LAB University of Applied Sciences

Corporate Social Responsibility in Supply Chain Management

Socially Responsible Procurement in the Food Industry

Abstract

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Globalization increases the pressure of competition on businesses around the world. Businesses must adjust to opportunities and protect themselves from threats that globalization brings. Due to globalization, competition among companies grows. Popular aspects where competition challenges occur are the environmental, and social responsibility of the companies. In the supply chain, buying companies face a huge challenge in becoming socially responsible especially in their procurement process. Stakeholders, government authorities, and customers influence a company's business performance. Stakeholders are not only interested in the company's profit but also in the effects of the business operations on society and the environment. Customer's buying behavior has also changed during the years. Customers are now aware of how they are responsible for purchasing products and services. Also, government authorities regulate the market and encourage businesses to be in line with their program in corporate social responsibility. To be globally competitive and maintain a good business reputation, a company must take into account the social and environmental issues more seriously than before.

This thesis was done through interviews and research. The interviews were conducted remotely. The interviewees were a CSR Manager from a Finnish food company and a CSR expert. The thesis aimed to determine the factors affecting the successful implementation of CSR principles in the procurement process and find possible solutions to these factors. Based on the results of the interviews and research, the author found common factors and solutions. The CSR manager and CSR expert both identified that selection of suppliers, the internal implementation of CSR within an organization, importance of code of conduct, and application of measurement tools for business performance and transparency are significant in the success of a business in becoming socially responsible. In comparison to the result based on the scientific sources, the results have similarities.

Keywords: Corporate Social Responsibility, Social Responsible Procurement, Socially Responsible

Contents

Appendix

Appendix 1: Interview questions

List of Abbreviations

BITC Business In The Community

CAPs Corrective Action Plans

CSR Corporate Social Responsibility

EC European Commission

EU European Union

ILO International Labour Organization

ISO International Organization for Standardization

MDGs Millenium Development Goals

NCPs National Contact Points

OECD Organization for Economic Co-operation and Development

PRM Procurement Risk Management

RBT Responsible Business Tracker

SC Supply Chain

SCM Supply Chain Management

SRPP Socially Responsible Public Procurement

UN United Nations

UN SDGs United Nations Sustainability and Development Goals

WBG World Bank Group

1 Introduction

1.1 Background

Reporting of corporate social responsibility (CSR) of industries worldwide has seen significant growth through the years. Producers and manufacturers show that they are actively involved in their social responsibilities to keep their customers satisfied. These businesses have also gained economic benefits after implementing CSR principles in their business operations. However, not all businesses have been successful due to some challenges. The challenges are the environmental impacts of business activities, social responsibilities, and commercial benefits.

Environmental concerns have been a popular discussion in the international community. This situation encouraged international experts and world leaders to make regulations to protect and preserve the environment. In the business world, companies must adhere to these regulations to be responsible companies. Aside from environmental responsibility, social responsibility is also a crucial issue to consider. Customers are now aware of social issues such as forced labor, child labor, unfair treatment of workers, etc. from the sourcing companies to the delivery of goods to the end-users. Social responsibility makes the companies follow CSR principles to protect their image and reputation. Previous research revealed that companies that initiated CSR activities have been more advantageous and competitive in their markets (Tekin et al, 2015).

Since almost all businesses have their supply chain, the author found the topic appropriate and relevant to study and research the factors affecting the successful implementation of CSR strategies in the procurement process. Recommendations will be given to improve the implementation of the principles of corporate social responsibility.

1.2 Objective

The objective of this thesis is to determine the factors that affect the successful integrations and implementations of CSR principles in supply chains, specifically in procurement. Also, it will give the solutions to solve these factors.

Twenty years ago, the concept of sustainable development was introduced to many organizations. This concept focuses on the economic, social, and environmental factors that these organizations must consider. Concepts of social responsibility and sustainable development are developed separately. Social responsibility focuses mainly on social issues as

human rights while sustainable development mainly focuses on environmental issues. (Tekin et al. 2015.)

1.3   Delimitations

Supply chain management is a huge topic and has multiple processes. Although CSR in supply chain management is integrated into its every process, this paper limits the study and research to the procurement process.

In procurement, the social and environmental practices of suppliers are determined to make sure that CSR principles are followed as per the companies' CSR principles. In this way, choosing the right suppliers plays an important role in the procurement process.

The thesis will consider a Finnish food company as part of the study. There is no established cooperation with them. Therefore, the information will be sourced from the company's website and interview.

1.4   Research questions

Based on the objective of the thesis, the research questions are as follows:

- What are the factors affecting the successful implementation of CSR principles in the procurement process?
- What are the possible solutions to these factors?

1.5   Research method and development

1.5.1 Qualitative research method

Silverman (2019, 3) defines qualitative research as the type of research that finds out people's experiences. Through this method, the researcher understands what is important for people. The qualitative research method is appropriate for the chosen topic of corporate social responsibility in procurement. Based on the previous studies, qualitative research aims to understand human experiences, treat interviews, and focus groups as providing direct access to the contents of people's heads, and to foreground the emphatic skills of the research to achieve this aim. (Silverman 2019, 3.)

1.5.2 Empirical data

This thesis uses both primary and secondary data. Primary data is collected from the interviews of a CSR manager from a Finnish company, and a CSR expert from a university. The

secondary data comes from the collection of information using company websites and reports on CSR available online. The CSR reports are based on scientific articles, books, journals, and published theses.

1.5.3 Method of analysis

There are three steps for analyzing qualitative data. These include developing and applying codes, identifying themes, patterns, and relationships, and summarizing the data. (Business Research Methodology 2021.) In this study, manual coding is used since there is only a small amount of data to be considered. For the second step of the analysis, the primary data is scanned for words and phrases that are commonly used by the respondents. There is also a comparison of the finding from primary data and a literature review from secondary data. The third step is to summarize the data. The writer needs to link the findings to the research aims and objectives.

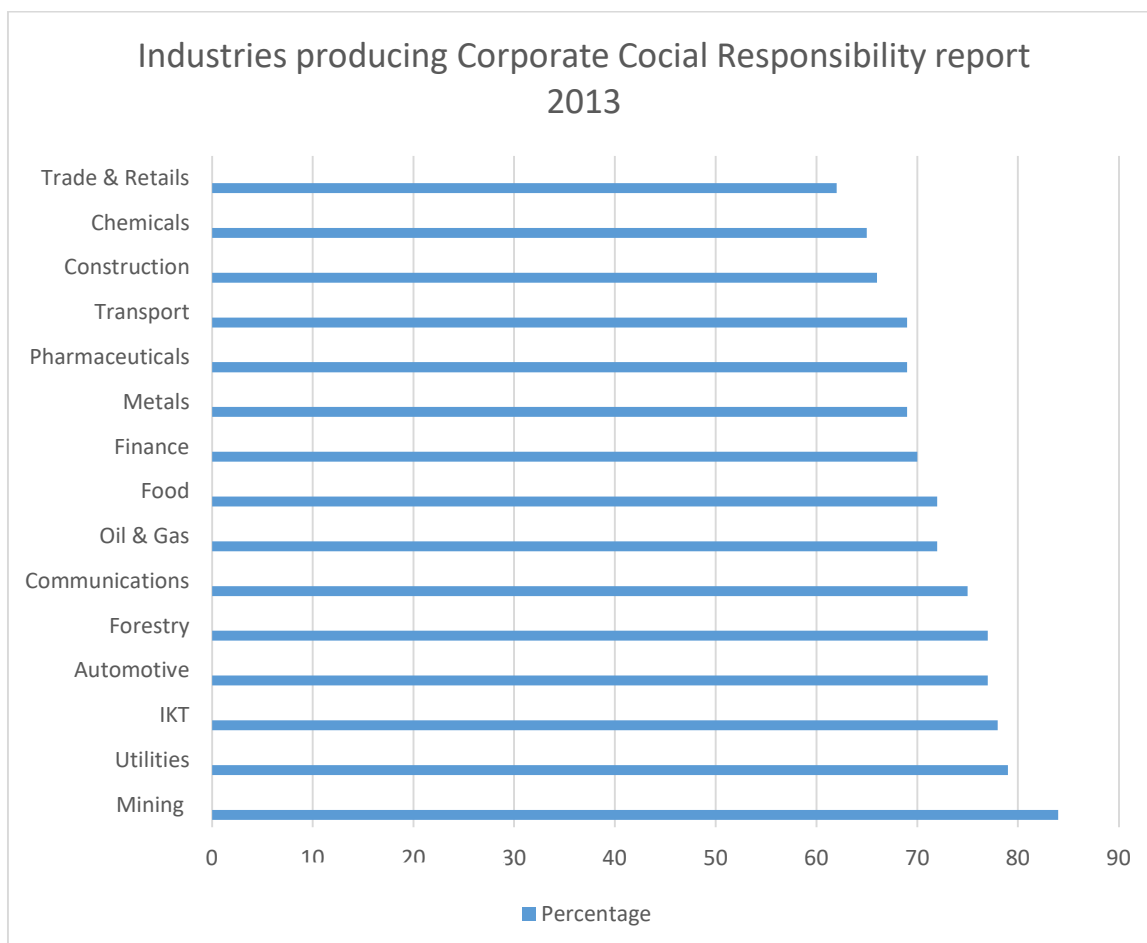## 2 Corporate Social Responsibility in Supply Chain Management

