Supplier social compliance: Internal Culture and External Pressures

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ABSTRACT:

We use institutional theory to argue for a positive relationship between institutional pressures and supplier social compliance. In addition we theorize that the impact of institutional pressures on supplier social compliance is moderated by the supplier’s organizational culture. The hypothesized model is tested using data of 164 suppliers from the apparel manufacturing sector of Pakistan, which is one of the largest exporter of apparel goods. Empirical examination using PLS structural equation modeling provides evidence that (a) institutional pressures have positive impact on supplier social compliance and (b) the types of organizational culture have varied moderation effect.

Keywords: buyer-supplier relationship, organizational culture, social compliance

INTRODUCTION

As buyers from developed countries increase sourcing from developing countries, the concerns regarding supplier social compliance (SSC) are pushed into limelight (Seow, Sarkis, Lockström, & Callarman, 2014). SSC practices vary from one buyer to another but conceptually concerns such as child labor, gender discrimination, employee health and safety, right of unionization, employee work time and remuneration are common (Mamic, 2005). International companies along with local governments, industry associations, and international bodies seek to improve SSC but such compliance in the factories of developing country suppliers is far from ideal. In 2012-13, hundreds of workers died and thousands were injured in a series of accidents in a Bangladeshi apparel factory, which reportedly manufactured apparel for famous Western brands (Manik & Yardley, 2013; Porteous, Rammohan, Cohen, & Lee, 2012). Such examples of poor social compliance in factories are not uncommon in developing countries (Jamali & Mirshak, 2007; Jenkins & Yakovleva, 2006; Kaufman, Tiantubtim, Pussayapibul, & Davids, 2004). To the extent that supply chains have
identified SSC as a necessary part of their competitive advantage, the question becomes what factors affect a firm’s adoption of SSC?

We answer this question in a paper that makes three key contributions. First, we use institutional theory perspective to provide a comprehensive framework that defines the institutional pressures for social compliance and investigate their impact on social compliance (DiMaggio & Powell, 1983). Our second contribution is to theorize that organizational culture plays an important role in developing the context where managers respond to institutional pressures, make strategic decisions, and develop structures and practices for social compliance. Third, we use data from apparel manufacturing suppliers in a developing country, Pakistan, which is the ninth largest apparel goods exporter (Fukunishi, Goto, & Yamagata, 2013), to empirically investigate the proposed research model.

THEORY

According to institutional theory organizations operate in a social network where adoption of new practices is influenced by social rules. The social environment constitutes certain organizational forms, practices, rules, policies, and behaviors that are widely accepted as norms and complying with them is deemed legitimate. As organizations compete for scant resources, they face pressure to conform to these norms and behaviors, since violating them will put into question the organization’s legitimacy and affect its ability to secure resources and social support (DiMaggio & Powell, 1983). Organizations, therefore, adopt these practices as a means to prove their legitimacy and secure their survival. Similarly suppliers in developing countries adopt various social compliance programs to seek legitimacy in the eyes of key stakeholders such as international buyers, employees, trade unions, regulators, and community. A supplier can adopt a social compliance program in response to three types of pressures: normative, coercive, and mimetic (DiMaggio & Powell, 1983). Organizations facing normative pressures behave in such a way as to be perceived legitimate among their peers (DiMaggio & Powell, 1983). Coercive pressures are defined as formal or informal pressures exerted on an organization by other organizations upon which it is dependent for
acquisition of resources (DiMaggio & Powell, 1983). Mimetic pressures stem from the desire to be like successful organizations in the environment by mimicking their practices, policies, and structures. Hence we hypothesize:

$$H_{1.3}: \text{Perceived institutional pressures (normative, coercive, and mimetic) for social compliance have a positive impact on SSC.}$$

The competing values model (CVM) describes organizational cultures as a function of these two dimensions, resulting in four different types of cultures: clan, adhocracy, market, and hierarchy culture. The CVM A detailed discussion of the four types of culture has already been discussed in several other publications, e.g., Cameron and Quinn (2011) and Deshpandé, Farley, and Webster Jr. (1993) and Quinn and Rohrbaugh (1983).

**Clan Culture**

A supplier with high clan culture, which exhibits sensitivity to concerns of wellbeing of its people, will respond more positively to the coercive pressures for social compliance to improve the wellbeing of its employees. Hence, it makes sense that supplier with higher clan culture will have higher impact of coercive pressures on SSC. Finally, a supplier with higher clan culture, which ascribes more to internal focus and seeks inspiration from the internal value system, would tend to resist mimicking its competitors and industry trends. The efficiency incentives that underpin the mimetic pressures would not excite high clan culture organizations. Hence it can be argued that higher clan culture in a supplier organization might undermine the impact of mimetic pressures on the extent of social compliance of supplier. However, since clan culture seeks to develop a friendly and caring workplace and invest in its people, high clan culture suppliers might mimic implementation of social compliance initiatives for its people. Thus, based on its mixed influence on the impact of mimetic pressures, we believe clan culture will not moderate the impact of mimetic pressures on social compliance. Hence we hypothesize:
\( H_{4a} \): Normative pressures will have significantly higher impact on SSC when clan culture is higher than when it is lower.

