in the transfer of resources between the levels of a vertically integrated firm (Luzzini et al. 2012). Arrow (1969) defines transaction costs as the “costs of running the economic system.” These costs are to be distinguished from production costs and appear as *ex ante* and *ex post* types. The *ex-ante* types are the costs of drafting, negotiating, and safeguarding an agreement (Williamson 1985). The *ex post* costs can take several forms, including mal-adaption costs resulting from communication and coordination failures between parties to a contract (Dahlstrom & Nygaard 1999). *Ex post* costs also include haggling costs, which are the costs incurred if bilateral efforts are needed to correct *ex pos*t misalignments. Monitoring costs are also included in *ex post* costs

(Dahlstrom & Nygaard, 1999; Williamson, 1985). Because the costs are interdependent, they must be addressed simultaneously rather than sequentially (Williamson 1985). Both *ex-ante* and *ex post* costs are often difficult to quantify, but such difficulty can be mitigated by the fact that transaction costs are always assessed by comparing one mode of contracting with another (Williamson 1985). This means that it is the difference that matters rather than the absolute magnitude of the transaction costs.

2.2.4. BEHAVIORAL AND ECONOMIC APPROACHES

The key features of TCE (Williamson 1985) are distinguished by 1) the behavioral assumptions imputed to the contractual man, and 2) the attributes of transactions believed to be of economic importance (Williamson 1985). Behavioral assumptions are dealt with in different ways by economists, often as a matter of convenience, and the realism of the assumption is frequently considered less important (Williamson 1985). However, several researchers (Bridgeman 1955; Coase 1937; Jenkins 1980) have emphasized the importance of studying how the mind of man works, as he is acting. The two key behavioral assumptions on which transaction cost analysis relies are bounded rationality and opportunism (Williamson 1981). The first assumption, *bounded rationality,* is a semi-strong form of rationality; Simon (1961, p. xxiv) defines it as actors who are assumed to be "*intendedly* rational, but only *limitedly* so" (cited in Williamson 1985). The definition implies that it would be impossible for anybody to foresee and unambiguously describe every contingency that could possibly be relevant to the parties to an agreement or contract (Blois 1996). Such incomplete agreement can result in increased adaptation problems when firms are faced with new and changing conditions for which contingencies have not been specified and commitments have not been made (Gençtürk & Aulakh 2007). When confronted with the realities of bounded rationality, firms must consider the transaction costs of planning, adapting and monitoring and thereby consider which governance structures will be more efficacious, and for which types of transactions (Williamson 1985). The second behavioral assumption, *opportunism,* was introduced by Williamson (1979, p. 234), who defined it as *"self-interest seeking with guile."* Williamson (1985, p. 47) describes guile as "*lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse.*" Of the assumptions about human nature, opportunism occupies the most important spot in TCE theory (Tsang 2006); it is considered a key factor affecting the transaction costs of various modes of governance and the ultimate cause for the failure of markets and for the existence of hierarchies (Williamson 1993). Were it not for opportunism, all

behavior could be guided by rules, and comprehensive pre-planning would not be necessary.

Besides the behavioral assumptions, the principal dimensions of transactions that are believed to be of economic importance are *asset specificity, uncertainty,* and *frequency* (Williamson 1985).

When asset-specific investments are made, the transaction costs increase because of the governance precautions needed to protect against opportunism (Dyer 1996).
Asset specificity is a non-redeployable investment made by one party in an exchange with one specific partner, and is the most important dimension when interpreting a transaction (Williamson 1985). A particular asset has a higher value in its primary intended application than it would have if one were to use the asset in a different context. Asset specificity emerges when sourcing relationships require significant relationship-specific investments into physical and/or human assets. Williamson (1985) mentions four different types of asset specificity: site specificity, physical asset specificity, human asset specificity, and dedicated assets. One example would be when a buying company invests in a supplier's personnel training, production machinery or buildings (Jiang 2008; Poppo & Zenger 2002). This kind of investment cannot be redeployed in other exchanges should the relationship with the focal supplier be terminated; it therefore represents a sunk cost.

The second dimension, *uncertainty,* represents information problems in an exchange (Williamson 1985). Koopmans (1957) distinguishes between primary and secondary uncertainty. Primary or external uncertainty is caused by market dynamism, which makes it more difficult to predict future contingencies (Williamson 1985; Child 1972). Secondary uncertainty or internal uncertainty is caused by task ambiguity, which makes it more difficult to specify outcomes and measure performance (Alchian & Demsetz 1975). Such performance measurement difficulties can result in clauses that include third party monitoring and the requirement of documents to justify work done (Poppo & Zenger 2002).

The *frequency* of transactions is another relevant dimension. If asset specificity is low, frequency will not influence the governance structure, as the market should always be chosen in cases of low asset specificity. If, however, asset specificity reaches a certain level (and it is assumed that uncertainty exists), it will not pay to use the hierarchy structure in cases of low frequency. This is because investments associated with establishing a

specialized form of governance cannot be recovered if the transactions are infrequent. Only when the transaction frequency is sufficiently high will hierarchy be the optimal form of governance for transactions with relatively high asset specificity (Williamson 1985). Frequency has received very limited attention in the more recent literature on transaction cost theory and is clearly the least analyzed of the three economic principal dimensions (David & Han 2004).

2.2.5. HYBRID GOVERNANCE.

As clarified previously, markets and hierarchies are polar modes of governance (Williamson 1975). However, Williamson (1985) is also convinced that transactions between the two polar modes are common. He states: *"Suppose that transactions were to be arrayed in terms of the degree to which parties to the trade maintained autonomy"* (1985, p. 83); market or discrete transactions are located at one extreme and hierarchical transactions are located at the other, with the hybrids forms in between the two. According to Williamson (1991), TCE has been criticized for only dealing with the polar forms of governance while neglecting such intermediates or hybrid forms. He argues that one of the main reasons that hybrids arise is that it is necessary to counter the increasing transaction costs caused by economic uncertainty and high asset specificity (Williamson 1985).

The task of buying managers, according to TCE logic, is to craft governance arrangements that have minimal costs (Poppo & Zenger 2002). Such governance arrangements are crafted to match the exchange conditions and hazards. Unpredictable changes can affect the delivery of the desired quantity, the right price, and the quality of a supplier's services. According to TCE logic, the greatest losses are incurred due to opportunism and uncertainty in exchanges that have specialized assets because transaction costs are increased (Poppo et al. 2008). Transactions with high asset specificity will therefore be pushed from market governance into more integrated forms of governance such as hybrids or hierarchies (Tsang 2006). Williamson (2002, p. 181) describes the hybrid as a "*market-preserving credible contracting mode that possesses adaptive attributes located between classical markets and hierarchies."* Borys & Jemison (1989) define hybrids as "*organizational arrangements that use resources and/or governance structures from more than one existing organization.*" The latter definition is broad and may refer to organizations with a wide variety of different shapes, sizes and purposes. Shapes can refer to both formal and informal types of organizations. Examples of formal organizations include mergers, acquisitions, joint ventures, and license agreements. Informal organizations could include supplier

relationship arrangements and networks of relationships of power and trust (Jarillo 1988; Thorelli 1986).

The hybrid governance structure is often chosen due to high asset specificity and moderate uncertainty. When chosen, the exchange converts from classical contracting where parties' identities are irrelevant to neoclassical contracting where the identity of exchange partners is of high importance (Williamson 1991). In formal hybrid inter-organizational exchanges, where trading parties remain autonomous but are mutually dependent to a significant degree, neoclassical contract law is used as the preferred governance mode (Aulakh, Preet S; Genctürk 2008). The written neoclassical contract is particularly important in such hybrid buyer-seller exchanges, as it lays a foundation by defining the rights and obligations of the parties (Aulakh & Genctürk 2008). A neoclassical contract is important for following reasons. First, it would be impossible for a party to anticipate all future contingencies. Second, a contract protects firms from a partner's opportunism and thereby protects the asset investments. Third, the contract can be used in an exchange relationship to reduce risk and uncertainty. And fourth, the contract can be a mechanism for making a partner's behavior predictable (Aulakh & Genctürk 2008; Williamson 1985). Such contracts facilitate continuity between the parties based on elastic mechanisms that promote efficient adjustment in the light of future unforeseen events (Williamson 1991) and neoclassical law generally reflects a more liberal philosophy with respect to maintaining relationships, even when there are disagreements (Gundlach & Achrol 1993). Neoclassical contracts can differ in clarity, strictness or concreteness depending on the type of exchange and type of hybrid.

2.3. RELATIONAL EXCHANGE

As it might be useful to distinguish between the different forms of exchanges, the framework of Macneil concerning the spectrum of discrete exchange and relational exchange has been used for this purpose (Noordewier et al. 1990). Macneil's multidimensional typology of business exchange differentiates traditional, market based, arm's-length business exchanges—deemed discrete—from another form of exchange—the multidimensional, social, long-term, enduring relationship (Ferguson et al. 2005; Lambe et al. 2000). The discrete exchange can be explained as a one-shot transaction with no relationship formed between the parties; one example could be a purchase made at a gas station or from a vending machine. Relational exchange, on the other hand, involves a long-term, continuous and more complex relationship, with the relationship itself being more important than the individual

transaction (Kaufmann & Stern 1988; Macneil 1980). Macneil (1985) considers all exchanges relational because they are all embedded in the society (cited in Blois, 2002), but he also means that discrete exchanges are *relatively* free of relationships beyond those created by a common language, system of order, monetary system, or legal system enforcing promises (Macneil, 1985, p. 485, fn. 7). As such, Macneil is interested in all situations in which contracts exist between parties, and his view is that the term contract covers all occurrences of "the relations among parties to the process of projecting exchange into the future" (Macneil 1980, p. 4).

In particular, Macneil (2000) has tried to understand the implications that may arise from what he calls the difference between 'living contracts' and 'contracts of law.' 'Living contracts' are contractual relations that exist outside the legal framework's 'contracts of law.' The main difference between the two is that the 'living contract' is dependent on many social relationships, while the 'contract of law' is mainly dependent on 'promises' (Ivens & Blois 2004).

2.3.1. RELATIONAL EXCHANGE NORMS

Governance is defined in relational exchange theory (RET) as a set of contractual norms or shared expectations for how behavior must be regulated (Macneil 1980), and depending on the nature of these norms, there exists a continuum or spectrum that extends from discrete to relational exchange (Gundlach & Achrol, 1993).

To understand the relational contract (Macneil 1985), one must contemplate an important dimension of the everyday aspect of exchange relations and transactions—contracting behavior (Macneil 1985). Macneil (1980) has developed a set of norms that stipulates that *"the behavior that does occur in relations, must occur if relations are to continue, and hence ought to occur so long as their continuance is valued"* (Macneil 1980, p. 64). Williamson (1985) categorizes exchanges by their governance form, whereas Macneil seeks to describe the behavior within an exchange. Furthermore, Macneil claims that the governance form used in an exchange does not determine the norms of behavior used in the exchange (Blois 2002). In the extant literature, a predominant interpretation of norms has emerged: *"Norms are expectations about behavior that are at least partially shared by a group of decision makers"* (Heide & John 1992, p. 34). Depending on where an exchange lies on the discrete-relational spectrum, the applicable norms change (Blois & Ivens 2006). Some of the norms are intensified at one end, and others at the other end. Kaufmann & Stern (1988) have proposed that norms differ in the sense that they manifest themselves differently in discrete transactions

compared to exchanges with a highly relational content. Discrete norms are expectations held by individuals or competitive interactions between exchange parties. According to Noordewier et al. (1990), they involve little or no expectation of continuity between exchange partners. Discrete norms are developed in exchange structures involving parties who are following independent strategies and goals. In contrast, relational norms derive from bilateral exchanges in which the parties are taking long-term strategies and goals into account; such norms are based on the mutuality of interest (Noordewier et al. 1990). Relational norms help manage exchange relationships not through legal contracts, but rather by behavioral expectations met with trust (Gundlach & Achrol 1993). Such norms play an *ex ante* role in the form of expectations, or as a way to prescribe appropriate behavior, and they have an *ex post* function as a guide for evaluating behavior. Norms complete the written contract if a conflict should arise (Ivens 2006). But which norms exist and how are they different from one another?

2.3.2. SPECIFIC NORMS

Macneil (1980, p. 38) developed nine norms or principles *"of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behavior."* In 1983, he then developed a tenth norm and changed the name of one of the original nine. These ten norms are suggested by their creator to summarize various specific norms found in many different types of contractual relationships (Blois 2002). The ten norms are:

(1) Role integrity. (2) Reciprocity. (3) Implementation of planning. (4) Effectuation of consent. (5) Contractual solidarity. (6) The linking norms: restitution; reliance; and expectation. (7) Creation and restraint of power. (8) Flexibility. (9) Proprietary of means. (10) Harmonization of the social matrix.

Macneil (1980, p. 40) does not specify which norms are appropriate for a given business context and remarks: *"This cake can undoubtedly be sliced in many ways."* Therefore, the list provided by Ivens (2006) will be used here to elaborate 11 different norms that he found to be relevant to business relationships after reviewing 34 papers on relational exchange theory to see which norms have been discussed. These 11 norms are:

(1) Role integrity. (2) Planning. (3) Effectuation of consent. (4) Flexibility. (5) Solidarity. (6) Mutuality. (7) Conflict resolution. (8) Restraint in the use of power. (9) Information exchange. (10) Long-term orientation. (11) Monitoring.

The *role integrity* norm describes complex, long-term, proper and adequate behavior involving various obligations in more personal relationships (Ivens 2006; Prim-allaz & Perrien 2000). The more relational commercial exchanges are, the more the role integrity shifts from seeking to maintain the one-dimensional buyer-supplier role to maintaining more complex, multi-dimensional roles. In relational exchanges, each party handles not only its own functions, but also acts as a facilitator for other internal tasks of the organization. An example would be that in a discreet exchange a buyer might only buy a product from a supplier, whereas in a relational exchange, the buyer might also help bilateral goal setting behavior for future joint action (Heide 1994; Palay 1984).

The *planning* norm is distinct from the contracting process, since it is a more flexible and refined process, and when exchanges are more relational, the planning element is generally likely to be larger (Blois & Ivens 2006). Planning has come to dominate a great deal of the information in modern contracts and in forecasts that can help suppliers better plan production (Kaufmann 1987).The planning norm is proactive, with a focus on "how to do things" and "how to structure exchange relations" (Prim-allaz & Perrien 2000), and the objective of the planning norm is to satisfy both parties' future needs and agreements (Ivens 2005).

Like planning, the *effectuation of consent* norm is a common contract norm dominant in more discrete transactions (Macneil 1985, fn. 187). Blois and Ivens (2006, p. 354), inspired by Hakansson & Snehota (1995), explain effectuation of consent in a lucid way: "*Any exercise of choice involves the sacrifice of other opportunities. In a discrete exchange, by agreeing to sell my watch to another person it is clear that I give up the opportunity to sell it to somebody else. However, in a relational contract, I may in fact or by implication give the other party the ability to take actions that, while not fully determined in advance, will limit my future actions.*"

The *flexibility* norm is the actor's readiness to adapt an existing implicit or explicit agreement to new environmental conditions (Noordewier et al. 1990). International buyer-supplier relationships often interact in less familiar political, cultural, and economic environments, making them subject to economic and political risk and uncertainty. Accordingly, it is essential for the parties to be flexible in such a relationship and to allow for modifications in good faith with respect to changing circumstances that may render existing practice ineffective (Gençtürk & Aulakh 2007). In a relational exchange, flexibility is the common bilateral expectation of a willingness to adjust as the

circumstances change, whereas in a discrete exchange, both parties perceive the terms of the exchange agreement to be binding (Heide & John 1992; Macneil 1981).

The relational norm *solidarity* can be understood as the preservation of the relationship, especially in situations in which one party is in a predicament (Kaufmann & Stern 1988; Achrol 1997). Solidarity refers to the bilateral expectation that success comes from working together cooperatively and not competing against one another (Cannon et al. 2000; Heide & John 1992). This sense of common responsibility and interest dominates relational exchanges and to take advantage of solidarity parties must be willing to sacrifice some of their own interests, work together to find common solutions, and remain in the relationship under adversity, while also looking for opportunities that benefit one's own organization (Gundlach & Achrol 1993).

The *mutuality* norm is the notion that the realization of one's own success is a function of everyone's success. One cannot thrive at the expense of one's partner. This expresses a sense of shared responsibility (Cannon et al. 2000; Ott 2012). Highly relational exchanges are based on the mutuality of interest, unlike discrete exchanges, which involve little or no expectation of continuity (Kaufmann 1987; Noordewier et al. 1990).