2.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) has several definitions. It means different things to different people. The broadest definition of CSR is concerned with what is – or should be - the relationship between global corporations, governments of countries, and individual citizens. Another definition is concerned with the relationship between a corporation and its stakeholders. CSR is also locally defined as the concern with the relationship of a corporation and the people. (Rayman-Bacchus & Crowther 2016, 2-3.) From the definitions, it is understood that any activity of a corporation affects its stakeholders, the government, and individual citizen.

According to Weber & Wasieleski (2018, 4), CSR occurs when a business firm consciously and deliberately acts to enhance the social well-being of those whose lives are affected by the firm's economic operations. Business firms include the simplest and smallest firm to the largest and complex companies around the globe with diverse societies. A small firm's activities can be limited but its impact on the local society is huge or the other way around for the large companies. Therefore, the goal of CSR is to achieve a harmonious relationship between a firm's economic operations and society's aspirations and requirements for the welfare of the community. (Weber & Wasieleski 2018, 4.)

CSR is also defined as a self-regulating business model that helps a company be socially accountable – to itself, its stakeholders, and the public (Fernando, J. 2020). Companies must be conscious of the impacts of their business operations on all aspects of society, including economic, social, and environmental. The practice of corporate social responsibility is also called corporate citizenship (Fernando, J. 2020).

An example of how CSR is becoming popular to companies worldwide is shown in the chart below. Many industries believe in the benefits of CSR to their businesses and the positive impacts on the environment and social communities. As shown in the bar chart (Bar chart 1), the average engagement of companies worldwide is 72% (Vartiak, L. 2015). It is remarkably high. This means that the number of socially responsible companies is increasing continuously.

Bar Chart 1. Percentage of Industries with CSR report on Global Scale (Vartiak, L. 2015).

2.2   Principles of Corporate Social Responsibility

Corporate social responsibility has several definitions and is understood differently depending on what kind of activity it is related to. Therefore, it is significant to identify such activity and relate it to the principles of CSR. Crowther & Aras (2008, 19) state that the principles of CSR are accountability, transparency, and sustainability.

2.2.1 Sustainability

Society must use resources that are regenerated in the future. Crowther and Aras (2008, 41) argue that sustainability is concerned with the effect which action taken in the present has upon the options available in the future. To address the issue of sustainability, the Brundtland Report was produced by the World Commission on Environment and Development. The report describes seven strategic imperatives for sustainable development: reviving growth; changing the quality of growth; meeting essential needs for jobs, food, energy, water, and sanitation; ensuring a sustainable level of population; conserving and enhancing

resource base; re-orienting technology and managing risks; merging environmental and economics in decision-making (Aras & Crowther 2008, 41).

Most businesses have their strategic imperatives based on this Brundtland Report. It is a trend in the business world to have sustainability a huge part of their social responsibility. For example, food companies choose their suppliers that are producing goods sustainably.

Aras & Crowther (2008, 46) redefine the legacy of the Bruntland Report about sustainable activity by presenting the four components of sustainability. The four components are societal influence, environmental impact, organizational culture, and finance. These four components can be resolved into a two- dimensional matrix along with the polarities of internal vs external focus and short-term vs long-term focus. The model in figure 1 shows a complete representation of organizational performance.
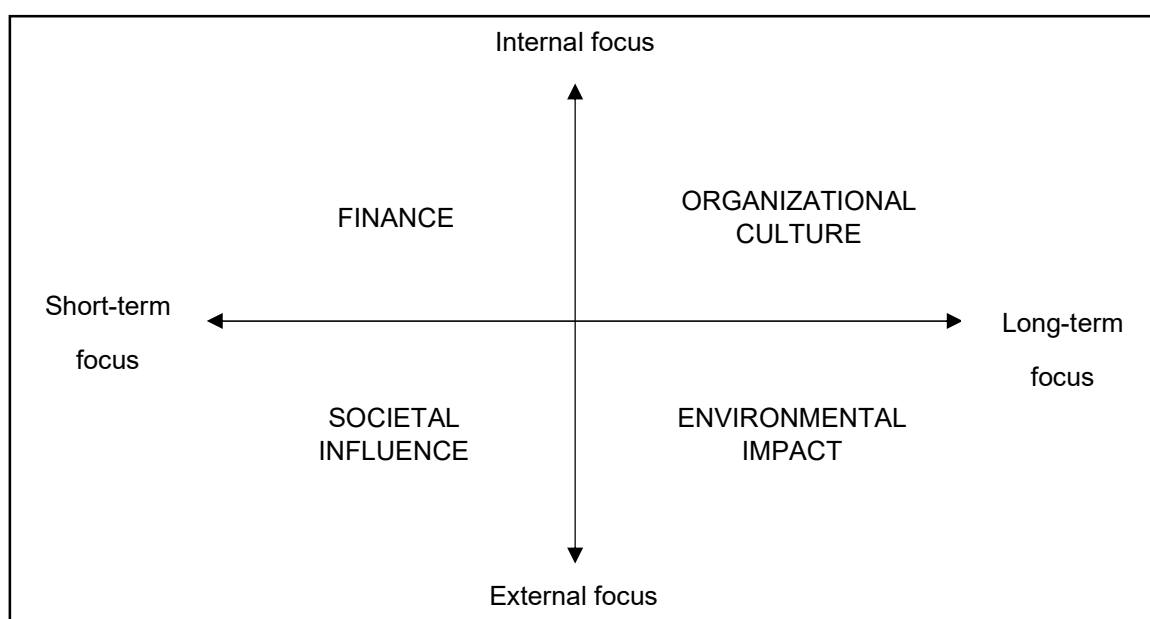
Figure 1. Model of corporate sustainability (Aras & Crowther, 2008)

The first component of sustainability is societal influence. This is a measure of the impact that society makes on corporations in terms of social contracts and the influence of stakeholders. The second component is the environmental impact which is the effect of a corporation's actions on the environment. The third component is the organizational culture. This is the relationship between a corporation and its internal stakeholders, the employees, and all aspects of relationships. Lastly, the fourth component is finance. Finance is the return for the level of risks taken. All these four components are equally important.

Based on the model of corporate sustainability, the finance aspect focuses on maintaining economic activity which is the main reason for corporate activity. It is in the internal focus and short-term focus area. The environmental impact aspect focuses on the conservation of the environment for future generations. This aspect is found under the long-term and external focus areas. The societal influence aspect covers the insurance of societal justice by the elimination of poverty, action against human rights abuses, promotion of universal education, and facilitation of world peace. This aspect is in the short-term and external focus areas. And the organizational culture focuses on the development of spiritual and cultural values. The corporation and society's values must be aligned, and all other elements must be promoted and negated. This aspect is in the external focus and long-term focus area. (Aras & Crowther 2008, 48.)

2.2.2 Accountability

Accountability refers to an organization's recognition that its actions affect the external environment and being responsible for the effects of its actions (Aras & Crowther 2008, 15). This concept explains that an organization is taking responsibility for every action it takes. For an organization, it is relatively important to establish and develop an appropriate measurement of environmental performance and reporting of all organization's actions. However, this measure can accelerate the costs for the company. It is, therefore, necessary to consider the benefits over costs. The measures should be decided properly by looking into the usefulness within the organization and between its shareholders. These reporting measures should have qualitative facts and judgments as well as quantifications.

