# Corporate Responsibility in Airline Industry Procurement

Case: Finnair Oyj

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KLEMETTINEN, JASMIINA:     Corporate Responsibility in Airline
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## ABSTRACT

Global megatrends can be considered as drivers for new opportunities and industry wide challenges that all companies need to take into account in order to maintain their profitability in the long run. Companies are seen as world citizens; having a higher moral obligation to address the issues than individuals. The obligation encompasses the entire supply chain. The airline industry procurement has a further reaching impact due to global scope and the operational field of the industry.

The purpose of the research was to study the aspects of corporate responsibility as a response to global megatrends impacting on the future competitiveness of the airline industry. Additionally, the purpose of the research was to study the role of procurement and supplier partnerships to successful implementation of corporate responsibility. Finally, the research has set out to provide a practical tool set for implementing corporate responsibility into procurement processes and practice.

The theoretical framework covers corporate responsibility in aviation and responsible procurement practices. The data is gathered mainly from online sources, academic literature and webinars. The online versions of the academic sources were preferred due to their easy accessibility and reusability. Qualitative research methods were utilized in the empiric part of the thesis. The case company Finnair was studied to see how corporate responsibility is taken into consideration in airline procurement. The publicly available material was studied as a case along with thematic interviewing.

The results of the research suggest that integrated and strategic corporate responsibility is seen as necessary yet challenging along with the dimensions of long, multi-tier supply chains. However, there is a lot of potential for value enhancement and competitive advantage. The industry can make an even greater positive impact by cooperating, focusing on responsible procurement and empowering the society they operate in while improving their ability to respond to global challenges and competition.

Key words: aviation, airline, corporate responsibility, corporate social responsibility, megatrends, procurement, supply chain

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TIIVISTELMÄ

Globaalit megatrendit nähdään haasteina ja mahdollisuuksina toimialasta riippumatta. Yritysten on huomioitava toimintaympäristöönsä vaikuttavat trendit ylläpitääkseen kannattavuutensa pitkällä tähtäimellä. Yritykset nähdään maailmankansalaisina, joilla on suurempi moraalinen velvoite, kuin yksilöillä. Yritysvastuu kattaa koko hankintaketjun. Ilmailualan hankintatoimella on kauaskantoisempi vaikutus alan kansainvälisen toimialueen vuoksi.

Tutkimuksen tavoitteena oli tutkia kuinka tulevaisuuden haasteisiin voitaisiin vastata integroimalla yritysvastuu hankintaketjuun. Lisäksi, tavoitteena oli tarkastella hankinnan ja toimittajasuhteiden roolia yritysvastuussa sekä tarjota käytännönläheisiä työkaluja implementointiin, joka kattaa hankintatoimen prosessit ja toimintatavat.

Tietoperustan pääkappaleet ovat yritysvastuu ilmailualalla ja vastuullinen hankintatoimi. Tietoperusta kerättiin pääosin verkkolähteistä, akateemisesta kirjallisuudesta ja verkkoseminaareista. Verkkolähteitä käytettiin laajalti, niiden helpon saavutettavuuden ja käytettävyyden vuoksi. Kvalitatiivisia tutkimusmetodeja hyödynnettiin opinnäytetyön empiirisessä osiossa. Case yritys Finnairin kautta tutkittiin, kuinka yritysvastuu on otettu huomioon hankintatoimessa ilmailualalla. Yrityksen julkista materiaalia tutkittiin teemahaastattelujen ja omakohtaisen havainnoinnin lisäksi.

Tutkimus osoittaa, että integroitu ja strateginen yritysvastuu nähdään haasteena, pitkien hankintaketjujen lisäksi. Integroidussa yritysvastuussa on kuitenkin paljon potentiaalia arvon luomiselle ja kilpailuedun saavuttamiselle. Ilmailuala kykenee luomaan suuremman positiivisen vaikutuksen tekemällä yhteistyötä, panostamalla yritysvastuuseen hankinnoissa ja rikastuttamalla yhteisöä, jossa toimitaan. Samanaikaisesti lentoyhtiöt voivat parantaa mahdollisuuksiaan vastata kilpailuun ja kansainvälisiin haasteisiin.

Avainsanat: ilmailu, lentoyhtiö, yritysvastuu, sosiaalinen vastuu, megatrendit, hankinta, hankintatoimi, hankintaketju

ABBREVIATIONS

*CoC Code of Conduct*

*COP Communication on Progress*

*CR Corporate Responsibility*

*CSR Corporate Social Responsibility*

*ESG Environmental, Social and Governance (reporting)*

*IATA International Air Transport Association*

*ICC International Chamber of Commerce*

*ILO International Labor Organization*

*RFP Request for Proposal*

*SAF Sustainable Aviation Fuels*

*SEDEX Supplier Ethical Data Exchange*

*SMETA Sedex Members Ethical Trade Audit*

*SRM Supplier Relationship Management*

*TBL Triple Bottom Line (model)*

*TCO Total Cost of Ownership*

CONTENTS

# 1 INTRODUCTION

## 1.1 Background

Corporate responsibility (CR) can be described as the obligation of an organization that goes beyond the requirements of legislation or economics, that responds to stakeholder expectations on what is acceptable and just, and pursues long-term benefits for society. Corporate responsibility means also understanding the surrounding business environment in order to maintain profitability and achieve competitive advantage. In this thesis the issue is referred mainly as corporate responsibility or CR. (Idowu & Lounche 2011, 56; Epstein 2008, 20; Juutinen 2016, 28-29.)

Corporate responsibility has become more relevant for corporations who wish to maintain their profitability, good reputation and manage risks at all levels of their operations. It is a timely topic which can be seen in increasing stakeholder expectations, public discussion and annual reporting of global companies. Yet, the implementation of some aspects of corporate responsibility into strategies, operations and processes is still not as developed as it should be. The lack of interest in corporate responsibility is a conscious high risk decision which can lead to increased costs and brand damage. (Epstein 2008, 21-22; World Economic Forum 2016, 43; Juutinen 2016, 45.)

Supply chain management can be defined as an approach whereby the entire network — from suppliers through to the ultimate customers, is analyzed and managed in order to achieve the 'best' outcome for the whole system (Cooper & Ellram 1993, 1). Procurement however can be defined as a business management function that ensures identification, sourcing, access and management of the external resources that an organization needs or may need to fulfill its strategic objectives (CIPS 2013, 3). Both terms are used in the thesis; supply chain management when discussing supply chain responsibility and procurement when discussing the practical implementation of CR into processes and practice.

Global megatrends, such as empowerment of the East, the exponentially growing population and resource stress increase the importance of procurement organization in addressing challenges related to corporate responsibility. The role of the procurement function is significant. In an average company the share of the procurement is more than 50% of the revenue. Companies are even more dependent on their suppliers that in a way represent them. Responsibility and traceability in supply chains has been an emerging trend. And, multiple companies have created their own models for responsible procurement. There is a simple reason for that: multiple studies show that high responsibility companies outperform their low responsibility competitors both in stock market and accounting performance. (Confino 2014; Eccles et al. 2011, 4; Nieminen 2016, 12-13.)

Airlines operate in a highly competitive marketplace with thin margins. And, addressing the challenges and managing risks has an impact on long-term profitability and competitiveness of an airline. Therefore, the thesis focuses on integrating corporate responsibility into airline procurement.

**Selection of the topic**

The case company Finnair had an impact on selection of the main themes for the research along with the preliminary research work, such as taking part in industry conferences, interviewing and cooperating with industry specialists and attending webinars related to corporate responsibility. The case company started to pay more attention to their supply chain responsibility in 2015 by implementing an ethical supplier database SEDEX for identifying and evaluating social risk taking place in their supply chain and conducting human rights risk assessment covering all operations. The author coordinated the implementation as a key responsibility of her internship at Finnair.

The SEDEX system was implemented together with Oneworld alliance. Oneworld is one of the most powerful airline alliances consisting some of

the biggest airlines, such as American Airlines, British Airways, Cathay Pacific and Qantas (Oneworld 2016). The topic of supply chain responsibility seems to be quite new to the airline industry, since the most advanced and successful airlines were a part of the implementation in Spring 2016. Novelty value of the airline approach impacted on the selection of the topic along with a high personal interest towards corporate responsibility and procurement. The thesis topic is compelling, timely and inspiring, and provides new information for those not familiar with global airline industry impact on society and the significance of the procurement function for overall corporate responsibility.

Previous thesis studies mainly focus on public or governmental procurement, sustainability and environmental responsibility, business image, marketing and consumer buying behavior. The airline industry related thesis studies focus mainly on environmental responsibility and state that there is not enough transparent information on airline corporate social responsibility. Anttila and Kretzschmar (2010) support the argument in their thesis on 'Application of CSR programs in the airline industry'. There is a case study of Finnair called 'the importance of environmental and sustainability factors in the corporate procurement process when choosing an airline' by Skutnabb (2011), which focuses on environmental sustainability in corporate buying behavior. Outside the airline industry there are some excellent thesis studies on the topic, such as 'development of a social auditing management system to measure responsibility in a supply chain' by Tran (2012) and 'Sustainable Supply Chains - How do companies integrate sustainability into their supply chains?' by Gerhartz and Ziegler (2016). The existing studies however lack the methods and tools for practical implementation into processes, which might be the biggest challenge for companies willing to improve their supply chain responsibility. This thesis is constructed in a way that it provides an insider view on the airline industry and simultaneously benefits procurement organizations in the integration of corporate responsibility into processes despite their size or industry sector.

## 1.2 Purpose and objectives

The thesis concerns corporate responsibility (CR) in airline industry procurement. The thesis contains an airline industry outlook and airline Finnair Oyj is studied in the empiric part as a case.

The purpose of the thesis is to provide answers to the following research questions:

How could an airline improve its ability to address global challenges and opportunities by improving corporate responsibility?

> How is the role of procurement and supplier partnerships seen in the implementation of corporate responsibility?

> How does Finnair consider corporate responsibility in its procurement processes and utilize the existing methods and tools?

The objective of the thesis is to provide a better understanding of corporate responsibility as a response to global megatrends impacting on the future competitiveness of the airline industry. Also it studies the role of procurement and supplier partnerships to overall corporate responsibility. A secondary, yet an equally important objective, was to research how the industry sees the importance, possibilities and challenges of CR, and how Finnair considers CR in their procurement processes. In optimum conditions the thesis would motivate industry decision makers by providing useful, relevant information on the theoretical value enhancement opportunities along with guidelines for how to implement CR into processes and practice.

The objective of the empiric research of the thesis is to bring dimension to the theoretical framework and to achieve a better understanding on the airline industry specialists' approach on the topic. The attitudes and approach reflect airline maturity and how the industry specialists see the importance, possibilities and challenges of corporate responsibility in their organization and field of industry.

## 1.3 Limitations of the thesis

The thesis and the research focus is corporate responsibility in airline industry procurement. Economic, environmental and social aspects of corporate responsibility are included in the theoretical framework. The airline industry reporting on environmental impact is highly developed, but the understanding of the impact on society is not at the same level. Due to this reason the thesis focuses more on corporate social responsibility (CSR).

The theoretical framework studies the social impact of global supply chains and role of supply chain management (SCM). Supply chain management takes into account the whole network along with supplier relationship management (SRM), development and overall performance improvement approaches. Due to this reason most of the available information refers to supply chain management, instead of procurement. The thesis however provides methods and tools for procurement organizations, and focuses the integration of corporate responsibility on strategic procurement. Strategic procurement contains, for example, procurement process development, along with tendering, supplier selection and evaluation, in which corporate responsibility is reflected to. Strategic procurement is proactive and therefore knowledge transfer and supplier communication is highlighted in the thesis. Operational procurement process is introduced as well in order to provide a wider understanding for the reader on what activities procurement consists of and how they align with each other. (Logistiikanmaailma 2016a.)

In this thesis, the primarily internal stakeholders to focus on are personnel and management, and primarily external ones are supplier partners, government and consumers. The role of non-governmental organizations (NGOs), owners and investors, is recognized, but it is not the primary focus. Sponsorships and charity approaches are ruled out. Image and brand aspects are recognized in the theoretical framework and in the case interviews, but not studied in detail due to focus on procurement function.

The study takes into account the airline industry through the theoretical framework by explaining the concepts through industry examples. The cargo operations of the industry are ruled out. Airline industry approach on corporate responsibility is introduced through case company Finnair. The case Finnair is discussed on a general level and only the publicly available information, reporting and other communication material is used in the research, along with Finnair specialist interviews.

## 1.4   Research methodology

The theoretical part has been gathered from versatile sources; oral, written and electronical sources. The empiric part of the thesis consists of qualitative research methods, such as case study and semi-structured thematic interviewing accompanied by personal experiences.

Case study is an intensive study method used in a specific or individual context. It can include multiple methods to get optimal amount of research information on the case, such as thematic interviewing. Using the case study method provides an in-depth understanding of the topic. (Qualitative Methods 2006.)

Interviewing as a qualitative method can provide unexpected information and more depth to the research. Semi-structured interviewing was chosen because it can provide profound and comprehensive information about the subject and it can describe different viewpoints. (Qualitative Methods 2006.)

Thematic interviewing belongs to semi-structured interviewing methods. Thematic interview does not follow strict, in-detailed, pre-defined interview questions but instead follows the guiding themes in the interview situation. Previous research and knowledge on the topics discussed lays the background for the thematic interview. The interviewee is expected to have a broad understanding on the topic. The semi-structured thematic interviewing method aims is to provide valid, applicable and reliable information on the subject. Conducting an interview is divided into three

parts; planning, implementation and analysis. Planning the interview questions well plays an important role for achieving the optimal amount of information from each interviewee. It is important for the outcome that the questions are open and all interviewees understand the questions the same way. Each step is essential for the research. (Hirsjärvi & Hurme 2001, 47-48; Hirsjärvi & Hurme 2010 39-41; Saaranen-Kauppinen 2006; Qualitative Methods 2006.)

In addition, the author observed the processes and practices of the case company during her internship at Finnair procurement. Personal experiences enabled the author to learn about activities of the people in their work environment by participating in those activities and observing. This may help increase the validity of the study and in achieving a better understanding on the context and the topic.

1.5   Thesis structure

The thesis consists of introduction, theoretical framework, empiric research and conclusions. Figure 1 describes the structure of the thesis.
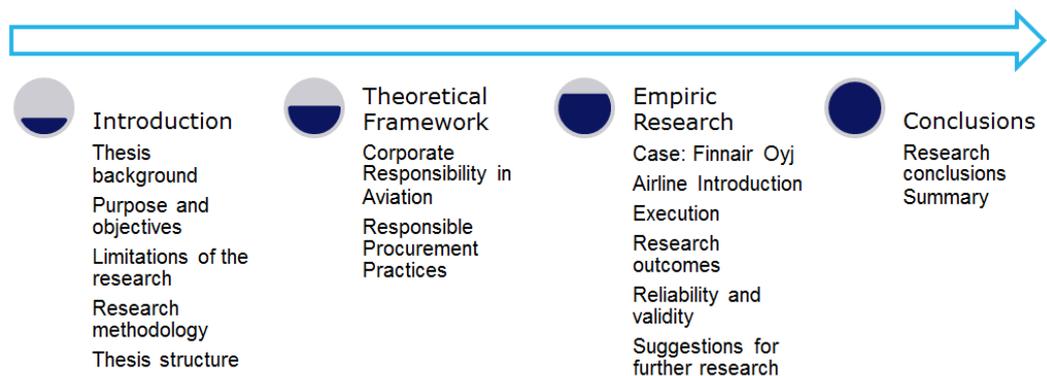


FIGURE 1: Structure of the thesis

The first chapter of the thesis introduces the background and purpose of the thesis along with the thesis objectives and limitations of the research.

The research methodology is introduced before the overall thesis structure. The second and third main chapters, corporate responsibility in aviation and responsible procurement practices, form the theoretical framework for the thesis. The fourth chapter is the empiric research that covers the case, airline introduction, execution, research outcomes and reliability and validity. The research outcomes chapter compares the theoretical framework with the empiric research. Improvements for the research are introduced in the reliability and validity chapter. Suggestions for further research are considered at the end of the fourth chapter. The final chapter is the conclusions.

2   CORPORATE RESPONSIBILITY IN AVIATION

This chapter will provide an airline industry outlook and insight to global megatrends and risks impacting on the global market. Airline industry examples are explored throughout the chapter.

2.1   Airline industry

The airline industry is a highly competitive market to operate in with thin margins, a significant amount of regulations, vulnerability to trends, seasonality and global economic cycles, price pressures and challenges to break even. Simultaneously, customer expectations are increasing together with the pressure to reduce cost and improve fuel-efficiency and operations. The airline industry is as close to perfect competition as it could be, with multiple competitors, little or no boundaries and various markets for airline tickets. Airlines need to constantly study the market atmosphere, plan long-term and make significant investment decisions years before price and quality conscious passengers make their purchase decisions. Despite the challenging environment, the airline industry is growing steadily and continuing to improve profitability. The airline industry drives economic and social development by providing access to global markets for many, facilitates tourism and international trade, provides fastest connections for leisure and business passengers, improves worldwide connectivity and establishes links between developing and developed nations. In 2014 there was 1,402 commercial airlines operating, 32.8 million global flights, 26,065 aircraft in commercial service, and 3,882 airports. In 2015, air transportation carried an estimate of 3.6 billion passengers and 51.2 million tonnes of freight. (IATA 2015; Clayton & Hilz 2015; IATA 2016a, 2; Vauramo 2016.)