The *conflict resolution* norm consists of flexible, informal, and personal mechanisms for solving conflict in an exchange relationship (Kaufmann 1987). The conflict resolution norm is the behavior shown by the parties when conflicts of interest arise (Ivens 2005). In discrete transactions, the conflict resolution process is usually stiff, formal, and external. If a dispute cannot be solved by ordinary economic forces, it will be settled in court according to the formal procedures set forth in contract law. In contrast, in a relational exchange, the parties will often try to resolve conflicts internally through being flexible, using personal conflict resolution procedures, or mediation (Kaufmann 1987). The more relational an exchange becomes, the more a separate and distinct social order is created within the relationship itself (Macneil 1980).

The *restraint in the use of power* norm represents the expectation that none of the parties will apply their legitimate power against the other's interest (Kaufmann & Dant 1992). This norm shows an understanding and forbearance regarding utilizing one's negotiating position in an exchange. According to the norm, the use of power will not only worsen a conflict over

time, but it will undermine mutual solidarity and make room for opportunism (Cannon et al. 2000).

The *information exchange* norm is defined as the bilateral expectation that both parties in an exchange will provide to the other information that is useful to the relationship (Heide & John 1992). In all transactions between buyers and suppliers, some kind of information is exchanged. However, the quantity and type of information can vary. In a discrete exchange, buyers are not interested in nor do they need much information; only basic information like specifications, prices and information about delivery are required. In contrast, the information exchanged in a relational exchange is more extensive and often more long-term, such as forecasting information, planning, future product design information, and production planning schedules (Noordewier et al. 1990).

The *long-term orientation* norm shows a party's desire for and the utility of having a long-term relationship with another specific party in an exchange (Ganesan 1994). The time horizon in relational contracting is a central criterion in differentiating discrete from relational exchange (Ivens 2005). In discrete transactions, the fulfillment of obligations is done in accordance with classical contract law, and the last execution completes the transaction. In long-term relationships, a clear time frame is lacking (Noordewier et al. 1990); the sharp in, sharp out mentality has been replaced by expectations of relational continuity (Macneil 1981).

The last contracting norm described in the work of Ivens (2006) is *monitoring,* which can refer to *ex ante* and *ex post* control or supervisory actions in business relationships (Noordewier et al. 1990). Monitoring concerns the actions taken by the buyer to ensure supplier performance in an exchange agreement. In a discrete exchange, the measurement process is reactive and takes place upon task completion. In a relational exchange, the monitoring activities are more proactive, and active supervision is used by the buyer to ensure the specified performance. Measurements are dealt with by socialization processes that promote (internal) self-control (Heide 1994; Noordewier et al. 1990).

The differences between the 11 norms mentioned are obvious and they differ depending on where on the discrete-relational spectrum they are positioned (Kaufman and Stern 1988). Norms are shared expectations but they are "not necessarily externally enforceable" (Kaufmann 1987, p. 75), and they cannot even adjust the interests of the parties so that agreements are enforced perfectly, but they define both appropriate and deviant behavior (Ivens 2006).

Ivens (2006) distinguish between those norms, which control value creation and those, which create value in an exchange (Table 4), an interesting foundation for this project in terms of achieving value in the form of supplier sustainability compliance.

2.3.3. NORMS CREATING AND CONTROLLING VALUE

Some norms expand the level of value created. Other norms control value-claiming behavior, governing the distribution of value among the parties (Ivens 2006; Kaufman 1987). Kaufman (1987) examines how norms impact the negotiation process and how five of the most common contracting norms (Table 4) encourage value-creating behavior and discourage strategic value-claiming behavior (Kaufman 1987).

Table 4: Norms creating and controlling value, adapted from Ivens (2006) and Kaufman (1987).

Dimension	Norm	Description
Norms that control value creation	Solidarity	Preservation of the relationship, particularly in situations in which one partner is in predicament (Kaufmann and Stern, 1988; Achrol, 1997)
	Role integrity	Maintenance of complex multidimensional roles forming a network of relationships (Kaufmann, 1987, p. 76)
	Flexibility	The actor's readiness to adapt an existing implicit or explicit agreement to new environmental conditions (Noordewier et al., 1990)
Norms that create value	Restraint in the use of power	Expectation that no actor will apply his legitimate power against the partner's interest (Kaufmann and Dant, 1992)
	Harmonization of conflict	Application of flexible, informal and personal mechanisms to the resolution of conflicts (Kaufmann, 1987)

The relational *solidarity* norm is a value-creating norm that encourages the parties to look beyond their own interests toward more integrated solutions. The parties' expectations of continued commercial interaction can encourage relationship-specific investments, which may lead to an increase in the

common value for both parties (Kaufman 1987). *Role integrity* is another relational value-creating norm, and the more relational exchanges are, the more complex the roles in the exchange become. The matters that parties negotiate and communicate are expanding and the potential for value-adding relations is increasing. This makes it possible for each party to respond to a broader set of counterparty interests (Kaufman 1987). The final value-creating relational norm that Kaufman (1987) examines is *flexibility*. When there is flexibility in a relationship, the parties are not stuck in e.g. a suboptimal position with a high cost of re-negotiation; instead, the constant exploration of better conditions and opportunities is encouraged (Kaufman 1987). Of the two norms that control value-claiming behavior, the first is *restraint in the use of power* (Kaufman 1987). In discrete transactions, power reflects the alternatives that are available to each party and it is expected that the parties will use this power, e.g. by threats of exit, in order to achieve the expected distribution of the value created in the exchange (Kaufman 1987). In relational exchanges, a different kind of power is used. Most often, according to the ties that have formed between the parties, it is agreed that one party will have the power to act in the interest of both parties. For example, when a buyer uses his power to set up supplier sustainability-related requirements to create value, these requirements must be in the interest of both parties.

The second value-claiming behavior norm is *conflict resolution*. Value-claiming behavior often involves threats and often results in episodes of conflict. Here, the rigid discrete norm of formal conflict resolution does nothing to resolve the underlying conflict. In relational exchanges, the more open and flexible form of conflict resolution includes procedures that discourage value-claiming behavior through processes that mitigate distortion of information (Kaufman 1987).

Win-lose negotiation is characteristic of an exchange with discrete norms. The rigid approach employed by the parties as well as the short-term and non-repeated nature of the negotiations deters value creation, and emphasizes the distributive element in the exchange. Exchanges that are characterized by relational contract norms, as described above, are more likely to give rise to value-maximizing solutions, while also leading to a fair distribution of the exchange profits. Some of the five value-creating/controlling norms elaborated above directly affect the parties' ability to extend the value created in the exchange, while others control the process of distributing this value. A relational exchange does not automatically make a negotiation or transaction a win-win process. For the deal to be successful, the value created must be divided among the parties according to mutual interests. The relational norms simply work to increase the parties' ability to find better solutions in their

negotiations, and at the same time discourage opportunistic value-claiming behavior (Kaufman 1987). As mentioned, the distributional aspect is an important element of an exchange and in the realization of value in a relationship. Therefore, the concept of distributive justice in a buyer-supplier exchange will be elaborated in the next section.

2.3.4. DISTRIBUTIVE JUSTICE IN BUYER-SUPPLIER EXCHANGES

Norms are expected patterns of behavior in a relationship (Dwyer et al. 1987), and many factors can affect this behavior, such as the time criterion of a relationship, the complexity of the relationship, or the extent of risk, uncertainty, and conflict. Another significant factor influencing behavior is expectations (Frazier et al. 1988), which can include both economic factors and social values (Blau 1964; Granovetter 1985). In a commercial relationship, achieving some type of desired end-patent, reducing time to market, or gaining control over future technologies or potential commercial applications, among others, can be desired expectations (Jap 2001). Another expectation in day-to-day interactions is fairness (Gross 2007). The perception of fairness is associated with the means by which outcomes arise from the interaction between exchange partners, understood as procedural justice, or the fairness of the outcomes of the exchange between, for example, buyer and supplier, defined as distributive justice (Boyd et al. 2007). Procedural justice, as introduced by Thibaut & Walker (1975), suggests that people are often concerned about fairness in processes, and will view procedures as fair if they perceive themselves to have control over the process. Distributive justice demonstrates a fairness in, for example, the sustainability exchange relationship between buyers and suppliers, and thus has an influence on supplier sustainability compliance. Distributive justice originates from social exchange theory (SET), which plays a prominent role in explaining exchange (Hawkins et al. 2008).

As stated by Frazier (1987), the success of a relationship is contingent upon how the exchange's outcome is divided among the parties according to mutual interest. Success can therefore be defined by distributive justice, explained by Homans (1961, p. 13) as follows: *"A man in an exchange relation with another will expect that the rewards of each man be proportional to his costs – the greater the rewards, the greater the costs – and that the net rewards, or profits, of each man be proportional to his investments – the greater the investments, the greater the profit."* Social exchange theorists like Homans (1958), Blau (1964) and Adams (1965) have been instrumental in developing

the theoretical foundation used to explore social factors like fairness, equity, and justice in buyer-supplier relational exchanges(Wagner et al. 2011). Distributive justice is related to equity theory (Adams 1965), which originally focused on employees' perception of the fairness of outcomes such as wages and promotions. Social exchange theory (SET) argues that individuals and corporate groups interact with one another for rewards or the expectation of rewards (minus the penalty/cost) (Emerson 1976; Griffith et al. 2006; Homans 1958). For a dyad consisting of A and B, Adams (1965) represents the distributive justice between them schematically, as seen in Figure 5.

$$\frac{A\text{´}s\ rewards\ less\ A\text{´}s\ costs}{A\text{´}s\ investments} = \frac{B\text{´}s\ rewards\ less\ B\text{´}s\ costs}{B\text{´}s\ investments}$$

Figure 5: Equation showing distributive justice between A and B by Adams (1965), also displayed in Paper 3.

Social theorists (Homans 1958; Blau 1964) offer a theoretical foundation for social factors in buyer-supplier relational exchange research. Relational theory borrows from SET to support the current supply chain management research agenda (Wagner et al. 2011).

In asymmetrical buyer-supplier relationships, distributive justice is a matter of whether the weak party considers the division of benefits and burdens received by the more powerful party as reasonable (Duffy et al. 2013). Unlike traditional economic theory, which focuses exclusively on financial performance and outcome, SET acknowledge that companies in relational exchanges will assess the outcome of cooperation relative to preconceived expectations of rewards (Wagner 2011), which, as mentioned, include both economic factors and social values (Blau 1964; Granovetter 1985). When the result is deemed to be fair and the distribution of rewards and incentives over time is acceptable, the exchange parties will consider the relationship beneficial and achieve good task performance (Griffith et al. 2006; Poppo & Zhou 2014). Conversely, parties who see an imbalance in terms of their perceived contribution/benefits will feel dissatisfaction. For example, suppliers who feel they have been treated unfairly in relation to the actual outcomes or input/output ratio may try to correct the imbalance by reducing their output, changing the outcomes, or aggressively avoiding action in the future and completely withdrawing from the relationship (Duffy et el. 2013; Homans 1961). Homans (1961, p. 75) states: "*The more to a man's disadvantage the rule of distributive justice fails of realization, the more likely*

he is to display the emotional behavior we call anger." In a buyer-supplier relationship, such a perception of unfair distribution of outcomes can negatively affect ongoing work, and the ensuing conflict can damage no only the relationship but also the delivery of agreed-upon products (Poppo & Zhou 2014).

These aspects of relational governance, as found in the literature on RET and SET, show that relational governance positively affects exchange performance (Dyer 1996; Heide & John 1990; Zaheer et al. 1998). This effect is also found in the sustainability governance literature, where the two sustainability governance structures (control and relationship) produce different types of performance results. As mentioned, control-based sustainability governance mechanisms could lead to lack of trust in the relationship and to opportunistic behavior, especially among suppliers. In contrast, a relationship-based governance structure with development-related sustainability governance mechanisms could guide and help suppliers improve their ability to comply with sustainability measures. Exchange hazards such as uncertainty and risk of opportunism require companies to invest in the development of trusting relationships, because these can make the exchange parties adopt a joint and long-term orientation, and can make them show a willingness to trust and be vulnerable to one another (Zhou & Poppo 2010).

2.3.5. BUYER-SELLER RELATIONSHIP AND DEVELOPMENT MODELS

The concepts of governance and relational exchange have been reviewed above, including both governance in the context of sustainability and governance in a more traditional sense. As described, the general concept of governance deals with how companies can defend or protect themselves against various hazards and costs, either through control, or through a more relational means. Furthermore, the elaboration of the concepts of norms and distributive justice has revealed the factors influencing a relational exchange. These theoretical concepts show that in a sustainability-oriented exchange, it might be necessary to look at which governance structure would be best. It also might be necessary to develop relationships in order to achieve supplier sustainability compliance. Fig. 6 is a representation of the different factors or concepts at play.

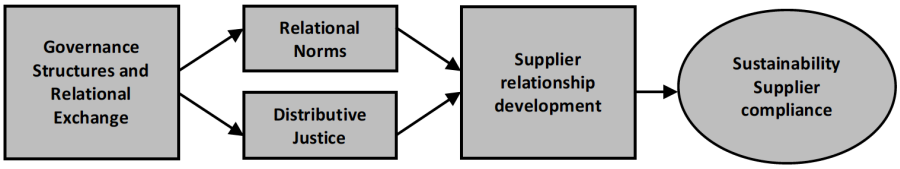

Figure 6: Illustration of the representation of the different factors or concepts in play.

The focus of this section is therefore how buying companies can develop and maintain the relationships with their suppliers and thus contribute to value creation related to sustainability compliance. A summary of some of the fundamental and most important models concerning relationships and development found in the literature is provided.

The first model that will be elaborated is the interaction model (Haakansson 1982). This model identifies and explains the nature and processes of buyer-seller interaction and provides a well-established and rigorous conceptualization of relational exchange within a business-to-business context. The interaction model also provides a useful structure and framework for use in analyzing and developing a business-to-business relationship (Woo & Ennew 2004). The second framework is the relationship development process of Dwyer et al. (1987), who propose a classification scheme based on the five stages through which business relationships develop. Third, the work of Ring and Van de Ven (1992, 1994) will be discussed. Hybrid forms of collaboration and relationships differ from markets and hierarchies, and Ring, and Van de Ven (1992) provide the criteria they believe underlie the choice of governance in cases of repeated cooperation between organizations—namely, risks and dependence on trust. Ring and Van de Ven (1994) furthermore explain the developmental process of cooperative inter-organizational relationships. Fourth and finally, the research of Frazier et al. (1988) will be presented, as it contributes interesting insights into how important concepts such as 'just in time' (JIT) can be implemented with suppliers. The authors ask which conditions are most conducive to and which key factors influence the success or failure of the implementation of a collaborative concept. Together, these development models and the results concerning the implementation of a collaborative concept are particularly interesting in relation to buying companies' implementation of sustainability requirements in their relationships with suppliers.

The interaction model

In the 1990s, the focus on buyer-seller relationships in business markets increased (Cannon & Perreault Jr. 1999), and an immense quantity of empirical work was performed. Relationship theories were re-thought and new theories evolved. The reason for this was that the purchasing function became strategically important in companies, who discovered the importance of managing their external resources in order to increase competitiveness. Instead of only looking at discrete buying and new buy decisions, the research began to consider more routine and common response behavior to find out how new relationship strategies were made over a long period of time (Campbell 1990). Companies cut costs, and conventional 'arm's length' arrangements were superseded by closer relationships with suppliers (Carr & Pearson 1999; Heide & John 1990). Both new ways of facing cost strains and also fast changes in technology and general economic conditions led to the call for new ways to address old problems (Cannon & Perrault 1999), implying a shift away from the market-based governance structure to a more bilateral governance form (Williamson 1985). Many ideas were put forward in the literature about which factors and concepts are involved in buyer-supplier relationships and how such relationships are developed.