2.2.3 Transparency

Transparency, as a CSR principle, means that the external impact of the actions of the organization can be ascertained from that organization's reporting ad pertinent facts are not disguised within that reporting (Aras & Crowther 2008, 16). Transparency is important to customers as external users because they lack the background details and knowledge available to the internal users. Therefore, all the effects of the actions of an organization should be relayed or delivered clearly to the external users. The information must be available to both users with no disguises. This will keep the trust and loyalty of the external users to the organization.

2.3 CSR in supply chain management

Corporate social responsibility in supply chain management (SCM) has continuously drawn attention from businesses and stakeholders during the years. Since the supply chain consists of multiple processes, it is important to consider the impacts that these processes will incur on society, the environment, stakeholders, and the business.

Supply Chain (SC) is defined as the series of activities and organizations that materials move through on their journey from initial suppliers to final customers (Waters, D. 2003). Figure 2 shows the flow of supply chain activities.
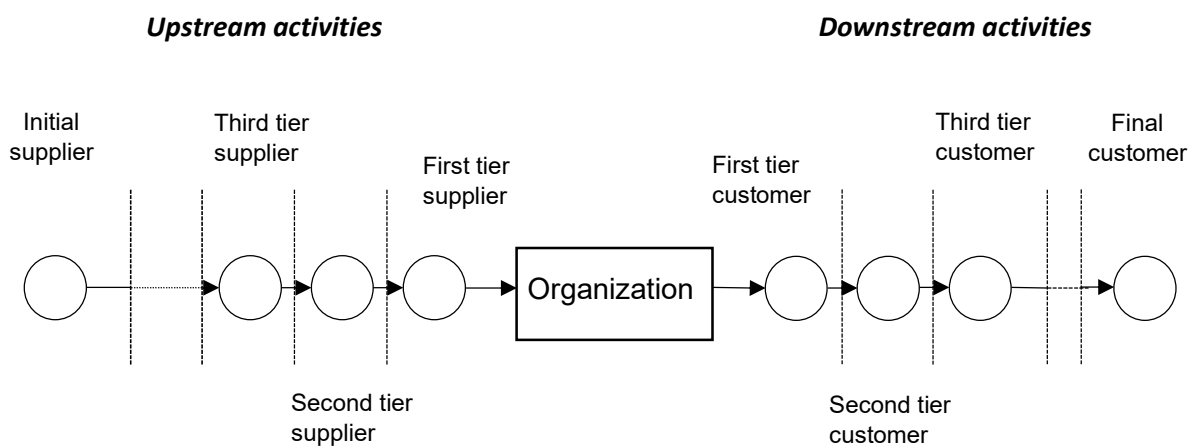
Figure 2. Supply chain activities (Waters, D. 2003, 9).

Supply chain management is a process of several distinct but interconnected functions and activities (Tekin et al. 2014). The interconnected functions are transportation management, logistics, service providers management, resource management, packaging and assembly, and customer service. In all these activities, it is a challenging task for the companies to navigate the potential ethical, economic, legal concerns, and risks that would arise during the business operations. Therefore, it is a necessity to have measurement tools to quantify the value or impact of CSR on the business.

2.4 CSR and the European market

The European Commission (EC) promotes CSR in the European Union (EU). The commission encourages enterprises to adhere to international guidelines and principles. The EC CSR strategy is to align the European and global approaches to CSR (European Commis-

sion 2021). At present, the EU is actively integrating CSR into the union's education, train-ing, and research. Through this, CSR strategies are visible to everyone. The EU believes that the importance of CSR benefits the enterprises for cost-saving, risk management, ac-cess to capital, customer relations, human resource, and better profit. It also makes the EU economy to be more sustainable and innovative. For society, CSR offers a positive set of values that results in a more cohesive society and a sustainable economic system. (Euro-pean Commission 2021.)

2.5   United Nations Sustainable Development Goals 2030

The United Nations Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all (UN 2021). As an international organization, the UN has a great influence on global corporations in supporting social responsibility. Since 1985, the UN issued guidelines on consumer protection and recently included sustainable consump-tion (UN 2021).

Today, the UN has seventeen SDGs 2030. These goals are launched in 2015 to end poverty and set the world on peace, prosperity, and opportunity for all on a healthy planet (UN SGDs Report 2020). The UN SDGs have challenged businesses to voluntarily create their strate-gies and code of conduct to show that they are actively supporting these goals for not only the benefit of their businesses but also for everyone in the world.

Concerning corporate social responsibility, the UN Global Compact was developed. The UN Global Compact is described as a UN initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report their implementation. There are two objectives of the UN Global Compact. The first is to mainstream the ten principles in business activities around the world. The second is to catalyze actions in sup-port of broader UN goals including the Millennium Development Goals (MDGs). Through the UN Global Compact, businesses are guided and assisted in managing risks and oppor-tunities in the environment, society, and government. During the UN World Summit on sus-tainable development in 2002, the world leaders have taken into consideration to encourage businesses to improve social and environmental performance through voluntary initiatives to take environmental management systems, codes of conduct, certification, and transpar-ency on environmental and social issues. (UN Global Compact 2016.)

2.6 Measuring corporate social responsibility

The measurements of the effects of corporate social responsibility on businesses are not easy as it seems. Some benefits are achieved by companies. The benefits are good reputation and customer loyalty. However, these are hard to measure. For companies to identify the value of their activities, it is important to do the measurement. Measuring CSR enables companies to disclose the importance of their operations to the stakeholders and customers. It also improves decision-making in moving forward with the company's CSR programs. The measurement of CSR aligns activities with the corporate goals, such as the development of staff or decreasing turnover, or growth in sales, and lower costs. (NIBusiness 2021.)

2.6.1 Benchmarking a business against others

Benchmarking is defined by Marr & Co. (2021), as a popular and potentially powerful way to glean insights that can lead to improved performance. It involves a comparison of business performance against a competitor in the same market. Three ways of benchmarking process are introduced to simplify the measurement of CSR. The first way is the process of benchmarking. This process is about better understanding the company's processes by comparing against internal and external benchmarks and finding ways to optimize and improve the processes. By applying this, the company's processes will be more efficient, faster, and effective. The second way of benchmarking is strategy benchmarking. It explains how an organization operates. It identifies the best business model that applies to the kind of business the organization has. This process also compares the company's existing business model with other competing company's business models. Strategy benchmarking is applied by comparing strategies, business approaches, and business models. The third way of benchmarking is performance benchmarking. This involves comparing the profitability of an organization with others. It helps to understand the competition such as customer loyalty. It is more on collecting information on how well an organization performed financially or customer satisfaction. (Bernard Marr & Co. 2021.)

2.6.2 Seek recognition for CSR best practice by using BITC's responsible business tracker

The Responsible Business Tracker is a measurement tool available to all Business in The Community (BITC) members. This tool enables an assessment of performance as a responsible business by tracking progress against BITC's responsible business map. This map was built on the UN's Sustainable and Development Goals (SDGs). (BITC 2021.) Responsible Business Tracker offers to benchmark against sector peers and the overall unit,

gap analysis in responsible business activities, and the opportunity for recognition of leading practice, improvement, and innovation via a scoring mechanism. By using RB Tracker, a business can identify its areas of strengths and opportunities for leadership and sharing of best practices. (BITC 2021.)

2.6.3 Environmental key performance indicator (KPI)

Environmental key performance indicators are quantitative measures – actual numbers – that put values on the environmental performance of a business (NIBusiness 2021). A business can produce environmental KPIs by collecting facts and figures such as energy and water bills, purchasing records, vehicle fuel costs, waste management bills, or travel receipts. An environmental KPI should have information on its purpose and impact, how was it obtained calculated, and if there was an assumption made.

The four main environmental KPI areas are emissions to air, emissions to water, emissions to land, and resource use (NIBusiness 2021). Having the environmental data from these areas would help the company compare its performance over time and against the business of other companies. The KPIs must cover the entire business for the period of the report, which is normally done annually.