Table 1 shows the net profit of commercial airlines globally from 2004 to 2015 in billion US dollars with the most recent forecast of 29.3 billion for 2015. However, the airlines exceeded the forecasts by posting their record breaking financial performance in 2015 with a 35.5 billion net, after tax

profit, which was almost more than double that in the previous year. (IATA 2015; Clayton & Hilz 2015.)
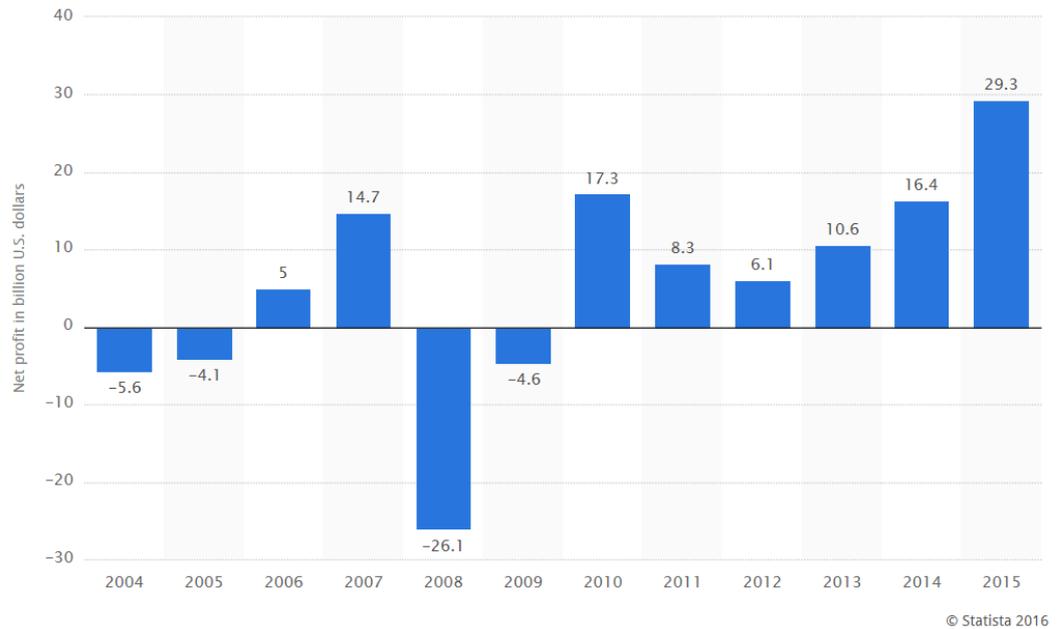


FIGURE 1: Net profit of commercial airlines worldwide from 2004 to 2015 in billion US dollars (Statista 2016).

International Air Transport Association (IATA) introduces factors that drive strengthening industry performance, which include lower oil prices, strong increase in demand for passenger air transportation and overall strengthening performance of some key economies. IATA estimates that the main trends will continue and enhance growth in 2016. The well-being and growth of the industry benefits many by supporting an estimate of 63 million jobs globally and by influencing the whole value chain. The Air transportation enhances economic development by providing city-pair routes supporting the flow of the goods, people, technology, ideas and capital. (IATA 2015; IATA 2016b, 13-14.)

IATA estimates that there will be an average of 4.1% annual growth in the airline industry in terms of passengers transported over the next 20 years.

This means that the demand for air transportation would more than double by the year of 2034 climbing up to 7.3 billion people carried by air (IATA 2014). Airline industry-wide revenue passenger kilometers increased by 7.4% which was the greatest takeoff since the global financial crisis in 2010. Strong growth can be seen in Asian passenger markets empowered by the growing middle-class. China, with its domestic air passenger market, saw the biggest rise in 2015 with 36 million more passenger journey numbers made than in the previous year, despite the signs of slowing growth in its economy. China comes first with its year-on-year growth rate when comparing domestic origin-destination markets, followed by Indonesia, India, Thailand, Vietnam and other developing passenger markets of Asia. (IATA 2016b, 11.)

Considering this significant predicted growth in air traffic volume together with thin margins and shift to Asia, it is becoming even more important for the industry to develop and implement corporate responsibility and sustainability in airline strategies and operations. In the IATA Annual Review 2016 it is stated that partnerships approach propels progress on sustainability in the industry. Improvements in environmental performance are achieved through advances in technology, infrastructure and operations. An aviation industry has committed to a carbon-neutral growth from 2020 on and halving its emissions by 2050 from 2005 level. (IATA 2016b, 9.)

The following chapter introduces some of the global megatrends that can be considered as risks and opportunities for an industry that is highly global, vulnerable to changes and has low margins and high capital expenditure. Megatrends put pressure on globally operating companies to rethink their business models, provide solutions on challenges and shape their practices. Such consideration is needed in order to meet the constantly changing environment and expectations and to optimize all aspects of business operations. (Finnair 2016b, 10.)

## 2.2   Global megatrends and risks

World Economic Forum (2016, 6) defines a global trend as "a long-term pattern that is currently taking place and that could contribute to amplifying global risks and/or altering the relationship between them".

Major global forces are shaping the future for organizations and governments. KPMG (2014a) has listed nine global megatrends taking place and effecting on business reality on the long-run in their Future State 2030 study. Ernst & Young (2015) supports the KPMG listed megatrends with their Megatrends Report 2015. Common emerging themes include the power shift to Asia, rise of the individual, digitalization and hyper-connectivity along with resource stress and climate change. All of which businesses should take into account in order to maintain their profitability in the long-run. The airlines operate in complex, global and highly competitive industry that is vulnerable to exogenous events (Clayton & Hilz 2015). According to Finnair (2016f) airline must always be alert to external changes in the market and to larger trends. A successful service company is one that listens - to its customers and to the marketplace at large, Finnair continues (2016f).

Figure 2 describes the nine KPMG found megatrends which will be explained in the chapter with some lifts and highlights from the Future State 2030 study and other sources, such as from the Ernst & Young report.

FIGURE 2: Nine megatrends shaping the future (Globe adopted from Finnair 2016a).

**Aging population**

In 2030, 13% of the world-wide population will be over 65 years old which will generate a higher need for a social welfare system and healthcare (KPMG 2014a, 14). One hundred and twenty-two of the top 750 cities are expected to shrink in population due to aging population (Ernst & Young 2015, 33). As a market opportunity, the emerging geographical segment will have more free time and financial resources for leisure and travelling. As a response to most trends, Clayton & Hilz (2015) advise airlines to get to know their customers' expectations better in order to be able to provide improved passenger experience and achieve a higher loyalty.

**Rise of the individual**

In 2030 60 percent of the population will be middle-class of which 80 percent will be located in developing regions. From 2009 to 2030, the size of the middle class (as measured in millions of people) will increase by 16 million people in Europe and by 2,703 million people in Asia-pacific. Middle-class grows, but so does the number of people living under the poverty rate. These people deal with problems regarding basic needs and civil rights. Along with the growing population, issues regarding human rights, inequality, health and vulnerable groups will rise. A higher level of cooperation will be needed among public and private sector. The growing middle class of Asia-pacific will be an enormous resource and opportunity for operating and establishing businesses. The empowerment of Asia can be seen in the passenger numbers as well. Asia's developing countries are the fastest growing market area, full of opportunities for the airline industry. (KPMG 2014a, 18, 21; Clayton & Hilz 2015.)

**Economic power shift**

Pascal Lamy, from the World Trade Organization (2012), describes the situation as following; "Emerging powers ... are no longer policy takers. These countries now increasingly influence the pattern and scope of international trade, creating new supply-demand pulls".

In 2030 India and China will carry 35% of the world population with a fast growing middle class. Developing countries will account for 57% of global GDP with an increasing focus on research and development investments generating even more opportunities (KPMG 2014a, 34). The wealth of China can be seen in the airline industry as well. As stated earlier, in 2015, China's domestic air passenger markets grew with 36 million more passenger journey numbers made compared to previous years (IATA 2016b, 11). Finnair takes this into account in their reviewed vision for 2020 by stating that they want to be the most desired option in Asian traffic and among the three largest operators in transit traffic between Asia and Europe (Finnair 2016h). As the developing countries in Asia become

wealthier and more powerful and their labor cost advantages diminish, the once premier outsourcing destinations will outsource their manufacturing to Africa, South America and Middle East (Ernst & Young 2015, 28).

**Economic interconnectedness**

In 2030, Asia's share of global exports is expected to total 39%. Economic interconnectedness will generate complex trade and investment relationships with challenges such as risks with no national borders. Simultaneously there will be fewer barriers to enter the markets bringing significant potential and growth in trade and investments. The airline industry embraces international trade, facilitates tourism and improves connectivity while boosting globalization of supply chains. In 2015 the number of unique city-pair connections exceeded 16,000 which is almost double compared to airline connectivity 20 years ago. During the same time period, real transportation costs are less than half of what they were, enabling the opportunity of air transportation for more people. (KPMG 2014a, 26; IATA 2016b, 14.)

**Public debt**

A higher than ever global public debt increases the exposure to market risks and fluctuations. Hedging from such fluctuations will become increasingly important in global business. The governments' ability to manage debt will affect their potential to respond to global challenges related to economics, society and the environment. The increase in public debt will lead to significance of international fiscal relationships, reduced capacity to address upcoming financial shocks and insufficient ability to provide services to meet the growing demands. (KPMG 2014a, 30.)

**Climate change**

The atmospheric measuring station, Cape Grim in Australia, came out with news about the world's carbon dioxide concentration line exceeding the line of no return in May 2016 (Slezak 2016). Dennis Nally (2016), the

chairman of PriceWaterhouseCoopers Ltd., comments on sustainability with the following:

> *"Ultimately, sustainability is the lens through which every business will be judged by its consumers, workforce, society and even investors. And as businesses move to embrace sustainability, they also need to be able to report on it in a credible and trustworthy way".*

Nally highlights the necessity of the sustainability aspect for the decision making. IATA does not avoid admitting that aviation has an environmental impact by generating noise and pollution. Yet, the industry is determined to take action in order to mitigate the environmental impact caused; which can be seen in the development of carbon measurement standards, increasing use of biofuels and cooperation with governments in terms of reporting. (IATA 2016b, 37.)

**Enabling technology and digitalization**

In 2030, half of the global population will have an access to the Internet. From 2000 to 2012 the number of global internet users grew to 2.04 billion users. Technology will transform communications into hyper-connected. Communicating will provide new transportation solutions and innovative social service models. Digitalization will change business models, customer relationships and perceptions together with markets and competitive landscapes while generating challenges in terms of safety and privacy risks. (KPMG 2014a, 19-23; Ernst & Young 2015, 8-12.)

The airline industry customers are requiring personalized self-service solutions for travelling that combine the latest technology. The industry uses IT solutions in most of its functions, for instance in selling tickets and processing passenger information, managing and guiding flight operations, and providing in-flight entertainment along with innovative digital service models. All of these increase the vulnerability to risks related to cyber security. Airlines are working to identify and assess such threats and making investments to stay ahead. (IATA 2016b, 23, 43.)

The positive effects of technology upgrades can be seen in the improved sustainability of the airline industry. IATA estimates that the modern aircraft is 15% quieter and 20% more fuel efficient than the planes they replace, and could be supported with widespread use of sustainable fuels which itself could bring down the industry carbon footprint by 80%. (IATA 2016b, 55.)

**Resource stress**

The megatrend of growing population causes resource stress. This can be seen in food and agricultural pressure and in increased risk of resource nationalism. The resource stress will increase the demand for water and energy, and increase the competition for metals and minerals. The growing demand will increase the prices of all resources mentioned above. (KPMG 2014a, 42-43). Accounted on average, fuel generates 27% of the total costs of an airline, making the airline industry even more vulnerable for the global risks, shifts in fuel prices and currency fluctuations (IATA 2016b, 12). Therefore, the importance of a well-managed airline supply chain will be greater for maintaining profitability in the changing environments, and continuity of operations with the best possible contract terms.

**Urbanization**

Eighty percent of the urban growth will take place in Africa and Asia. A challenge for the policy makers will be managing both the growth and urbanization sustainably, while ensuring adequate life conditions for all. Equally important will be the awareness of the social impact of the trend. For airlines, urbanization could provide new business opportunities, e.g. in a form of higher demand for some city-pair connections. (Ernst & Young 2015, 37.)

**Global Risks**

World Economic Forum (2016, 6) defines a global risk as "an uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years".

In order to keep a business profitable in the long-run, an organization needs to evaluate what kind of an impact global risks may have on their future. Risk assessment should take into consideration geographical and industry specific risk factors as well. Like megatrends, global risks are strongly linked to each other; a change in one will have an impact on all the others. For this reason innovations aimed to improve supply chain efficiency, transparency and security will provide a competitive advantage. From the corporate responsibility point of view, multiple risks are related to brand value and reputation yet their monetary cost is hard to evaluate. In a changing environment, by committing to transparency, responsibility and higher standards in supply chains, organizations have an opportunity to win trust, build resilience and mitigate the risk of disruption. (Ernst & Young 2015, 43; Juutinen 2016, 45; World Economic Forum 2016, 43.)

World Economic Forum publishes annually a report with top global risks. The Global Risks Report 2016 maps the risks by their likelihood of impact. The top five risks in terms of likelihood are large-scale involuntary migration, extreme weather events, failure of climate-change mitigation and adaptation, interstate conflict and natural catastrophes. The top five risks in terms of impact are failure of climate change mitigation, large-scale involuntary migration, weapons of mass destruction, water crisis and energy price chock. Risks related to data security, unemployment, social instability and finance were introduced in the report as well. These will have a higher likelihood in some geographical areas. Risk management is studied in Chapter 3.3. (World Economic Forum 2016, intro: 3.)

The following chapter introduces corporate responsibility as an approach to addressing the megatrends and global risks. The Chapter covers corporate responsibility through stakeholder dynamics, triple bottom line concept and introduction of strategic corporate responsibility. Transparency and responsibility of supply chains was mentioned

throughout the study of global megatrends and risks and therefore responsible procurement will be studied later on its own.

## 2.3 Corporate responsibility

Corporate responsibility (CR) can be described as the obligation of an organization that goes beyond the requirements by legislation or economics, that responds to stakeholder expectations on what is acceptable and just, and pursues long-term benefits for society. Corporate responsibility means also understanding the surrounding business environment in order to maintain profitability and achieve competitive advantage. Corporate responsibility is also referred to as corporate social responsibility (CSR), corporate citizenship, responsible business and corporate sustainability. Corporate social responsibility covers the social impact caused by an organization and its actions. Sustainability can be defined as a financial development that meets the needs of the present generation without compromising abilities of future generations to meet their needs, for corporations this includes CSR, developed management systems and stakeholder engagement. In this thesis the issue is referred mainly as corporate responsibility, CR. (Epstein 2008, 20; Idowu & Lounche 2011, 56; Juutinen 2016, 28-29.)

An emerging trend of sustainability is seen as a source of revenue and business growth, and companies seem to accept that it is a commercial necessity, states Accenture report (2012, 1-3). Nieminen (2016, 143-144) supports the view by saying that responsibility has become a part of organizations' value creation and management, both globally and locally. The environmental and socio-economic consciousness of the consumers and governments is increasing and therefore it is no longer a question of should organizations focus on responsibility aspects at all but instead how they could combine financial, environmental and social responsibility into decision making and practice. This higher demand for corporate responsibility can be seen also in the increased introduction of laws, regulation and governance requirements assigned to companies. Issues

caused by exponentially growing population and diminishing resources have forced governments taking such actions. Many companies see corporate responsibility as a core for business risks and opportunities instead of only as a moral issue. Organizations are pressured to support sustainable corporate behavior in order to be able to survive in the future, be profitable and maintain a reliable business image. (Tang & Zhou 2012, 485; KPMG 2013, 15.)

**Stakeholder dynamics**

Figure 3 represents the primary roles of corporations, civil society and governments. Corporation's primary role is to work as an innovator and doer, to deliver value to shareholders and to support customers. Society's role is to act as a watchdog and critic, protect people's rights and well-being, and deliver service.  Governments enforce and provide, preserve order and represent the citizens.
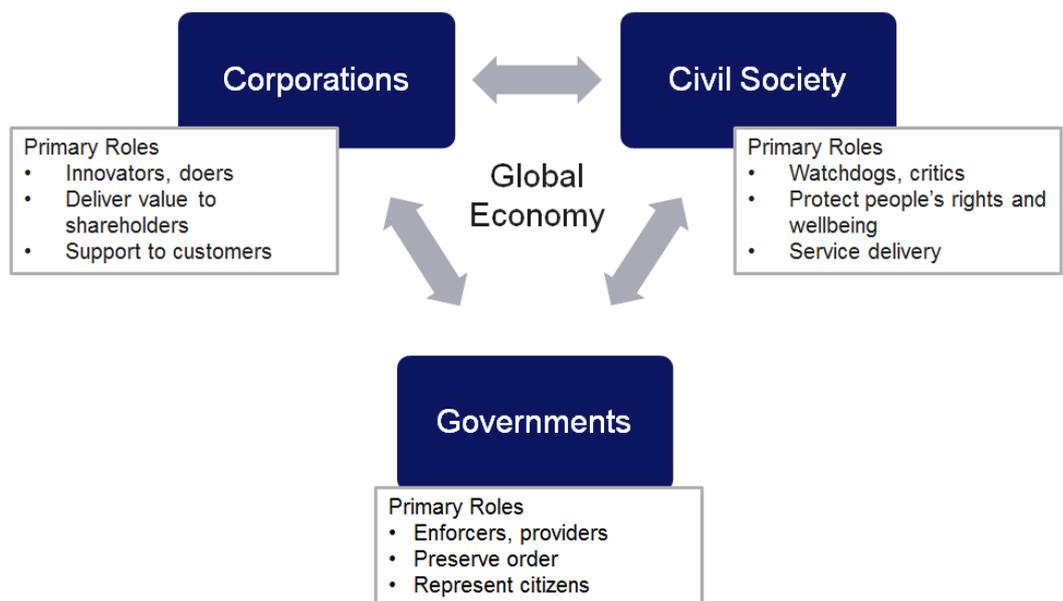


FIGURE 3: Global stakeholder dynamics (adopted from Kyttle & Ruggie 2005, 4).

According to Pryce (2002, 140-142), the current focus is driven by five forces: customer pressure, changes in business procurement, government legislation and pressure, the rise of socially responsible investment and the changing expectations of employees. Sixty-four percent of the global CEOs find consumers as the most important stakeholders in influencing organization's approach to sustainability (Accenture 2013, 41). This growing awareness has led companies to adopt the triple bottom line concept, which will be introduced later, for evaluating their performance and impact (Slaper & Hall 2011).

Epstein (2008, 20) aligns with Pryce's view; implementing a corporate responsibility strategy is often driven by external pressure, such as NGOs, competitors' actions, government regulation or market demands. Also, the internal stakeholders are increasingly aware of the fact that commitment to such efforts can create financial value for the company through enhanced revenues and lower costs.

Welford (2000, 28, 101) argues that there is no business decision without an ethical dimension. And, the challenge for a socially responsible and aware company would be to satisfy the whole range of stakeholders. A higher stakeholder satisfaction and trust can be achieved through open communication, transparency and taking action. Companies are more likely to pay attention to stakeholder claims when the claims need immediate action, are seen as legitimate by society and are powered by strong stakeholder groups. (Welford 2000, 28, 101; Maloni & Brown 2006, 45.)