An early model of the buyer-seller relationship was made by the International Marketing and Purchasing (IMP) Group. The IMP Group was founded in the mid-1970s by several European researchers. The group developed a dynamic model of buyer-supplier relationships in business markets called *the interaction model* (Figure 7), and illustrated its applicability through comparative studies of buyer-supplier relationships within and across a number of European countries. The original IMP project was aimed at understanding the nature of buyer-seller relationship and how suppliers and buyers have handled their relationships. Around 300 companies covering 15 different industries in 5 countries were involved in the study. Wilson and Mummalaneni (1986) argue that the interaction model is the best model for dealing with the unit of analysis in the model rather than the single company or individual purchase. The IMP group adopted the notion that the critical task of a buying company is to deal with various issues related to the buyer-supplier relationship. This relationship revolves around the development and management of supplier relationships (Ford 2002). The interaction approach developed by the IMP group is based on the inter-organizational theory and marketing literature (Ford 2002). In inter-organizational theory, the focus is on the relationships between organizations rather than within an individual

organization. Furthermore, the interaction approach is built on a number of factors that the IMP group find important for industrial markets (Ford 2002). For instance, both the buyer and the supplier are regarded active players in the exchange (Ford 1980), and they may have a close and long-term relationship, which makes maintaining the relationship an important task for both parties. Four groups of variables are identified in the interaction approach: 1) variables describing the elements and process of interaction; 2) variables describing the parties involved, both organizations and individuals; 3) variables describing the environment within which the interaction takes place; and 4) variables describing the atmosphere affecting and affected by the interactions. These variables describe and influence the interaction between buyer and supplier (Ford 2002, p. 23).

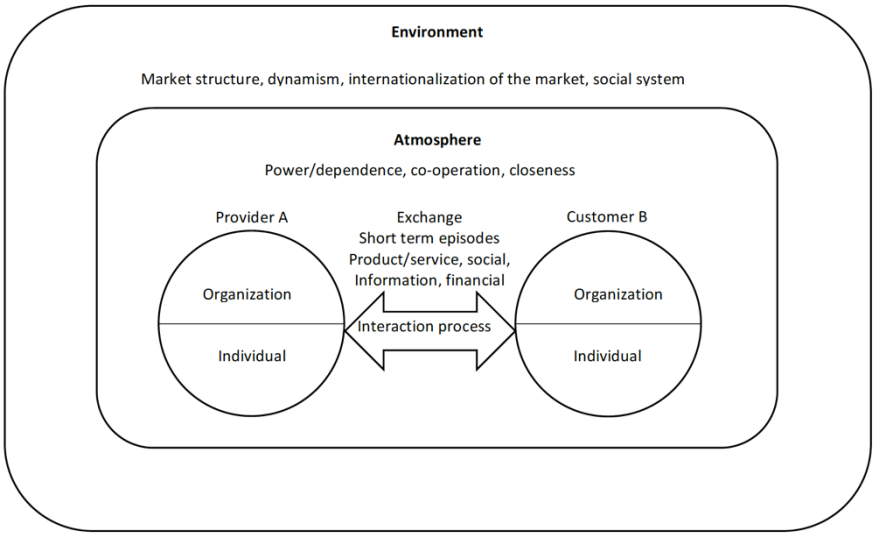

Figure 7: The Interaction Model (Håkonsson 1982)

As mentioned, the relationships between buyer and supplier are often long term and the interaction model distinguishes episodes involving the two parties as individual episodes in the *interaction process*. Although such short-term episodes may represent the building blocks of relationships, the longer-term aspects can also affect each episode (Ford 2002; Woo & Ennew 2004). One of the core elements of the interaction model is the four individual types of exchanges (Kern & Willcocks 2002). The first, product or service exchange, forms the core. The second type is information exchange, which is essential and can differ in content, e.g. financial, technical, media communication, and in the degree of formality. Because of their complexity,

such interactions and exchanges often entail risk and uncertainty, and the information exchange can be either personal or impersonal. The third type is financial exchange and the quantity in question reveals the importance of the relationship. Finally, the fourth type of exchange, social exchange, can help reduce uncertainty and is an important function, especially in cases of limited experience or cultural or spatial differences. Factors such as formalization, trust, integrity, and flexibility are important in social exchange (Cunningham 1980; Ford 2002). Individual and social exchange episodes have an impact in building long-term relationships. Expectations and routines become institutionalized and adaptations are made either to the elements exchanged or to the processes of the exchange. Within the IMP framework, the two long-term relationship behaviors of institutionalization and adaptation are essential to the maintenance of long-term relationships (Ford 2002).

The *parties* in the interaction process and their characteristics are important—both the characteristics of the organizations, but also of the representative individuals (Ford, 2001). The technology characteristic is central, as product features and manufacturing processes can be important for both the buyer and the supplier in the interaction process, and technologies can be understood as tying buyer and supplier together. Depending of the level of customers' and suppliers' technological skill and experience, different kinds of relationships can exist (Cunningham 1980). Organization size, structure, and experience also influence the interaction process, giving the participants a basic position from which to interact and share resources (Ford 2002). Regarding the characteristics of individuals, usually at least two individuals are involved in a relationship—in our case, a buyer and a supplier. More common, however, is the situation in which several individuals with different roles and at different levels in their organization are involved in intercompany personal interactions (Cunningham 1980). In such an interaction, relationships are developed and information is exchanged, thus building up social bonds that influence the relationship (Ford 2002).

The third variable, *interaction environment,* is important because the interaction between buyer and supplier cannot be analyzed in isolation, but must be done so within a wider context that accounts for important factors such as market structure, dynamism, internationalization and the social system. The market structure refers to how many buyers and suppliers are acting on the market. This could be of importance and affect the relationship, for instance in terms of pressure on the market. Also, the degree of dynamism or change in the market can affect the relationship in two ways: it affects the ability to make forecasts and predict the behavior of the other party, and it

also affects the costs of being dependent on one or a few relationships. Dynamics therefore determine the extent to which companies can afford to develop close relationships (Cunningham 1980). The level of internationalization of the buying or supplying market is also of interest, as it can influence the motivation to develop international relationships. This factor may contribute to the need for purchasing offices located around the world or foreign subsidiaries, as well as new and specialized knowledge about languages, cultures, and international trade (Ford 2002). The buyer-seller relationship is surrounded by a social system, which is particularly important in an international context. Preferences for and experiences of selling to and buying from companies in foreign countries, and the fact that special languages and 'rules' exist within particular industries represent important information (Cunningham 1980; Ford 2002).

The final element in the interaction model is the *atmosphere,* which the IMP Group (Ford 2002) describes in terms of power/dependence, the degree of conflict or cooperation, and the overall social distance between the parties. The atmosphere is created by the individual exchange episodes and the longer-term experience with the partner. The atmosphere is a product of the relationship and affects the different groups of variables that are present (Ford 2002; Kern & Willcocks 2002). The interaction model prescribes a way to help structure the "world" and thereby the problems within it (Ford 2002, pp. 30). For this thesis, the model contributes an understanding of the variables to consider when analyzing a relationship. The interaction approach provides an understanding of the elements of a relationship.

Dwyer, Schurr, and Oh

As stated by the IMP Group, one of the critical tasks of a buying company is the development of the supplier relationship (Ford 2002). An ambitious effort to meet the theoretical challenge of relationship development was made by Dwyer, Schurr, and Oh (1987), who proposed a classification scheme based on the stages and processes through which business relationships develop. The model was developed due in part to a lack of research on buyer-supplier relationships and also because a great part of the literature only dealt with discrete exchanges. As opposed to discrete exchanges, relational exchanges transpire over time, and each transaction must be viewed in terms of its history and its anticipated future (Dwyer et al. 1987, pp. 12). Dwyer et al. (1987) describe the relationship life cycle in five stages, each representing a major change in how the buyer and supplier regard one another. The five stages are 1) awareness, 2) exploration, 3) expansion, 4) commitment, and 5) dissolution.

The first stage, *awareness*, concerns whether one party finds the other to be a feasible partner. Here, the parties become aware of one another. Although no interaction between the parties has yet taken place, the parties may engage in unilateral positioning and talk to make themselves attractive. Once there is any kind of bilateral interaction, the next phase of relationship development begins (Dwyer et al. 1987).

In Stage 2, *exploration,* the potential exchange partners seek relevant information and weigh the pros and cons of possible cooperation. The period might be short, but can be extended with product tests and evaluations. Such evaluations may result in trial orders, but such a loose connection or relationship can be very fragile. Due to minimal investments and interdependence, termination of the relationship is easy. Dwyer et al. (1987) conceptualize the exploration phase as consisting of five sub-processes: 1) attraction, 2) communication and bargaining, 3) development and exercise of power, 4) norm development, and 5) expectation development. The first sub-process and initial step of the exploration stage is attraction, which concerns rewards delivered directly to the buyer by the supplier, as well as rewards and incentives linked to the particular characteristics by suppliers (Klepper 1995). Direct rewards are the benefits the supplier receives from work done by the buyer, both in the past and currently during the exploration phase. The better buyers and suppliers are able to meet the other's requirements and the better the cooperation is progressing, the higher the rewards and incentives will be. The second sub-process in the exploration phase is communication and bargaining. The information here is more than day-to-day information exchanged between buyer and supplier. Communication also implies that each party is open with regards to needs and resources related to the future relationship. If the relationship is to survive, it is important that confidential information be contributed by both sides. Later, when the relation is established, there may be less need for reciprocity (Dwyer et al. 1987). Suppliers who are willing to discuss their future expectations as well as their abilities, strengths and weaknesses, and who expect to receive similar information from the buyer, have better opportunities for establishing a partnership. Negotiations arise in connection with contracts and agreements and regarding changes or corrections to agreements; this negotiation is critical in resolving conflicts. The more easily conflicts between buyer and supplier are resolved, the higher the chance of increased cooperation and the development of a good relationship (Dwyer et al. 1987; Klepper 1995). The third sub-process is power and justice. A party has power over another party if that other party is dependent on the former's valuable resources. This power

is enhanced if the other party's access to alternative resources is limited (Klepper 1995). Power can be just or unjust. It is unjust when one party uses its power only for personal gain and there is a lack of understanding on the part of the other party. Just power is when both parties benefit from the power or when the other party is compensated for the first party's use of power (Dwyer et al. 1997). The fourth sub-process is norm development. The norms and standards that characterize a relationship appear in the exploration phase of relationship development. Norms deal with expected patterns of behavior within a relationship, and these norms guide the buyer and supplier actions and set the agenda for future interaction (Dwyer et al. 1987). The last sub-process in the exploration phase is expectation development. In a relationship, each party has an expectation about the other's behavior. Trust is an important concept in understanding these expectations. A party may take actions that are beneficial for the other party with the expectation that the other party will reciprocate. These expectations and the actions carried out are constructed by confidence. When expectations are met, trust builds, allowing expectations to rise, which in turn creates more confidence if these expectations are met (Dwyer et al. 1987). This upward spiral of met expectations and trust is a critical element in the development of a relationship between buyer and supplier, and is a necessary basis for both parties in terms of investment in assets and capabilities that are relationship-specific (Dwyer et al. 1987). To summarize, these above five sub-processes are important aspects of the exploration phase, as they make it possible for the parties to assess how well they fit together.

The third phase in this development model is the *expansion* phase. The five sub-processes describe above continue to exist in this phase. The main difference is that what has built the foundation for trust and mutual satisfaction in the exploration phase is now leading to increased risk in the exchange, thus increasing the interdependence. Expansion refers to the sustained increase of benefits achieved by the parties and their increasing interdependence (Dwyer et al. 1987). The outcome of the exploratory phase has demonstrated the counterparty's ability and willingness to deliver the desired outcome, and the motivation to maintain the relationship increases when a party meets its expected obligations in a satisfactory manner. This is also because the better the results of the exchange, the less likely the other party will be to use alternatives. Buyer uncertainty also begins to decrease in the expansion phase because the relationship has evolved from being characterized by probing and tests to being more characterized by reciprocity and increased rewards and incentives provided to one another (Claycomb & Frankwick 2010). Good results and cooperativeness lead to interaction beyond what was strictly necessary in the beginning (Dwyer et al. 1987).

The fourth phase in the model is *commitment.* According to Dwyer et al. (1987), this phase is the most advanced stage of buyer-supplier interdependence. The parties have reached a level of satisfaction through the exchange process and the satisfaction virtually excludes the use of other primary collaborators who could provide the same benefits. Here, commitment refers to an implicit or explicit promise of a continued relationship. Dwyer et al. (1987) sets forth three measurable criteria for commitment: inputs, durability, and consistency. Inputs concern what is contributed by the parties to the relationship, e.g. finances, communication and/or emotional resources. The second criterion is durability. Here, the parties' willingness to make environmental adjustments can have an impact on the relationship's substantive stability. Durability requires parties to distinguish between the benefits that are associated with the relationship and to act in relation to the environment in a way that would encourage continued effective exchange (Dwyer et al. 1987). The third aspect of commitment is the consistency with which the inputs are made to the relationship. If the input from a party varies relative to expectations, the other party will find it difficult to predict the results of the exchange. Such variability may reflect low engagement and lead to less reliance by the other party. A clear feature of the commitment phase is that the parties are targeting resources to maintain the relationship (Dwyer et al. 1987).

The final stage is *dissolution*. The possibility of withdrawing or suspending cooperation has been present throughout the development process and not all dyadic linkages are deliberately developed using the aforementioned four phases (Dwyer et al. 1987). The model provides an overview of the stages that are relevant and important in the development of a relationship, and understanding the life cycle of a buyer-supplier relationship is potentially useful in theory development (McKelvey & Aldrich 1983).

Ring and Van de Ven

Another ambitious effort to meet the theoretical challenge regarding relationships and their development has been made by Ring and Van de Ven (1992, 1994). The authors provide a conceptual framework for the alternative cooperative governance mode, which considers risk and trust as criteria in the choice of governance structure. They explore the two types of contracting—recurrent and relational. *Recurrent* contracts consist of repeated exchanges that have only a moderate degree of transaction specificity (Ring & Van de Ven 1992). The duration of these contracts is relatively short and the parties

feel legally equal in the relationship. The parties may consider forming closer and longer-term relationships. Within recurrent contracting, it is most often the neoclassical contract that provides the legal framework for exchanges (Ring & Van de Ven 1992). The *relational* contracting mode often involves long-term investments, which are the result of repeated bargaining between equal and autonomous parties regarding, for example, production and property rights. Products and services are often developed and exchanged jointly, which requires a high level of specific investments that cannot always be specified and controlled by the parties in advance. It also means that the parties are exposed to many trading hazards, unlike parties in exchanges that rely on the market or hierarchy governance structure. Disputes in a relational contract are resolved through internal mechanisms aimed at maintaining the relationship and ensuring both efficiency and equitable outcomes from the long-term relationship. Here, the governance is bilateral (Ring & Van de Ven 1992). Ring and Van de Ven (1992) assume the above-mentioned concepts of *risk* and *trust* to be separate. Additionally, they utilize the open and trustworthy assumption contrary to an opportunist, in such a way that it is a) possible to define how companies build trust through recurrent contracts and b) possible to examine the benefits of long-term use of distinctive assets through relational contracts compared to a hierarchy structure. Finally, it is assumed that if contracts are agreed upon based on trustworthiness, the parties will be less worried about contract implications arising outside of bounded rationality. That is, the parties trust one another in terms of whether gaps stemming from the unpredictability about the future should be allowed in the contract (Ring & Van de Ven 1992).

The uncertainty that may arise regarding the performance of tasks as part of continuous cooperation with others, especially when it comes to new or difficult tasks, can lead to various forms of *risk*. These may include financial risks, technological risks, risks regarding knowledge and engineering, or risks concerning management. Unexpected natural or social events can occur, such as earthquakes, union strikes, etc., and these can lead to increased risk, since management will have less control over the situation. The same applies to the risk of lack of resources. Lack of control can lead to a lack of information, which in turn affects the degree of risk faced by the parties. This degree of risk will influence the choice of governance structure, which will fall on the structure that provides adequate security against risks (Ring & Van de Ven 1992).

Trustworthiness is important because of the need to work together, even when a higher degree of risk means that managers must place greater focus on the commercial and financial characteristics of an agreement. Ring and Van de

Ven (1992, p. 488) use the definition of *trust* put forth by (Friedman 1991) — *"confidence in the other's goodwill"*—and work from the presumption that personal embeddedness at the very least is a necessary condition of trust. Trust is based on the norm of equity (Ring & Van de Ven 1992). The equity concept was developed as part of exchange theory. It deals with reciprocity within a relationship, meaning that one is obliged to give something back for something received. Equity deals with fair rates of exchange in terms of costs and benefits and is related to distributive justice (Ring & Van de Ven 1992) (for elaboration of the equity/distributive justice concept, see Section 2.3.4.). The desire of both parties in a relationship to be perceived as trustworthy exists because repeated personal interactions between companies encourage good and polite behavior and consideration, thus minimizing individual opportunism. The greater the dependence on the trusted party, the more the level of trust increases. Such an effect can be created by companies by following the norms of equity and completing transactions satisfactory (Ring & Van de Ven 1992). The risk of information asymmetry decreases when the parties have a history of successful transactions. The parties will thus share information more freely with one another, and when the parties act regularly and repeatedly according to the norms of equity and reciprocity, the risk of opportunism will be reduced (Ring & Van de Ven 1992).