\( H_{4b} \): Coercive pressures will have significantly higher impact on SSC when clan culture is higher than when it is lower.

\( H_{4c} \): Mimetic pressures will not have significantly different impact on SSC when clan culture is higher than when it is lower.

Adhocracy Culture

A supplier with high adhocracy culture will respond more favorably to normative pressures. Adoption of social compliance practices can help a supplier achieve greater legitimacy and positive image in the network, which in turn lead to greater market penetration, expansion, and resources acquisition (i.e., the core features of the adhocracy culture). A supplier with higher adhocracy culture will also respond more favorably to mimetic pressures for social compliance. This is because mimicking social compliance practices of successful organizations is in line with opportunity and growth seeking behavior of the adhocracy culture. The mimicking of social compliance practices will be encouraged by the innovative and risk taking behaviors of the leaders of adhocracy culture organizations. Therefore, a supplier with higher adhocracy culture will respond more favorably to mimetic pressures for social compliance. Hence we hypothesize:

\( H_{5a} \): Normative pressures will have significantly higher impact on SSC when adhocracy culture is higher than when it is lower.

\( H_{5b} \): Coercive pressures will have significantly higher impact on SSC when adhocracy culture is higher than when it is lower.

\( H_{5c} \): Mimetic pressures will have significantly higher impact on SSC when adhocracy culture is higher than when it is lower.

Market Culture
A supplier with a market culture values competitiveness, productivity, and goal achievement. Since high market culture organizations are more mechanistic in nature (Berthon, Pitt, & Ewing, 2001; Lamore, 2011; Leisen, Lilly, & Winsor, 2002), and focus on achieving their efficiency goals, they will not be influenced by normative pressures for social compliance. Also, high market culture organizations will resist normative pressures because such pressures might be considered an unnecessary burden and a hindrance to the achievement of the productivity and competitiveness objectives. Thus, normative concerns for reducing adverse impact from socially inappropriate utilization of resources may conflict with organizational goals for increasing productivity, so a supplier with higher market culture would be less inclined towards normative pressures. Also, since employees of high market culture companies do not share a common set of expectations regarding management style or philosophy, such organization would not tend to follow social compliance norms as well. A supplier with a higher market culture will resist the influence of normative pressures on social compliance. However, a supplier with a higher market culture will respond more favorably to coercive pressures for social compliance. Hence we hypothesize:

\( H_{6a} : \) Normative pressures will have significantly lower impact on SSC when market culture is higher than when it is lower.

\( H_{6b} : \) Coercive pressures will have significantly higher impact on SSC when market culture is higher than when it is lower.

\( H_{6c} : \) Mimetic pressures will have significantly higher impact on SSC when market culture is higher than when it is lower.

Hierarchical Culture

A supplier with higher hierarchical culture, which assigns great value to adherence to rules and procedures and emphasizes stability and smooth operations, will give less attention to social compliance requirements and related practices used by competitors or other partners in the supply chain. This is because adopting new social compliance practices requires several changes in
operations, procedures, and responsibilities. In addition, new initiatives require development of new routines, which can in turn engender possible resistance from people who have a mindset of ‘adherence for efficiency’ (Cameron & Quinn, 2011; R. Quinn & Cameron, 1999). Further, social compliance initiatives are sometimes perceived risky and costly with the potential to disrupt efficiency and existing routines. The additional costs and changes associated with social compliance initiatives are in sharp contrast with the credo of hierarchical culture, i.e., stability, consistency, dependability, and smooth operations. Research also shows that the hierarchical culture is negatively associated with the quality of work life implying that the hierarchical culture does not provide conducive context for social compliance initiatives. Therefore, higher hierarchical culture organizations will be less responsive to normative, coercive and mimetic pressures for social compliance. Hence we hypothesize:

\[ H_{7a}: \text{Normative pressures will have significantly lower impact on SSC when hierarchy culture is higher than when it is lower.} \]

\[ H_{7b}: \text{Coercive pressures will have significantly lower impact on SSC when hierarchy culture is higher than when it is lower.} \]

\[ H_{7c}: \text{Mimetic pressures will have significantly lower impact on SSC when hierarchy culture is higher than when it is lower.} \]

**METHOD**

**Conceptual Validation, Construct Operationalization, and Pretest**

An extensive literature review was carried out to generate measurement items of the research constructs. In addition, the authors conducted in-depth interviews with three social compliance managers, one factory manager, a CEO from a manufacturing company, a CEO and a manager from an international buying house, and three managers from compliance audit firms to aid in questionnaire development. The focus of these interviews was on creating a comprehensive
understanding of the factors that contribute to creating the institutional pressures for improving social compliance and the scale to measure social compliance objectively.