Madden (2016) introduces ways to respond to megatrends and stakeholder expectations related to corporate responsibility. Performing a stakeholder materiality analysis helps decision makers to see what is truly meaningful, helping them to minimize risk and maximize opportunity. KPMG professionals' (2013, 7) support Madden; companies should conduct a materiality assessment to demonstrate that they have identified the issues which have the greatest impact on their business and stakeholders, explain the corporate responsibility impact of their supply

chain and engage with stakeholders. Increasing transparency and auditing the identified risk areas in supply chain builds trust. KPMG professionals (2013, 7) too recognize the importance of good governance and transparency.

As said in the limitations of the thesis, the primary stakeholders to focus on are internal corporate stakeholders, such as employees and management. The primary external ones are supplier partners, government and customers. The following chapter introduces the previously mentioned triple bottom line concept.

**Triple Bottom Line Model**

Corporate responsibility can be described with the triple bottom line (TBL) model, that divides responsibility into financial, environmental and social aspects, also known as the three P model – Planet, People, Profit (Elkington 1997, according to Nieminen 2016, 144). TBL provides the framework for measuring impact of an organization on the world, including profitability and shareholder value, social and environmental capital. The framework is utilized to describe the impact of an airline and airline industry on the surrounding economy, environment and society. (Slaper & Hall 2011; Eccles et al. 2011.)

The first point of the triple bottom line, acting financially responsible, secures the business in the long run and benefits stakeholders such as shareholders, employees, customers, suppliers, partners and society. Financial responsibility means that a company ensures their profitability and competitiveness in the markets. A company can only take care of the social and environmental aspects if the financial sustainability is secured. The airline industry profitability matters for multiple reasons. For instance, due to substantial effects on multiple stakeholders, society and the environment. When the business is doing well, the industry can continue operating and providing fast connections for people, countries and cultures to meet for business and pleasure. Weak profitability can lead to a reduction of service quality and reliability, financial burden for

governments, unemployment, cutbacks on connectivity and fragmentation. Fragmentation itself has significant costs. For example, in terms of higher operational costs and having to use less-efficient aircraft with greater environmental impacts. IATA brought up the concern for low airline profitability, challenging environment and high regulation, in their Vision 2030 report, after an exponential drop in industry net profits in 2011. IATA argues that these issues have not concerned other stakeholders, and therefore partnering in the industry is seen vital for long-term success, and for improving social and environmental development. IATA's role is to enhance collaboration between airlines to guide the industry through violating crises and exponential growth. (IATA 2011, 50-51; IATA 2016b, 54; IATA 2016a, 1.)

According to IATA (2011, 43-44), the governments keeps effecting the airline profitability in multiple ways, even though governmental ownership has become less important. Governments have an impact on rivalry at all levels. For instance, by putting pressure on airlines to serve some non-profitable destinations or unequal allocation of environmental taxes on airlines competing in the same market. Governments effect on the bargaining power of the suppliers through decisions on export financing, labor market regulation and the privatization of the air transport related infrastructure. The bargaining power of the consumers strengthens through consumer protection laws influencing airlines' costs. The relationship of Finnair and Finnish government will be studied later in the empiric part of the thesis. (IATA 2011, 43-44.)

The second key area of the triple bottom line, environmental responsibility, covers the environmental impacts and being compliant with the environmental legislation. On the environmental point of view, logistics and supply chains should be managed in a way that unnecessary transportation is minimized. One way to achieve lower transportation emissions is to find the optimal order amount and frequency for the goods, and to efficiently plan routes for trafficking in order to minimize unnecessary intermodal transportation. The airline industry is working hard to maintain their license to operate and grow, which depends on the

airlines' ability to achieve long-term sustainability. Since 2009, the industry has committed to an average of 1.5% annual improvement in fuel efficiency by 2020, capping of net emissions via carbon-neutral growth from 2020 onwards and to cutting net carbon emissions by half by 2050. Investments in newer and more efficient aircraft are one of the major drivers for meeting the goals together with increasing the use of sustainable aviation fuels (SAF), such as biofuels. (Logistiikanmaailma 2016b; IATA 2016b, 36-27.)

The third key area, social responsibility, covers the impact on people and society. Social responsibility covers, for example, personnel, surrounding society and business ethics related questions (Logistiikanmaailma 2016b). Corporate social responsibility (CSR) in the airline industry covers safety and the rights of the passengers, being a good employer and ensuring ethical business practices in the value chain. Ensuring safe flying for the customers and personnel is the number one priority in all operations in the industry, states IATA (2016, 15-16, 26). Providing directly 10 million jobs globally and supporting an estimate of 63 million (IATA 2016a, 1), the standards and rights for labor should meet the internationally recognized and established level. The industry provides access to global markets and creates links between developing and developed countries (IATA 2016a, 1). Working on a highly global market and establishing wide networks of suppliers, the impact on the lives of people working in the supply chain is significant. Finnair (2016g) comments on their approach on CSR:

> *"Finnair has significant expectations to fulfil in its role in society. A glittering history is no guarantee of future success. That's why corporate responsibility is an important part of the management of the company".*

**Strategic corporate responsibility**

Corporate responsibility is considered strategic when it is integrated into strategy, processes and operations, and is seen as a way to enhance value creation (Juutinen 2016, 58). Porter and Kramer (2011) introduce a

concept of shared value to describe how corporate responsibility can create new opportunities and how it effects the strategic level. Shared value approach means that a company changes its strategy in a way that social issues or challenges are turned into business opportunities. The business aims to offer solutions to such problems simultaneously benefitting the company, society and people. At the same time the government would save resources that have been previously addressed to fixing the grievance. In the best case scenario it would be a win-win-win situation. Epstein & Reeves (2012) align with the concept by concluding that corporate responsibility provides "a way for companies to benefit themselves while also benefiting society". (Porter & Kramer 2011, according to Juutinen 2016, 41.)

Epstein (2008, 37-41) describes organizations' responsibility through nine principles, which are ethics, governance, transparency, business relationships, financial return, community involvement / economic development, value of product and services, employment practices and protection of the environment. The nine principles highlight the integration of corporate responsibility making it strategic.

According to Epstein (2008, 37-41), a responsible company establishes, promotes and monitors ethical standards and practices with all stakeholders, encourages stakeholders in creating their own standards and support internationally recognized human rights. Multiple principles state that a company should consider interests of all stakeholders. For example, by promoting growth and long-term shareholder value in its strategy, embracing empowerment and diversity of the employee, committing to integrity and seeking the highest level of quality and customer satisfaction, and supporting fair trading practices with suppliers and partners. A responsible company considers the triple bottom line and acknowledges developing people, society and resources being the best solution, long-term, for all parties. A company takes corporate responsibility aspects into consideration in the supplier selection as well. According to the transparency principle, a company provides timely information about its products, services and activities, recognizing their

accountability for stakeholders and allowing justified decision making for them. According to Epstein's nine principles, at a minimum a company aligns with existing international and local laws and regulations. (Epstein 2008, 37-41.)

In the following chapter international legislation, soft laws and standards are introduced as methods and tools for enhancing corporate responsibility.

## 2.4  Initiatives, guidelines, principles and standards

Living in a hyper-connected world, global companies are the focus of conscious customers and legislation (Ernst & Young 2015, 43). The legal environment is changing and it is important that organizations meet the requirements. Without considering the legislation, a corporation cannot be truly responsible, even if the business is aligned with stakeholder values and with what is considered as desirable. Even though it is the primary duty of governments to protect, fulfil and realize human rights, corporations can and should do their part. In the following chapter, the enforceable legislation, guiding soft laws and tools for voluntarily corporate commitment are introduced. There is no official or established practice for reporting and utilizing the tools. Therefore the following chapter introduces the internationally recognized ones, some of which the case company Finnair supports. The benefits of standards and reporting will be introduced later in chapter 3.4. (UN Global Compact 2016c; MEE 2015a, 11; Juutinen 2016, 29.)

**International human rights treaties** are legally binding agreements between states. Contracting states have agreed on securing the agreed rights to all people within the legal sphere, regardless of their nationality. (MEE 2015a, 11.)

A directive on disclosure of non-financial information was approved in the EU in 2014. Companies in the sphere of the directive must report on their policies regarding social responsibility along with a short description of the

company's business model, diversity policy and risk management. The EU Directive is a legal act which obligates all member states to act accordingly and achieve a certain result (Folsom et al. 1996, 5). UK approved a law referred to as the Modern Slavery Act in 2015 which aims to end forced labour, human trafficking and modern slavery. According to law, large companies must prepare public report annually on their actions against mentioned issues, taking their supply chain into consideration. The legal environment is changing in the developing countries as well. For example, in 2014 a law was passed in India which obligates large companies to set up a Social Responsibility Committee that must report on company's actions regarding social responsibility. (MEE 2015a, 1-2, 13.)

**Soft law** refers to governmental instruments such as declarations, resolutions, guidelines, programmes and regulation aimed to impact on how stakeholders behave. Soft law is not legally binding or enforceable, but it can have legal relevance in the court if violated. A company can be liable for their own violations of legislation and internationally recognized principles but also in contributing through partners or other external stakeholders. The legal extent covers the social impact of a company and its partners and suppliers on the surrounding society. Many soft laws are built upon existing treaties that obligate governments, making soft laws legally enforceable. (MEE 2015b, 18-21.)

**The UN Guiding Principles on Business and Human Rights** are guidelines for governments and organizations to prevent, address and remedy human rights violations committed in business operations. Foundational principles for corporate responsibility address that companies should respect internationally recognized human rights, avoid causing or contributing to violations, seek to prevent or mitigate harmful impacts linked to their operations, products or services and have policies and processes in place. The responsibility applies to all companies regardless of their size, sector or structure. Operational principles address that companies should commit to a statement approved by most senior management and communicated to internal and external stakeholders, carry out due diligence by addressing their impacts and acting upon the

findings, integrate the findings across relevant processes and track the effectiveness of their response. The Finnish government has a national Action Plan for the implementation of the UN Guiding Principles on Business and Human Rights. (Guiding principles on business and human rights 2011; Business & human rights resource center 2014; Business & human rights resource center 2016.)

**United Nations Global Compact** is a voluntary initiative to encourage organizations worldwide to adopt sustainable and socially responsible principles, policies, and to report on their development process. The initiative is based on CEO commitments and Communication on Progress (COP) reporting. Finnair has been a participant since September 2013. (UN Global Compact 2016a; UN Global Compact 2016d.)

The ten principles of the UN Global Compact (2016b) are:

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

The ten principles align with the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and

Development, and the United Nations Convention against Corruption (Idowu & Lounche 2011, 62.)

**International Labor Standards** refer to series of principles set for protecting the rights of the workers defined and embodied in ILO Conventions by international stakeholders and governments. International Labor Organization (ILO) is the primary body to summon such conventions and to develop such labor standards. ILO works towards ensuring rights at work, decent employment opportunities and labor standards for all. ILO ensures equal voice and dialogue for all representatives of 187 member states, reflecting the views in ILO labor standards, policies and programmes. (International Labor Organization 2016a.)

**MNE Declaration** (Tripartite declaration of principles concerning multinational enterprises and social policy) is ILO instrument that provides practical guidance to companies on socially responsible and sustainable labor practices. MNE Declaration principles are assigned for multi-national enterprises, governments and organizations. Principles are built on International labor Standards (ILO conventions and recommendations). (International Labor Organization 2016b.)

**ETI Base Code** is a set of principles developed by Ethical Trade Initiative, alliance to bring stakeholders such as trade unions and NGOs together to promote workers' rights. ETI focuses on supply chain responsibility and improving the conditions of the people who make the products for large buying corporations. (ETI 2016.)

**OECD Guidelines for Multinational Enterprises** (the Guidelines) is a document which provides voluntary principles and standards addressed by governments to multinational enterprises aimed to ensure that business operations align with applicable laws, government policies and internationally recognized standards, to strengthen cooperation between organizations and the society and encourage contribution to sustainable development. The Guidelines are not legally enforceable due to their nature of soft law yet they reflect good practice for all. The document is a

part of the OECD Declaration on International Investment and Multinational Enterprises. (OECD Guidelines for Multinational Enterprises 2011.)

As a compliment to respecting the rights companies can take additional steps by contributing in other ways to improve and enrich the lives of the people they impact on, make strategic social investments, promote and commit to principles that support social responsibility, and partner with organizations making an even greater social impact together. Voluntary commitment to corporate responsibility and communicating on business impact is becoming increasingly popular; "92% of the world's largest 250 corporations report on their sustainability performance", states Global Reporting Initiative (GRI) (2016b). Many large multinational companies have given though to such aspects which can be seen in their annual reporting, public statements and as implementation of standards and codes of conduct. (Bowen et al. 2001, 41; UN Global Compact 2016c.)

**Code of Conduct** (CoC) is a voluntary corporate document stating the social and environmental standards and principles a company is devoted to. Multiple companies have created their own Codes of Conduct to show their commitment. Supplier code of conduct is a similar document that aligns with company's code of conduct and states the requirements suppliers are expected to fulfil. Codes of conduct are commonly introduces in procurement and sales contract between a buyer and a supplier. (Jenkins 2001 & Welford 2005; Mamic 2005, according to Andersen & Skjoett-Larsen 2009, 78.)

Most code of conduct principles are based on local legislation and internationally recognized standards and agreements such as SA8000 and ISO14001. Codes of Conduct can be accompanied by Global Reporting Initiative (GRI) report and UN Global Compact. In large multinational companies codes can be accompanied by managerial systems. (OECD 2001.)

**Global Reporting Initiative (GRI)** describes itself as an international independent organization that has pioneered corporate sustainability reporting. GRI helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. GRI is built upon a principle, which ensures the participation and expertise of diverse stakeholders. (GRI 2016a.)

The GRI Guidelines can be used as template when reporting on CR performance and embracing UN Global Compact (Idowu & Lounche 2011, 62). Finnair became the first airline to report according to GRI guidelines in 2008 (Finnair 2016d). However there are multiple, industry field specific templates for reporting and companies can define the level of formality and input themselves.

**ISO 14001**, published by International Organization for Standardization, is recognized international standard for environmental management and it is widely adopted. ISO 14001 sets out the criteria for environmental management system including organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy. ISO can be used by any organization regardless of size or sector. (ISO 2016c.)

**ISO 26000** is the result of an on-going international multi-stakeholder dialogue which intends to provide guidance related to operationalizing social responsibility, engaging stakeholders, focusing on performance results, promoting sustainable development through the supply chain and enhancing credibility of reports and claims made about social responsibility. (Idowu & Lounche 2011, 63.)

**SA8000** is one of the first auditable social certification standards for adequate work environments regardless of industry sector, developed by Social Accountability International (SAI). It is based on the UN Declaration of Human Rights, UN and national law and ILO conventions. SA8000 is

the first global certification system for ensuring supply chain labor standards by creating a common language to measure social performance. SA8000 offers a stand-alone certification solution for managing CSR performance and compliance of all stakeholders in supply chain. (Idowu & Lounche 2011, 62; Social Accountability International 2016.)

**SEDEX**

SEDEX (Supplier Ethical Data Exchange) is a global not for profit membership organization that drives improvements in global supply chains and the largest collaborative platform for sharing ethical supply chain data. SEDEX provides a secure online platform for sharing, storing, viewing and reporting on information on labour standards, health, safety, the environment and business practices. Over 38,000 members of SEDEX operate in more than 150 countries and more than 23 industry sectors. On the platform members can upload their audits, reports and standards along with the SEDEX self-assessment questionnaire (SAQ). The organization says that it improves companies' reputation by enabling them to demonstrate their commitment to supply chain development, helps gaining competitive advantage and reducing risk, improves supplier relationships and saves time and money. (SEDEX 2012, 2-6; SEDEX 2016)

As an introduction to responsible procurement and to highlight the importance of earlier mentioned tools, the author wants to represent two examples. According to Ratsula (2016), the following cases that can generate a legal responsibility on human rights impact:

- Company has not defined the high risk countries, products or suppliers, and has not set labor and human rights requirements for its suppliers. Company makes sourcing decisions based on a price only.
- Supplier's site of employment does not support the labor standards, but the buying company is not aware of this due to lack of risk rating and monitoring systems.

## 3    RESPONSIBLE PROCUREMENT PRACTICES

Cooper & Ellram (1993, 1) define supply chain management as following: ''Supply chain management is an approach whereby the entire network — from suppliers through to the ultimate customers, is analyzed and managed in order to achieve the 'best' outcome for the whole system''. Cavinato (1992, 285) supports the definition by stating that the supply chain concept consists of actively managed channels of procurement and distribution and that it concentrates on relational factors rather than transactional ones. Chartered institute of purchasing & supply (CIPS) (2013, 6) introduces a definition of supply chain management being the continuous planning, developing, controlling, informing and monitoring of actions within and between supply chain links, so that the overall strategic goals are met. As stated in the limitations of the thesis, the challenges of corporate responsibility need to be studied at the supply chain level in order to be able to discuss the impact on the whole system.

CIPS Australia members define procurement as business management function that ensures identification, sourcing, access and management of the external resources that an organization needs or may need to fulfill its strategic objectives. Sourcing as a sub-process can be defined as the process of identifying potential suppliers, conducting negotiations with them, and contracting with these suppliers. Procurement covers the complete range of events from exploring supply market opportunities to implementing strategies that deliver the best possible supply outcome to the organization and its stakeholders and customers. CIPS states that the term is very similar to the term 'supply chain management'. (CIPS 2013, 3-4.)

Generic definition of procurement completes earlier mentioned definitions by adding that the supply of the resources should be secured with best possible contract terms. Resources can be labor, material, information and other corporate assets. Procurement focuses on integrating supplier and customer activities efficiently so that production and distribution needs are fulfilled, e.g. quantities, quality, pricing, logistics and timely handling. From

the business point of view successful procurement supports business objectives and improves company's operational profitability and performance through cost efficiency and added value to customer. Therefore objectives of the procurement function are to minimize costs while satisfying defined requirements. Procurement function also has certain objectives that are related to monitoring and mitigating direct and indirect risks. Procurement organization takes part in innovation, development and planning, and engages the suppliers in those activities and processes. (Idowu & Lounche 2011, 55; Nieminen 2016, 10-11, 18-19, 24.)

The role of the procurement is significant in forerunner companies. In an average company the share of the procurement is more than 50% of the revenue, often the number can climb up to 60-70%. When a greater share is spent in procurement, a company is even more dependent on the supplier network. As stated earlier, in an airline industry, the fuel is a major expense. Twenty-seven percent of the total costs of an airline accounted on average in 2015. Due to this dependence, the importance of the procurement risk management and appropriate hedges is significant. Therefore, procurement should not be seen only as function of buying products and services, but instead as a vital part of development and future competitiveness. (Hallikas et al. 2011, 1; IATA 2016b, 12; Nieminen 2016, 12-13.)