In 1994, Ring and Van de Ven proposed their theory of relationship development (for any kind of cooperative inter-organizational relationship, not just buyer-seller). They structured the theory by relying on Macneil's (1980) theory of relational norms (Jap & Anderson 2007), among others. Ring and Van de Ven (1994) state that cooperative inter-organizational relationships only emerge, evolve, grow, and dissolve over time because of individual activities. In their earlier study, they showed three specific ways in which the actions of individuals could influence a relationship (Ring & Van de Ven 1992): by defining the degree of uncertainty that may be present in the exchange, by specifying the extent to which the parties can rely on interpersonal trust to resolve conflicts, and by defining the parties' expectations of outcomes, of which efficiency and equity must be present. Ring and Van de Ven (1994) expanded on this with the added assumption that individuals' views of these issues will be a function of their organizational roles, and that role relationships and interpersonal relationships are not identical. People often begin an institutionalized (role) relationship before they begin to develop the actual personal relationship (Ring & Van de Ven 1994).

Ring and Van de Ven (1994) propose a process framework, in which relationship development consists of sequences of negotiation, commitment, and execution (see Figure 8). Each cycle through the model comprises a number of repeated interactions, where outcomes are assessed in terms of efficiency and equity. Even though the temporal occurrence of these phases may be almost simultaneous for simple transactions, the duration of each stage varies according to the uncertainty of issues involved, the reliance on trust among the parties and the role relationships of the parties (Ring & Van de Ven 1994, p. 97).

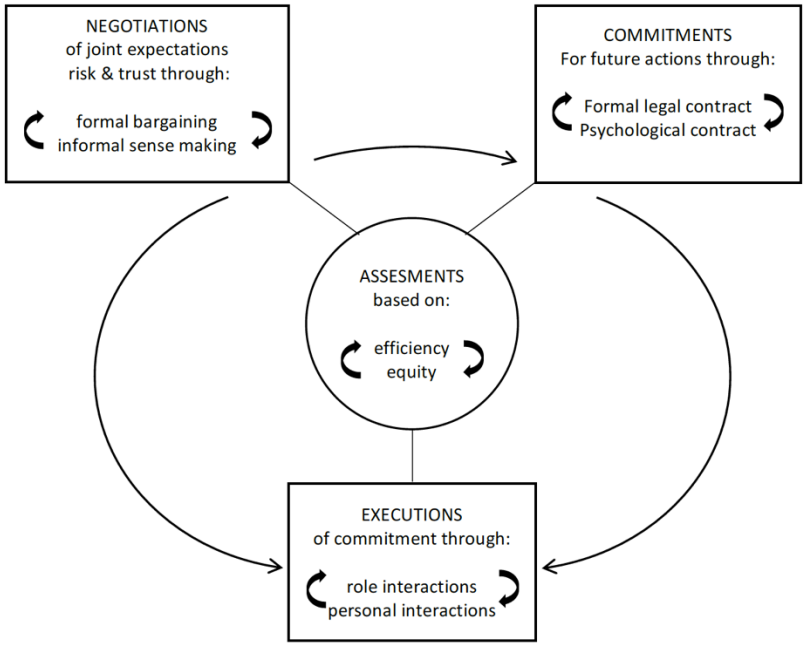

Figure 8: Process Framework of the Development of Cooperative IORs by Ring and Van de Ven (1994).

In the *negotiation* stage, the parties develop joint expectations about their motivations, possible investments and perceived uncertainties with regards to the business deal they are exploring undertaking jointly. The focus in this stage is on formal bargaining processes. Underlying these formal bargaining processes are social-psychological processes of sense making, or enactment, that lead otherwise independent parties to enter negotiations with one another. These processes are often required to provide participants with opportunities

to assess the uncertainty associated with the deal, the nature of each party's role, the other's trustworthiness, their rights and duties, and possible efficiency and equity of the transaction as it relates to all parties. In the *commitment* stage, participants reach an agreement on the obligations and rules for future action in the relationship. The terms and governance structure of the relationship are established in this stage. These agreements are either written down in a formal legal contract or informally understood as a psychological contract. In the *execution* stage, the commitments and actions are carried out. Initially, the parties' formally designated role behaviors reduce the uncertainty and make interactions among them more predictable. After a while, parties may become more familiar with one another and may increasingly begin to rely on interpersonal relationships (Ring & Van de Ven 1994).

Many relationships are lengthy and it can sometimes be difficult to avoid misunderstandings, conflicts and changes in expectations between the parties. This can lead to renegotiations, and additional agreements are often made to address new challenges, while existing agreements remain in effect to help maintain the relationship. In the last part of the process, the relationship can also dissolve if the business deal is closed and the parties have lived up to their promises. This can of course also happen due to breaches of agreements, a legal cause, or mutual cancellation. The theory underlying the model's heuristics is a complicated set of informal social-psychological dynamics that explain how and why relationships are developed through repeated sequences of formal negotiations, commitments and execution (Ring & Van de Ven 1994).

Frazier, Spekmann and O'Neal

An important point in relationship development and maintenance is how a relationship is realized. Frazier, Spekman and O'Neal's model from 1988 takes an interesting angle on how buying companies can succeed in having their demands implemented by suppliers. This is an essential angle for the analysis in present research on sustainable sourcing. The article is based on relational exchange and the operational concept "just in time" (JIT) and has three specific objectives. The first is to look at the differences between market exchange, traditional relational exchange and JIT exchange. As the second objective, the authors want to develop a conceptual framework, where the focus is on design and processes that may help explain buying companies' degree of interest in and preference for JIT exchanges, but also to consider why organizations engage in this specific type of exchange relationship. The

third and final objective is to develop a framework containing the factors that influence the success/failure of initiated JIT exchange relationships, and to examine the question of how exchanges are maintained, dissolved or avoided (Frazier et al. 1988).

These objectives lead to the general purpose of the article, which is to expand the understanding of exchange relationships between suppliers and buying companies (Frazier et al. 1988). The focus of this section is therefore not on JIT, but more on the design and processes of implementing a new form of cooperation and relationship with a supplier. The part of their model that consists of the 'interest stage' and the 'initiation-rejection stage' will not be discussed in this section, as these stages are not relevant to sustainability compliance. Buyers' requirements of suppliers regarding sustainability are most often not a question of interest, and rejection of sustainability requirements is ruled out.

The article distinguishes between market exchange, traditional relational exchange and JIT exchange. Market exchange and relational exchange have been discussed in the previous sections of this chapter. Although the JIT concept is not essential to this project context, a brief characterization of the elements that are essential for starting a new collaboration with new requirements will be given. In relation to the market exchange and traditional relational exchange, JIT exchange is more long term. JIT exchange focuses on the core product and the values that have been built through close coordination between the buyer and supplier. Close cooperation in terms of quality, product development, and logistics and the consequently high level of communication, are essential in JIT exchange. Since JIT implementation requires new policies and procedures, both the supplier and the buyer must invest in human assets. The same is true for specific investments that apply particularly to the supplier. Such investments can be in new buildings and new machinery. Also, a good atmosphere and the will to generate mutual gains are essential for the relationship. If bounded rationality and opportunism dominate, the costs of JIT exchange will outweigh the benefits.

Even if a JIT exchange has been initiated under appropriate conditions, success cannot be guaranteed. Frazier et al. (1988) provide yet another framework of processes and structures that contribute to the implementation of JIT exchange and whether it is successful or not. The framework consists of two steps. First, the implementation step deals with how the buyer and supplier work together to achieve a desired output via JIT exchange. The second step is the review, which addresses how companies evaluate and react to the outcomes arising from JIT exchange.

The authors consider three factors that have a direct impact on the exchange and the interaction between buyer and supplier from the beginning of the JIT exchange: the JIT agreement, the expectations, and the internal sociopolitical structure. The more formalized the *agreement* between buyer and supplier, the easier it will be for each party to understand their respective roles and responsibilities. The more complex the exchange and the greater the interdependence, the more important this agreement is. Also, fairness in the agreement is essential, referring to the distribution of benefits and risks between buyer and supplier. The fairer an agreement appears, the stronger the basis for JIT exchange (Frazier et al. 1988). *Expectations* of the buyer and supplier regarding liabilities and results will undoubtedly also affect communication and behavior in the JIT exchange. Unrealistic expectations of performance and results (outcomes) may influence the success of the JIT exchange, since such expectations can be difficult to achieve. That is why a formalized agreement is appropriate in order to be able to achieve the expectations of both the buyer and supplier (Frazier et al. 1988). Many buyers choose to establish JIT exchanges with smaller and less powerful suppliers to avoid external control. This power imbalance often means that the supplier has several more specific investments in durable assets than the buyer. This power imbalance in a relationship can weaken cooperation (Frazier et al. 1988). Dwyer et al. (1987) state that the exercise of avoiding the use of power is the most important factor if a relationship is to be successful. The more interdependent the companies are, the greater the importance of the judicious use of force (Frazier et al. 1988).

Norms develop in an exchange relationship and are a part of the *internal sociopolitical structure*. Given that uncertainty is high when JIT exchange is implemented, and given that it is a long-term relationship, the possibility for strong norm creation is high. By adopting norms and defining standards of behavior, the general rules for future exchanges are made (Dwyer et al. 1987), thus improving the chances of success in the exchange. Positive norms are developed in a JIT exchange only when 1) the agreement is oriented towards self-regulation and is fair, 2) there are many people linked to the JIT exchange and the JIT exchange is important for both sides, and 3) expectations are realistic, performance reaches a high level and each company uses its power in a non-coercive way. If strong positive norms are not developed, it is uncertain whether the JIT exchange will survive over time (Frazier et al. 1988). In JIT exchanges where expectations are unrealistic, the role of performance is poor. When coercive power is used and positive norms are not developed, cooperation will probably deteriorate and conflicts can arise that

can hinder the success of the JIT exchange. In addition to changes in outcomes associated with JIT exchange, a very important key benefit that contributes to the success of a JIT exchange is the level of trust developed between the buyer and supplier. As previously mentioned, trust is a very important element in any exchange, but especially in a JIT exchange, because of the investments and commitment required from both sides (Frazier et al. 1988).

An important element in the final stage of the model, the review, is the performance appraisal system. It is important that such a system be well defined in relation to the criteria by which companies judge one another. This allows for more careful evaluation. Another important point in the performance evaluation is the equity of the JIT exchange. Equity is measured by comparing each company's rewards or outputs relative to its inputs (investments and costs). When the average of the outputs relative to inputs are seen as being similar for each company, the exchange is perceived as equitable (Frazier et al. 1988). In order for a JIT exchange to be successful, it is necessary to have a high degree of equity and satisfaction (Frazier et al. 1988). In summary, the article by Frazier et al. (1988) provides a clear picture of what to consider when new forms of cooperation are to be implemented. Furthermore, the article shows the importance of the relationship between buyer and supplier in implementing a new approach or new requirements, and in getting away from the traditional, price-driven focus of buying companies, which can be an obstacle to the implementation of new initiatives.

2.3.6. THEORETICAL RECAP OF RELATIONSHIP DEVELOPMENT

The essential concern of this thesis is whether buying companies, in their relationship with suppliers, are able to get those suppliers to meet demands for sustainability compliance. In this issue, it is important to look at the relationship itself and not necessarily the individual parties or transactions (Ford 2002). Developing and maintaining such a relationship in connection with the new requirements regarding sustainability is of great importance for both parties, particularly when there is an existing close relationship between buyer and supplier. The four relationship development models discussed above frame the development processes and phases, and point out underlying requirements for parties that are crucial to whether the relationship will achieve success.

The models describe each phase a relationship needs to pass through to evolve into more advanced joint value creation initiatives. In the case of this thesis, the development focus is on the sustainability-related aspect of the buyer-supplier relationship, with a focus on sustainability initiatives. Some of the

phases are similar between models, but with different names. Phases or individual elements such as communication, expectations, negotiation, expansion, commitment, execution and dissolution (Dwyer et al. 1987; Frazier et al. 1988; Ring & Van de Ven 1992, 1994) are all important. When purchasing companies place new demands on suppliers—in this case, regarding sustainability compliance—a matching of expectations is important, and close cooperation around sense-making and enactments is essential for supplier sustainability compliance (Frazier et al. 1988). Factors such as trust, fairness, norms and equity are crucial in these phases, but also fundamental to the overall relationship. If trust and expectations between the parties do not match the positive norms, which are essential, a close relationship will not be formed. Without trust and positive norms, it is uncertain whether the requirements for development initiatives, including sustainability compliance, will be met. The same applies for the factor of equity. In every exchange, there is an expectation regarding equity, and this expectation is evident when it comes to sustainability. It is therefore important, both for the parties and for the sustainability-related exchange, that a high degree of equity and satisfaction is present in the relationship. If the phases of the models are reviewed and factors such as trust, norms and equity are applied, the relationship can evolve. Especially from a sustainability perspective, if and how suppliers work with the buying company around sustainability issues is essential. Relational norms are one of many governance mechanisms used to regulate relationships between firms (Heide & John 1992; Williamson 1975). The relational norms are of great importance in the buyer-supplier relationship, especially when trying to accomplish supplier sustainability compliance. Based on their importance for relationship development and for the success of joint value-creating initiatives, the concepts of norms and equity have been chosen as the main foci for the empirical part of this thesis.

CHAPTER 3. METHODOLOGICAL APPROACH

This doctoral thesis aims to explore and explain the underlying mechanisms present in the relationship between buyer and supplier with regards to sustainability compliance requirements stipulated by buying companies. Furthermore, the aim is to analyze suppliers' perception of their relationship with the buying company and to analyze the effects these underlying mechanisms might have on the relationship and hence on the suppliers' ability to meet the sustainability-related requirements. This chapter will explain how the thesis will achieve those aims and will present the methodological background of the study and any related considerations. The chapter begins by describing the paradigmatic grounding of the thesis, including a short overview of general paradigmatic views on research and the paradigm chosen for this thesis. Second, the methodological view and research design are presented, providing the framework for the collection and analysis of data. An introduction to the methods and techniques for data collection is also presented. Next, an elaboration of how the data was transformed into findings is provided, and finally, the validity and reliability of the study are discussed.

3.1. RESEARCH PARADIGM

In this section, I will explain the standpoint of the thesis in relation to the philosophy of science. As the thesis is within the social science arena, I will start by giving an overview of three overarching philosophies of science (Alvesson & Sköldberg 2009) that provide a basic understanding and acknowledgement of the variety and tension existing in social science research. The three philosophies are positivism, social constructivism and critical realism. The focus will be on the ontology and epistemology within the philosophies, as they are the determinants of good science. In simple terms, ontology is the nature of reality (Hudson & Ozanne 1988). Ontology is associated with a central question of whether social entities need to be perceived as objective or subjective. Epistemology is the theory of knowledge and deals with questions concerning the nature, scope, and sources of knowledge and how this reality is captured or known. After the presentation of the three philosophies, the underlying reasons for choosing critical realism for this thesis are elaborated.

3.1.1. POSITIVISM

The ontological position of positivism is one of realism. Realism is the view that objects have an existence independent of the knower. Thus, a discoverable reality exists independently of the researcher (Scotland 2012). The positivist epistemology is one of objectivism. Positivists go forth into the world impartially, discovering absolute knowledge about an objective reality, and they assume that only when using "facts" derived through the scientific method can one make a legitimate claim to knowledge. Here, the researcher and the researched are independent entities (Scotland 2012).

The concept of 'positivism' has been central in the philosophy-of-science debate since the beginning of the nineteenth century and through the twentieth century (Alvesson & Sköldberg 2009). The scientists of positivism, both in the classical positivism of the 18th century and the logical positivism of the 20th century, are of the opinion that observations and findings are neutral, without prerequisites, and value-free, and that it is possible through the use of various methodological safeguards to ensure neutral findings or observations (Kempster & Parry 2011). Data and facts, according to positivism, should be observable and already exist. In modern positivism, what is observable also includes what is measurable or possible to register through some kind of instrument (Alvesson & Sköldberg 2009). According to positivism, it is a requirement that scientific theories be confirmed based on objective observations of reality. Science should only deal with what is able to be the object of direct observation. Positivism aims to remove all uncertain knowledge. This implies sacred writings, religious revelations or theories created from human intuition are discarded. Science is built only based on facts that we, in all reasonable probability, deem safe. Positivism does not trust the traditions and authorities, who tend to indulge in uninformed speculation. Positivism has two sources of cognition: observations and logic (Alvesson and Sköldberg 2009). Observations are the information obtained from the human five senses; these form the basis of the empirical cognition. Positivism relies not only on senses, however, but also on having a critical basic setting of the world. A positivist will examine the findings and then decide whether the perceptions can be considered valid. Those facts deemed safe must be analyzed logically to draw conclusions. The extreme version of positivism is called radical positivism. Researchers who subscribe to this philosophy are convinced that there is an absolute truth, and that it is possible to find it.