2.7 Social responsibility in practice

Social responsibility is more effective when an organization takes it voluntarily rather than just complying with the government requirements to do through some regulations. The International Organization for Standardization (ISO) emphasizes that a critical factor in operating efficiently and effectively is a business's ability to maintain a balance between pursuing economic performance and adhering to societal and environmental issues.

Ganti, A. (2021) states that social responsibility takes on different meanings within industries and companies. Examples of companies in the food industry that have blended social responsibility are Starbucks Corporations and Ben & Jerry's Homemade Holdings Inc. These companies purchase and use ingredients that are Fair Trade Certified.

Fair Trade is an international organization that supports and challenges businesses and government while connecting farmers and workers with the buyers. Fairtrade changes the way trade works through better prices, decent working conditions, and a fairer deal for farmers and workers in developing countries. (Fairtrade 2021.)

3 Responsible procurement

Responsible procurement is applied to private and public procurement processes. It encourages companies and organizations to choose the right suppliers to support their social and environmental responsibility strategies.

The World Bank Group (WBG), as an international organization, implements its corporate procurement practices, and endeavors to integrate socially responsible suppliers into its supply chain. WBG procurement policy gives attention to suppliers' activities in different categories such as diversity, wages and benefits, health and safety, and accessibility. When WBG procures services, it specifies in its contracts and solicitations the measures to be implemented on the service employees' wages and their health and welfare benefits. WBG also stresses the need for the contractors to provide a safe working environment and fair equitable work practice to their employees. (The World Bank 2021.)

The European Commission (EC) has published its socially responsible procurement work practices that aim to inspire public buyers around Europe to buy social (The European Commission 2021). Private businesses are not only concerned with the social and environmental aspects of procurement. The participation of international organizations encourages businesses to improve their procurement practices to be responsible ones. The EC publication contains a collection of seventy-one good practice cases showing how public buyers have implemented socially responsible public procurement (SRPP) to promote employment opportunities, decent work, social inclusions, accessibility, and compliance with social and labor rights in the European Union and globally while delivering high-quality social services and facilitating access of social business to public tenders. The Socially Responsible Public Procurement (SRPP) focuses on public procurement in the member states of EC. SRPP asks the public buyers to consider not only the price of products or services, but also how they are produced, sourced, and delivered. The whole supply chain of a certain product or service must be observed and considered before purchasing. The SRPP report compiles cases from the 27 countries, including 22 EU member countries and 5 non-EU countries. (The European Commission 2021.)

Ihalainen, Lauri, of the Ministry of Economic Affairs and Employment of Finland, states that responsible procurement has huge benefits to the public procurement of the Finnish government. The government resolution of 22 November 2012 contains the following statement on corporate social responsibility:

> *"Socially responsible procurement aims to set contract conditions that encourage suppliers to ensure that during the contract period, goods and services*

have been produced in conditions where human rights and core labor stand-
ards are respected. In effect, suppliers must comply with international human
rights conventions, such as ILO conventions, the UN convention on the Rights
of the Child, legislation on minimum wages and working hours in the produc-
tion country, and general environmental, health and safety requirements."
(Ministry of Economic Affairs and Employment 2017.)

The government initiatives on responsible procurement benefit them on the costs and im-
pacts of the product over its entire life cycle. The Finnish contracting authorities do not only
benefit from responsible procurement. They also contribute to achieving goals that are im-
portant to society such as employment, human well-being, and implementation of funda-
mental rights.

Aside from the benefits to the contracting authorities, responsible procurement also influ-
ences market functioning. The impacts can be seen nowadays on the local markets. There
is an increase in the demand and supply of socially responsible products and services.
Through the public procurement's willingness to invest in socially responsible procurement
and reaching out to everyone about the impacts of sustainable purchasing, they can influ-
ence private consumption and buying habits. In return, the businesses will certainly notice
the changes in their customers' buying habits. Businesses apply and improve their procure-
ment operations to be in-line with the authorities' and customers' requirements on buying
socially responsible products and services.

3.1   Applications in procurement

There are different roles of procurement that are strategic and operational in an organiza-
tion. The roles can be placing purchase orders, communication, searching for possible sup-
pliers, follow-up orders and deliveries, or order acknowledgments. Farrington & Lysons
(2016, 5) argue that procurement is a proactive, strategic corporate activity to ensure a
continuing supply of goods and services to enable world-class organizational performance.

Social responsibility in procurement is defined as performing all the related activities by
following CSR principles and consider these principles in decision making (Tekin et al.
2014). Companies must follow the environmental standards, apply them to the procurement
processes, and spread the CSR principles to the suppliers.

3.1.1 Strategic procurement

Strategic procurement is the procurement role that includes among other things, business planning and development of the buyer-supplier relationship, forecasts, selection, and evaluation of supplier (Logistiikanmaailma 2021). For a company to succeed or shift to strategic procurement, first it is important to understand the major objectives. From its definition, where the role is to develop the relationship of buyer and supplier, it is key for the company or buyer to enhance its relationship with its suppliers. Another objective is to determine and identify which aspects result in maximum savings. Where possible, there should be a centralized procurement if necessary, for easier management. As technology advances, a business can consider incorporating procurement tools such as web-based purchasing systems. Additionally, the top management and junior executives are trained to deal with procurement challenges when needed. Supplier management programs are also considered critical and important. They should remain at the core to be maintained and enhanced for better relationships. (EYVO 2021.)

3.1.2 Operational procurement

Operational procurement focuses on everyday routines. Daily routines can be ordering, verification of invoices, and delivery control. It is a reactive process where the highlights are purchase prices and costs. This procurement role maintains the company's supplies, stocks, and suppliers. This is a means of risk management. (Logistiikanmaailma 2021.) Implementing operational procurement makes a company benefits from saving costs. Price negotiations between suppliers happen usually. The larger the contract is, the more financial benefits it brings. Another benefit of operational procurement is saving labor costs because the procurement workflow runs smoother and the process does not need to start from the beginning. The procurement process history is accessible and shared within the organization for ease of use. (PLANERGY 2021.)

The operational procurement process starts from the determination of the demand for goods or services. Once it is determined, it continues to supplier selection. Selecting a supplier is done by the procurement team by choosing the available suppliers for the demand or requesting quotations from other suppliers when needed. When the supplier is chosen, the procurement team can process a purchase order and monitor it until the goods or services are received. The final stage is invoice processing. The invoice is the final document in the procurement process. Then payments are processed according to the terms of the contract with the supplier. Flow chart 1 shows the procurement process flow.
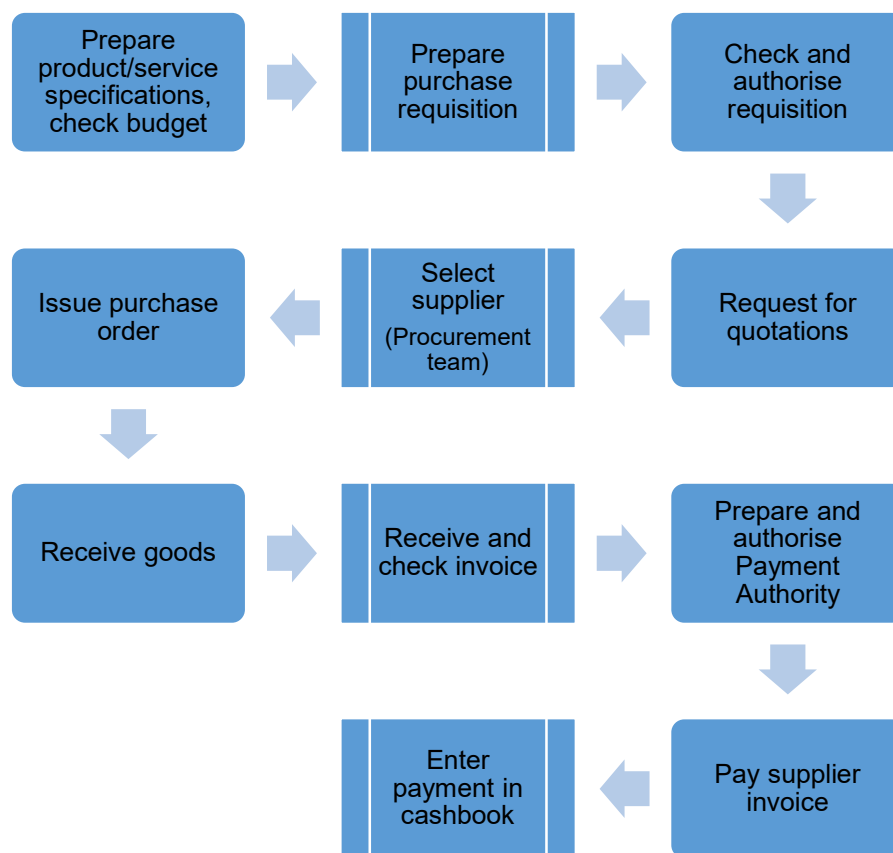
Flow chart 1. Example flow of Procurement Process

3.2   Procurement ethics

Procurement ethics is defined by Farrington & Lysons (2016) as a subdivision of business ethics, which in turn is the application of general ethical principles in a commercial or industrial context. It is also related to professional ethics. Professional ethics are best practices or guidelines which include ideals and responsibilities that inform professionals what principles and conduct they should adopt in certain situations (Farrington & Lysons, 2016).