The survey instrument was developed in English, which was easily understandable by the potential respondents. The questionnaire was pretested with six production and compliance managers for adequacy of the information sought in the questionnaire, language of questions, identification of the best designation of potential respondents, sensitivity of the information sought in the questionnaire, and overall questionnaire layout. Based on the pre-test findings the questionnaire was revised. The revised questionnaire was then discussed with social compliance audit managers and two relevant faculty members working in the textile sector of Pakistan to seek their input, which lead to a minor revision before the large scale data collection.

Data Collection

The data was collected from medium to large size apparel manufacturing and exporting factories in Pakistan, which houses many apparel suppliers of Western brands such as Walmart, Nike, and Adidas using the total design methodology (Dillman, 2007). The data was collected from middle to senior managers related to social compliance and production operations. A total of 185 questionnaires were returned, of which 21 were incomplete, from a sampling frame of 394 factories. This yielded a total of 164 usable responses, an effective response rate of 41.62%.

Measurement Model and Direct Hypotheses

We used structural equation modelling using AMOS to run the CFA analysis to test the measurement structure of the reflective constructs (Teo, Wei, & Benbasat, 2003). CFA model provided acceptable model fit ($\chi^2_{8\text{ d.f.}} = 25.019$, $\chi^2_{8\text{ d.f.}} / \text{d.f.} = 3.12$, CFI = 0.978, TLI = 0.942, IFI = 0.979, NFI = 0.969). SmartPLS version 3.2.1 was used to estimate the empirical significance of the formative constructs and path coefficients of the direct hypotheses (H1, H2, and H3) for multiple reasons.

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Table 1: Comparison of full model, theoretical model, and control model
Table 1 shows the path coefficients of the impact of normative pressures, coercive pressures, and mimetic pressures on social compliance. Figure 3 shows weights of dimensions of the formative institutional pressures constructs, which were not subject to CFA. The correlations values of the research constructs and control variables shows that correlations among all constructs range between -0.594 and 0.521, which is below 0.90 thus indicating that all constructs are distinct (Bagozzi, Yi, & Phillips, 1991).

As for the results of hypothesized relationships, examination of results of full model in Table 3 suggests that the hypotheses 1, 2, and 3 representing the impact of normative pressures, coercive pressures, and mimetic pressures respectively on social compliance are supported.

**Moderation Hypotheses Testing**

SmartPLS version 3.2.1 was used to test for the moderation hypotheses 4 (a, b, c) through 7 (a, b, c). For each culture type we made two groups from the sample based on the value of median of culture type score; for example, for the clan culture type we made two groups, low clan culture group and high clan culture group (Cahill, Goldsby, Knemeyer, & Wahrenburg, 2010; Lee, Swink, & Pandejpong, 2011; Teo et al., 2003; C. W. Wong, Lai, Shang, Lu, & Leung, 2012; C. Y. Wong, Boon-Itt, & Wong, 2011). The results are shown in Table 2.

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<thead>
<tr>
<th>Table 2: Moderation hypotheses test results</th>
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Table 5 indicates that H_{4c} is supported because path estimate were not significantly different between low clan culture and high clan culture samples, thus endorsing the hypothesized relationships of indifference to clan culture. Similarly, H_{5c}, H_{6b}, and H_{6c} are supported because path estimates of high culture sample are significantly greater than those of low culture samples, thus endorsing the hypothesized positive moderation effect of the respective culture types. H_{6a} and H_{7c}
are supported because path estimates of high culture sample are significantly lower than those of low culture samples, thus endorsing the hypothesized negative moderation effect of the respective culture types. However, H$_{4a}$ and H$_{5b}$ are partially supported because though path estimates of high culture sample are not significantly greater than low culture samples, path estimates of high culture samples are statistically significant at p-levels 0.05 in high culture samples thus lending partial support for hypothesized positive moderation effect of the respective culture types.

H$_{4b}$ and H$_{5a}$ are not supported because path estimates of high culture samples are not significantly greater than those of low culture samples, thus rejecting the hypothesized positive moderation effect of the respective culture types. Finally, H$_{7a}$ and H$_{7b}$ are not supported because path estimates of high culture sample are not significantly lower than those of low culture samples, thus rejecting the hypothesized negative moderation effect of the respective culture type.