3.1.2. SOCIAL CONSTRUCTIVISM

Constructivism is based on a relativist (as opposed to realist) ontology and it means that constructivism is based on the notion that the truth about 'what is what' is socially negotiated. The shared feature of all forms of constructivism is that they do not focus on an ontological reality, but instead on a constructed reality. Constructivism is based on a subjectivist (as opposed to objectivist) epistemology (Guba & Lincoln 1994). Social constructivism is thus a very broad and multi-faceted perspective, and furthermore has often been contrasted to, compared to, and seen as an alternative to, positivism and critical realism. For social constructivism, reality—or at least selected parts thereof—is not something naturally given. The study of how reality is socially constructed therefore becomes crucial for social constructivists (Alvesson & Sköldberg 2009). Social constructivists see knowledge and truth as social constructions, as opposed to created. A social structure is typically defined as a socially created perception (Andrews 2012). Social constructivists believe that even existed an objective world separate from humans' perception of it, people could never achieve neutral knowledge of this world. We have no way for our recognition apparatus to grasp the world as such. People perceive the world through language and concepts (Collin 1999). However, the interpretation we apply to the world is never neutral. It is socially created, and includes our values regarding what is good and what is bad. As Berger and Luckmann (1966) describe, we then create an interpretation of the world through interaction knowledge. Social constructivism emphasizes that the construction of individual as well as organizational identity is relational; all identity construction takes place in relation to 'the other' (Esmark et al. 2005).

3.1.3. CRITICAL REALISM

The English philosopher Roy Bhaskar, who is considered the founder of critical realism, began developing the approach in the 1970s. Critical realism is intended to provide a philosophical grounding for science as well as an alternative to the positivist and constructivist approaches (Alvesson & Sköldberg 2009). Realism's philosophical starting point is, as previously mentioned, the existence of a reality independent of our knowledge of it. Critical realism's overall epistemological and ontological starting point is that there is a reality that works independently of the concepts the researcher uses to describe it (Danermark et al. 2002).

Critical realism indicates epistemologically more clearly than the other positions the appropriate direction and context of explanatory research—*"from the manifest phenomena to the mechanisms that produce them, in their*

complex co-determination" (Bhaskar & Danermark 2006, p.280). Thus, critical realism is not only the ontologically least restrictive perspective, but it is also the epistemologically most heuristically suggestive one. By trying to identify the deeper underlying mechanisms that generate empirical phenomena (Alvesson & Sköldberg 2009), critical realism implies a shift from epistemology to ontology, and within ontology, a shift from events to mechanisms (Bhaskar 1975). Sayer (2000) describes the characteristics of critical realism based on five different angles: 1) *the intransitive and transitive dimensions of knowledge*, 2) *the real, the actual, and the empirical*, 3) *stratification and emergence*, 4) *causation* and *5) the interpretive or hermeneutic dimension*.

The intransitive and transitive dimensions of knowledge

Critical realists argue that it is not possible to reduce the world to observable objects and facts (Alvesson & Sköldberg 2009). There is a world independent of our knowledge of it, and this world or reality is not immediately given and empirically available (Danermark 2002). Thus, there is also knowledge that can be subject to analysis. This is what critical realists describe as the *intransitive dimension*—the object of scientific enquiry. The objects of the intransitive dimension do not change concurrently with scientific understanding of them (Buch-Hansen & Nielsen 2005). As Sayer (2000) explains, the change from the perception of the Earth as flat to the perception that it is round was not accompanied by a change in the Earth's shape.

Our knowledge of reality consists of our theories, models, concepts, data, descriptions, ideas, etc., all of which form the *transitive dimension*. Bhaskar describes transitive objects as the raw material of scientists (cited in Buch-Hansen & Nielsen 2014) and knowledge that has already been produced as an indispensable means to produce new knowledge (Bhaskar 1998). The transitive dimension is socially determined and changeable. It applies to all knowledge (Danermark et al. 2002). Danermark et al. (2002) emphasize that the special order of social science compared to natural science is that it seeks knowledge of a socially produced reality, not just a socially defined one. This understanding differs from naive realism or objectivism, which assumes that we, in principle, have a correct and objective picture of reality. It differs also from over-emphasizing the transitive side as per constructivism and relativism, which argue that it is not meaningful to assert that a statement about reality is more probable than another statement, since all knowledge is "socially determined" (Danermark et al. 2002, p. 200).

As part of the social world, transitive objects also become objects of study. This means that knowledge has two dimensions—the transitive and the intransitive (Danermark et al. 2002). Rival theories have different transitive objects (theories about the world), while the world they are trying to comprehend—that is, the intransitive dimension—is the same (Andersen 2007). Reality exists independent of researchers' ideas and description of it.

The real, the actual and the empirical

Critical realism distinguishes between three overlapping areas of reality—the *empirical*, the *actual* and the *real.* The empirical area includes that which we can observe—things that happen and exist according to our immediate experience. The actual is constituted by all the things that happen independently, whether or not they are observed, and the real includes those mechanisms that are productive and generate power (Danermark 2002).

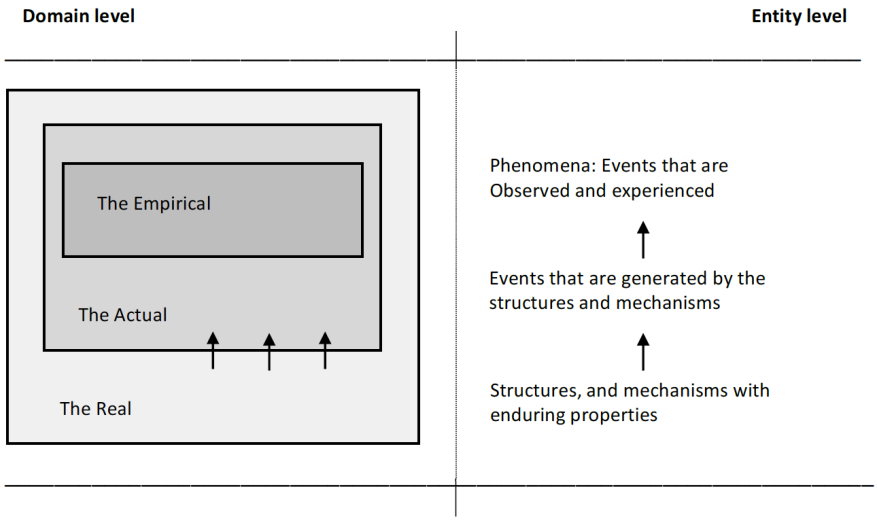

Figure 9: Domain levels by Bhaskar (1975).

The term "mechanism" is central to critical realism and can loosely be defined as that which is capable of making things happen in the world (Alvesson & Sköldberg 2009). When mechanisms are producing an event, either observed or not, it falls into the actual domain (Danermark et al. 2002). When such an event is experienced, it becomes an empirical fact and falls within the empirical domain (Figure 9). Science about social reality therefore cannot be reduced to empirical events or the empirical domain. However, the real world

seems flat without ontological depth. Therefore, if we want to learn about underlying causal mechanisms, we must turn our attention to such mechanisms and not away from the empirical observable events (Danermark et al. 2002).

Stratification and emergence

In critical realism, entities may be analyzed at a number of different levels of aggregation. A crucial critical realist assumption concerns the existence of emergence in such situations (Easton 2010). The distinction between the real, the actual and the empirical suggests a stratified ontology. Here, reality is assumed to consist of hierarchically ordered strata, where the lower strata create the order for higher strata and the higher strata are not determined by the lower strata (Danermark 2002; Moll 2004). Each stratum has its own mechanisms, and it is the existence of these stratum-specific mechanisms that make up the stratum. Some of the more important strata are social sciences, psychological sciences, biological sciences and molecular sciences, and many attempts have been made to describe the different strata (Danermark 2002). The strata are related to one another because each has its own emergent powers, as implied by the ability of the various strata to create new mechanisms. Social phenomena can be explained with reference to psychological mechanisms, but as a whole, social phenomena are produced by social powers (Danermark et al. 2002). Which mechanisms we choose to concentrate on are determined by what our object of study is. This also means that a single theory by itself can rarely explain all the different phenomena being looked at. Depending on the aim of the study, several theoretical perspectives and approaches may be required (Danermark et al. 2002).

Causation

As previously mentioned, critical realism involves an ontological switch from events to mechanisms. This switch means changing the attention to what actually produces the events and not just to the events themselves (Danermark et al. 2002). Behind all events, there exist powers that generate the events; these powers form part of the basis of critical realism (Fig. 10). This implies that the most fundamental task of science is to find the intrinsic mechanisms that generate events. These intrinsic properties are called *causalities*. Reality is full of such causative forces, and they exist whether identified or not. Critical realism thus starts from the basic assumption that objects in reality possess causal powers or generative mechanisms (Danermark et al. 2002).

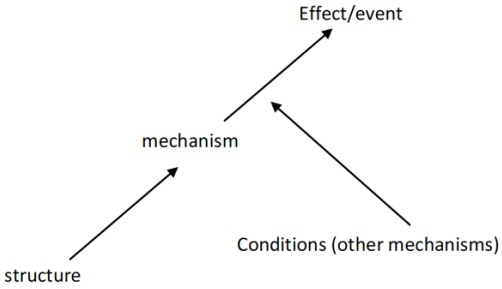

Figure 10: Critical realist view of causation by Sayer (2000, p. 15).

One of the main objectives of critical realism is explanation; answering the questions "What caused those events to happen?" and "What produces, generates, creates or determines the effect?" produces simple causal descriptions (Sayer 2000). In Figure 11, causal explanation is structured in terms of the relationships among the concepts discussed above. Figure 11 illustrates the formal statement produced by the critical realist structure of explanation. Objects having structures and necessarily possessing causal powers and liabilities (the mechanisms) will, under specific conditions, result in an event (Easton 2010).

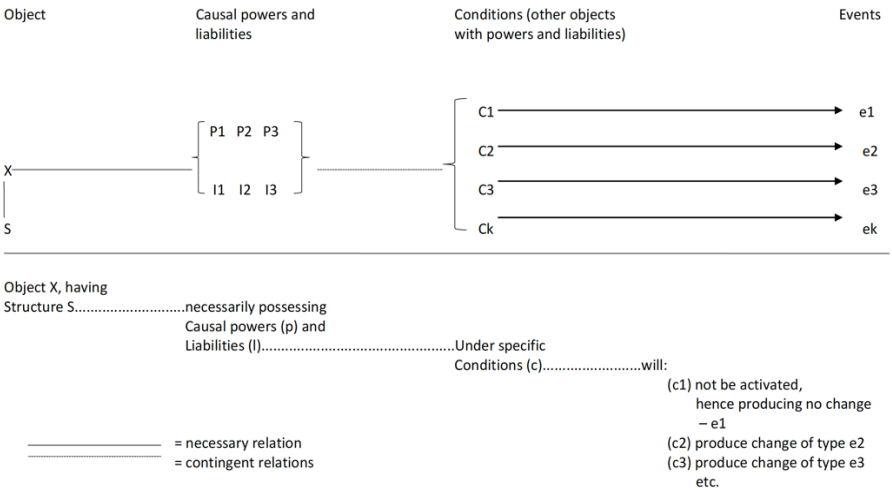

Figure 11: The structure of causal explanation by Sayer (1992, p. 109).

In practice, this means that to explain causality and events, it is necessary to adopt another form of inference in critical realism *"by postulating (and identifying) mechanisms (liabilities and powers), which are capable of producing them"* (Sayer 1992, p. 107). This inference, which can be described as a "thought operation" (Danermark et al. 2002), is also called *retroduction* (Bhaskar 1975). Retroduction is a different form of inference from the more common induction and deduction. Where induction has its focus on deriving general statements from an experience, deduction works the other way; given a law or general claim, the deductivist can develop a concrete statement about a particular situation (Olsen 2009). Retroduction enables the researcher to move between knowledge of empirical phenomena expressed through events to the development of explanations of ways that hold 'ontological depth' and potentially provides indications of the existence of unobservable entities (Zachariadis et al. 2013, p. 4). This makes it possible to understand how things could be different, for example, if the mechanisms did not interact as they do (Zachariadis et al. 2013). The process of retroduction means 'moving backwards' and it asks, "What must be true in order to make this event possible?" Abduction is a closely related process to retroduction (Easton 2010).

The interpretive or hermeneutic dimension

Critical realism views meaning as something that is understood and that cannot be measured or counted (Sayer 2000, p. 17). Critical realists acknowledge the value of interpretivism, which focuses on discourse, human perception and motivation, as human reasons can serve as causal explanations. In the case of interpretivism, critical realism shares the same view that social phenomena are concept-dependent and require interpretive understanding (Roy Bhaskar 1998; Sayer 2000).

Social research can use the same methods as natural science to explain causal relationships, but can also go beyond those by using 'verstehen' or interpretive understanding. While natural scientists must necessarily join their scientific community's hermeneutic circle, social scientists join the double hermeneutic circle representing the understandings of both the scientific community and their individual field of study (Sayer 2000).

3.1.4. CRITICAL REALISM AND THE THESIS

When deciding which paradigm to adopt, the researcher's own perception of reality is in focus. Therefore, it is relevant to start this paragraph with an introduction to my conceptualization of reality. To do this, I make the

following claims: 1) I believe that reality exists independent of my own observations and knowledge (Ontology). 2) I believe in empirical study, but I am not able, through such study, to guarantee or present perfect and 100% objective knowledge (Epistemology). 3) I believe that all methods, both qualitative and quantitative, are suitable for research, but the use of these depends on the specific study (Methodology). These views generally lead to the philosophical standpoint applied in this study, which is critical realism (Figure 12). To further support this choice, I refer to Easton (1998, 2002, 2010), who explicitly recommends the critical realism paradigm for case studies of business relationships.

	Ontology	**Epistemology**	**Methodology**
Positivism	Reality exists and can be understood	Objectivist; findings true	Experimental/ manipulative; verification of hypothesis; mainly quantitative methods
Constructionism	Relativist, Local and specific Constructed realities	Transactional/ subjectivist; created findings	Hermeneutic/dialectic; mainly qualitative methods
Critical realism	Reality exist indepen-dently of the researcher	Knowledge is fallible, possible to develop reliable knowledge and achieve progress in knowledge	Both quantitative and qualitative - but inclined generally toward qualitative methods

Figure 12: Philosophical standpoint applicable for this study, adapted from Alvesson and Sköldberg (2009) and Buch-Hansen and Nielsen (2005).

The overarching objective of social science research is to explain social conditions. From a critical realist perspective, this means that the properties and causal mechanisms that generate and enable events should be described, together with how different mechanisms are reflected in specific circumstances. The basic scientific problem is: What produces a specific event? The job is to seek to identify generative mechanisms and determine how they are expressed and how they lead to concrete events and processes (Danermark et al. 2002). The critical realism approach is thus suited to the study's aim of exploring and explaining the underlying mechanisms present in the relationship between buying company and supplier when supplier sustainability compliance is required. Furthermore, critical realism enables

the analysis of the relational effects of the mechanisms, and hence allows an analysis of the suppliers' ability to meet sustainability-related requirements.

Within the ontology of critical realism, a switch from events to mechanisms is involved, meaning a change in focus to what produces the events and not just the events themselves (Danermark et al. 2002). The two research problems in this thesis are designed to look for the powers and mechanisms that generate the events being studied, that is, they are searching for a causal explanation for supplier sustainability compliance challenges non-compliance and compliance. The thesis does not attempt to explain the events themselves, but is searching for what actually produces those events. An illustration of the structure of causal events in this thesis can be found in Table 5.

Table 5: The structure of causal explanation in this thesis, adapted from Sayer (1992).