In procurement, ethical issues are considered important in dealing with suppliers. A buying company relies on the trust and loyalty of its suppliers in every business transaction it makes. Farrington and Lysons (2016) enumerate some ethical issues relating to suppliers:

- Provision of practical help and advice. A buying organization should offer help to the suppliers to procure their supplies more effectively and economically. The buyer can also collaborate on design and production, supplier development, or assist in finding alternative customers.

- Prompt payment. The procurement company should help suppliers to maintain their cash flow by paying invoices on time. Also, it should make sure both the finance and procurement team are aware of the payment policy and follow it.

- Honesty and openness. The procurement company should not be deceptive to the suppliers. The company should be open to inform the suppliers of the exact reasons why the contract or deal is not possible, without making fabricated reasons.

- E-ethics. Because of the Internet, some companies are easy to get involved in un-ethical behavior more than before. The balance of e-trading is shifting in favor of the purchaser.

- Courtesy to supplier's representative. Supplier's representatives are treated like they lack knowledge and are kept waiting during appointments. Procurement staff should appreciate their presence and respect their schedule as agreed. It is also good to give exact information and be frank to the supplier's representatives cour-teously.

- Business gifts and hospitality. Policies differ in every company about accepting and returning gifts. Staff are not allowed to accept gifts of any kind and returned already received gifts. They may retain gifts that are of an advertising nature such as calen-dars, pens, shirts, or diaries. The staff is also allowed to decide by themselves whether hospitality gifts are an appreciation of cordial relationship or an attempt of bribery.

3.3   Risk management

Russill, R. (2010, 9) defines procurement risk, as the risk that exists for an organization when supply market behavior, and organizations' dealings with suppliers, create outcomes that harm the company's reputation, capability, operational integrity, and financial viability. In every business operation, there are risks. The risk depends on how the company manages its daily operations. In procurement, a company's ability to meet delivery commitment is exposed to the possible disruption of its supply. The supplier may be in recession or bankruptcy or shutdown. Russil, R. (2010, 12) further explains that being "at-risk" has different elements involved:

Being "At Risk" = Impact x Probability x No mitigation; where Impact = Exposure x Event

To prevent being "At Risk", a company's risk management team can avoid or remove one of the elements. Therefore, it is necessary to implement Procurement Risk Management (PRM) in a company's supply chain.

Effective procurement risk management (PRM) includes accepting the risks, applying contingency plans, urgent actions, and regular audit. According to Russill, R. (2010, 13), procurement risk management is the name given to the measures taken including changes to behaviors, procedures, and controls which remove procurement risks or reduce them to what is an acceptable level.

Figure 3 shows the five risk landscapes, also called the Risk Catcher.
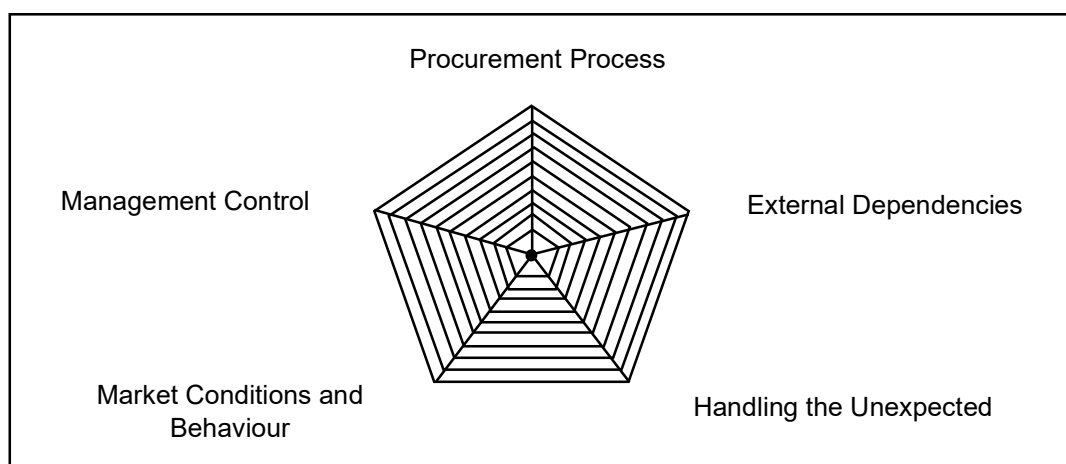

Figure 3. The Risk Catcher (Russill, R. 2010, 15)

The risk landscape of external dependencies is when a customer company relies upon suppliers to meet their obligations as stated in their purchase orders or contract. The trust between the customer company and supplier is important. Also, the ability and commitment of the supplier to supply goods and services are highly distinguished. A situation where this aspect of procurement risk management requires great attention is when piracy happens during sea transport and financial failures of supplier companies. The second risk landscape, the procurement process, covers all activities from deciding on a business need to committing to a supplier to satisfy that need, and ensuring that outcome is acceptable (Russill, R. 2010, 56). The potential risks in this process can be the release of information, commercially unaware behavior, poor specifications, insufficient standardization, wrong assessment of potential supplier's suitability, poor or inappropriate supplier relationship management, and undertrained personnel. The third risk landscape is the market conditions and behaviors. The changing market and behavior of supply and demand affect the supply chain of a company. This is a huge risk to the business. Russil, R (2010, 38) states that market conditions and behaviors refer to the supply environment with which the company interacts

via its procurement process before and after contract commitment. Some of the potential risk situations are price and supply instability, upward price pressures, lack of warning of price and capacity changes, shortage of supply due to competitive demands, global events, or natural disasters, loss of sources, or presence of supplier cartels. The fourth risk landscape is management controls. Russill, R. (2010, 76) defines management controls as the procedures, principles, authorities, and check and balances that the company relies on to guide and influence people's behaviors as they go about their business. A company has its control team to direct, restrain, govern, and check upon its various activities. Examples of potential risk situations are complicated or inappropriate procedures, unofficial and unauthorized commitments to contract, breach of confidentiality, abuse of power, double payments on invoices, or no payment of goods, over-control, and fraud authorization of contract changes and claims. Then the last risk landscape is handling the unexpected. Some businesses are successful today but after few years of operations, they fail. This happens because of not having good and effective risk management plans. Handling the unexpected deals with a company's ability to survive the disruptions and resumes its operations towards its desired goals. Being prepared for the unexpected means success for the company. Examples of potential risk situations are failure to anticipate potential events, total reliance on predictive tools, lack of strategy or plans for dealing with unexpected, delayed, or inefficient actions, and rigid autocratic management styles. (Russill, R. 2010.)

Based on the explanations of the specific risk events, it is necessary to know how to avoid these potential risks. Procurement management risk (PRM) requires having a process of working things out and possessing a culture and operating framework in which management is systemic and as much a part of daily activity. To implement the PRM, the following outline process is applied: (Russill, R. 2010, 111.)

- Gather data about current supply expenditures

- Decide the most important categories to examine first

- Use a cross-functional team to identify potential disruptive events for each supply categories based on the perspective of each of the five landscape of the risk catcher

- Assess the impact of each event if it happens with the probability of occurrence

- Focus on the events which are likely to occur and will have a harmful impact and devise contingency plans.