The strategic importance of supply chain management has been growing and globally competitive business environment requires the whole supply chain to be re-evaluated. Even if one objective of the procurement function is to mitigate costs, companies in general do not seek for cost reductions at the expense of their supply chain. The buying organizations are becoming more dependent on the suppliers and their impact on the total performance. Optimizing the chain through collaboration can provide reduction of cost, better responsiveness to changes and visibility, making companies more competitive as a whole. Therefore, the focus is turning on managing procurement processes and supplier partnerships, instead of managing only organization's internal processes and labour forces.

Ensuring and controlling the quality of supplier processes, practices and products is vital for ensuring that purchased goods and service meet the requirements for quality. Quality is the backbone for producing value to customers. Sourcing materials and services globally can be risky and challenging although when done properly it can offer cost savings that can be directed into investments and development. From the risk management point of view, controlling transparency is highly important and therefore having tight requirements of certificates, data sharing, auditing or regulations should be included to supplier selection and evaluation. (Idowu & Lounche 2011, 56; Lintukangas et al. 2015, 6-7; Nieminen 2016, 14-15, 18-19.)

Chapters 3.1 and 3.2 will cover responsible supply chain and integrating responsibility into procurement processes. The Chapters introduce practical tools and methods for integrated corporate responsibility and identification of suppliers to focus on.

## 3.1  Supply chain responsibility

Stakeholders empowered through social media channels are demanding greater traceability and transparency of supply chains. They show an increasing concern for the environmental and social conditions at offshore production locations, particularly in developing and low-cost countries. The pressure exerted on multinational companies comes from both internal and external stakeholders, such as consumers, shareholders, non-governmental organizations (NGOs), public authorities, trade unions, international organizations and the media, as seen in Chapter 2.3. (Maloni and Brown 2006, 35; Skjoett-Larsen et al. 2007, according to Andersen& Skjoett-Larsen 2009, 27; Ernst & Young 2015, 43.)

That growing awareness of issues related to supply chain responsibility has forced several global companies to re-consider their procurement policies and practices (The Economist 2009). Corporate responsibility is no longer individual company's responsibility; it encompasses the entire supply chain. Multinational companies are not only expected to behave

socially responsibly within their own practices but they are also held responsible for the practices of their trade partners and suppliers. (Andersen & Skjoett-Larsen 2009, 76; Idowu & Lounche 2011, 55-56.)

Many governments have integrated adequate labor conditions as a part of their legislation, but the implementation to practice varies by state. Therefore customers and consumers are putting the pressure on corporations to ensure such conditions and fulfillment of the internationally recognized human rights on their supply chains. Lack of knowledge is no excuse for acting unethically or supporting irresponsible business practices. Businesses need to actively participate and find out how their partners' and suppliers' practice. This is challenging if the buying organization is small or medium size. Large companies have better chance and more resources to make an impact by buying responsibly. (Kortelainen 2008, 27.)

Seuring and Müller (2008, 1700) define a sustainable supply chain management being "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". Australian government adds the product lifecycle view on the definition: "sustainable procurement aims to reduce the adverse environmental, social and economic impacts of purchased products and services throughout their life" (Sustainable Procurement Guide 2013, 7).

Nieminen (2016, 150) argues that an organization is no more sustainable than its supply chain. Suppliers and partners are an enabler when it comes to competitive, advantage but at the same time they are a risk factor for the corporate responsibility.  Since global companies are held responsible for the actions of their partners, the buying organization needs to make sure the suppliers and partners act according to responsible business practices. Many global companies have responded to the pressure by implementing systems and procedures to ensure their suppliers comply

with the same social and environmental standards as themselves are expected to. (Andersen & Skjoett-Larsen 2009, 75; Nieminen 2016, 150.)

Kortelainen (2014) and Epstein (2008, 32) introduce well recognized principles for building a more responsible supply chain. The following needs to be in place for the implementation to be successful:

- Understanding of global, regional and local actions
- Support from mission, culture, strategy and people
- Clear strategy and vision to guide
- CR committed leadership
- Integration to strategic and operational decision making
- Management control, performance measurement and appropriate reward systems
- Efficient resourcing and systematic risk management approach
- Strategic procurement in a key role
- Transparent, open and well-structured communication
- Seeing sustainability as an opportunity for innovation and opportunities instead of only seeing it as compliance and risk mitigation.

Giunipero et al. (2012, according to Lintukangas et al. 2015, 4) support the criteria by introducing drivers and barriers for responsibility in supply chain management. These drivers and barriers can be divided into internal and external ones. One of the most important internal drivers is the commitment of the vision and values of the top management supported by company policy and involvement of the employees. Other supporting drivers are quality requirements, certification and value enhancement. Remarkable external driver is the legislation supported by regulation, society and consumer pressure, collaboration with suppliers and industry competition. The need for an investment, cost factors, lack of commitment, lack of skills and competence and uncertainty are seen as the greatest internal barriers for striving sustainability in procurement processes. External barriers are lack of supplier commitment and oligopolistic competition in a way of development. (Giunipero et al. 2012, according to Lintukangas et al. 2015, 4.)

Ernst & Young (2015, 43) argue that organization wide commitment is needed in order to avoid reputational damage due to lack of interest in social and environmental responsibility aspects. The leading companies have recognized the importance of managerial approach; in the most successful implementations CEOs are involved and are the key drivers of concern to implement such efforts (Epstein 2008, 19-20; Kortelainen 2008, 27). The good news is that that 93% of CEOs consider sustainability important to the future success of their business, Accenture study finds out (2013, 10, 26-27).

## 3.2 Responsibility integrated into procurement processes

Despite of the multinational companies' efforts of creating corporate responsibility programmes and voluntary commitments, there are great gaps between the theory of corporate responsibility and the integration into practice, like there are between the achieved maturity levels and the desired or publicly stated ones. Even if integrating CR into supply chain might feel challenging, companies should take action according to their best ability in order to avoid a situation where CR is managed as a separate function and top management nor external stakeholders have no clear understanding on how CR combined with other factors of value creation could correlate with profitability. (Andersen & Skjoett-Larsen 2009, 75; Hallikas et al. 2011, 37; Nieminen 2016, 151; Juutinen 2016, 193 according to Flanagan 2016a; Juutinen 2016, 43.)

According to Accenture survey, extending the strategy throughout the supply chain was seen as the top challenge for improving responsibility performance (2013, 10, 26-27). The following chapters introduce practical steps and tools for integrating CR into procurement processes, for monitoring the performance and identifying the suppliers to focus on.

**Baseline for responsible procurement**

Traditional operative procurement process includes defining the business need, supplier selection, contracting, purchase ordering, management of

the contract, and monitoring performance (Nieminen 2016, 53). Some definitions add development as the final step. The operative process steps are pictured in Figure 4: Procurement process.
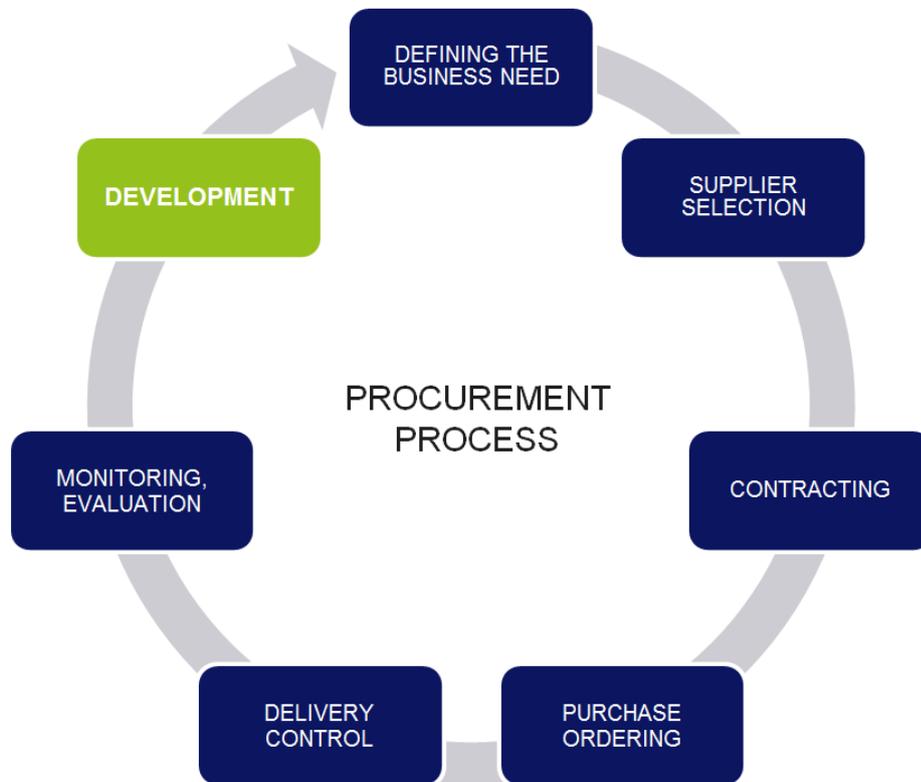


FIGURE 4: Procurement Process (partly adopted from Nieminen 2016, 53)

**Six steps to responsible procurement**

As stated earlier, for the CR to be valuable for a company and its stakeholders, it must be integrated into the strategy, practices and processes. The responsibility performance can only be improved only through identification, measurement and management of corporate responsibility impact. By implementing corporate responsibility into procurement processes, it becomes strategic. (Epstein 2008, 21; Kortelainen 2008, 27.)

International Chamber of Commerce (ICC) guide to responsible sourcing represents the basic steps that organizations can take in order to implement corporate responsibility and monitor the performance in their supply chain (ICC 2008). Australian government has established a Sustainable Procurement Guide (2013, 20) to provide guidance on how to align sustainability with the general stages of the procurement process, that supports the ICC guide. Sustainable Procurement Guide will be referred later on, when discussing the six steps. Figure 5 describes the six steps to responsible procurement aligned with traditional operational procurement process (Figure 4: procurement process). The six steps are built upon strategic procurement process and therefore the Figure 5 shows how strategic and operational procurement align with each other yet differ in nature operational procurement being more practical and relating to goods or service. Step four, supporting suppliers in setting their own business standards, has been moved as the last step to align better with the procurement process.

FIGURE 5: Six steps to responsible procurement

According to Sustainable Procurement Guide (2013, 20) companies should identify whether there is a real need for the goods or services, to identify the potential environmental and social impacts of the purchase and to consider alternative options in order to save money, resources and avoid unnecessary consumption. Nieminen (2016, 54) describes that in the traditional procurement process, after making the purchase decision, the first step would be defining the business need, which contains requirements for the product or service.

**Step one**

The first step in ICC guide is selecting the supplier; ICC (2008, 3) states that the careful selection of the supplier is one of the best ways to ensure supply chain efficiency and brand support. Conducting a risk assessment based on the environmental and social impacts of the purchase, such as raw material, transport, manufacturing, use and end-of-life impacts, is necessary in order to align with a company's corporate responsibility objectives. (Sustainable Procurement Guide 2013, 23-24.)

Evaluating available solutions by inviting potential suppliers to provide responses and determining how a company will evaluate the options against the requirements set follows. Supplier's performance can be validated for example by requesting them to fill in a self-assessment, to provide a standard or setting the requirements for reporting into contracts. Buyer should conduct a financial and ethical risk assessment on a supplier. Potential suppliers may be requested to fill in a questionnaire as part of the request for proposal (RFP) and if they get selected their performance may be measured during the contract period. Usually suppliers are willing to comply and cooperate in order to maintain a good business partnership. Being transparent and communicating on how the aspects of responsibility are valued in decision making will help suppliers understanding the importance of such aspect for the buying company. Providing debriefings for unsuccessful tenderers on areas where they did not meet the responsibility criteria can increase the knowledge in the market about responsible procurement. The total cost of ownership (TCO) should be kept in mind when evaluating the pricing. (Sustainable Procurement Guide 2013, 26-28, 45-47; Kortelainen 2014, 7.)

**Step two**

The second step is setting clear expectations on compliance with the law. When contracting, the buying organization should communicate that they expect their suppliers to comply with all national laws and regulations, also the ones regarding labour and environment, and internationally

established principles, such as ILO declaration on fundamental principles and rights at work or UN Global Compact. Companies can also implement their own supplier codes of conduct - yet keeping in mind the possible difficulties of their suppliers' to comply with the codes. (ICC 2008, 4.)

Contract is a legally enforceable agreement between two or more parties that creates an obligation, and therefore a powerful tool to make change. Contract needs to contain all applicable laws, such as the ones introduced in chapter 2.4., in order to be enforceable. It is advisable for companies to specify their requirements as minimum or desirable and integrate them along with their own codes of conduct into the final contract. As introduced in chapter 2.4, a code of conduct is a document stating the social and environmental standards and principles a company is devoted to. Both parties need to understand all aspects that have been agreed on; rights, responsibilities, risks and sanctions on contract violations. If the contract does not contain such specifications, it can be challenging to require similar later on, especially if it would generate additional work for the supplier. (Kortelainen 2008, 27; Sustainable procurement guide 2013, 24-26; Nieminen 2016, 69, 108.)

**Step three**

The third step is integrating responsible sourcing into buying practices. How an organization collaborates with supplier base indicates organization's sustainability, and collaboration with suppliers is linked to competitive advantage along with sustainability being linked to innovations and growth. (Tate et al. 2012, according to Lintukangas et al. 2015, 3; Accenture 2013, 10, 26-27.)

According to Epstein (2008, 19), the challenge of implementing corporate responsibility is in day-to-day management decisions and engagement of the corporate stakeholders. Transparency in supplier selection, fair tendering and fact-based decisions all belong to responsible procurement practices. It is important that the buyer acts according to organizations ethical code and shows integrity in decision-making. Inefficient practices,

such as rush orders, can lead to overtime work and other violations of compliance. One way to support the integration is to raise awareness among the procurement organization of the impact of their decision might have on local societies. The buyers need to acknowledge their influence, and make sure that the ethical requirements are met when sourcing. Buying company can provide technical support to suppliers processes so that the pressure for additional work hours would decrease, and training for buyers and suppliers, to raise awareness of the issues. (ICC 2008, 4-5; Kortelainen 2008, 27; UN Global compact 2015, 36; Flanagan 2016a, according to Juutinen 2016, 194.)

**Step four**

Step four is to support and encourage suppliers in setting their own business standards and responsible practices, rather than pushing the requirements on them. The buying company should have a development plan ready if the supplier has not performed up to requirements. It is vital to identify the areas for continuous improvement and highlight the benefits of responsible business practices on overall quality, efficiency, contract renewals and powering employee turnover. Buying company can involve supplier by shaping performance objectives together with the suppliers so that they can implement these objectives in their strategy. Enhancing knowledge transfer and raising awareness is integral. Kortelainen (2014, 8) introduces clear requirements, supplier meetings, measurement, commitment of the top management, supplier events and workshops, training, opportunity for feed-back and goal-oriented multi-channel communication as tools for enhancing this knowledge transfer. (ICC 2008, 5; Sustainable Procurement Guide 2013, 20, 45-47.)

Flanagan (2016a) argues that only through close cooperation with the suppliers, a responsible supply chain can be built. More effectiveness can be achieved by establishing new ways to tie, engage and motivate suppliers on multiple tiers of the chain. Kortelainen supports Flanagan by mentioning communication channels along with questionnaires, interviews, development projects and measurement of supplier satisfaction as

practical tools for implementing corporate responsibility into procurement. (Kortelainen 2014, 7; Flanagan 2016a, according to Juutinen 2016, 194-195.)

Strong commitment of the procurement organization and clear communication to supplier companies are powerful tools to make a change. Integrating responsibility into the whole supply chain ultimately requires cooperation with the suppliers, which contains training, guidance and support for developing more responsible business practices. Through regular updates and meetings the contract owner should monitor supplier responsibility performance and progress against key performance indicators (KPIs) and other applicable measures. The contract management process should encourage to continuous improvement and focus areas should be identified.  (Sustainable Procurement Guide 2013, 28; Gimenez et al. 2012, according to Nieminen 2016, 151.)

**Step five**

Step five is to track supplier compliance by requesting comprehensive information about supplier' practices (ICC 2008, 6).  Supplier's responsibility performance should be assessed since it is important to ensure the whole supply chain operates in a responsible manner and meets the same principles and requirements as the buying corporation and its customers (Sustainable Procurement Guide 2013, 45).

Setting requirements on compliance is usually integrated to supplier codes of conduct or general codes of conduct that the suppliers are expected to agree on in the contract. As a part of ethical, supply chain and reputation risk management, supplier then should be evaluated against the requirement by using the existing methods for the supplier responsibility performance management. Such methods can be assessments, visits on site and ethical third party audits. Tracking compliance is easier on the first tier of the supply chain, but it is encourages to include a requirement for a supplier to engage the second tier by monitoring and reporting on their suppliers' performance. Defining clear roles, responsibilities and

management practices are important for successful supplier responsibility management. (Kortelainen 2014, 7; Flanagan 2016a; 193, according to Juutinen 2016; Gimenez et al. 2012, according to Nieminen, 2016, 151; Nieminen 2016, 33-35.)

To meet the responsibility performance objectives, on-site visits can be organized if the supplier shows lack of progress. Cooperating with other industry members and developing common approaches can bring down the monitoring costs. It is important to give the information and tools for development in order to make the evaluations and visits truly effective. Establishing a whistleblowing policy can provide quiet signals or early warnings on unethical practices in the chain before the problems get worse. Whistleblower is a person that reports misconduct. A company can extend the whistleblowing system to serve their suppliers' labor force too. (ICC 2008, 6; Flanagan 2016a, according to Juutinen 2016, 194.)

If there are non-compliances, immediate action should be taken (Kortelainen 2008, 27). When a serious non-compliance is discovered, the buying company should agree on a realistic timeline for improvements with the supplier, and if performance does not improve, termination of supplier relationship should be heavily considered as a last resort (ICC 2008, 8).

**Step six**

Step six is to manage stakeholder expectations and to report. Collecting information on stakeholder performance and communicating it on annual reporting or other publicly-available format increases customer trust (ICC 2008, 7).

Behind the triple bottom line lies the same principle as in balanced scorecard: what you measure is what you achieve due to what is measured is paid attention to, therefore companies become responsible only when they start measuring their social and environmental impact. Nally (2016) argues that companies should pay an even higher focus on understanding, measuring and reporting on their environmental and social impacts. This higher focus will conduct to development of innovative ways

to measure and report transparently on companies' overall impact leading to better-communicated, justified decision making. For companies, this is an opportunity to regain public trust by providing credible insights and justifiable decisions. Some companies have also chosen to validate their reporting with audits. (ICC 2008, 7; The Economist 2009.)