**DISCUSSION**

The findings show that institutional pressures have direct positive effect on the social compliance of suppliers (Figure 3). Coercive pressures have the strongest effect followed by normative and then mimetic pressures. Normative pressures are also positively related to SSC. Normative pressures usually build up as the diffusion of management practices increases in a supply chain and more partners in the chain start following (DiMaggio & Powell, 1983; Khalifa & Davison, 2006; Williams, Lueg, Taylor, & Cook, 2009). The effect of mimetic pressures on social compliance of supplier turns out to be weakest of the three pressures.

Findings also show that the effect of institutional pressures on SSC is often moderated by organizational culture. In case of coercive pressures, adhocracy and market culture lend positive support for the effect of coercive pressures on SSC. The positive support of the market culture to coercive pressures for SSC is in line with our hypothesis. Contrary to our expectations, we did not find support for a positive effect of clan culture on coercive pressures for SSC. The indifference of the high clan culture to coercive pressures could be due to its strong adherence to its internal value systems, consensus based decision making style, and commitment to traditions and organizational
values, which together could undermine the influence of external coercion (Cameron & Quinn, 2011). The lack of support for the moderating effect of hierarchy culture is contrary to our hypotheses. Although path estimates for high and low hierarchy culture are not significantly different (Table 5), the significant effect of coercive pressures on SSC in high hierarchy culture companies suggests that hierarchy culture will also submit to coercive pressures (Table 5).

Normative pressures also show mixed results for the moderation effect of organizational culture. The findings for the adhocracy culture do not support the role of high adhocracy culture for normative pressures for SSC. Consistent with our hypothesis, the effect of normative pressures for SSC is low when a firm is characterized by high market culture. Contrary to our expectations, path estimates for high and low hierarchy culture on normative pressures are not significantly different.

In case of mimetic pressures, congruent with our hypotheses, firms with high adhocracy and high market culture are more responsive to mimetic pressures than low adhocracy and low market culture, respectively. In line with our hypothesis, clan culture shows indifference to mimetic pressures for SSC. Hierarchy culture, congruent to our expectations, shows negative moderation effect on the role of mimetic pressures for SSC.

**FUTURE RESEARCH**

Several research opportunities are suggested by this research. First, the future research can use other means of measuring supplier social compliance instead of using management system standards, which may not reflect actual social compliance of the supplier. Second, future research can explore causal linkages among institutional pressures, organizational culture, and social compliance performance using longitudinal study. Finally, future research should collect data from multiple informants in top management tiers.

**References**


<table>
<thead>
<tr>
<th>Constructs</th>
<th>Path coefficients</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Full Model</td>
</tr>
<tr>
<td>Normative pressures</td>
<td>0.223*</td>
</tr>
<tr>
<td>Coercive pressures</td>
<td>0.277**</td>
</tr>
<tr>
<td>Mimetic pressures</td>
<td>0.236**</td>
</tr>
<tr>
<td>Number of employees</td>
<td>0.203**</td>
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<tr>
<td>Annual revenue</td>
<td>0.027</td>
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<tr>
<td>Export proportion</td>
<td>-0.007</td>
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<tr>
<td>Export experience</td>
<td>-0.040</td>
</tr>
<tr>
<td>Variance explained in social compliance</td>
<td>35.60%</td>
</tr>
</tbody>
</table>

* Significant at p-value = 0.05    ** Significant at p-value = 0.01

Table 1: Comparison of full model, theoretical model, and control model
<table>
<thead>
<tr>
<th>Hypothesis (Path)</th>
<th>Are path estimates significantly (at p-level = 0.05) different?</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>(H_{4a}(NP + SSC))</td>
<td>No</td>
<td>Partially Supported</td>
</tr>
<tr>
<td>(H_{4b}(CP + SSC))</td>
<td>No</td>
<td>Not Supported</td>
</tr>
<tr>
<td>(H_{4c}(MP + SSC))</td>
<td>No</td>
<td>Supported</td>
</tr>
<tr>
<td>(H_{5a}(NP + SSC))</td>
<td>No</td>
<td>Not Supported</td>
</tr>
<tr>
<td>(H_{5b}(CP + SSC))</td>
<td>No</td>
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</tr>
<tr>
<td>(H_{5c}(MP + SSC))</td>
<td>Yes**</td>
<td>Supported</td>
</tr>
<tr>
<td>(H_{6a}(NP - SSC))</td>
<td>Yes*</td>
<td>Supported</td>
</tr>
<tr>
<td>(H_{6b}(CP + SSC))</td>
<td>Yes**</td>
<td>Supported</td>
</tr>
<tr>
<td>(H_{6c}(MP + SSC))</td>
<td>Yes**</td>
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</tr>
<tr>
<td>(H_{7c}(MP - SSC))</td>
<td>Yes**</td>
<td>Supported</td>
</tr>
</tbody>
</table>

*Table 2: Moderation hypotheses test results*