4 Socially responsible procurement in the food industry

Responsible procurement in the food industry has a major impact on the whole food chain. Buyers in the retail and food industry are often appreciated in buying products at the lowest possible price. It was hardly an issue for buyers before to consider the sustainability of their purchases. Some of the buying companies focus only on the environmental aspect of sustainability. The issue of social responsibility is sometimes neglected. But due to the growing attention and pressure from customers, stakeholders, government, and international organizations on socially responsible procurement, buyers consider sustainable procurement and tendering in their supply chain operations. This action makes a great contribution to achieving most of the companies' sustainable entrepreneurship objectives.

In Finland, the food industry has been actively involved in promoting corporate social responsibility. As discussed previously, the Finnish authority promotes and supports socially responsible procurement. The Finnish food and drink industry is Finland's fourth biggest industry. The industry employs 38,000 people. The entire food supply chain employs about 266,000 people in Finland. Considering this data, the significance of applying social responsibility is necessary since many people are involved. (Bioeconomy Finland 2021.)

According to Bioeconomy Finland (2021), in 2030, the demand for food will be increased by 50%, energy by 45%, and water by 30%. Based on this forecast, the bioeconomy of the food and drink industry is a matter of food security and security of supply. The increasing demand for food for society increases the supply. Thus, the necessity of responsible sourcing help to sustain the food security and well-being of the people.

Business Finland also promotes a circular economy program that helps create new business opportunities. A circular economy means the creation of added value across value change through business models with extended lifecycles and circulation of materials (Business Finland 2021). The food industry should reassess the products and values in identifying solutions that add value by extending lifecycles and promoting the circulation of materials. For example, food producers must be responsible for using recycled materials in their packaging to help reduce the impact on the environment. Business Finland encourages Finnish companies to modernize and exploit opportunities that digitalization brings and platform economy. Applying innovative solutions and services would help the food companies to support sustainable sources. (Business Finland 2021.)
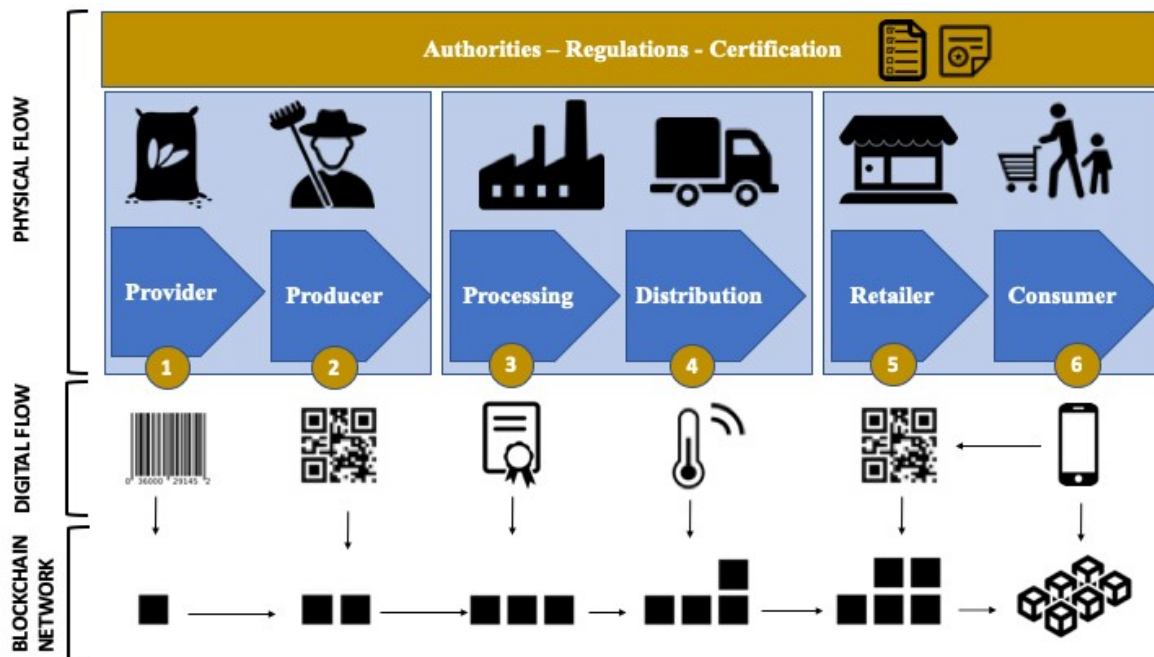
Flow chart 2. Simplified food supply chain (ResearchGate 2021).

Flow chart 2 shows an example of a simplified food supply system and its phases, and players. In the physical flow, it shows the movement of products from the provider to the consumer. It is the flow of goods. The digital flow in the middle shows using technology to transfer information from one process to another in the supply chain. The blockchain network is where the information is stored. Supply chain data are visible and accessible anytime by using a blockchain network.

5   Data analysis and results

5.1   Impact of CSR in the food industry

Corporate social responsibility in the food industry has both positive and negative impacts. Both the CSR expert and the CSR manager X agree that the application of corporate social responsibility principles in business results in many advantages.

The CSR expert says that there are more positive impacts than negative ones. Some of the positive impacts are win-win situations for the company in their economic sense. An example is saving energy during operations, at the same time, saving costs. Having CSR strategies also make the company trustworthy to its customers both private and businesses. It also gains a good reputation by showing that it supports and practices social responsibility in its business operations such as food procurement or production. Another benefit according to the CSR expert is that CSR improves the efficiency or competitive advantages of a business. CSR expert cited an example that happened in one of the big supermarkets in Finland. There was a food product where child labor was used during its production. The negative news spread quickly, and it damaged the company's reputation. This situation became a lesson to the company to be careful with whom it conducts business. In the food sector, there are thousands of suppliers involved and it is challenging for companies to be vigilant in their partnership with suppliers. The negative impact of CSR incorporation is very minimum. An additional cost to the company is by far the main issue in implementing CSR. However, it is very minimum than that of the benefits.

CSR manager of Company X mentions that the positive impacts of CSR on their food industry are quite huge since its implementation. Company X manager says that social responsibility is part of their business imperative. Company X highly values the customer's expectations, media, and stakeholders. By keeping in line with social responsibility, Company X gains customers' commitment and trust. In any situation where negative things happen especially in the supply chain, being transparent in every activity returns customer's support to the company. Company X manager relates that being transparent is important because customers do not just leave even mistakes are committed. Instead, customers show their support and continue to be loyal. The negative impact of CSR on company X is hardly seen. There is no huge additional cost impact on the business. The incorporation of the CSR team does not raise a big amount of money since the team comprises six members who oversee the whole company's operation in Finland and abroad. According to CSR manager X, the company has scalable tools used in food production and procurement.

Company X also uses third-party auditors to keep the process smooth and the reports are shared with all the members of the food sector operations.

5.2 Role of suppliers

CSR expert stresses the importance of choosing the right supplier. Since a procurement organization needs to deal with different suppliers, it is a must to carefully check the background of any supplier. Do they have a code of conduct? Is it in-line with their own? In choosing suppliers, the buyer should choose suppliers who are in-line with their CSR strategies. Once a deal is made, they should maintain a good relationship that is built on trust and loyalty. Supplier development may be effective to some companies but not applicable to all. Previous studies found that one way of improving CSR is supplier development. CSR expert says it depends on how big the procurement company is. Since a supplier has many customers with different volumes of purchase, it is not logical to just instruct the supplier to follow such a development process. It applies to companies that have a high percentage of the purchase.

Company X CSR manager agrees with the statement of CSR expert on how important to properly choose suppliers. Since their company deals with 20,000 suppliers with 3,000 products and 17,000 services, it is impossible to important to follow every supplier. Company X focuses on the details of the contract, and a good dialogue with the suppliers. In the company X situation, the procurement managers do the deals with the suppliers. Therefore, they must raise questions, listen to suppliers and buyers, and provide correct information on every purchase made. The work on the supply chain weighs more on the part of first-tier suppliers because most of them source their products from second-tier suppliers or initial suppliers in the supply chain. Company X CSR manager explains that a clear dialogue with the suppliers is significant to avoid mistakes during the procurement process. At the same time, suppliers should also communicate the correct information to their next-level suppliers. Company X has no control over the production or source of materials whether it came from sustainable sources or produced responsibly. It must depend on the transparency of the suppliers. The suppliers must relay all the information from the source of materials to production. Currently, company X is developing a transparency program on how they trace the products and how to make suppliers commit to being transparent. It is an issue of trust. In some situations, some suppliers do mistakes and deliver products that are not according to the purchase requirements. Company X's action is not to cut the partnership but give chances for the suppliers to correct their mistakes and continue to develop their process to be more effective. When chances are given and no action is made by the supplier, then the

company decides to finish the contract and choose another supplier to do the business with. Company X believes that cutting business without giving any chance is not ethical. It also values the effects on the part of suppliers losing the business. The consequence goes downwards to the workers losing jobs. Being a responsible company means considering the whole chain on how a single action affects every link in the supply chain.