Juutinen (2016, 203)  and Kortelainen (2014, 7) mention continuous improvement, through risk assessments, monitoring, auditing, analyzing, reporting, requiring corrective actions and giving feed-back and guidance for suppliers, as an integral part of the baseline for managing supply chain responsibility. Kortelainen (2014, 7-8) adds spreading awareness, cooperating with industry members and establishing development projects as methods for improving supplier performance. Madden (2016) and KPMG (2013, 7) both acknowledge the importance of developing SMART targets and commitments on corporate responsibility, which are measured and clearly reported with meaningful key performance indicators. SMART stands for Specific, Measurable, Achievable, Realistic and Time-bound.

The following chapter introduced tools for identifying the suppliers to focus corporate responsibility performance improvement actions on, since large multi-national companies can have thousands of supplier partners and rather limited resources.

**Tools for identifying the suppliers to focus on**

Companies can support information transfer, communication and collaboration with their suppliers by emphasizing supplier relationship management (SRM) and key-supplier programs (Lintukangas et al. 2015). Therefore development of the supply chain responsibility performance usually starts with identifying the purchase categories with most volume and high importance suppliers. Companies have most influence on their close partners, the influence gets weaker the more distant the partner is in the chain. The efforts towards a greater responsibility in supply chain are easier to allocate on the first tier suppliers, which should be the first step. However, there is a long way to controlling and successfully managing the

responsibility of the whole supply chain without identifying and monitoring the second or third tier suppliers. (Flanagan 2016a , according to Juutinen 2016, 193-194.)

There are methods for identifying the suppliers to establish such responsibility performance development programs for and focus engagement efforts on, such as using the ABC analysis or the portfolio purchasing model along with appropriate risk rating. ABC analysis was chosen because companies tend to keep the business impact in mind when making decisions and portfolio purchasing model because it provides information on how to approach different purchasing segments..

**ABC analysis**

When managing a database of thousands of suppliers a company should know in which part to focus on by categorizing suppliers based on their value and importance. Table 2 describes the ABC-analysis, which is a categorization technique aiming to find the most important part of the data, when managing a large amount of information. In ABC analysis the suppliers are referred as vendors. Based on the Pareto principle, 80 percent of the consequences are caused by 20 percent of the causes, meaning that 20 percent of the vendors would account for 80 percent of the purchasing volume. Pareto principle applies in any phenomena and procurement is no exception, the correlation however is usually even more radical, e.g. 10 percent of the vendors account for 80 percent of the purchasing volume. (Nieminen 2016, 83-85.)

TABLE 2: ABC analysis
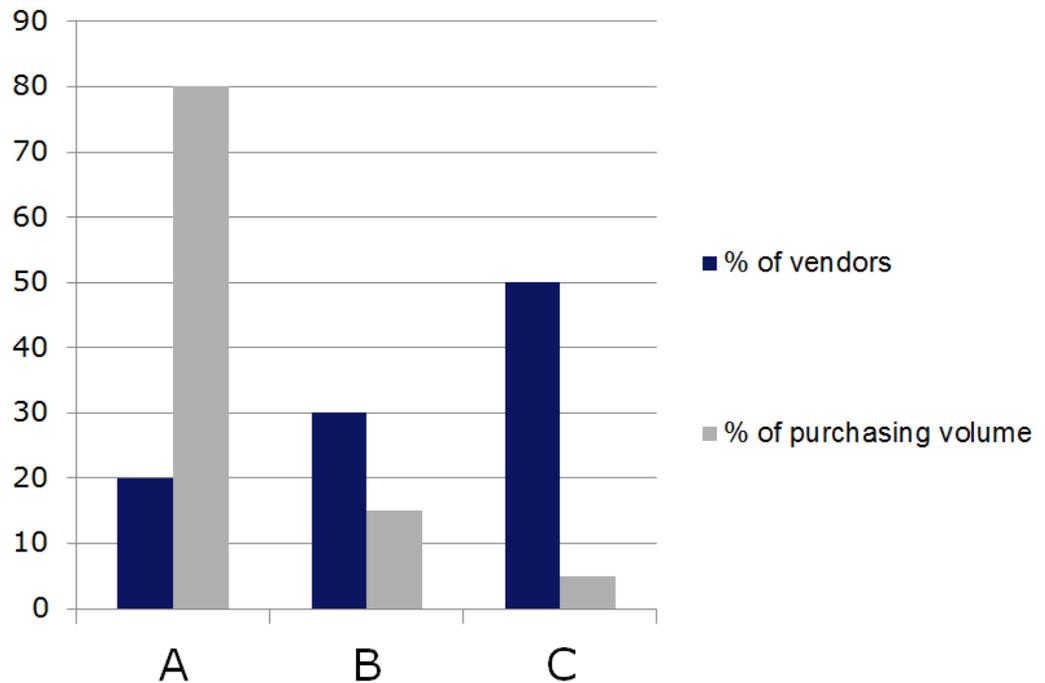


The analysis begins with hierarchizing the vendors based on their annual spend; the one with the biggest purchasing volume comes first. When vendors have been organized, the cumulative spend is calculated until it reaches 80% of the total purchasing volume. This vendor category can be called category A, which would be the most important area to focus development actions on. The common practice is to divide the suppliers based on their share, e.g. in 80 percent, 15 percent and 5 percent. Vendor category B would account for 30 percent of the vendors and 15 percent of the purchasing volume, and category C 50 percent of the vendors and 5 percent of the purchasing volume. ABC analysis aims to prioritize the input and development work used. (Nieminen 2016, 83-85.)

**Portfolio Purchasing Model**

The airline industry is highly dependent on some globally operating suppliers that can be hard to control due to their unique position in the

markets (IATA 2011, 23-25). Another way to analyze and categorize data is portfolio purchasing model, known as the Kraljic matrix, described in Figure 6. The portfolio purchasing model was introduced by Peter Kraljic as early as 1983; yet it is still widely used. The titles are divided into groups based on their profit impact and supply risk. Each group has an individual procurement strategy. These groups are called routine products, volume products, bottle neck products and strategic products. Horizontal axis, supply risk, describes how difficult the market is to control, if there are only few potential suppliers or if changing the supplier would be risky. Vertical axis, profit impact, shows how valuable the purchase is considering the spend volume.  (Nieminen 2016, 85-87.)
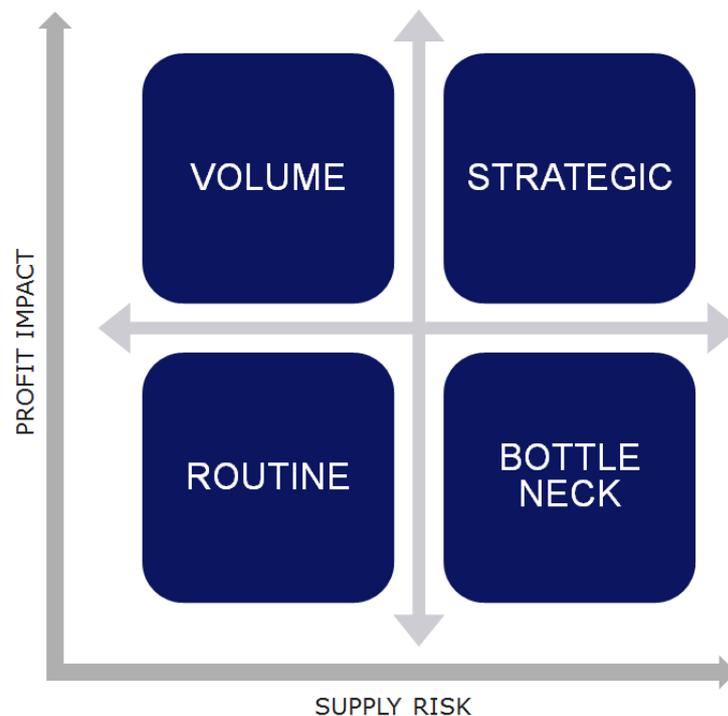


FIGURE 6: Kraljic Matrix 1986 (adopted from Nieminen 2016, 86)

Volume product purchasing approach considers using full purchasing power, substituting products or suppliers and placing high-volume orders. Routine products purchasing approach includes using standardized

products and optimizing the order volume and inventory levels. These suppliers are replaceable. Strategic products deserve most attention and include development of long-term supplier relationships, risk management, planning and considering making the product in-house. Bottleneck products include over ordering and establishing ways to control suppliers, since the supply is unreliable. (Kraljic 1983.)

The following chapter introduces airline examples on the purchasing categories. The airline product or service examples are invented by the author to demonstrate the Kraljic matrix for the reader and do not necessarily represent the actual categorization of an airline.

As said, the airline industry is highly dependent on globally operating suppliers, such as airline industry specific manufacturers, MRO suppliers (maintenance, repair and overhaul), fuel providers and airport service providers, who secure the fluency of the operations. Many airline specific suppliers tend to be local monopolies or duopolies, including ground handling, airport operators and government-mandated services, such as security control. Such airline specific suppliers would belong to the 'strategic' category. The aircraft itself belongs to the 'strategic' category but can act as a 'bottleneck'. For instance, if not received in time it can delay airline operations, establishing new connections or fulfilling strong growth strategies. Catering is mostly provided by independent airline specialized companies. The trend of outsourcing airline service activities, ground handling for instance, is expected to rise significantly. However, catering and ground handling suppliers generally have limited bargaining power due to airlines option of providing the same service in-house. Replaceable suppliers, such as catering or travel retail with limited bargaining power usually belong to 'volume' category. Airlines are dependent on skilled professionals, such as pilots and technical personnel along with the trained cabin crew taking care of flight safety. Some airlines are particularly vulnerable to disruptions at their hubs, which increases the power of the monopolistic labor unions in such locations. 'Bottleneck' category products might have an unreliable supply due to lack of reliable availability. For example, technical maintenance or spare parts can be a

bottle neck when operating with a fleet of A350s as a first airline in Europe (Finnair 2016b, 3). Trained pilots as a resource could act as a 'bottle neck' since the number of trained pilots is limited and it takes years to train the pilots for the needs of expanding operations. 'Routine' products are the ones with low profit impact and low supply risk. These can be the general items purchased such as uniforms or office supplies. (IATA 2011, 23-25.)

The opportunities for traceability and for gaining information along with risks relates to corporate responsibility depending on the purchase category. However, general issues in the supply chain are related to human rights and labor conditions making the personnel dependent categories more risky. Suppliers with high bargaining power, due to their unique position in the market and for their critical inputs (IATA 2011, 40), can be challenging to negotiate with on new contract terms that would include reporting on corporate responsibility or conducting audits to validate the alignment with the airlines values. Good communication is vital for achieving an agreement with the supplier on the mutual benefits higher responsibility performance can provide in the long-run. Individual engagement strategies along with impact on business analysis should be established in order to achieve maximum effectiveness and improvement. (Flanagan 2016a, according to Juutinen 2016, 193.)

## 3.3   Risk management

Economical risk management should take into account the global risks and trends impacting on current business and to future prospects. Well-organized risk management improves stability and allows companies to evaluate the future state of their profitability. (Logistiikanmaailma 2016b.)

World Economic Forum (2016, 43) and Juutinen (2016, 45) argue that the lack of interest in corporate responsibility itself is a conscious high risk decision which can lead to reputational and brand damage, yet the monetary cost is hard to evaluate. Epstein (2008, 21-22) includes that non-compliance with regulations and stakeholder expectations can generate costs in forms of penalties, legal costs, potential closure of operations, lost

productivity due to inspections and lost brand value due to effects on reputation.

Issues regarding responsibility can be versatile in supply chains. Traceability and transparency related problems can create unmanageable risks to a company and generate high cost. These risks cover all aspects of the triple bottom line. Even though powerful organizations work as drivers for sustainability and responsibility in supply networks and working with a complex supplier network and long supply chains, the buying company is not able to control individuals supporting unethical business practices. In the World Economic Forum survey over 90% of the participants saw that risk management in the areas of supply chain and transportation has become increasingly important in their companies in the past five years. (World Economic Forum 2012, 7; Lintukangas et al. 2015, 4.)

Chopra & Sodhi (2004, 54) divide supply chain risks in the following categories; disruptions, delays, systems, forecast, intellectual property, procurement, receivable, inventory and capacity risks.  Multiple drivers for such risks are related to aspects of corporate responsibility and triple bottom line, such as financial state of the supplier, labor related issues, lack of supply chain visibility and global outsourcing. It is noteworthy to say that risks related to human rights impact and social responsibility may differ from the ones related to operations and service. CSR risks can be identified in low value categories which however in some cases are visible to the customer. Due to this reason the geographical risk rating approach is introduced.

**Geographical risk rating**

International Chamber of Commerce (ICC 2008, 3) states that since many suppliers meet the internationally recognized standards and requirements for corporate responsibility, the improvement actions should be focused on high-risk areas or segments, where they are most needed, effective and to bring change. The KPMG Sector Risk Assessment (2014b, 33) shows that

versatile risks related to corporate responsibility are mainly located in developing geographical areas with low costs together with no appropriate legislation and lack of control for companies' to comply with internationally recognized standards, such as Africa, Asia and Latin America. Risks are located in developing countries despite the industry sector. BSI (2015, 2) lists top five countries for CSR risks, including China, India, Bangladesh, Vietnam and Myanmar. Also some Latin American countries have been identified by BSI to poorly enforce labor laws and to lack adequate health and safety regulations.

When monitoring compliance taking a risk-based approach can help identify the suppliers to focus on, especially when working with a large supplier base (ICC 2008, 6). Earlier mentioned geographical areas should be focused on when considering where to allocate corporate responsibility performance management and improvement actions on efficiently, not to mention keeping the purchasing volume and financial impact in mind to making a greater change.

Utilizing the tools introduced in Chapter 2, such as codes of conduct, standards, assessment and audits along with tools for responsible procurement introduced in 'six steps to responsible procurement' can have a great impact on risk management. Engaging suppliers with legal agreements and supplier codes of conduct is highly efficient.

Steven Culp, the Global Managing Director of Accenture Risk management concludes: "The goal is not to predict what or when – but instead be prepared and able to respond in an informed and planned manner to minimize the impact of a disruption" (World Economic Forum 2012, 10). Well-organized and globally-oriented supply chain management is needed in order for a company to be able to secure their supply with the best possible terms in changing environments (Ernst & Young 2015, 25; KPMG 2014a, 26).

3.4   Opportunities and value creation

This chapter concludes the theory about corporate responsibility in aviation and responsible procurement practices by introducing possible benefits and opportunities for value creation. Models for value creation in corporate responsibility will be introduced along with benefits of standards and reporting and sustainable investments.

Sustainability and traceability in supply chains have been emerging trends and multiple companies have created their own models and programmes for responsible procurement. There is a simple reason for that: multiple studies show that high responsibility companies outperform their low responsibility competitors both in stock market and accounting performance (Eccles et al. 2011, 4; Confino 2014). This can be seen for instance in Unilever's brand portfolio; sustainable brands represent half of the growth and are growing twice as fast as the others (Unilever 2015). The high responsibility companies might perform better because they attract better human resources, have established more stable supply chains, have applicable risk management in place that helps avoid costly conflicts, and invest in innovation to provide more competitive products and services (Eccles et al. 2011, 17). Simultaneously, by choosing corporate responsibility, decision makers and leaders are making sure that companies play a key role in solving the biggest global challenges and making the change (UN Global Compact 35- 36).

Good corporate citizenship demands urgent action from organizations due to multiple reasons. First, government regulations and industry codes of conduct require companies to increasingly acknowledge their impacts. Non-compliance with such regulations has a high cost and such costs can include e.g. penalties, legal costs, potential closure of operations, lost productivity due to inspections and lost brand value due to effects on reputation. Second, maintaining good relations to stakeholders requires identifying the issues that are important for groups such as NGOs and unions. Improving stakeholder communication can build trust and foster loyalty. Positive reputation can improve business performance and

alternatively neglecting meaningful issues to stakeholders can have a cost. Third, behaving as a good corporate citizen can create value through enhanced revenues and lower costs which means managing corporate responsibility is only a justified business decision. Finally, there is no company without a social and moral obligation and it is increasingly meaningful to employees as well. (Epstein 2008, 21-22.)

Responsible procurement aligns with earlier mentioned benefits. Integrating corporate responsibility into the procurement organization and processes can provide decrease in costs and risks along with increase in revenues. Through active collaboration with supply chain stakeholders a better responsiveness to change and a greater visibility across the whole supply process can be achieved and with no organizational boundaries. Such collaboration with the whole value chain can help in identifying, establishing and managing earlier mentioned opportunities.  (Idowu & Lounche 2011, 56; Van Hoek 2016.)

**Value creation**

Corporate responsibility should be approached like any other factor impacting on company value and profitability. Value enhancement can be observed through impacts on the cash flow. Margins can be improved with a higher unit price or lower costs, and the whole supply chain participates on the equation. For instance, with more efficient packaging or logistics planning, the environmental impact decreases along with the unit costs. Also, aspects that effect positively on customer's or their customer's inclination to buy improve sales. Therefore companies should identify the factors in their business practices or in their supply chain that have an impact on profitability through customers' purchase behavior, since customers are increasingly demanding for more responsible business. This can generate opportunities for development, innovations and improve the supplier relationships. Investors have started to pay more attention to such aspects that create new possibilities for forerunner companies, but more importantly create risks for those who do not consider them. Figure 7

describes the value creation in corporate responsibility. (Unilever 2015; Juutinen 2016, 60-61.)
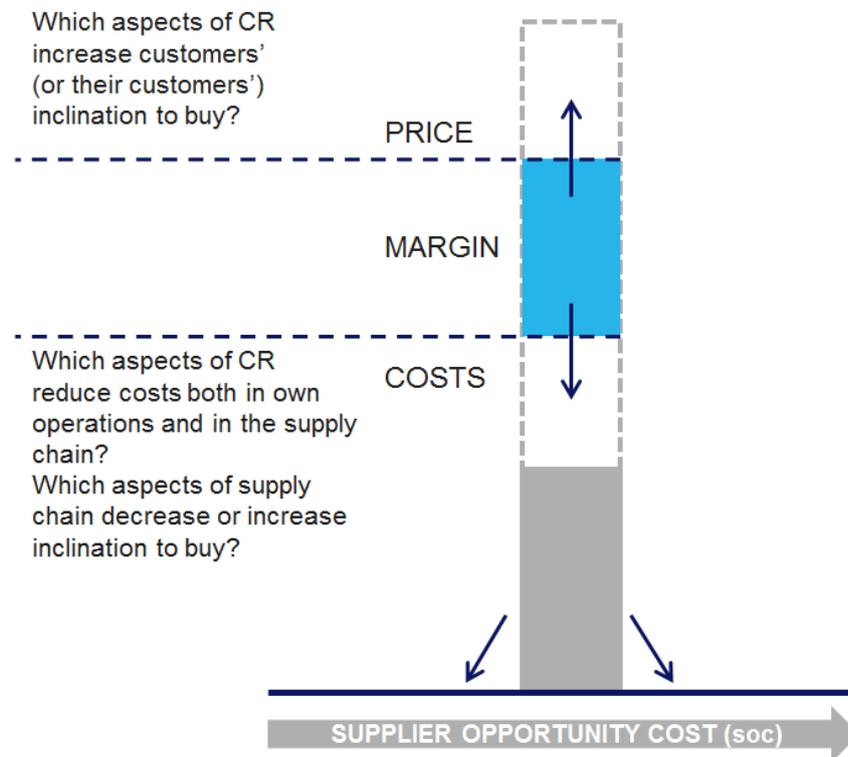


FIGURE 7: Value creation in corporate responsibility (adopted from Juutinen 2016, 60)

Figure 8 describes the value creation model adopted from BHP Billiton. The model describes the direct key benefits of corporate responsibility for the company's value creation on the outer circle and the positive impacts on stakeholders on the inner circle. The benefits on the inner circle include improved standards of living, self-sustained communities, enhanced resource conservation, improved work/life balance, enhancement of biodiversity, enhanced economic contributions and improved stakeholder trust, all of which benefit the business while benefitting the stakeholders, the environment and surrounding society (BHP Billiton 2006, 55).