Object having a structure	Which is possessing causal powers/ mechanisms	Under specific Conditions	Leads to Events
• Suppliers • Buyer/Supplier relationship • Sustainable sourcing initiatives	• Governance structures • Norms • Distributive Justice	e.g. Price pressure Delivery time Monitoring 3rd parts Collaboration	• Supplier compliance • Supplier non-compliance • Supplier challenges

The events in question—sustainability-related supplier compliance or lack thereof, as well as the challenges that come with buyers' demands for sustainability—were present in the actual domain even before being looked at in this study. The purpose of the case studies in this thesis is to experience these events through supplier interviews, placing them in the empirical domain. Since science is about social reality, we cannot look at and examine empirical events in the empirical domain only. We must analyze these empirical events to determine the underlying causal mechanisms. This logic of inference, which could be better described as “thought operation” (Danermark et al. 2002) or retroduction (Bhaskar 1975), involves reflexivity about theoretical positioning and recurrent iterative movement between theory end empirical evidence (Oliver, 2011).

In critical realism, theory is defined as a conceptual context that has an explanatory purpose and which can be used to understand the observable and

to fill the 'gap' between the three ontological domains—the real, the actual and the empirical. Therefore, the theoretical dimension constitutes a central part of this thesis, as the theory should help to create meaning and understanding in the analysis of the empirical data (Danermark et al. 2002). In the thesis, theory will be used in a dynamic optic, where theory and concepts are continually analyzed in various papers through an interpretivist empirical cognition, together with the elaboration of the theories and discussion hereof in the thesis cover. It is not enough to ask what the theory says about the empirical data; it is also necessary to ask what the empirical data says about the theory (Danermark et al. 2002). Through the papers, an ongoing interaction between the empirical and the theory is obtained.

3.2. METHODOLOGICAL VIEW

Sayer (cited in Easton 2010) argues that critical realism is relatively tolerant with respect to different research methods. Danermark et al. (2002, p. 150) calls "the congruence between the object of study, the assumptions about society and the conceptions of how knowledge is possible, and one's choice of design and method" *practical logic.* Critical realism assumes that social science studies are conducted in open systems, that reality consists of different strata with emergent powers, and that facts are theory laden. These are all factors that affect the choice of design and method (Danermark et al. 2002). A wide range of research methods can be used together in critical realism, in contrast to positivism and constructivism (Easton 2010), but "*the particular choices should depend on the nature of the object of study and what one wants to learn about it*" (Sayer 2000, p.19).

3.2.1. RESEARCH APPROACH

The research approach refers to the *"plans and the procedures for research that span steps from broad assumptions to detailed methods of data collection, analysis, and interpretation"* (Creswell 2014, p. 3). In this process of designing and planning the research, the researcher has the option to choose between a qualitative research approach, a quantitative research approach, or a mix of the two, often referred to as the mixed methods research approach (Creswell 2014). The quantitative paradigm is based on positivist perspectives; it is crucial to have the ability to quantify, thus allowing the researcher to determine the frequency of occurrence of the studied phenomenon. Quantitative studies can include surveys with closed response categories, field observations with fixed observation schedules, and interviews with closed questions. Qualitative methods are linked to

constructivism, the hermeneutic and phenomenological understanding of science. With this approach, the researcher is more concerned with creating and overarching meaning, including the context of the studied phenomenon, through understanding and interpretation. This makes soft data important; such data frequently consists of linguistic statements that are not predetermined. Qualitative methods can include interviews, case studies, document studies, and field observations. None of these research approaches are intrinsically superior, as each research approach has its own advantages and disadvantages.

Compared with positivism and constructivism/hermeneutics, critical realism is compatible with a relatively wide range of research methods, including qualitative, ethnographic and quantitative approaches. This means, however, as stated by Sayer (1992), that the choice between methods is based on the nature of the object studied, and what we want to know about it. Therefore, a great deal depends on how the field of research is defined and how we conceptualize the central objects of study (Sayer 1992).

As previously mentioned, the present thesis aims to explore, identify and explain the underlying governance structures and mechanisms used in the sustainability-related sourcing process between buying company and supplier. Furthermore, the aim is to analyze the effects these governance structures and mechanisms have on suppliers' perception of the relationship, and hence, on the suppliers' ability to meet sustainability requirements. To achieve these aims requires in-depth knowledge of the studied phenomenon and events. Thus, a qualitative research design is suitable for this study (Ellram 1996). Furthermore, qualitative research can generate further insights into the nuances of relationship practice and supplier perceptions (Kern & Willcocks 2002).

3.2.2. RESEARCH DESIGN

According to Sayer (1992), there are two broad types of research designs: extensive and intensive. These are comparable to quantitative and qualitative methods, respectively. Research design is the type of inquiry chosen from the qualitative, quantitative and mixed methods approaches. For this thesis, the qualitative method has been chosen, and the appropriate type of study must be decided to provide the specific direction for procedures in the research design. The research design defines the structure of the inquiry and has an influence on how the data are collected and on the data analysis (Creswell 2014). As stated by De Vaus (1993, p. 9), *"the function of a research design is to ensure that the evidence obtained enables us to answer the initial*

question as unambiguously as possible." Thus, when designing the research, we must ask what type of evidence is needed to answer the research question in a convincing way (De Vaus 1993). There are many different research designs to choose from, such as experiments, social surveys, field work/ethnography, longitudinal studies, action research and case studies (Blaikie 2009), and the choice of design depends on the situation, as they all have their own set of strengths and weaknesses. Also, from a critical realism perspective, the research question is a crucial starting point. Critical realism argues that the question must be designed in relation to *what caused the events associated with the phenomenon* (Easton, 2010 p. 123). In this study, the events consist of the non-compliance actions of suppliers who find it troublesome to comply with buying companies' sustainability requirements. Furthermore, Yin (2003, p. 5) states, as displayed in Table 6, that three conditions distinguish research strategies from one another: a) the type of research question posed, b) the extent of control an investigator has over actual behavioral events, and c) the degree of focus on contemporary as opposed to historical events.

Table 6: Relevant situation for different research strategies by Yin (2003, p. 5)

Strategy	**Form of research question**	**Requires control of behavioral events?**	**Focuses on contemporary events**
Experiment	how, why?	yes	yes
Survey	who, what, where, how many, how much?	no	yes
Archival analysis	who, what, where, how many, how much?	no	yes/no
History	how, why?	no	no
Case Study	how, why?	no	yes

In this thesis, two research problems have been drawn up that consist of both *what* and *how* questions. Furthermore, the study focuses on contemporary events that occur every day in the sustainability-related sourcing process between buying companies and suppliers, whom the researcher has no control over.

Based on this background, a case study design was chosen as the structure of the inquiry, as this method is appropriate for the exploratory and explanatory phases of an inquiry (Ellram 1996; Yin 1994). Furthermore, the case study is very well suited for acquiring generalizable knowledge about structures and mechanisms, and is thereby a very important feature of social science founded on critical realism (Danermark et al. 2002). Yin (1994, p. 13) defines a case study as

"an empirical enquiry that investigates a contemporary phenomenon within its real-life context especially when the boundaries between phenomenon and context are not clearly evident."

Case studies are not necessarily limited to the use of a single research method, but may include the use of several methods, such as field observations, interviews and questionnaires. Eisenhardt (1989, p. 534) states that *"the case study is a research strategy which focuses on understanding the dynamics present within single settings."* And as a research strategy, the case study can be used in several ways to provide knowledge of phenomena related to individuals, organizations, politics, etc. (Yin 2003). The purpose of the method is to analyze a specific case and gain general knowledge through the analysis. Within social science, a case study can look at a particular company, an organization or a relationship (Easton 2010). The purpose of the case study is to provide a practical and concrete illustration of specific problems within the studied area.

Yin (2003) suggests four types of designs for case studies in a 2x2 matrix (Figure 13): single case (holistic) design, single case (embedded) design, multiple case (holistic) design, and multiple case (embedded) design. The holistic case study has one unit of analysis, while the embedded may have a sub-unit or a number of sub-units. The dotted lines between the case and the context show that the boundaries between the two are not likely to be sharp in any of the four designs (Yin 2003). The existence of a phenomenon can be described by a single case study, but a stronger base for theory building and elaboration is provided by multiple case studies, and multiple case studies also enable broader exploration of research questions (Eisenhardt & Graebner 2007; Yin 2003).

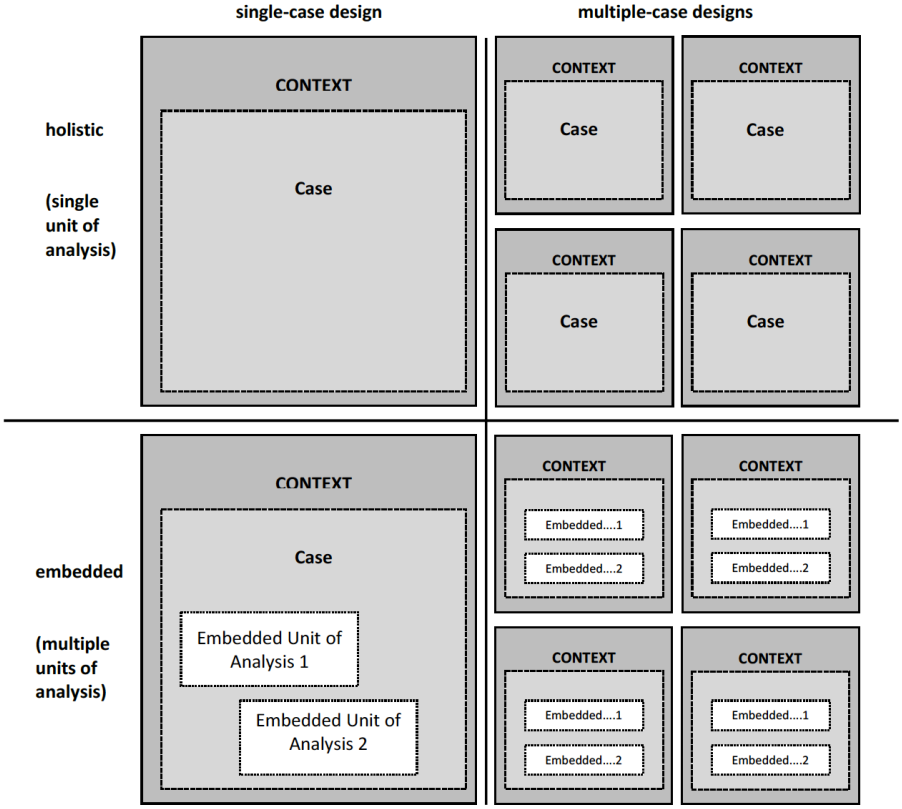

Figure 13: Basic types of Designs for case studies by Yin (2003, p. 40).

Dul & Hak (2008) state that multiple case studies are in fact a type of single case study and may consist of comparative case studies, parallel case studies and serial single-case studies. In a comparative case study, data from two or more cases are compared. In a parallel case study, cases are selected at the same time to study the same assumptions in each case without taking the results from one case into the other. In serial single-case studies, the results from one case are taken into account for the next one. Results from several case studies are often considered to be more convincing than results from a single case study, and this reduces the risk of researcher bias (Voss et al. 2002). Conclusions are stronger if the same explanations are found in several cases (de Vaus, 2006). In the present study, the broad objective is to explore and explain suppliers' perception of sustainability-related buyer requirements and the challenges concerning compliance, in order to identify causal mechanisms underlying compliance, non-compliance, and challenges.

Therefore, the multiple parallel single-case study design has been chosen for this study to generate a wide foundation about supplier perceptions and to thereby be able to draw conclusions. The case studies are not named as *case studies* in the individual papers but as interviews.

3.2.3. UNIT OF ANALYSIS AND CASE IDENTIFICATION AND SELECTION

Selection or sampling of cases is an important aspect in a multiple case study design (Eisenhardt 1989). It is essential to define the unit of analysis before selecting cases, and it is possible to select between different units of analysis, such as individuals, organizations, events, decisions or time periods (De Vaus 2001). Yin (2003) states that "*the tentative definition of the unit of analysis (and therefore the case) is related to the way you have defined your initial research questions."*

The overall unit of analysis for this study is the relationship between buyer and supplier. However, each paper has different units of analysis, focusing on both the buying companies and the suppliers. Although the unit of analysis in the papers is primarily the supplier, the emergent data is focused on the suppliers' relationship with the buying companies. A critical realist approach underpins the research design, as this argues that to understand a social phenomenon, research on it must record and analyze events and experiences of the actors within it (Easton 2010).

In case studies, a sample of cases is built by selecting cases according to different criteria (Eisenhardt 1989; Yin 2003). Miles and Huberman (1994) state that two actions are involved in sampling. The first is to set boundaries defining what you can study; this action is connected directly to the research question. The second action is to create a sample frame that will help to confirm, uncover, or qualify the basic processes or constructs underpinning the study (Voss et al. 2002). The qualitative sampling for this study is theory driven 'up front' and not progressive, as in grounded theory (Miles & Huberman 1994). This was the most appropriate strategy due to geographical, economic and time constraints.

First, the cases were chosen from the textile and apparel industry; this was done for several reasons. One reason is that sustainability sourcing has been an important focus area in this industry for many years (Börjeson et al. 2014; Jastram & Schneider 2015), and therefore the industry provides a good opportunity to investigate the phenomenon of interest. At the same time, supplier sustainability-related challenges are widespread in the industry, as

shown by many examples from both research and practice (Perry & Towers 2013). The focus here is specifically on Bangladesh, China, and India, which are three of the world's largest textile and apparel exporting nations (World Trade Organisation 2016). The author of this thesis has a large network in the textile and apparel industry, established through many years of practice in the industry and by belonging to an educational institution specializing entirely in this industry. This network was used in the selection of the individual cases. Suppliers appeared in an equal number for each country in the study. Due to the aforementioned time, geographical and economic aspects, ten case companies of different sizes, ages and specializations from each country were selected in advance. Each case is a textile or apparel manufacturer with exports. Some sites consist entirely of garmenting (that is, cutting and the sewing process) and others are composite factories that perform all industry processes, from spinning, knitting and weaving, to dyeing and garmenting. The key informant from each case possessed extensive knowledge about the sustainability area and the related requirements from the customers, and all key informants were promised anonymity, both personally and company-wise.

Miles and Huberman (1994) provide relevant criteria for evaluating qualitative sampling strategies to help justify the rigor of qualitative research, as the sampling is crucial for later analysis. These criteria are suggested in the form of six different attributes. In Table 7, the sampling strategy of this study is evaluated using the six criteria.

Table 7: Relevance of the criteria proposed by Miles and Huberman to selection of samples in this thesis case studies, Adapted from Curtis et al. (2000)

Sampling parameters (Miles and Huberman's criteria)	**30 supplier cases**
MH1: *The sampling strategy should be relevant to the conceptual framework and the research questions addressed by the research*	Yes, based on pre-existing theory and research problems
MH2: *The sample should be likely to generate rich information on the type of phenomena which need to be studied.*	Yes, three different countries with specific sustainability related relevance. Key informant with sustainability specialized knowledge.
MH3: *The sample should enhance the `generalizability' of the findings.*	Yes, 30 supplier cases with different sizes, age and specialization.
MH4: *The sample should produce believable descriptions/explanations (in the sense of being true to real life).*	Yes, Key informant special sustainability and customer knowledge. Anonymity The researcher had no company reference
MH5: *Is the sample strategy ethical?*	Yes, informants were promised anonymity before interviews
MH6: *Is the sampling plan feasible?*	Yes, compared to time, economy and practical geographical issues.

3.2.4. METHODS OF DATA COLLECTION

The following section describes how the data that form the basis of this study were collected. For this thesis, data were collected through semi-structured interviews. The strength of this method is that it is highly flexible (Easton 2010). Kvale and Brinkman (2009, p. 19) define the semi-structured interview as "*an interview that aims to obtain descriptions of the interviewee's life-world in order to interpret the meaning of the phenomena described."* The

semi-structured interview is suitable when it is desirable to adopt an explorative approach that can generate new knowledge, describe a phenomenon and concentrate on the interactions of the various complex mechanisms that cause the observed events (Zachariadis et al. 2010).