5.3   The internal implementation of CSR

The importance of internal implementation of corporate social responsibility within an organization is fatal. CSR expert says that "if you as a company do not believe in yourself, nobody will believe in you." Inside the company, there should be a deep understanding of social responsibility. Everyone must perform according to the principles of CSR. The company should convince everybody who is involved in the business such as the management, employees, investors, or stakeholders. Social responsibility is the trend in the business world. For example, in the stock market, stock buyers also choose socially responsible companies and promote sustainability in their businesses. Therefore, it is a challenge for companies to be truthful and perform according to their CSR strategies. Some may have a social responsibility on their company websites, but it is not applied in practice. It is a challenge for us, as private customers, because we lose our trust once we know that this specific company is not responsible. Then the belief in CSR damages the other companies' credibility because it is natural for people to generalize when negative things happen.

In the company X situation, the internal implementation of CSR is very important. Manager X says that CSR is not just a unit in the company. The social responsibility team works closely with the top management. The CSR team makes sure that there is a clear commitment from the top management to the employees. Because company X is a big company where many departments are involved, the social responsibility team must make a smooth process to convey the social responsibility principles. Company X CSR Manager says that implementation is challenging because of the large number of people in the company who must understand and know their roles to sustainability. Implementation starts with training. Company X has an overall training program for the employees. First is the presentation of the code of conduct of the company (Company X):

- Listening to the customer. Listening to the customers helps in business operations development. We are accountable for every product and service we sell to our customers.

- Operating openly and with integrity. We keep our promises to our customers and stakeholders. We have an open dialogue with both internal and external stakeholders. Communication of our operations is transparent and open.

- Respect and value each other. There is equality in all business operations. People are treated with respect and valued each person's work.

- Fair competition. We treat our partners equally and fairly. Our company emphasizes its strengths, not our competitors' weaknesses. We follow competition legislations

- Anti-corruption. We do not accept bribes or gifts. We accept minimal value and hospitality that are associated with our business operations.

- Complying with good corporate governance. We adhere to good governance at all levels in the organization. We comply with all the agreements we have signed in all our business operations.

- Respect for human rights. We respect international human rights and promote them to our business operations.

- Operate responsibly. We continuously develop our operations responsibly. We choose business partners who are in-line with our values and principles.

- Take care of the environment. We recognize and monitor the impacts of our operations on the environment. We support and work to prevent the negative effects of our operations on the environment.

The second step in the implementation of social responsibility within the company is to provide training to each sector. Since the company has different units, each unit has its tailored staff training. In the food procurement sector, specific training is made and presented to the staff and workers. By doing so, it is easier to understand the issues related to social responsibility in the food industry.

Company X CSR Manager states that currently, the company is developing programs or training on what needs to be done on equality. Also, they are finding ways on how to mitigate the risks of being involved in human trafficking in Finland.

5.4 Code of conduct

Steger & Amann (2008) argue that codes of conduct are a set of principles to which a company agrees to adhere within the context of its activities. The contents of these codes cover a broad range of principles such as bribery rules, ethical working conditions, environmental

standards, or human rights. The board of directors in the company has the responsibility for the company's ethical performance. For a large corporation, the boards appoint an ethics and conduct committee to oversee and report on the quality of ethical performances or special problems that may arise during operations. (Steger & Amann, 2008.)

World business leaders have built the social and environmental pillars required to sustain the global economy. These pillars cover ten principles under four headings on which companies should act (Farrington & Lysons, 2016, 623):

- Human rights

  Principle 1 – Businesses should support and respect the protection of internationally proclaimed human rights

  Principle 2 – make sure that businesses are not complicit in human rights abuses

- Labor

  Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

  Principle 4 – the elimination of all forms of forced and compulsory labor

  Principle 5 – the effective abolition of child labor

  Principle 6 – the elimination of discrimination in respect of employment and occupation

- Environment

  Principle 7 – Businesses should support a precautionary approach to environmental challenges

  Principle 8 – undertake initiatives to promote greater environmental responsibility

  Principle 9 – encourage the development and diffusion of environmentally friendly technologies

- Anti-corruption

  Principle 10 – Businesses should work against corruption in all forms, including extortion and bribery

The existence of the code of conduct benefits the company by providing a basis for working together. It requires people to treat each other with respect. The code of conduct is useful

in setting boundaries as to what constitutes ethical behavior such as confidentiality of infor-
mation, declaration of interest, and competitions. It is also useful in providing a safe envi-
ronment for all employees. Also, a code of conduct benefits a company in providing a com-
monly held set of guidelines on what is right or wrong.

5.4.1 Implementation of code of conduct

Most companies adopt a supplier's code of conduct and communicate the code to the sup-
plier. To ensure supplier's compliance with the code, companies have formulated imple-
mentation programs. Flow chart 3 shows the cycle in the implementation of the code of
conduct.
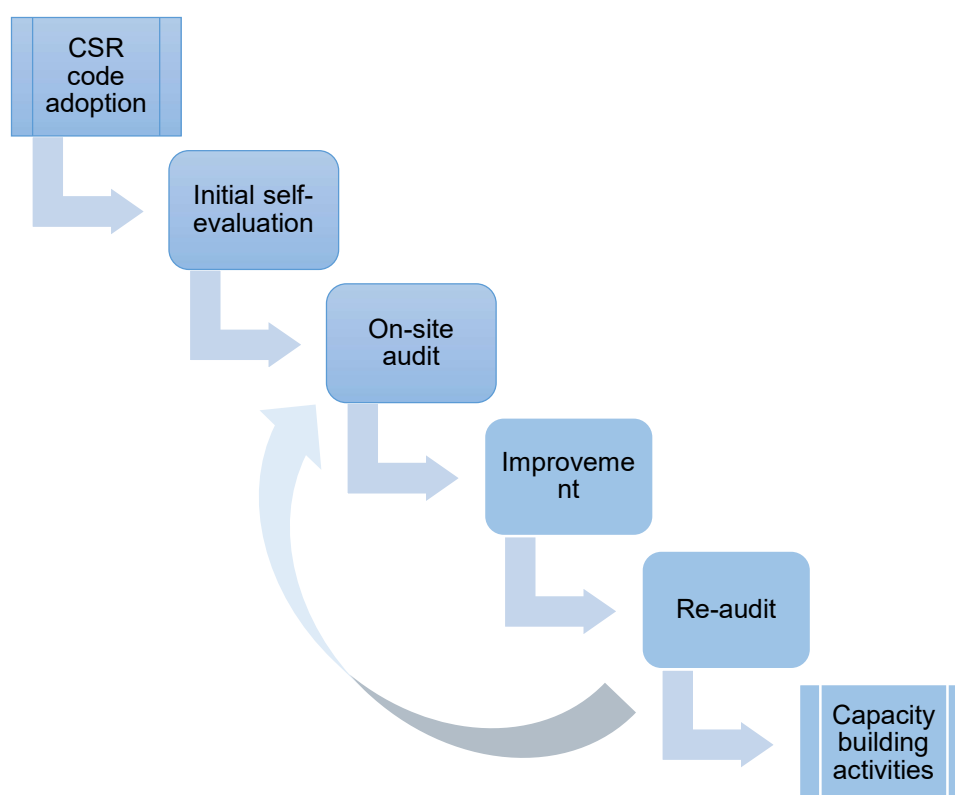
Flow chart 3. Code implementation cycle for suppliers (UNCTAD 2012).

The implementation programs provided by UNCTAD (2012):

- Self-evaluation. A supplier must provide a self-evaluation of its CSR performance
  as per the procurement company's requirement. It is usually a questionnaire that is
  sent to each supplier individually or through an online platform.