Even though the model is from their full sustainability report of 2006, the model aligns with and concludes the benefits of multiple studies published more recently.
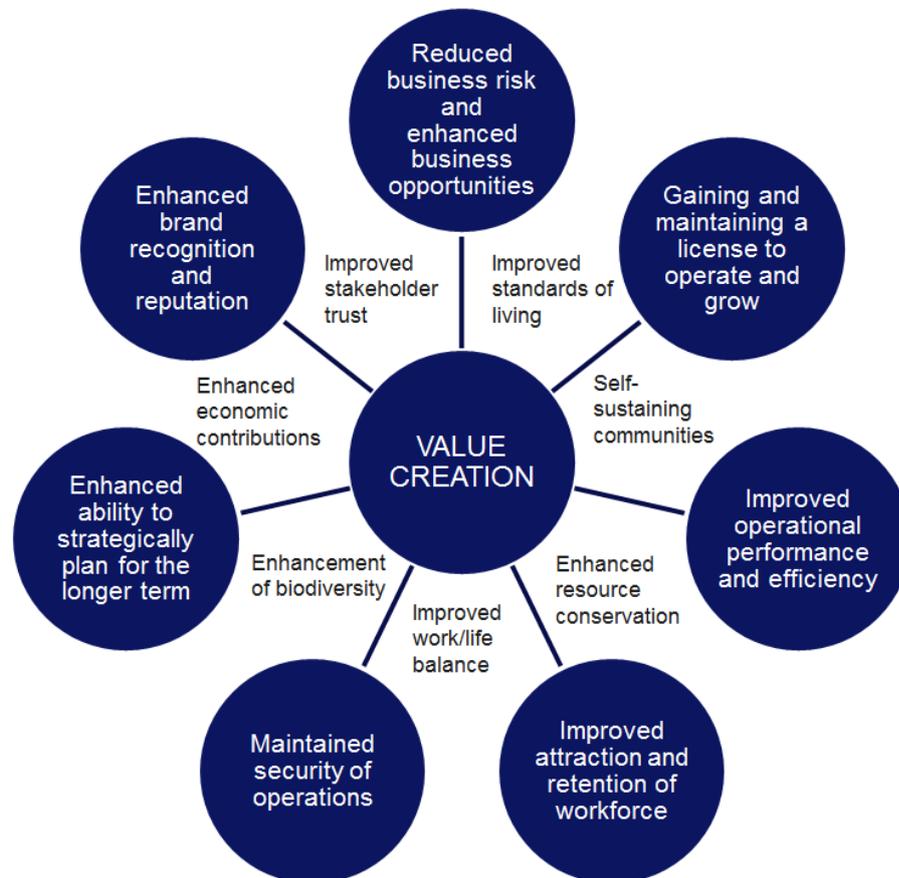


FIGURE 8: Value creation (adopted from BHP Billiton 2006, 55)

The first direct benefit for a company is **reduced business risk and enhanced opportunities** (BHP Billiton 2006, 55). Since no organization is unattached to the surrounding society, markets and environment, they should consider how the triple bottom line effects on their current state and future prospects. Profitability in the long run is seen as how well an organization takes into account the risk factors, adapts to change and manages transformation. An organization that first detects the change and trends will survive, but only if they can adapt to and benefit from the

circumstances. Corporate responsibility is seen as a driver for innovation and renewal of the business especially with the strategic partners, but can generate successful outcomes in the low value categories too. (Juutinen 2016, 23-26.)

Sixty-two percent of the CEOs expect sustainability to mold their industry within the next five years and 76% believe that integrating responsibility into the core of the business and operations will be the way to support revenue growth and new opportunities. Enhanced business opportunities can include expanding new markets due to improved responsiveness to customer needs and expectations along with developing new products in existing revenue streams. (Accenture 2012, 4; Accenture 2013, 36; Juutinen 2016, 59.)

The second benefit is **gaining and maintaining a license to operate and grow** (BHP Billiton 2006, 55). The airline industry is highly reliant on the governmental and international regulation related to operational licensing. According to the Accenture report (2013, 10, 26-27), 80% of the global CEOs consider corporate responsibility as a route to competitive advantage in their industry and 78% as an opportunity for growth and innovation. Juutinen (2016, 59) argues that corporate responsibility helps in maintaining business agility in identifying and exploiting new markets and opportunities, enhancing growth.

The third benefit is **improved operational performance and efficiency** (BHP Billiton 2006, 55). In the current decade there will be an exponential growth curve in how meaningful corporate responsibility is seen as a part of value protection and creation. Efficient and sustainable use of energy and materials provides cost savings. (Flanagan 2016b, 7; Juutinen 2016, 42, 59.)

The benefit four is **improved attraction and retention of workforce** (BHP Billiton 2006, 55). Juutinen (2016, 59) supports the view that workforce will be more attracted and committed, when they can act according to their own values and be proud of the company they work for.

According to World Bank calculations, social capital - together with human capital are estimated to be significant factors for economic growth. Therefore, all actions that add connectivity, cooperation, communication and trust are drivers for an organizations success and profitability when focusing on the social capital. (Juutinen 2016, 33.)

The fifth one is **maintained security of operations** (BHP Billiton 2006, 55). The solutions to keep flying safety and maintaining the operational licenses are driven by partnerships between airlines and governments. Along with safety, long-term sustainability is industry's license to grow. Data security, social instability and finance related risks, all of which have an impact on operational safety, have a higher likelihood on some geographical areas. Therefore transparency and security of global supply chains will become critical for competitive advantage. Airlines are working to identify and assess safety related threads and making investments to stay ahead, since safety is the first priority for the industry. (Ernst & Young 2015, 43; IATA 2016b, 6, 23, 36; World Economic Forum 2016, intro: 3.)

The sixth is **enhanced ability to strategically plan for the longer period** (BHP Billiton 2006, 55). Adams & Zutshi (2005, 208) support the view by arguing that corporate responsibility has an increasing importance in doing business and it can be seen as a vital part of long-term success and survival of companies. Embracing corporate responsibility can lead to innovations, provide competitive advantage and help management to make long-term profitable decisions while engaging customers and employees, Adams & Zutshi add. Eccles et al. (2011, 3-4) argue that high responsibility companies are more long-term oriented by having a long-term oriented investor base, stakeholder management process and approach towards profit maximization.

The benefit number seven is **enhanced brand recognition and reputation** (BHP Billiton 2006, 55). As stated earlier, committing to responsible practices can generate long-term enhancement on profitability through positive company image, and vice versa, neglecting the stakeholder expectations related to corporate responsibility can generate

loss in brand value. Eighty-one percent of the CEOs in Accenture survey see sustainable reputation as an important factor in the consumers' decision making. (Epstein 2008, 21-22; Accenture 2013, 41.)

Company reputation is impacted by multiple forces, such as rational aspects, emotional aspects and communication, some of which are hard to control. Therefore companies should communicate actively about the work they have done regarding to corporate responsibility. When communicating on corporate responsibility, a company should consider its stakeholders and what is meaningful for each group. Emotional aspects are hard to control, and sometimes the inputs do not correlate with an overall image on company's responsibility. All companies want to leave a positive imprint, but creating one is impacted by multiple aspects. A company can manage their communication and public relations, naturally, but controlling how external stakeholders communicate is harder to control. Rational aspects can be controlled, for instance by supporting the messages with facts and reporting. Investing on corporate responsibility can help minimizing negative effects on reputation while creating positive expectations. Finnair has seen this in the improved loyalty among the regular customers. (Flanagan 2016b, 8; Juutinen 2016, 241-242; Ihamäki 2016.)

Journalists are looking for stories that demonstrate business results and innovation through corporate responsibility, and therefore companies should provide unique success stories for media in order to benefit from their commitment, create a positive impact on their reputation and motivate their peers. Accenture (2011, 10) advises companies to build capabilities to engage with consumers on social media platforms, enabling them to have a better understanding on stakeholder expectations for corporate responsibility and create new revenue streams. Active presence and dialogue in social media channels enables companies to enhance their status and steer the conversation. (Accenture 2011, 10; Madden 2016.)

**Benefits of standards and reporting**

Good corporate citizenship demands urgent action and non-compliance with regulation and internationally established requirements has a high cost. Therefore companies need to ensure that their suppliers promote the same principles and practices as they do. According to ISO, standard is a document that provides guidelines, requirements and specifications that can be used systematically as strategic tools for ensuring that products, services and processes are fit for purpose, simultaneously reducing costs by reducing errors, minimizing waste and increasing efficiency. Standardizing can enhance value creation, facilitate fair global trade, help companies access new markets and recognize business opportunities, and equalizes the opportunities for suppliers in developing and low-cost countries. (Epstein 2008, 21-22; Kortelainen 2008, 27; Sustainable Procurement Guide 2013, 26-28, 45-47; ISO 2016a; ISO 2016b; ISO 2016d.)

The value of reporting is that it enables organizations to measure, understand and communicate their economic, environmental, social and governance performance, helping companies in target setting and long-term strategic planning. Nally (2016) trusts that the higher focus in CR reporting will lead to conclusive, well-communicated and justified decision making. Along with the improved decision making, reporting helps companies to be transparent about the risks and opportunities they face enabling a more efficient change management. On the brand point of view, it provides an opportunity to gain and maintain a higher public trust by providing such transparent insights and justifiable decisions. (GRI 2016b; GRI 2016c.)

**Sustainable investments**

As stated earlier, companies identify multiple benefits of reporting, for instance reporting helps improve company reputation and enhance stakeholder relations. Investor however is interested in how a company creates and maintains value, and how risks with negative effects are identified and managed. Reporting can give a better view on the company's adaptability on change and readiness for future challenges,

which is why investors are pushing companies to act and report on ESG – environmental, social and governance - information. Communicating on stakeholders and investor about ESG is an opportunity to show a risk management well-done and ability to turn the possibilities of social and environmental responsibility into profitable business. The brand and reputation risk related to unethical business practices is too high for many investors and they do not want to gain negative attention due to their investments. A company can get more favorable funding due to growth and better responsiveness to change through risk management. Investors are showing more interest on corporate responsibility yet they are unlikely to drive change. Despite of that, 69% of the CEOs believe that the interest of investors will become an increasingly important factor for driving responsibility into the core of the business. (Accenture 2013, 42; UN Global Compact 2015, 41; Juutinen 2016, 42, 50, 99, 242-243.)

## 4   CASE: FINNAIR OYJ

### 4.1   Airline introduction

The airline Finnair was founded in 1923 and is based in Helsinki-Vantaa, Finland. The core business of Finnair Group includes airline business and travel services. Finnair has enjoyed a strong growth by improving year-on-year performance on each quarter, with share price more than doubling in 2015 and passenger number reaching a record high of 10 million. The President and CEO of Finnair, Pekka Vauramo, is proud to say that the airline made significant progress towards its vision and mission in 2015. Success factors, renewed Finnair values, are being reflected in daily operations, processes and ways of working. Table 3 shows Finnair key figures. (Finnair 2016b, 2-3, 85.)

TABLE 3: Finnair Key Figures

| Finnair Key Figures | |
|---|---|
| Industry | Aviation |
| Alliance | **one**world |
| Hub | Helsinki-Vantaa, Finland |
| Destinations | 108 |
| Revenue | 2.3 billion |
| Operating income | 23.7 million |
| Ownership | Finnish Government 55.8% |
| Personnel | 4,817 |
| Passengers | 10.3 million |
| Mission | *To offer the smoothest, fastest connections in the northern hemisphere via Helsinki, and the best network to the world from our home market* |
| Vision | *Unique Nordic experience for our passengers* |
| Values | Courage, Simplicity, Commitment to Care |
| Sources | (Finnair, 2016b, 2-3; Finnair, 2016c, 2-3, 9.) |

Corporate responsibility is critical to Finnair business performance, and is reflected in strategy along with success factors of commitment to care, simplicity and courage. Finnair has reported externally on environmental impacts since 1997 and on corporate responsibility since 2008 by using the GRI framework. Finnair launched human rights assessment in 2015, and will continue to assess also a broader supply chain. In the same year an internal whistleblowing channel was launched with the email address also available for partners. Finnair has gained recognition by being named as the most punctual European airline, the best airline in Northern Europe, the Nordic leader for the quality climate change related information disclosure for investors and global marketplace, and by being awarded with a position on the Nordic Disclosure Leadership Index with a score of 99/100 for carbon disclosure project (CDP) and with a IATA Environmental Assessment (IEnvA) Stage 2 certification. In addition, Finnair was awarded a Gold Medal in the ICARUS sustainability competition in recognition of its position as a leader in sustainability in the travel industry. (Finnair 2016b, 2-3, 86; Finnair 2016c, 13, 34, 85; Ihamäki 2016.)

Finnair has established a corporate code of conduct, which is based on a principle that everything Finnair does must be evaluated against the highest ethical business standards. Finnair Code of Conduct includes good governance, their promise to customers and personnel as subsections. The Code is based on local legislation, liabilities related to EU and US legislation and UN Universal Declaration of Human Rights and principles contained therein. The Finnair Code of Conduct is accompanied by Finnair human rights statement, Finnair GRI report, UN Global Compact commitment and internal policies, such as Finnair procurement policy in which ethical aspects are taken into consideration. (Finnair 2016d; Finnair 2016e.)

Finnair conducted a materiality analysis as a part of GRI report in 2015. The identified material themes and aspects of corporate responsibility are introduced in Figure 9. Purchasing practices and supply chain sustainability are mentioned as its own under 'ethical business conduct and responsible sourcing' theme. Based on theoretical framework the

author sees responsible procurement impacting on multiple aspects listed under identified main themes, such as financial performance and future competitiveness, employee and customer safety and satisfaction, and human rights.
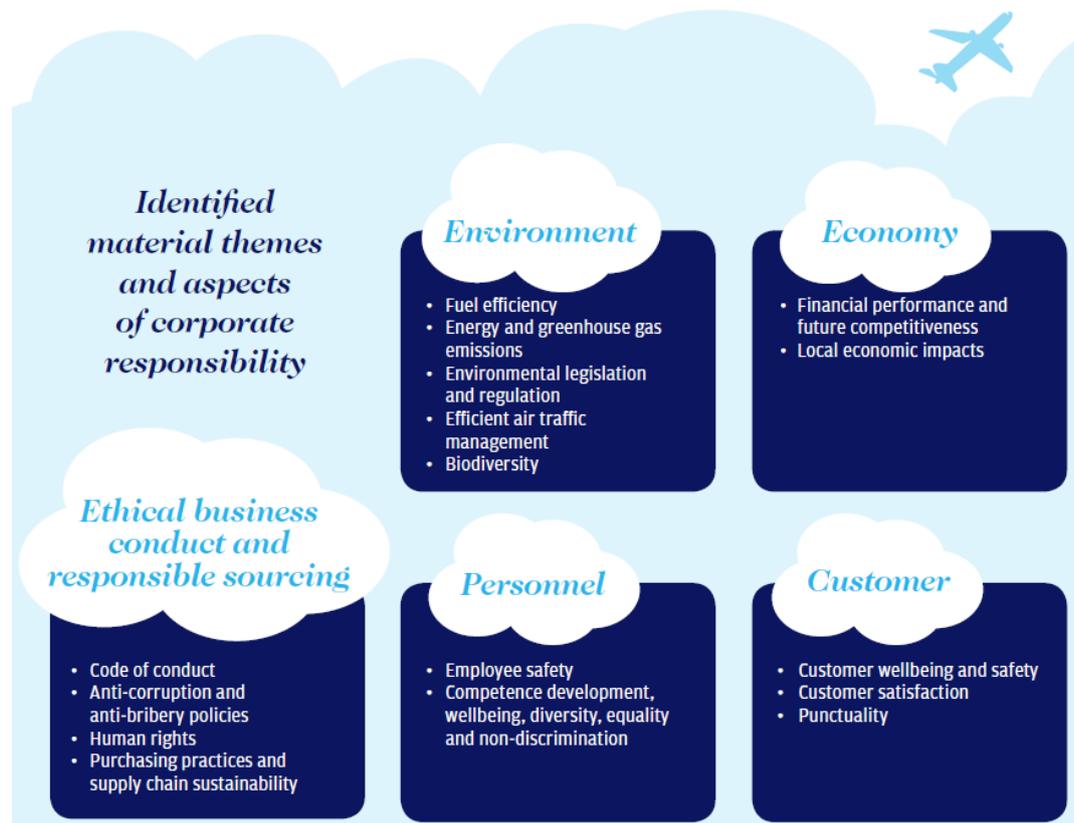


FIGURE 9: Finnair materiality analysis (adopted from Finnair 2016j)

The effort Finnair puts into corporate responsibility could be seen in 2016 when Finnair was upgraded as a prime choice for sustainable and responsible investors. In one of the world's leading ESG rating agency's analysis Finnair's key strength was consistent performance in all areas of CR covered. The strengths included personnel rights and benefits, supply chain responsibility, environmental standards and safety management systems and the eco-efficient and silent fleet. (Finnair 2016i.)