Using the author's aforementioned personal network, interviewees from the supplier organizations were chosen. All interviewees were involved in all aspects of exchange with their customers. They had a high level of knowledge about sustainability and customers, and all held executive positions in the company. For the 30 interviews, a semi-structured interview guide was created and the interviews were conducted personally by the author. All questions were worded as broadly as possible about a variety of topics, which gave the interviewees the opportunity to express their observations and what they felt and did in connection with the studied subject. In each interview there was also room for discussion of issues that were not covered in the interview protocol but that the participants nonetheless found relevant (Yin 2003). All interviews were recorded and transcribed verbatim. All the interviewees were promised beforehand that personal names and company names would be kept anonymous. By doing this, it was possible to gain insights into how the suppliers perceive, react to, and are affected by buying companies' sustainability-related requirements. After each interview, a guided tour of the production facilities was taken by the author.
It should be mentioned that, in addition to the interviews with the 30 suppliers, the author also conducted interviews with one of the largest apparel companies in Denmark at that time. There were three interviews with the director of social corporate responsibility and two interviews with the company's sourcing manager. Furthermore, two additional interviews, with the managing director and another with a merchandiser in the company's purchasing office in Shanghai, were conducted. Unfortunately, due to major organizational changes in the company the cooperation was discontinued and the collected data is not used in this thesis.

Table 8: Selected case suppliers. (I=India, B=Bangladesh, C=China), (also applied in the paper "Supplier Perceptions of Distributive Justice in Sustainable Apparel Sourcing").

Supplier	Manufacturing tasks	Employees	Monthly capacity (Pieces)	Interviewee
I1	Knitting/Garmenting	92	10-15,000	General Manager
I2	Garmenting	500	1 Mill	Managing Director
I3	Leather accessories	275	20-25,000	General Manager
I4	Leather garmenting	290	10,000	CEO/Partner
I5	Leather Tannery	200	1 Mill. (sq. feet)	General Manager
I6	Composite/Knitting	1,100	250-300,000	Director
I7	Knitting/Garmenting	1,000	200,000	General Manager
I8	Garmenting	225	60,000	CEO/Owner
I9	Garmenting	300	60,000	General Man./Partner
I10	Knitting/Garmenting	90	50,000	General Manager
B1	Knitting/garmenting	1,650	230-250,000	General Manager
B2	Garmenting	2,300	500,000	General Manager
B3	Knitting/Garmenting	11,000	1.5 Mill.	Managing Director
B4	Knitting	500	1 Mill.	COO
B5	Garmenting	370	250,000	Managing Director
B6	Composite/Woven	45,000	1.8 Mill. + 80 t. yarn + 40 t. towels	General Sales Man.
B7	Knitting/Dying/Garm	15,000	800,000	Marketing Manager
B8	.	800	300,000	Chairman
B9	Knitting/Garmenting	2,400	300,000	Director
B10	Knitting Knitting/Garmenting	600	260,000	Managing Director
C1	Garmenting – Woven	220	40,000	Director
C2	Garmenting/Knitting	1,500	N/A	CEO
C3	Garmenting	300	30,000	Director
C4	Garmenting/Knitting	150	50,000	Managing Director
C5	Knitting/Garmenting	1,000	N/A	Business Manager
C6	Garmenting	10	N/A	Managing Director
C7	Knitting/Garmenting	1,500	800,000	Managing Director
C8	Yarn spinning	1,350	750 t.	Vice General Man.
C9	Garmenting	30	N/A	General Manager
C10	Garmenting	120	30,000	Managing Director

3.2.5. METHODS OF DATA ANALYSIS

As the approach to data analysis was relatively different for each paper, this section will account for the overall and general analytical method used. The specific methods of analysis are elaborated in the individual papers. As previously mentioned, instead of aiming to generalize at the level of events, critical realism methodology aims for theoretical description of mechanisms and structures to explain observed events. But how do we identify mechanisms, since they are not observable? Bhaskar states: "Theoretical explanation proceeds by description of significant features, retroduction to

possible causes, elimination of alternatives and identification of the generative mechanism or causal structure at work" (Bhaskar 1998, p. xvii). This is the retroduction technique—taking the empirical data and finding a mechanism that might explain the events (Danermark 2002; Sayer 2000).

As there is no established methodology for identifying mechanisms, some key steps that together may provide the basis for a consistent methodology were applied. These were the six steps and principles for conducting a critical realist data analysis provided by Danermark et al. (2002) and Bygstad & Munkvold (2011):

1) *Description of events*
2) *Identification of key components*
3)*Theoretical re-description* (abduction)
4) *Retroduction: Identification of candidate mechanisms*
5) *Analysis of selected mechanisms and outcomes*
6) *Concretization and contextualization*

As regards the *first* step of identifying the events, this has been done in the introduction (Chapter 1) and in the respective papers. The *second* step, identification of key components, which are the real objects of the case, e.g. persons, organizations and systems (Bygstad & Munkvold 2011), has been implemented in the unit of analysis and the buyer-supplier relationships embedded in the theoretical framework. Step *three,* theoretical re-description (abduction), is where the data analysis begins. We need to abstract the case, exploring different theoretical perspectives and explanations to be able to work with retroduction (Danermark et al., 2002). Danermark et al. (2002) suggests that relevant theories should be identified, compared and integrated when possible to be able to understand the events and to increase theoretical sensitivity. In this step, interpretation and re-describing aspects from different conceptual frameworks and theories about structures and relations are in play. Here, the objects of the study are developed within new contexts of ideas (Danermark et al. 2000). This has been done in each paper by coding the activities and researching the supplier sustainability compliance issue and several different theoretical interpretations and explanations in each paper. Just by pursuing critical realism, it is possible to *"use perceptions of empirical events [those that can be observed or experienced] to identify the mechanisms that give rise to those events"* (Volkoff et al. 2007, p. 835). During this process, several mechanisms emerged and are thus analyzed in the papers. The mechanisms include governance structures (see paper 2), distributive justice (see paper 3) and relational norms (see paper 4). This fits well with the

fact that different mechanisms can cause the same events (Sayer 2000). Volkof et al. (2007) states that step *four,* the retroduction step, is the most crucial, although steps 3 and 4 are closely related in research practice. In this step, the question is asked or the research problems reformulated to ask: Which mechanisms explain supplier sustainability compliance, non-compliance and challenges? In each paper, the individual mechanisms are analyzed in relation to structures and relations interpreted in step three. The analysis of selected mechanisms and outcomes from the papers (step *five)* is implemented in the overall discussion in the cover of this thesis. Here, the relative explanatory powers of the mechanisms and structures described in the papers are elaborated and estimated (Danermark et al. 2002). The *final* step that completes the analysis according to critical realism is concretization and contextualization. This step is present within the overall discussion and conclusion of the thesis. Here, it is explained how the different structures and mechanisms are concretized based on actual cases. Also, contextualization is provided by explaining the limitations and managerial implications.

3.2.6. QUALITY IN A CASE STUDY

In this section, the quality criteria applied to the study will be outlined. It has been argued that *"high quality research must use the most rigorous research methods possible"* (Flynn 2008, p. 66). The conventional tests or criteria for evaluating methodological rigor are construct validity, internal validity, external validity, and reliability (Guba 1981; Yin 2003). These four criteria apply to both quantitative and qualitative research (Ellram 1996; Mentzer & Flint 1997; Yin 2003). However, these conventional concepts of validity change in the face of critical realism (Zachariadis et al. 2013). The four concepts are followed in this thesis from a critical realism perspective to ensure the quality of the research effort. The validity criteria, according to critical realism, are illustrated in Figure 14.

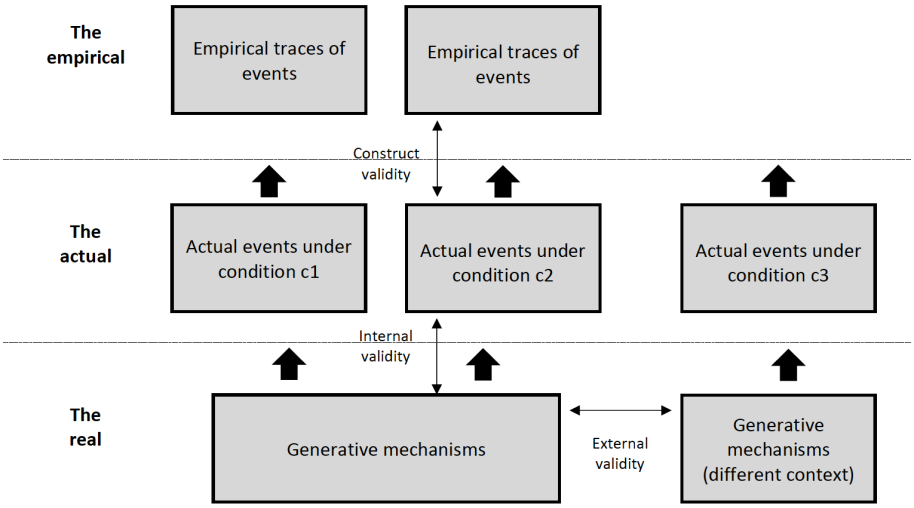

Figure 14: Validity based on a critical realist approach, adapted from Zachariadis et al. (2013).

In critical realism, *construct validity* refers to whether the empirical data collected under the research conditions are empirical traces of the actual events of interest that are purportedly caused by the generative mechanisms (Johnston & Smith 2010, p. 33). Construct validity in this study has been attained by interviewing the suppliers themselves, using a relevant interview protocol in an industry where actual events such as challenges with sustainability compliance are evident. By doing this, the thesis provides evidence regarding the mechanisms that underlie non-compliance, compliance and compliance challenges with regard to sustainability. Ensuring high construct validity is a pre-requisite for internal and, ultimately, external validity (Modell, 2009). *Reliability* is closely tied to construct validity (Ellram 1996) and in a qualitative study, reliability is more an account of all the methodological choices rather than of reproducibility. In critical realism, reliability is an essential part of the retroductive process and the identification of contingent factors (Zachariadis et al. 2013). In this study, reliability has been achieved through the above elaboration of the methodological choices and specifically by the explanation of the retroductive process.

Internal validity or the credibility of the causal explanations (Modell 2009) means, according to critical realism, establishing that the events that occur in

the actual domain are caused by the generative mechanisms uncovered and proposed by the theory; this is done by explaining and confirming that the mechanisms have operated as described (Johnston & Smith 2010; Modell 2009). Internal validity establishes a causal relationship, whereby certain conditions are shown to lead to other conditions (Yin 2003). This internal validity becomes evident in the papers by tracing the generative mechanisms through the data coding activities. Hereby, the generative mechanisms, which are responsible for or cause the actual events, are indirectly detected in the empirical traces and not only through theorizing (Johnston & Smith 2010). In this study, part of the research was explanatory; here, the internal validity was increased by performing a thorough review of the relevant literature (see literature review paper 1). Furthermore, in the analysis, the emergent mechanisms were tied to the existing literature to enhance the internal validity, generalizability and theoretical level of theory building from case study research (Eisenhardt 1989). Eisenhardt (1989, p.542) states: *"It is important to discover the underlying theoretical reasons for why the relationship exists. This helps to establish the internal validity of the findings."*

External validity concerns establishing the domain to which a study´s findings can be generalized (Yin 2003). Furthermore, external validity refers to whether findings are generalizable across persons, settings and time, although it is somewhat unclear whether the case study approach is able to honor these quality criteria (Aastrup & Halldórsson 2008). Overall, qualitative analyses have a poorer external validity than quantitative analyses. According to critical realism, *"generalizations are valid when we are confident that similar or other events that arise (or may arise) in other contexts are caused by the same generative mechanisms that led to the actual events in our research domain"* (Zachariadis et al. 2013, p. 7). In this study, external validity has been achieved by using analysis strategies that can also be used in similar cases. External validity has also been obtained by interviewing a variety of supplier companies (large and small, public and private, old and new) (Flint & Golicic 2009). However, it is also clear that external validity could be enhanced and the generalizability of the findings could be determined by looking at other industries and other countries, and by repeating the same procedures in similar cases to see whether the same result is obtained (Yin 2003).

CHAPTER 4. SUMMARY OF PAPERS

The four papers enclosed in full-text versions in an appendix are not public available in order not to violate the publishers' copyright. The following presents a brief outline of the four included papers of this dissertation.

Paper 1 – Normann, U. (2013)

What are Buying Companies Doing to Influence Suppliers to Act Sustainable?
Paper presented at the 18th IFPSM Summer School, Salzburg, Austria.

This paper presents a literature review providing an overview and analysis of how the mechanisms adopted by buying companies to influence suppliers to live up to sustainability requirements affect supplier sustainability performance. The review includes 53 papers ranging to spring 2013. The aim of the paper is to generate an overview of the sustainability governance mechanisms emphasized in the sustainable-sourcing literature and to understand why some of these mechanisms, frequently those most prevalent among buying companies, are ineffective, and it lays the grounds for pinpointing valuable future research areas.

The review identified evidence of 14 mechanisms used by buying firms to create supplier sustainability performance/compliance. The four most prevalent mechanisms are discussed in the paper, *and* the 10 remaining, are briefly described.

Analysis of the four sustainability-governance mechanisms reveals that the actual performance regarding supplier sustainability performance is difficult to spot in the reviewed papers as performance in the papers is described as compliance or noncompliance. Furthermore, it was not clear in many of the articles if the current performance was the result of one of the four mechanisms or a combination with some of the other 10 mechanisms found.

A reasons for this uncertainty about sustainable performance of suppliers might be that the majority of the articles are written with a focus on the buying companies and that the majority of the empirical studies also have been done with a focus on the buying company.

Paper 2 - Normann, U. (2015)

Sustainability Exchange Governance in the Textile and Apparel Industry: Why Do the Suppliers Find It Hard to Comply with the Buying Companies Sustainability Requirements?
Paper presented at the 24th Annual IPSERA Conference, Amsterdam, Netherlands.

Keywords: Exchange governance, Sustainability, Supplier perspective

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In this empirically based paper, which presents an explorative multiple-case study, the aim is to reach a better understanding of which governance structures are applied in the exchanges between buying companies and suppliers in the Textile and Apparel Industry to ensure supplier sustainability compliance. A multiple-case study with 30 supplier interviews in India, Bangladesh, and China was undertaken.

The study in this paper reached the conclusion that by asking the suppliers themselves how they perceive the sustainability requirements from the buying companies, a deeper comprehension of the noncompliance reasons appeared.

From this qualitative study, we confirm that the contractual governance structure is the dominant way used by buying companies and furthermore that sustainability compliance is not obvious or easy for suppliers. The findings show that the suppliers are acting opportunistically. Evidence of five conceivable categories and subcategories that might influence the ability of supplier sustainability compliance was identified in the analysis of the data. The five categories were financial, codes of conduct/standards/audit, cooperation, no perceived fairness regarding buying companies' sustainability requirements, and no requirements re sustainability from buying companies.

This knowledge or comprehension of the supplier situation could be used to advantage by buying companies, especially in relation to small suppliers, to avoid opportunism.

Paper 3 - Normann, U., Ellegaard, C. and Møller, M.M. (2016)

Supplier Perceptions of Distributive Justice in Sustainable Apparel Sourcing. Submitted to and in final review process with International Journal of Physical Distribution and Logistics Management. A previous version was presented at the 31st Annual IMP Conference 2015, Kolding, Denmark.

Keywords: Sustainable sourcing, assessment governance, distributive justice, textile industry, qualitative study.

This paper has two purposes. First, it tries to determine whether suppliers perceive distributive justice when customer companies require sustainability based on assessment governance such as the use of codes of conduct and audits. Second, the paper gives insight into specific supplier-perceived costs, rewards, and investment, and how these combined create equity.

A qualitative research design was adopted for this study. Thirty executives from textile manufacturing suppliers in China, India, and Bangladesh were interviewed to determine their perceptions of distributive justice in relation to their key customers' sustainable-sourcing requirements.

The data show that customers' assessment governance based on codes of conduct and auditing frequently leads to supplier perceptions of distributive injustice. Four types of suppliers are identified based on their varying perceptions of the equity equation.

The findings introduce distributive justice as an important mediating variable between assessment-based governance and compliance. They also provide insights into the different types of perceived costs, rewards, and investments connected to sustainable sourcing, and how they form different varieties of the equity equation. The findings rely on a limited number of respondents and must, therefore, be researched further.

Paper 4 - Normann, U. (2016)

Inconsistent Norms in Buyer-Supplier Relations – A Study of Sustainability Introduction in the Textile and Apparel Industry.
Paper presented at the 32nd Annual IMP Conference in Poznan, Poland. Special invitation to IMM special edition 2017.

Keywords: Norms, Relational exchange, Sustainability exchange, Qualitative Study

The purpose of this paper is to consider the set of norms present in the textile industry and to see how this set of norms has changed over time. This paper explores the set of norms governing the relational exchange between suppliers and buying companies. Moreover, it explores the changes to these norms brought about by the introduction of sustainability requirements. Thirty suppliers/manufacturers in the textile and apparel industry in India, Bangladesh, and China were interviewed to shed light on how the introduction of sustainability requirements from buyers has affected the applied exchange norms.