- On-site monitoring. This step requires a regular visit to factories to monitor a sup-
  plier's social and environmental performance. Some companies use third parties to
  monitor their suppliers' performances against their code of conduct.

- Monitoring tools. To perform a social audit, companies need to use tools to monitor and verify code compliance. Companies or auditing firms transform the code of conduct into a checklist. This checklist is more detailed than the code of conduct. It can include 40 to 800 questions on social, environmental, and management issues depending on the company or auditing firm.

- Corrective action plans. Companies do not easily drop suppliers when they do not comply with the code of conduct. In the CSR context, buyers only drop companies when there are extraordinary infractions or failures to make improvements. Suppliers are given the chance to take corrective actions whenever they fail to implement the code of conduct. Corrective action plans (CAPs) address weak management skills and inadequate systems, including poor record-keeping and internal control.

6   Conclusion

The thesis aimed to determine the factors affecting the successful implementation of corporate social responsibility in the procurement process of the supply chain. The results of the thesis show that CSR is an important aspect of a company's economic success. However, to achieve continuous success, every factor that has an impact on social responsibility needs to be addressed critically.

The first factor that affects the implementation of CSR is customer behavior. Customer behavior plays a huge role in maintaining social responsibility in a business. In the food industry, it is proven that customers purchasing behavior affects the company's supply chain. Today, more customers are involved in promoting social responsibility. Buying a product or a service does not depend only on its price. Customers investigate deeper on how a product or service is sourced, produced, and delivered to the end-users. This is the reason why business operators have to commit to being socially responsible to maintain their customer's trust and loyalty.

The second factor is the consideration of the role of government authorities, investors, and the social community. The government regulates the laws and restrictions. In Finland, the government provides guidelines on CSR. These guidelines are based on international agreements of countries worldwide. The Organization for Economic Co-operation and Development (OECD) guidelines are used by the Ministry of Economic Affairs and Employment in Finland. The guidelines are made to make sure that companies' operations are in-line with government policies, improve trust between parties, and promote foreign investment and sustainable development. To monitor the implementation of the guidelines, 48 countries have promoted the National Contact Points (NCPs). The NCP in Finland consists of the Ministry of Economic Affairs and Employment together with the Committee on Corporate Social Responsibility. (TEM 2021.) Following this, companies are guided to ensure that they practice the policies in social responsibility. As explained by Company X Manager, Company X is fully supportive of the CSR policies of the government. By doing so, investors continue investing money in the company. The community also contributes by following and applying the company's campaigns on social and environmental issues.

The third factor is the impact of suppliers. From the thesis results, suppliers are an important player in the supply chain. Since businesses need to choose their suppliers, it is recommended to investigate thoroughly the background of any supplier before making a business deal. A procurement company must have an active procurement team in choosing the right suppliers with social responsibility. Because not all companies have tracing tools, trusting

a supplier is another way of continuing business with risks. Company X manager and CSR expert believe that it is impossible to follow every supplier on its social responsibility roles in the supply chain. Therefore, the best way is to trust the supplier, make a clear agreement, and specify the importance of the Code of Conduct.

The fourth factor is the internal application of CSR principles in a company. The management and employees work together to ensure that business operations are performed according to the company's social responsibility principles. The management needs to communicate and deliver information to all the employees about social responsibility. Internal players must show and perform according to the company's CSR strategies and be role models as socially responsible citizens. It is challenging for large companies like company X to implement CSR due to the high number of employees. This challenge leads the company to develop standards and introduce technical tools to help with the implementation.

Implementing CSR in a company needs some available technical tools. As discussed in chapter 2, a company's CSR performance can be determined by using measurement tools. Measurement tools are recommended to determine how well the business does with its CSR. NIBusiness (2021) recommends these measurement tools: benchmarking a business against others, seeking recognition for CSR best practice by using BITC's responsible business tracker, and using the environmental Key Performance Indicator (KPI). Companies that have used these tools have benefited economically and improved their CSR performance during the years.

The last factor which affects CSR's successful implementation is risk management. Risk management is a relevant factor because every business operation has risks. In procurement, many possible risks can occur at any time and any place. Trusting a supplier delivering 1000 products marked as sourced and produced responsibly is risky. Since the procurement company has no traceability tools, the risk of receiving the delivery with no assurance of social responsibility from the supplier is huge. But because of effective procurement risk management, a contingency plan is prepared and ready to be executed when needed. Risk management helps companies to avoid and reduce risks to an acceptable level.

To become socially responsible, a business can start with small changes in its business operations. Recommended actions are as follows (Collier, E. 2018):

- Local community involvement. Getting involved in the local community is one way of showing commitment to CSR. Participate in local events, support local businesses by buying from local suppliers, and involve in community decision-making.

- Become a volunteer. Volunteering in any event or organization where the community needs help such as manpower. The company sends staff to be volunteers in a health care facility or children's daycare center to help.

- Go green. Going green means cutting emissions, electricity and water consumption, and recycling. Any activity that the company can help to reduce the impact of its actions on the environment.

- Using alternative transport method. Encourage the company's management and staff to use environmentally friendly transport such as bicycles, car sharing, or public transport when going to and from work.

- Support the development of employees. Employees should be treated well, have a good working condition, healthy, and safe. A company must invest in its employees' personal and professional development because the benefits will return to the company itself in long run.

As CSR gains popularity continuously, businesses must adapt to the changes and secure their reputation as socially responsible companies. The benefits outweigh the negative impacts of incorporating CSR principles in a business. Therefore, to become competitive in the global market today, a company must continue improving its social responsibility strategies and apply them to its daily business operations.

7   Summary

The thesis started with the introduction in chapter one, of how corporate social responsibility affects businesses worldwide. The objective is set to determine the factors affecting the success of a business implementing CSR principles. Through this objective, research questions are formulated. Delimitations, research method, empirical data, and method of analysis are also discussed to give the reader the idea of how the thesis research and data will be handled during the process.

Chapter two explains corporate social responsibility in supply chain management. First, CSR is given several definitions from different perspectives. However, the main goal of CSR is presented: to have a harmonious relationship between a business's economic operations, influence, and effect on society. In this chapter, the three principles of CSR are presented. These are sustainability, accountability, and transparency. Each principle is defined and explained its importance in supply chain management. Additionally, CSR in the EU market and UN Sustainable Development Goals 2030 are shown. It is known that the EU member countries are actively incorporating CSR in business, education, training, and research. The union aims to educate everyone to be a socially responsible person. The UN SDGs 2030 also support CSR. The goals are in line with CSR principles. This chapter also includes the measurement of CSR. Measurement tools are important for companies to identify the value of their activities. At the end of the chapter, social responsibility in practice is explained and given example situations of a business.

Chapter three covers responsible procurement. Responsible procurement application is significant to both public and private procurement processes. Two types of procurement can be used. Strategic procurement and operational procurement are presented. These two are useful depending on what kind of industry it is applied to. Responsible procurement also includes procurement ethics and risk management. Procurement ethics and risk management are important tools for a company to be effective and successful in its management and business operations.

Chapter four discusses socially responsible procurement in the food industry. Responsible procurement in the food industry affects the whole food chain. The situation in Finland shows that food industries actively practice and support socially responsible procurement. Also, the government is continuously promoting CSR principles to businesses and citizens.

Chapter five presents the data analysis and results. Primary data are achieved by interviewing two CSR managers. The data gathered is analyzed using the qualitative method. The

results show similarities with the secondary data taken from the research. The aspects considered are the impacts of CSR in the food industry, the role of suppliers, the internal implementation of CSR within a company, and the importance of the code of conduct. Based on the outcome, socially responsible procurement has benefited the food industry in its economic, social, and environmental goals.

Finally, the conclusion is written in chapter six. The thesis objective has been solved and answers to the research questions are found. The conclusion presents that corporate social responsibility is necessary for every kind of business whether small or large scale. It is a trend that has been proven to be beneficial to a company. To remain globally competitive in the market, a company should continue its corporate social responsibility implementation and development.

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APPENDIX

Appendix 1: Interview questions

1. What do you think are the positive and negative impacts of CSR on a business? Why?

2. In procurement, does close coordination or cooperation with the suppliers contribute to the success of implementing CSR principles to an organization or a business? Is supplier development necessary?

3. How important is the internal integration of CSR within an organization or business? Why?