Finnair Procurement Policy sets clear principles to ensure ethical purchasing and states that Finnair expects its suppliers to act according to the same ethical standards. Finnair's procurement operations are based on fair treatment of suppliers. Finnair code of conduct is included as a default in standard terms for procurement. (Finnair 2016d; Finnair 2016e.)

In order to improve monitoring and to develop the methods to assess risks and social impact of its own operations and those of its entire supply chain, Finnair launched a project in 2015 and implemented the SEDEX system as a part of Oneworld cooperation agreement. As introduced earlier, SEDEX is a platform for identifying and evaluating social risk taking place in the supply chain. SEDEX includes self-assessment questionnaire for suppliers, SEDEX members ethical trade audit (SMETA) template and risk assessment tool for evaluating social responsibility risk.

## 4.2   Execution

The preliminary research for the thesis started in February 2016, when the author started her internship at Finnair procurement. Finnair implemented the SEDEX system during Spring 2016, and the main task of the author was to coordinate the implementation of the SEDEX system. During the internship, the writer gained personal experience and took part in corporate responsibility related conferences and airline alliance meetings. The data collection for the thesis was on-going, but the collection of the key resources took place during June and July. The thematic interviews were prepared in the beginning of June and conducted between the 9th and 22nd of June. In August, the interview material was transcribed and analyzed along with the case study. Resources were sorted in August and data was analyzed for the theoretical framework. Between late August and early September the theoretical framework and empiric research were concluded. Figure 10: Thesis execution and timeline, pictures the process.

**2016**

**Feb-May**
Preliminary Research:
Internship
Observational Research
Conferences

**Jun-Jul**
Theoretical Framework:
Data collection
Empirical Research:
Interview preparations
Conducting the interviews 6.-22.6.

**Aug**
Theoretical Framework:
Sorting and analyzing the data
Empirical Research:
Transcription and analysis of the interviews
Case Study

**Sept**
Theoretical Framework & Empirical Research:
Research results and conclusions

FIGURE 10: Thesis execution and timeline

The interviews for the thesis were conducted during June 2016, at Finnair headquarters. The average duration of the interview was 29.04 minutes, the longest one being 40.07 minutes and the shortest one 28.08 minutes. The interview participants were internal Finnair specialists working in different roles: Chief Executive Officer (CEO) & President, Vice President (VP) of Procurement, Director of Corporate Sustainability and Brand Manager. Interviewing Finnair specialists with a broad knowledge in their field of expertise provided unique airline industry view points to the topic. The participants were chosen based on their position, experience and relevance concerning the topics. All participants represent their own field or department, and the airline industry viewpoint.

The semi-structured interview method provided comparable and sufficient amount of information. First, the basic structure for the thematic interviews was built and later the additional role specific questions and alterations were added. The interview did not always follow the structure; some themes or questions were covered before the actual question in the dialogue or they needed to be defined with additional questions later. Interviews were conducted in Finnish, recorded and partly transcribed into text form after. After transcription, the material was studied; the interview results were compared with each other and the theoretical study.

## 4.3   Research conclusions

This chapter will go through the research outcomes and conclusions, which are divided based on the main themes of the thesis. Themes are significance of corporate responsibility for aviation, addressing the increasing stakeholder expectations, responsible procurement and role of supplier partnerships, methods and tools, drivers and barriers, and corporate responsibility as an opportunity for value creation. The following chapters compare the theoretical framework with the case study, which included thematic interviewing.

**Significance of corporate responsibility in aviation**

The airline industry is complex, global, highly competitive and vulnerable to exogenous events and change and therefore optimizing future opportunities and ensuring profitability in the long-run requires awareness of the global megatrends, well-organized risk management and maintained capability to respond to stakeholder expectations, the theoretical framework indicates.

At Finnair, considering the aspects of CR is seen as the basic premise for doing business, establishing partnerships, operating and growing, empiric research found. Finnair approaches the topic of CR by wanting to be prepared and ready for any upcoming regulation and ahead of change. The CEO of Finnair sees that the overall importance of corporate responsibility is increasing continuously and that no company could afford neglecting the topics of CR in their strategy. The Vice President of Procurement aligns by stating that in modern business, and procurement, all aspects of CR need to be in place in order to operate. The Director of Corporate Sustainability notes this higher strategic focus and Finnair top management commitment, and says that the significance of issues related to CR has increased in Finnair strategy during the past years. The VP of Procurement has a straightforward approach on the topic; if CR is not in the focus and a part of the procurement processes, a company can easily lose its face in the business and have a negative impact on the brand

value. The Brand Manager sees CR as one dimension of the Finnair brand and vision of "unique Nordic experience". She states that, in a way, triple bottom line (TBL), introduced in the theoretical framework, lays a foundation for the Finnair brand, and the sustainable, profitable growth goals.

The Director of Corporate Sustainability argues that when talking about airlines, the surrounding society and culture have a huge impact on corporate maturity in the issues of CR. Companies should define their own level of commitment and state of will based on what aspects are helping them to minimize risk and maximize opportunity, the theoretical framework suggests. The Director of Corporate Sustainability introduces the aircraft manufacturers, such as Airbus, taking a stand on CR. The Director of Corporate Sustainability mentions Air France-KLM and jetBlue reporting on CSR and investing on their personnel projects. She mentions SAS providing great reports, Lufthansa taking issues into consideration with their efficiency and Virgin having a fresh touch and great visibility in their campaigns. The Brand Manager highlights Lufthansa with their clear, results-oriented and identifiable communications and personnel approach. The Brand Manager also mentions that even though sustainability is something all large companies need to focus on, no airline has profiled as 'sustainable'. According to the CEO, Finnair wants to be, not necessarily the first, but "the first to be second" in the area of CR, as a small airline operating in an extremely challenging industry.

The airline industry review and the empiric research show that the current focus is highly on the environmental impacts and emissions. The CEO sees the significant environmental impact that accounts for 2% of the total $CO_2$ emissions, as a common challenge of the industry. He states that airlines need to work hard on this matter. The Director of Corporate Sustainability sees the increasing usage biofuels as a quick-fix to environmental stress even though the social impact of biofuel supply chains might be questionable. The social impact of the operations and supply chain is not measured and reported in the same level of detail and higher attention should be paid, the author suggests. The Director of

Corporate Sustainability says that IATA notices the increasing importance of supply chains and corporate social responsibility. The positive impacts on society, such as higher connectivity enabled, improved market accessibility and jobs created, however are highlighted in in industry communication in order to make air transportation socially more acceptable, the theoretical framework shows.

Overall approach was positive despite of the organizational borders; CR was seen as a "must" instead of arguing a question of whether to commit to it or not. The participants across the organization align with the theoretical framework and seem to be very conscious about the key drivers for CR. The Director of Corporate Sustainability sees the whole organization, even the Executive Board, being very active and committed to topics related to corporate responsibility, also in the dimension of supply chain. She states that this internal ambition is noteworthy, since in many companies the decision makers still resist the development in the areas of CR due to seeing it as additional cost or work.

**Addressing the increasing stakeholder expectations**

According to Finnair (2016f), a successful service company is one that listens to its customers and to the marketplace at large. The theoretical framework indicates that the stakeholder expectations towards multi-national companies are increasing and that a company is no longer accountable for their own action but also the practices their supplier partners support. The stakeholder requirements encompass the supply chain. In the aviation industry, the customer buys an abstract service package: the flight and the by-products. Airline passengers have not required the same level of detail in corporate responsibility and transparency as in more concrete purchases, The Director of Corporate Sustainability and the CEO recognize. The Director of Corporate Sustainability assumes that the lack of reporting on supply chain traceability might be the reason for not receiving comments from the customers, or vice versa.

The CEO and Director of Corporate Sustainability want to keep a critical approach on the discussion of the stakeholder expectations and requirements. The CEO states that the surveillance customers do, is noble, as long as it does not contain extreme or political approaches. Careful consideration is needed when commenting on public discussion, since the discussion can contain quite a lot of opinions and national approaches. The CEO states that more important than the country of origin is that the supply chain operates according to the same internationally established standards and that the ethical aspects are secured, along with the best price and quality. Finnair wants to make its own contribution on society and CR, and ensure that it operates according to internationally accepted principles.

The Director of Corporate Sustainability and CEO see NGOs and civil society acting as watchdogs for large corporations, bringing the pressure, and having a powerful voice in the conversation with governments. NGOs are usually heard as consultants in the issues of CR, and therefore maintaining a good relationship and open communication is important. According to the Director of Corporate Sustainability, industry-wide CR initiatives start from the individual cases that gain visibility in the media, and in which airlines need to respond to.

The empiric part of the thesis shows that instead of private customers, corporate customers of other large companies and governments are the key drivers of CR in the industry. All participants recognize CR as a pre-qualification in the airline industry for doing business with other global companies, suppliers and governments. The CEO and VP of Procurement bring up the importance of CR in tendering and contract renewal. Even Finnair itself has been in situations where the ethicality of their practices and supply chain has been questioned when acting as a seller. The CEO believes that the importance of such topics will continue growing and therefore the industry needs to take an even higher focus on CR.

The theoretical framework introduces governments representing the civil society and enforcing legislation and regulation for companies. All

participants see governmental ownership bringing higher media visibility, which increases the required level of responsibility. The Director of Corporate Sustainability sees the governmental ownership bringing slightly more pressure towards Finnair, not only as an employer but also how the business and operations impact on society. The VP of Procurement notices the higher focus on ethicality and aspects of supply chain, generated by the governmental ownership. The Brand Manager and Director of Corporate Sustainability see natural interest towards airlines being higher and therefore the responsibility related topics gain additional attention. Both, empiric and theoretical parts show that no airline can afford serious reputational damages in this highly competed market.

The Brand Manager sees transparent reporting and open communication having an important role when addressing stakeholder requirements, as shown in the theoretical part. She argues that only through operative choices and investments on sustainability, Finnair brand genuinely indicates corporate responsibility, communicates its values and fulfills customer promises. Investment in a more eco-efficient and silent fleet of A350s was mentioned throughout the interviews.

**Responsible procurement and role of supplier partnerships**

The comparison of the interview results and the theoretical framework shows that airline industry specialists are highly conscious of the importance of the topic to their stakeholders and society, and align with the studies and theory.

As the theoretical framework shows, the challenge in most cases is the long, global supply chains with high volumes and difficulties in traceability. Finnair acknowledges the importance of traceability from the risk management's point of view, and therefore has started to put more effort to improve the traceability of its supply chain. All participants maintain the social concern towards the widely spread agent and supplier networks of airlines, which may be hard to control.

The CEO addresses the question of how CR should be taken into account in procurement by bringing up that aviation industry itself is highly regulated and that industry specific equipment, parts and components are sourced from highly regulated chains, as the theoretical framework based on IATA's publications introduces. The products and services sourced from second - even third tier, coming from long supply chains and networks of agents and containing a competition aspect of the best price, are seen as the actual challenge. CEO states that such products or services go through an even tighter screening every time they are renewed.

The Director of Corporate Sustainability, VP of Procurement and CEO see that supply chains can contain versatile problems, especially when sourcing from developing countries with differences in legislation and business practices. The VP of Procurement recognizes the challenges, such as how to get into an understanding with suppliers based in exotic countries, where the cultural atmosphere, laws and practices vary. When building new connections and unique route pairs, the airline industry procurement faces such situations in multiple steps of the process. Also ethicality of the monopolistic suppliers is seen as a challenge for the airline, due to their high negotiating power and direct impact on business. For example, when flying to Cuba, where the supply relationships are mostly monopolistic, the bargaining power of an airline reduces in the terms of CR as well, the VP of Procurement describes. Sometimes the suppliers are bigger in the market cap than Finnair and that also creates pressure in the procurement process.

All participants align with each other and the theory; the role of the partners is significant for Finnair's strategy and they are an enabler when it comes to global operations and cost efficient growth. According to the the Brand Manager, the service partners and suppliers provide is seen as a service of Finnair, from the customer's point of view. The Brand Manager brings up the fact of the high impact of partners on the customer experience, and the experience needs to meet the expectations. Supplier partners are seen representing the Finnair brand.

In theory, the implementation of CR into strategies, processes and operations seems challenging and time consuming, especially when hoping to engage the second or third tier of the supply chain. The industry specialists seem committed and hopeful, when it comes to this challenge and see it as an opportunity to stay ahead of their competitors and legislation.

The participants saw the current supply chain responsibility maturity being excellent compared to industry peers, but when comparing to large international companies, Finnair was seen as mediocre or even as a beginner. The Director of Corporate Sustainability specifies, that Finnair has continuously improved their performance in supply chain responsibility along the years. For example, by establishing a supplier code of conduct, however the systematic evaluation and monitoring has been missing, since CR has not been in the determining aspect of the contracts or supplier selection. The VP of Procurement recognizes supplier selection and contracting as critical steps in integrating corporate responsibility into procurement processes, which according to the author indicates change in the internal atmosphere. Implementing the SEDEX system is progress and momentum can be seen. However, there is still a lot to do in order for us to be able to say that our supply chain is responsible and transparent, states the Director of Corporate Sustainability. Apart from the flight safety and airline operations, in which Finnair is world class and the processes are extremely developed, there is a room for improvement, the CEO agrees.

**Methods and tools for integrated corporate responsibility**

The theoretical framework introduces efficient methods for successful implementation of corporate responsibility, such as open communication with stakeholders, transparent decision making, setting clear requirements and responsibilities, collaboration, sharing best practices, increasing knowledge and spearing awareness, measurement and reporting. The theoretical framework found tools for improving corporate responsibility, such as stakeholder materiality analysis, UN Global Compact, Standards and principles (e.g. ISO14001, SA8000), ethical data platforms and

management tools (e.g. SEDEX), reporting (e.g. GRI), corporate policies, codes of conduct and whistleblowing systems.

The theoretical framework introduces methods for responsibility integrated to procurement processes, such as careful selection of the supplier, procurement function acknowledging the impact of their actions, ensuring supplier compliance along with engagement and motivation. The framework found tools for integrating responsibility into procurement, such as supplier codes of conduct, supplier requirements, RFP tool, risk-assessment and self-assessment tools, debriefings for unsuccessful tenderers, supplier instructions (e.g. leaflet), audits, channels for communication and key supplier programmes. The table of methods and tools can be found in the appendices, Appendix 2.

Based on personal experiences, publicly available material and interviews, the case company Finnair uses at least the following methods and tools introduced in Table 4.

TABLE 4: Finnair supported methods and tools

| Finnair supported methods | Finnair supported tools |
|---|---|
| • Embracing international and local laws and established principles<br>• Open communication with stakeholders (e.g. NGOs and government)<br>• Expecting supplier to comply with the same ethical standards as Finnair does<br>• Collaboration with industry members (e.g. **one**world alliance)<br>• CR in annual reporting and communications<br>• CR integrated to procurement practices (e.g. supplier selection, contracting)<br>• Spreading awareness among supplier partners<br>• Engaging suppliers (e.g. SEDEX platform) | • Corporate policies (e.g. procurement policy)<br>• Code of Conduct, Supplier Code of Conduct<br>• UN Global Compact<br>• GRI reporting template (with stakeholder materiality analysis)<br>• CR as a part of RFP tool<br>• CR in standard terms for procurement<br>• Tools for identifying supplier to focus on<br>• SEDEX<br>   • Self assessment questionnaire<br>   • SMETA-audit<br>   • Risk assessment tool<br>• Channels for communication<br>• Internal whistleblowing system |

The VP of Procurement and the Director of Corporate Sustainability introduce Code of Conduct as a powerful tool, not only for communicating on ethical practices and values of a company, but also for creating legal obligation and pressure to follow such agreed upon principles and developing cooperation and enhancing awareness in supply chain. The VP of Procurement sees improving supplier selection process and integrating the aspects of CR into the RFP tool as a first step in addressing the current requirements and managing risk. Principles stated in the code of conduct are communicated and requested in request for proposal (RFP) tool along with the requirements related to the SEDEX platform. Ethical requirements are included in standard contract terms. Through contract renewal a higher supplier responsibility performance can be achieved among the supplier base. Even if the full supplier base coverage could not be achieved immediately, the policies and internal processes need to be in place in order to address possible negative findings, according to the VP of Procurement. All participants recognize that the possibility for unexpected, negative discoveries in the supply chain should be minimized, since they have a high cost on reputation and therefore an influence on the share price.

The VP of Procurement trust that the importance of ethical supplier database systems, such as the SEDEX (Supplier Ethical Data Exchange) will increase in the supply chain responsibility performance management and risk management. As the theoretical framework shows, SEDEX provides multiple tools for integrated corporate responsibility at once, such as self-assessment, ethical audit template and risk-assessment tool.

The theoretical framework suggested that CR should not be only an individual project or function at the headquarters but instead assigned to subsidiaries, outstations and suppliers as well. Internal knowledge transfer is still a field of improvement for Finnair. Internally all employees should know how their organization commits to CR and know how they can support responsible practices and CR objectives in their daily work and decisions, according to the Director of Corporate Sustainability.

Knowledge transfer and communications channels along with applicable tools for development should be in place both in internal and external dimensions, theory suggests. In order to achieve greater change cooperation among alliance members is needed along with an efficient allocation of actions on high importance suppliers located in risk-rated geographical areas. The VP of Procurement recognizes multiple companies creating manuals for their suppliers that give guidance and instructions on how they are expected to behave, against of which their partners are being audited after. Finnair however has not published such manual yet. Establishing and publishing ethical supplier guidelines could be a suggestion for improvement.

To conclude, the theoretical framework and empiric research highlight the power of communication, organizational commitment, setting clear requirements, spreading awareness, cooperating, being prepared by having internal processes in place and sharing best practices.

**Drivers and barriers for corporate responsibility**

The theoretical framework describes key drivers for corporate responsibility such as support from vision, culture and strategy, requirements, company policies and value enhancement opportunities, accompanied by integration to strategic and operational decision making, measurement and taking a systematic risk management approach. The theoretical framework introduces involvement of employees as an internal key driver along with committed top management, open and well-structured communication and actual understanding of the impact of global and local actions. The external key drivers were legislation, regulation, industry competition and stakeholder pressure.

The key drivers are in place at Finnair; the company takes corporate responsibility into consideration in their vision and strategy, has established code of conduct, procurement policy and supplier requirements, has committed leadership and CR as a part of decision making and risk management, and communicate about corporate

responsibility publicly. Integration to strategic decision making, understanding and measuring the social impact of operations however is not as developed ad it could be. Based on personal experiences and interviews, internal communications on how Finnair commits to CR could be improved.