In the analysis of the data, evidence of seven norms was found. To find the gap emerging in the set of found norms because of sustainability-related requirements, findings of each of the norms were elaborated.

Based on the findings, it can be concluded that there is a growing gap between the preexisting set of norms governing the buyer–supplier relationship and the set of norms developing in relation to sustainability issues. The findings revealed that the buying companies are combining transactional and relational-based governance but without considering existing norms and mutual agreements with suppliers. This gap or deviation in the buying companies' set of norms is causing frustration with the suppliers, which might affect the buyer–supplier relationship and may impede the possibility of supplier sustainability compliance.

For future research, the findings should be tested in other industries and possibly other countries and cultures.

CHAPTER 5. DISCUSSION

The purpose and aim of this dissertation are to contribute to an understanding of the governance structures and mechanisms employed by buying companies in connection with sustainability initiatives that affect suppliers and their relationship with the buying companies. This chapter will outline how this purpose and the objectives are reached in this dissertation, and each research problem will be discussed together with the contribution from the accompanying papers.

5.1. RESEARCH PROBLEM 1

What governance structures and governance mechanisms are used by buying companies to achieve supplier sustainability compliance and how do these governance structures and governance mechanisms affect the supplier sustainability compliance?

To illuminate how buying companies' governance structures/mechanisms affect suppliers and their compliance with sustainability, it is important first to uncover the specific governance structures and mechanisms applied by the buying company to achieve the desired supplier sustainability compliance. In addition, the effects of these governance structures/mechanisms on suppliers are to be examined. Starting out on this investigation it was found suitable first to make a systematic review of the literature. The review in Normann (2013, denoted Paper 1) was focused specifically on sustainable-sourcing governance mechanisms and their effects as laid out in the literature. A broader review of the literature appears in Chapter 2 of this dissertation.

The literature study in Paper 1 revealed 14 governance mechanisms as being the most used by buying companies in their effort at influencing suppliers to comply with sustainability. Four of these mechanisms were dominant and were the ones analyzed in Paper 1. The four mechanisms were 1) codes of conduct (COC), 2) standards and certifications, 3) audits and monitoring, and 4) collaboration and supplier involvement. These four governance mechanisms are each applied to different governance structures; the first three mechanisms, COC, certifications/standards, and audits/monitoring, are, as mentioned previously, control- or assessment-based governance mechanisms (Gimenez & Sierra 2012; Krause et al. 2009). The last governance mechanism, collaboration/supplier involvement, is relational and informal

(see the further outline of the two different sustainability-related governance structures in 2.1.2).

Overall, the review shows that the COC does not always have the desired performance effect, which is supported by multiple authors (e.g., Carter & Rogers 2008; Lee & Kim 2009; Lim & Phillips 2008; Welford & Frost 2006). In addition, it seems that the performance effect of standards and certificates may be limited in some areas, and at the same time, this mechanism causes high economic costs (Ciliberti et al. 2008; Stigzelius & Mark-herbert 2009). The greatest performance effect is seen in the green and environmental areas, where measurement of performance is easier (Chen 2005; Klassen & Vachon 2003). Monitoring/audits are among the most frequent mechanisms in the literature study, however, often without discussing compliance or noncompliance in relation to this sustainable governance mechanism. Nevertheless, it could be derived from a significant part of the literature (e.g., Boyd et al. 2007; Egels-Zandén 2007; Jiang 2009; Lee & Kim 2011; Pedersen & Andersen 2006), that the emergence of many problems and challenges are in the context of audits and monitoring. The largest positive performance effect is caused by the sustainability-governance mechanism collaboration/supplier involvement. In addition, most studies of collaboration/supplier involvement show that the greatest effect is on the green and environmental performance areas, with lesser effects on the social aspects (Gimenez & Sierra 2012; Klassen & Vachon 2003; Large & Thomsen 2011; Lee & Klassen 2008; Theyel 2001). As the assessment-based governance structure is the most widely used by buying companies, this governance structure was specifically explored in Normann et al. and Normann (2015, 2016, 2015, also denoted Papers 2, 3, and 4).

Paper 1 and the review in Chapter 2 provide a detailed overview of the sustainable-sourcing literature and insights into the most common sustainability-governance mechanisms applied by buying companies, as well as an overview of the challenges associated with buying companies' use of these sustainability-governance mechanisms in relation to achieving sustainability compliance. In addition, the results from the literature review in Paper 1 show that the actual performance effect of the various sustainability-governance mechanisms applied by buying companies is severely doubtful.

The contributions from the analysis of research problem 1 and Paper 1 are

- An overview of the different types of sustainability-related governance mechanisms applied by buying companies.

- An overview of the sustainable-sourcing literature addressing sustainability-governance mechanisms.
- An overview of why the four most common sustainability-related governance mechanisms do not work particularly well in terms of achieving sustainability supplier compliance.

5.2. RESEARCH PROBLEM 2

How do suppliers perceive the present sustainability related governance structures and governance mechanisms utilized by buying companies and what impact do the sustainability governance structures and governance mechanisms have on the buyer-supplier relationship??

Papers 2, 3, and 4 answer this question. When inquiring into how supplier sustainability compliance can be achieved, it is necessary to go beyond discussing the sustainability-governance structures and mechanisms applied by buying companies. Suppliers' opinions and perceptions of these buyer requirements and efforts must also be explored to get an understanding of their effects. It is particularly important to know something about suppliers' perception of the *assessment-based* sustainability-governance structure as this is the dominant governance structure used by buying companies trying to achieve supplier sustainability compliance (Gimenez & Tachizawa 2012). Finally, it is important to know what effect these supplier perceptions have on the relationship between buyer and supplier and what implications this may have for supplier sustainability compliance.

Suppliers' *perceptions* of the assessment-based sustainability-governance structure and its individual governance mechanisms were analyzed in this dissertation. It appears overall that this assessment-based governance structure may have important implications for the suppliers' ability and willingness to comply. The three papers that analyze suppliers' perceptions (Papers 2, 3, and 4), have different angles on the supplier perception of this governance structure. A general perception by suppliers is that they frequently feel pressure and unfairness from assessment initiatives, which can lead to opportunistic supplier behavior or noncompliance.

Based on the suppliers' perception of the assessment-based governance structure and based on the research question "why do suppliers find it hard to comply with the buying companies' sustainability requirements?" Paper 2 reveals three categories that answer this question. The three categories are, 1) Financial implications that may influence suppliers' ability to comply, 2) Supplier perceptions of assessment-based governance mechanisms that may

influence supplier compliance, and 3) Supplier perception of the influence of cooperation on compliance. The financial category showed that the suppliers felt let down by the buying companies because of lacking contribution, e.g., payment of higher prices for sustainability. The suppliers' perception of the category applied assessment-based governance mechanism COC, certificates, and monitoring showed that suppliers were frustrated about the large number of different COCs they were presented with from different customers and the huge number of resulting audits. The category cooperation shows that suppliers are of the opinion that buying companies are not doing much to cooperate with them as the purchaser only has an eye for the product and price aspects and totally ignores the sustainability-related difficulties that actually cause the suppliers major challenges.

Paper 3 shows that noncompliance may also be caused by suppliers' perceptions of distributive justice. This feeling of unfairness and act of opportunistic behavior are caused from the suppliers' experience of an imbalance in the distribution of costs, rewards, and investments related to the assessment initiatives promoted by buying companies. Most suppliers in this study experience that their costs greatly exceed the rewards they receive and that customer costs and investments are minimal in comparison. This causes a sense of distributive injustice in relation to the sustainability-related initiatives taking place between suppliers and buying companies.

Paper 4 shows that suppliers perceive that the norm-set present in the relationship seems to have changed, probably also triggered by the introduction of the assessment-based governance approach. Previously, only one norm-set existed in the relational product exchange, whereas today we are experiencing two parallel norm-sets. Suppliers are experiencing a large deviation and gap between these two norm-sets. Suppliers perceive that the buying companies have one relational norm-set in the case of product-related exchanges and a more assessment-based norm-set in the case of the sustainability-associated requirements. Suppliers, on the other hand, are looking at requirements for the product and sustainability as a total in the exchange. Suppliers are baffled and frustrated facing this deviation, as buying companies appear differentiated in their behavior when coordinating product exchange and sustainability activities. This supplier-perceived shift in norms and the finding that suppliers with sustainability activities follow the "original" relational norms and buying companies follow the more assessment-based norms can also be the cause of opportunistic behavior, anger, and frustration, which is backed up in the literature, for example, by Boyd et al. (2007), Ivens (2006), and Tähtinen and Blois (2011). Ivens (2006) states that deviation from expected behavior and violation of norms may lead

to opportunistic behavior and distrust and form the basis for conflict among parties in a relational exchange.

Together, we see in Papers 2, 3, and 4 that the assessment-based governance structure and applied governance mechanisms have an *impact* on the buyer–supplier relationship. Buying companies mainly use assessment-based governance structure for sustainability activities, which leads to a critical and negative attitude from the suppliers and problems realizing the desired goal of supplier sustainability compliance. This inadequacy of the assessment-based governance structure is also noted by Rai et al. (2012) and Cannon et al. (2000), who state that using contractual measures alone is not sufficient and that they create uncertainty in the relationship. The results of the imbalance in the equity equation are frustration, anger, and lack of trust, and thus negativity in the relationship. At the same time, the progressed deviation in the norm-set, from being exclusively based on relational norms to having moved toward more assessment-based norms also has resulted in confusion and frustration among suppliers, influencing the relationship. The negative impact of the assessment-based governance structure is on the relationship between suppliers and buying companies, which in turn can have an impact on supplier sustainability compliance. Suppliers point out many times in this study that they find buying companies' methods and the results of these to be unfair. This perception can greatly affect the possibility for sustainability compliance. In connection to supply chain initiatives, Frazier et al. (1988) state that the fairer a deal (initiative) is, the higher the chances for success. There is also little development of mutual expectations in the relationship regarding the sustainability-related requirements stipulated by the buying companies, which results in suppliers' lack of willingness to comply. The literature also shows that the misalignment of expectations in the relationship may lead to exactly those supplier reactions seen from the data. Dwyer et al. (1987), Ring and van de Ven (1992, 1994), and Frazier et al. (1988) express that parties who are willing to discuss expectations have a greater possibility of a good relationship.

In connection with research problem 2, Papers 2, 3, and 4 contribute to the overall sustainable-sourcing literature by

- showing *why* the assessment-based governance structure and its applied governance mechanisms might not work, by examining some factors that may work against it, such as the perception of distributive justice and the perception of norm-set deviation.

- involving the distributive justice concept, which has not been done in the extant sustainable-sourcing literature. Distributive justice is a mediating variable that can help explain the negative effects resulting from assessment-based governance.

- documenting the gap in the norm-sets and norm deviation experience by suppliers in connection to sustainable sourcing.

- empirically verifying that there is a good reason to look at the underlying motives for supplier sustainability noncompliance.

- taking a supplier perspective of the motives for sustainability noncompliance. Most of the empirical studies in the literature investigate the buying companies' perception of efforts in implementing supplier sustainability activities (Boyd et al. 2007).

The overall contribution of the four papers shows that in the first place, the underlying possible causes of suppliers' inability to comply with sustainability should be found. Here, it is crucial to explore how suppliers perceive the requirements placed on them by buying companies. Second, the perception of distributive injustice and norm deviation affect the relationship and hence the possibility of sustainability compliance, which means that the relationship will play a crucial role with respect to the suppliers' sustainability compliance.

CHAPTER 6. CONCLUSIONS

This Ph.D. dissertation has investigated sustainable sourcing. Specifically, it focuses on the mechanisms underlying the suppliers' inability and lack of willingness to comply with sustainability. Focus has also been on how these mechanisms affect the relationship between buying companies and their suppliers and how the development of the relationship may be contributing to sustainability compliance. This is achieved by pursuing the two research problems:

1. What governance structures and governance mechanisms are used by buying companies to achieve supplier sustainability compliance and how do these governance structures affect suppliers' sustainability compliance?

2. How do suppliers perceive the present sustainability related governance structures and governance mechanisms utilized by buying companies and what impact do the sustainability governance structures and governance mechanisms have on the buyer-supplier relationship?

The focus of the sustainable-sourcing literature has been on governance structures and the associated governance mechanisms and the effects of these, mainly on different types of performance measures. The literature provides answers to how both assessment-based governance structures and collaboration-based governance structures can lead to sustainability compliance. However, the studies also reveal that performance effects are mainly realized on the environmental side, with less success on the social responsibility side. It seems that major challenges regarding suppliers' sustainability compliance remain. Furthermore, most sustainable-sourcing studies are based on buying companies' perspectives. This dissertation expands on this view by stipulating that there are some underlying mechanisms that affect supplier sustainability compliance. The starting point is the suppliers' perception of buying companies' use of assessment-based governance.

By looking at the suppliers' perception of the applied assessment-based governance structure, it has been possible to explore mechanisms such as norms and equity. By drawing on relational exchange theory, the supplier perception of norm-set deviation and distributive injustice is addressed as an explanation for supplier noncompliance with sustainability. The theoretical chapter of this dissertation presents an overview of the theoretical foundation

of the four papers and the overall dissertation. In addition to sustainable sourcing, sustainability governance, governance structures, relational norms, and distributive justice, the theoretical section also includes a section about relationships and relationship development. The result of the lacking supplier compliance due to the assessment-based governance structure is emphasized by the theoretical concepts distributive justice and relational norms. At the same time, the theoretical concepts of relationships underline the importance of the development of a buyer–supplier relationship as an initiator in connection with suppliers' ability and opportunity for sustainability compliance. Overall, this dissertation contributes to the sustainable-sourcing literature by providing a literature overview of buying companies applied sustainability-governance structures and mechanisms and their ability to lead to compliance. Furthermore, it contributes to the sustainable-sourcing literature by involving the distributive justice and relational norm concepts and the concepts' influence on the relationship and thereby the supplier sustainability compliance.

6.1. PRACTICAL AND MANAGERIAL IMPLICATIONS

It is very important for buying-company managers to recognize and embrace the concept of sustainability in their business (Kumar & Christodoulopoulou 2014) and in that connection to ensure supplier sustainability compliance.

The four papers contribute differently in this dissertation. First, Papers 1 and 2 show the buying companies' management why the assessment-based governance structure does not work. Then, the management, by reading Papers 3 and 4, get suggestions on why this governance structure does not work.

Buying-company managers must be aware of the gap between the original product-oriented norm-set and the norm-set that also exists in connection with sustainability-oriented activities. They must be aware that they cannot isolate sustainability from the rest of the business—thus creating two norm-sets. By doing so, they can damage the relationship, as two norm-sets confuse suppliers. It is, therefore, important for buying-company managers to understand that they must treat product exchange together with sustainability requirements.
By this attention and an understanding of the effect such a gap has on the relationship and thus on supplier compliance, buying-company managers would be able to work with suppliers to develop the relationship for the desired sustainability compliance.

Furthermore, important to buying-company managers is an understanding of the possible uneven distribution of costs, rewards, and investments that are currently taking place in connection with the assessment governance approach, and which contributes to suppliers' inability to achieve sustainability compliance. Buying-company managers should take supplier perceptions of distributive justice into their deliberations when they require sustainability compliance, as it has an impact on the desired supplier compliance. Through closer cooperation and a stronger relationship, they should agree on expectations for supplier sustainability compliance. Buying-company managers should take more responsibility for the suppliers' side of the business if they want compliance.

Overall, buying-company managers, and especially the buyers who are in contact with suppliers, should collaborate more directly with suppliers, in parallel with running assessment-based governance mechanisms and thus by a stronger relationship develop suppliers toward sustainability compliance.

6.2. FUTURE RESEARCH

Even though the supplier perspective is very important for this study, it will be interesting for future researchers to examine supplier sustainability compliance from a dual perspective and thus also examine the buying companies' perceptions on issues like the assessment-based governance approach, the supplier experienced deviation in norm-sets, and the concept of distributive justice in connection with sustainability activities.

In addition, an important aspect in relation to suppliers' perception and their ability to achieve sustainability compliance would be to look at the cultural differences that are present in the three countries from which the empirical data were derived. The textile industry in China, Bangladesh, and India has been targeted for data collection in this dissertation. It would be interesting for future research to do similar studies in several different industries and other countries.

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