In order to study the participants' personal commitment, the participants were requested to describe their motives toward their career, field of industry and corporate responsibility. The CEO wanted to bring positive changes to Finnair, focusing on the growth and the people, in a way that people could be proud to work for Finnair.  He also mentioned that Finnair needs to continuously improve in the metrics of CR. The Director of Corporate Sustainability is passionate about the CR aspects of the industry and would like to widen the scope and discussion from individual cases into commitments of the entire industry. She wants the Finnair brand to be seen as responsible, and bring the responsibility into the customer processes too in terms of equality and communication. The VP of Procurement sees the consideration of supply chain responsibility, equality of principles and well-being of the personnel across the organization as elements of managerial position. The Brand Manager wants to bring the Nordic feeling on travelling and customer experience, and maintain the Finnair brand as reliable, trustworthy, safe, functional, professional and responsible as it is seen currently, according to brand studies.

The theoretical framework introduces costs, lack of skills and commitment, uncertainty, lack of supplier commitment and oligopolistic competition as key barriers for corporate responsibility. Based on the interviews and personal experiences, lack of resources, lack of supplier commitment and oligopolistic competition were the greatest barriers for CR at Finnair. The VP of Procurement adds that the lack of time is a great challenge, even though the people and the organization would be willing and committed to the efforts and saw CR as a part of long-term value enhancement.

**Corporate responsibility as an opportunity for value creation**

The theoretical framework introduces opportunities for value creation, such as:

- Reduced business risk and enhanced business opportunities
- Gaining and maintaining a license to operate and grow
- Improved operational performance and efficiency
- Improved attraction of workforce
- Maintained security of operations
- Enhanced ability to plan for the longer term
- Enhanced brand reputation
- Being seen as a sustainable choice for investors and other providers of capital.

Finnair specialists are extremely conscious about the possible opportunities and could introduce examples across the organization. All participants introduce dimensions and aspects of CR impacting on profitability in their field of expertise. The following opportunities were mentioned:

- Reduced reputational risk
- Attraction of more committed and talented workforce
- Maintained safety of the operations
- License to operate
- Improved performance through newer fleet and better suppliers.

The theoretical framework states that high responsibility companies outperform low responsibility ones, and that multiple studies show correlation between corporate responsibility and profitability in the long run. The argument was introduced to participants. The Director of Corporate Sustainability as well wants to keep a critical approach on the argument by saying that companies who take into account their environment, society and trends, tend to be successful on other areas too, which has an impact on the correlation. The CEO does not see the direct link between profitability and CR in the industry, apart from the safety aspects related to flying and general expectations towards large multinational companies. Corporate responsibility and sustainability in general are considered as good for the people and society; companies

need to trust that if it is so, in the long-run they must be good for the business as well, the CEO continues.

The VP of Procurement on the other hand agrees with the argument, by saying that correlation can be seen in procurement; if supplier's processes are developed, typically the aspects of CR are taken into consideration as well, which makes them a better supplier. He sees CR being beneficial for both, supplier and the customer. The VP of Procurement does not see CR as an additional cost, but instead he believes that CR would have a beneficial impact on the total cost of ownership (TCO). He continues that there needs to be only one accident or finding to have a negative impact on TCO, reputation, share price and sales.

The Director of Corporate Sustainability brings up the energy and fuel efficiency as an individual aspect having an impact on cost structure of an airline and therefore being a focus area for continuous improvement. Another aspect of CR is the personnel. The CEO and Director of Corporate Sustainability bring up the aspect of well-being of the people, which has an impact on customer satisfaction, quality and equality of the service. The Director of Corporate Sustainability brings up the employee engagement; employees need to be able to align with strategic and operational choices and values of a company in order to be able to commit and support Finnair during the strong growth period. The CEO wants to lead the growth and increase the market share in a way that people and customers keep up with the expansion.

Participants see that ultimately all existing CR initiatives correlate with efficiency, competitiveness and profitability, one way or another. For example when people with special needs are taken into account and handled well of the airport, it has an impact on overall operational efficiency of the airport. The author supposes that Finnair has succeeded in the overall implementation and communication of CR better than expected, since all participants were able to show examples on how CR and Finnair values can be seen in their field of industry and organization.

The research generated development suggestions for Finnair. Finnair could focus more on the subsidiaries and out stations that should be informed better about the on-going CSR work. Internal communications should be developed cross-departmentally, so that personnel would be aware of the internal projects and how the challenges of corporate responsibility have been addressed, as the Director of Corporate Sustainability said. The theoretical framework mentioned development and key supplier programmes as a tool for engaging and motivating suppliers along with industry member cooperation, establishing such programme among the alliance or with a partner airline could provide innovative outcomes and opportunities. The VP of Procurement mentioned other companies having guidelines and instructions for suppliers, which would be a key improvement in spreading awareness and increasing knowledge among the suppliers, even among the ones not willing to agree on the code of conduct or to join the SEDEX system.

## 4.4  Reliability and validity

Reliability and validity as terms describe the trustworthiness and accuracy of the research findings. Reliability describes how repeatable the research findings are, meaning that can the same result be achieved if the research would be repeated. Validity describes the proficiency of the research; how well the research corresponds to the research question and how well-founded the study is. (Hirsjärvi et al. 2004, 216-218.)

The interview participants' long industry experience impacted on the reliability positively. The participants experience, viewpoint and industry outlook were the most important factors when researching how the organization sees role of the procurement and supply chains in the overall implementation of the CR strategy. The participants had a sufficient amount of knowledge, experience and outlook on the airline industry for providing reliable information on the topic. To improve the reliability of the research, the interviews were recorded and transcribed carefully after.

When evaluating the reliability of the research, it is important to consider that there was a limited amount of participants with subjective opinions and views, which will not necessarily represent the overall views of the organization or the industry. The results can be considered as a basis for future study and development.

The research questions were carefully formed in a way that all participants would understand them despite of the level of their knowledge on the topics of CR. The interviews were prepared and conducted simultaneously with the data collection and theoretical framework, due to the schedule and availability of the key participants. Interview questions were relevant and substantial for the research. The aim was to keep interpretation as objective as possible and to collect the most relevant information, when summarizing and clarifying the interview material into more literal in the transcription. The recorded data was first transcribed in Finnish, and then analyzed in English, to minimize the possibility of error and deviation in the informational content, and to maintain the originality of the interview answers for later use. In conclusion, the thesis corresponds with the research problem and answers to research questions, which was achieved by choosing the right research methods and target group together with versatile sources for theoretical background making the research valid.

## 4.5   Suggestion for further research

The thesis generated topics for further research. Since the topic of integrated corporate responsibility, especially in supply chain management is rather new, it seems that the companies who are actually using the existing tools have not reported on the change and business impact yet. The reduction of risk and increased transparency is acknowledged but the measurement still lacks. Establishing a measurement system or KPIs for evaluating corporate social responsibility impact would be essential. Following the company's improvement against these metrics would be a timely and value adding topic for a thesis. The thesis did not measure the true impact and coverage of a global supply chain, which would be

interesting as a thesis topic as its own. Empiric research suggested that CSR would correlate with supplier total performance and therefore the author recommends correlation study as a topic for future research.

To conclude, suggestions for further research could be the following; CSR impact and coverage of a global supply chain, establishing measurement system for CSR and evaluating company's development against these metrics, key stakeholder materiality analysis, CSR in supplier relationship management, correlation study on CSR and supplier total performance and development of an ethical key supplier programme.

## 5 SUMMARY

The thesis has set out to explore the topic of corporate responsibility (CR) in the airline industry procurement. The objective of this thesis was to provide a better understanding on corporate responsibility as a response to global megatrends and to study the role of procurement and supplier partnerships. A secondary, yet an equally important objective, was to research how the industry sees the importance, possibilities and challenges of CR in light of theoretical background, and how Finnair considers CR in their procurement processes.

The qualitative research methods utilized in this thesis; case study and semi-structured thematic interviewing, were found appropriate. The empiric research aimed to bring dimensions to the theoretical framework and achieve a better understanding on the airline industry specialists' approach on the topic. The purpose of the thesis was to answer the main research question, which was:

> How could an airline improve their ability to address global
> challenges and opportunities by improving their corporate
> responsibility?

Global megatrends, such as empowerment of the East, resource stress and economic interconnectedness, increase stakeholder expectations towards large multi-national companies in addressing the challenges. Stakeholders, such as governments, NGO's and consumers require increasingly higher transparency and traceability from companies, especially in the field of supply chain and procurement. After reviewing an extensive amount of corporate responsibility literature and theories on possible benefits and value increase good corporate citizenship could generate the author can say that investing on corporate responsibility is investing on the profitability in the long-run. Six main factors were identified based on the theoretical framework and empiric research: preparedness for change, improved safety and efficiency of the operations, license to operate and grow, improved and maintained

company reputation and social acceptance, reduced business, brand and supply chain risk and engaged and committed employees and supplier partners. Theoretical framework proposes competitive advantage as the seventh one, which in the opinion of the author is the sum of the six main factors introduced above.

The author had secondary research questions in order to focus the research even more:

> How is the role of procurement and supplier partnerships seen in the implementation of corporate responsibility?

> How does Finnair consider corporate responsibility in their procurement processes and utilizes the existing methods and tools?

The research indicates that a company is seen as responsible as its supply chain and therefore the role of the procurement and supplier partnerships is significant for the corporate responsibility to be valuable for a company and its stakeholders. Corporate responsibility needs to be integrated in order to make the commitment genuine and bring most change and the industry has started to recognize this on umbrella organization level. Long multi-tier supply chains are seen as a challenge in general, but the airline specialists seem optimistic and see integrating corporate responsibility into procurement processes and practice necessary, beneficial and as an opportunity for better supplier partnerships and higher quality of service. Supplier partners represent the service and brand of an airline and act as an enabler when it comes to strategy.

The author found multiple well-established methods and tools for integrated corporate responsibility, many of which Finnair utilizes. Finnair has established baseline for responsible procurement in internal corporate policies and code of conduct. Finnair has a risk based approach in supplier selection and certain ethical requirements are requested in request for proposal phase. Ethical principles need to be well-communicated and integrated into contracts to be legally enforceable and

therefore supplier code of conduct is attached as a default in all procurement contracts along with the requirements for monitoring ethical supplier compliance through the SEDEX system, which contains supplier self-assessment questionnaire, SMETA-audit and risk assessment tool. Finnair is actively cooperating among the industry alliance in order to increase knowledge transfer and build momentum into industry supplier engagement, especially in cases of oligopolistic suppliers.

The author was able to provide answers to the research questions along with some development suggestions and topics for further research. The author trusts that the thesis provides encompassing background for any procurement organization hoping to improve their corporate social responsibility and revised approach for the continuum of the SEDEX project at the case company Finnair. One of the most prominent messages of this research is that internal and cross-departmental communication is needed so that all employees know how they can impact with their actions and managerial decisions. This allows justified decision making for all and the airline can make an even greater positive impact on society while improving their ability respond to global challenges.

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APPENDICES

Appendix 1: Interview structures

20160608Interview1PVVantaa.m4a

1.  How do you feel about sustainability/responsibility when building company image and getting towards the vision? How meaningful is corporate responsibility for Finnair strategy?

2.  Since consumers require more traceability and transparency from the companies (which can be seen also in purchase behavior and as increase in CSR regulations) - how do you imagine the airline industry responding to higher CSR focus in the future?

3.  Studies show correlation between CSR/sustainability and profitability of the companies in the long run – Can it be seen in the airline industry? How can responsibility be implemented in airline industry strategies and operations → and turned into value?

4.  How do you see the role of the procurement and partnerships when implementing Finnair strategy? How should responsibility be taken into consideration in procurement processes (supplier selection, contracting, supplier relationship management, CSR follow up)?

5.  How do you see the current supply chain responsibility management maturity in Finnair?

6.  Do you think that publicly owned companies are expected to have a higher responsibility and thus get more attention from the media?

20160621 Interview2KIVantaa.m4a

1.  How do you see sustainability/responsibility in an airline industry? How meaningful is corporate responsibility for Finnair strategy?

2.  What is the current trend in the airline industry when talking about CSR, sustainability and responsible procurement?

3.  Which companies have managed to implement sustainability/responsibility into their processes and as a part of their business image successfully? Are there any airline examples?

4.  Since consumers require more traceability and transparency from the companies (which can be seen also in purchase behavior and as increase in CSR regulations) - how do you imagine the airline industry responding to higher CSR focus in the future? What will be the challenges?

5.  Studies show correlation between CSR/sustainability and profitability of the companies in the long run – Can it be seen in the airline industry? How can responsibility be implemented in airline

industry strategies and operations → and turned into value to motivate the decision makers (e.g. EB) into making more sustainable choices?

6. How do you see the role of the procurement and partnerships when implementing Finnair corporate responsibility strategy? How should responsibility be taken into consideration in procurement processes (supplier selection, contracting, supplier relationship management, CSR follow up)?

7. How do you see the current supply chain responsibility management maturity in Finnair?

8. Do you think that publicly owned companies are expected to have a higher responsibility and thus get more attention from the media?

9. Additional – What do you hope to accomplish working with airline sustainability?

20160622 Interview3VHVantaa.m4a

1. How do you feel about sustainability/responsibility when building a seamless supply chain and getting towards the procurement objectives? How meaningful is sustainability/responsibility for Finnair procurement?

2. Since consumers require more traceability and transparency from the companies (which can be seen also in purchase behavior and as increase in CSR regulations) - how do you imagine the field of procurement responding to higher responsibility focus in the future?

3. Studies show correlation between CSR/sustainability and profitability of the companies in the long run – Can it be seen in the field of procurement? How can responsibility be implemented in airline industry procurement → and turned into value (total cost of ownership?)

4. How do you see the role of the procurement and partnerships when implementing Finnair strategy? How should responsibility be taken into consideration in procurement processes (supplier selection, contracting, supplier relationship management, CSR follow up) ?

5. How do you see the current supply chain responsibility management maturity in Finnair?

6. What is the current trend in procurement when talking about sustainable supply chains and responsible procurement? What are the benchmarking companies, especially in an airline industry?

20160622 Interview4TKVantaa.m4a

0. How do you see the Finnair image and brand? How is Finnair seen among other airlines? What is the Finnair brand target?

1. How do you feel about sustainability/responsibility when building Finnair image and getting towards the brand target? How meaningful is sustainability/responsibility for Finnair brand - and for our customers?

2. Since consumers require more traceability and transparency from the companies (which can be seen also in purchase behavior and as increase in CSR regulations) - How do you imagine Finnair brand responding to higher responsibility focus and developing in the future?

3. Studies show correlation between CSR/sustainability and profitability of the companies in the long run – Can it be seen in the airline industry? How can sustainability/responsibility be implemented in airline industry branding and storytelling → and be turned into brand value?

4. Which companies have built sustainability into their brands successfully? Which airlines have done the branding well?

5. How do you see the role of the procurement and partnerships when building Finnair brand?  How can responsible procurement benefit company image?

6. Do you think that publicly owned companies are expected to have a higher responsibility and thus get more attention from the media?

## Appendix 2: Interview recordings 2016

| Corporate Responsibility in Airline Industry Procurement: Interview Recordings 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| File | Date | Interviewer | Interviewee | Gender | Company | Title | Recording instrument | Duration |
| 20160608Interview1PVVantaa.m4a | 8.6.2016 | Jasmiina Klemettinen | Pekka Vauramo | M | Finnair Oyj | CEO | Sony Xperia Z3 | 31,55 |
| 20160621 Interview2KIVantaa.m4a | 21.6.2016 | Jasmiina Klemettinen | Kati Ihamäki | F | Finnair Oyj | Director, Corporate Sustainability | Sony Xperia Z3 | 40,07 |
| 20160622 Interview3VHVantaa.m4a | 22.6.2016 | Jasmiina Klemettinen | Ville Halonen | M | Finnair Oyj | VP, CPO | Sony Xperia Z3 | 18,07 |
| 20160622 Interview4TKVantaa.m4a | 22.6.2016 | Jasmiina Klemettinen | Taru Kettunen | F | Finnair Oyj | Brand Manager | Sony Xperia Z3 | 25,54 |

# Appendix 3: Methods and tools for integrated corporate responsibility

| | Corporate responsibility | Responsible procurement | Case: Finnair Oyj |
|---|---|---|---|
| **Methods** | • Supporting international laws and established principles<br>• Collaboration with supplier partners and industry members<br>• Strategic CR<br>• Open communication with stakeholders, such as government and NGOs<br>• Monitoring and reporting | • CR integrated to procurement practices and management decisions<br>• Setting clear requirements<br>• Careful selection of the supplier<br>• Responsibility as part of the request for proposal (RFP)<br>• Performance evaluation and measurement<br>• Increasing knowledge and spearing awareness<br>• Responsibilities, roles and management model<br>• Transparency in communication and decision making<br>• Collaboration, engagement and motivation | • Embracing international and local laws and established principles<br>• Expecting supplier to comply with the same ethical standards as Finnair does<br>• Collaboration with industry members (e.g. **one**world alliance)<br>• CR in annual reporting<br>• CR integrated to procurement practices (e.g. RFP, contracting, evaluation)<br>• Spreading awareness (e.g. supplier day)<br>• Engaging suppliers (e.g. SEDEX platform) |
| **Tools** | • SMART targets<br>• Stakeholder materiality analysis<br>• UN Global Compact<br>• Standards and principles (e.g. international labour standards, OECD Guidelines, ISO14001, SA8000)<br>• Ethical data platforms and management tools (e.g. SEDEX)<br>• Reporting (e.g. GRI)<br>• Corporate policies<br>• Codes of Conduct<br>• Whistleblowing system | • Procurement policy<br>• Supplier Code of Conduct<br>• Supplier requirements<br>• Tools for identifying the supplier to focus on (e.g. ABC analysis, portfolio purchasing model, geographical risk rating)<br>• RFP tool<br>• Standard terms and attachments<br>• Risk-assessment tool<br>• Self-assessment tools<br>• Debriefings for unsuccessful tenders<br>• Supplier instructions (e.g. leaflet)<br>• Performance evaluation tool (e.g. KPI)<br>• Practices and tools for auditing<br>• Channels for communication (e.g. meetings, feedback channels, satisfaction measurement)<br>• Development and key supplier programmes | • Corporate policies (e.g. procurement policy)<br>• Code of Conduct, Supplier Code of Conduct<br>• UN Global Compact<br>• GRI (with materiality analysis)<br>• CR as a part of RFP tool<br>• CR in standard terms for procurement<br>• Tools for identifying supplier to focus on<br>• SEDEX<br>  • Self assessment questionnaire<br>  • SMETA-audit<br>  • Risk assessment tool<br>• Internal whistleblowing system |