



TEKNILLINEN KORKEAKOULU

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**The significance of culture in promotion of corporate
responsibility in the supply chain:**

A case study of India

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<p>This master's thesis has its basis in corporate responsibility and cross-cultural management. The main objective of this study is to find out what relevance does taking into account different cultures have in promoting responsibility in a company's supply chain. In corporate responsibility discussion companies are increasingly held responsible also for the actions of their suppliers. At the same time following the globalization process supplying increasingly crosses national and cultural boundaries. An important question arises: should companies take into account the impact of differing cultures when designing their supply chain responsibility strategies?</p> <p>After investigating the relevant literature about supply chain responsibility and cross-cultural management these two bodies of knowledge are applied to a case about China and India. India's importance as a supplying location is rising while China has been a major location for supply for a number of years. These two cultures are compared to find out what should be done differently in Indian culture and business climate than has been done in China. A case firm with strong supplier base in China and plans to start sourcing from India is investigated to see how they should design their Indian responsibility promotion strategy in supply chain.</p> <p>There were three important results from the research. Firstly it was found out that responsibility promotion strategies should not be customized on a national culture basis. This is due to many reasons including the diversification of cultures inside a nation, the often foreign top management of many suppliers operating in developing countries and the varying influence of modernization.</p> <p>Most important reason was still the second result of the research, that organizational cultures have a wide impact on the functioning of responsibility promoting strategies. Cultural sensitivity is therefore emphasized but the efforts should be concentrated on analyzing the supplier's organizational culture and choosing the most suitable strategy based on that analysis. As organizational cultures are rather stable this underlines the importance of supplier selection process as part of the responsibility promotion.</p> <p>Thirdly, as national cultures still are essential parts of organizational cultures a few insights of India are provided. Although being one of the most diversified nations in the world it was found out to be more western than China in almost all measures. Additionally an existing traditional culture of responsibility was found that should be taken into account.</p>			
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<p>Tämä diplomityö yhdistää yhteiskuntavastuun ja kulttuurienvälisen johtamisen. Tehtävänä on selvittää mitä merkitystä eri kulttuurien huomioonottamisella on yhteiskuntavastuun edistämässä alihankintaketjussa. Yhteiskuntavastuukeskustelussa yhtiöitä pidetään yhä enemmän vastuullisina alihankkijoidensa toiminnasta. Samanaikaisesti globalisaatiokehityksen myötä yhä useampi alihankintasuhde ylittää kansallisia ja kulttuurirajoja. Tästä seuraa tärkeä kysymys: tuleeko yhtiöiden ottaa huomioon eriävien kulttuurien vaikutus suunnitellessaan alihankintaketjun yhteiskuntavastuustrategiaa?</p> <p>Keskeinen lähdeaineisto alihankinnan yhteiskuntavastuusta sekä kulttuurienvälisestä johtamisesta käydään lävitse ja sovelletaan sitten tapaustutkimukseen Kiinasta ja Intiasta. Kiinan oltua jo vuosikautia huomattava tekijä alihankinnassa Intian merkitys on nyt kasvussa. Näiden kahden maan kulttuureita verrataan tarkoituksena selvittää mitä tulisi tehdä erilaisilla Intian kulttuurissa ja liiketoimintaympäristössä Kiinaan verrattuna. Tarkempi selvitys tehdään esimerkkiyrityksestä, jolla on vahva alihankintaverkosto Kiinassa ja suunnitelmat aloittaa alihankinta myös Intiassa, jotta nähtäisiin kuinka heidän tulisi suunnitella alihankintansa yhteiskuntavastuustrategia Intiassa.</p> <p>Kolme tärkeätä tulosta nousi esiin tutkimuksesta. Ensinnäkin alihankinnan yhteiskuntavastuustrategioita ei tule räätälöidä maakohtaisesti. Tähän on monta syytä kuten kulttuurihajonta maan sisällä, alihankkijoiden usein ulkomainen johtoporras erityisesti kehitysmaissa ja modernisaatiokehityksen vaihteleva vaikutus.</p> <p>Tutkimuksen toinen tulos, organisaatiokulttuurien merkittävyys yhteiskuntavastuustrategioiden toimivuudessa, on kuitenkin tärkein syy maakohtaisen lähestymistavan hylkäämiselle. Herkkyys erilaisille kulttuureille on siis ensiarvoisen tärkeätä mutta tarkoituksenmukaisempaa on analysoida alihankkijan organisaatiokulttuuria itsessään ja valita sopiva strategia tämän analyysin perusteella.</p> <p>Kolmanneksi, kansallisten kulttuurien ollessa kuitenkin merkittävässä asemassa organisaatiokulttuurien sisällä, tärkeimmät näkökohdat Intiasta selvitettiin. Vaikka Intia onkin yksi maailman kulttuurisesti hajanaisimmista maista, huomattiin sen olevan läntisempi kuin Kiina lähes kaikilla mittareilla. Lisäksi Intiassa on olemassa oleva yhteiskuntavastuun traditio, joka tulisi ottaa huomioon yhteiskuntavastuustrategiaa kehitettäessä.</p>			
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Mikko Martela

Human beings draw close to one another by their common nature, but habits and customs keep them apart. –Confucian saying

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Nomenclature

In the field of corporate responsibility, the correct terms to be used to describe different phenomenon and definitions of these terms are still under debate. For consistency, the author uses the following terms throughout the document.

Corporate responsibility (CR). Corporate responsibility is used as a kind of umbrella term covering all aspects of responsible business. It covers environmental, social and financial responsibility of a company.

Terms that in general use are used somehow interchangeably with it include: business ethics, corporate citizenship, corporate accountability or sustainable development.

Corporate social responsibility (CSR). Consequently, corporate social responsibility is used to address the social sector of responsibility. This is important to note as corporate social responsibility is confusingly often used to describe the whole responsibility sector.

The author believes that usage of corporate responsibility as the umbrella term and corporate social responsibility as the social aspect of it is a more consistent way of using the terms.



Figure 1 Corporate Responsibility as the umbrella term

Supply chain responsibility (SCR). Supply chain responsibility is used as a kind of umbrella term covering all aspects of furthering responsibility in the supply chain. It is therefore simply corporate responsibility applied to supply chain.

Terms that in general use are used somehow interchangeably with it include: purchasing social responsibility (Carter and Jennings 2004), ethical trading (Blowfield 2000a), ethical sourcing (Blowfield 2000b), socially responsible buying (Maignan and McAlister 2001; Maignan et al. 2002) and ethical supply chain (Neef 2004).

1 INTRODUCTION

This Master's Thesis is about corporate responsibility and its impacts to how companies manage their suppliers. It focuses on the challenges emerging from differing cultures in the promotion of corporate responsibility in the supply chain concentrating on the comparison of two cultures: that of China and that of India. This introductory part provides background and motivation for the study, presents the research objective and research questions, and describes the research approach. Lastly, the structure of the thesis is introduced.

1.1 Background and Motivation

Corporate Responsibility (CR) has over the last ten years gained an increased amount of attention in business world. Having been called “one of the biggest corporate fads of the 1990s” (Economist 2004) corporate social responsibility has followed in the footsteps of environmental management to become part of the mainstream business and boardroom agenda of multi-national companies (Jamison and Murdoch 2004; Carter and Jennings 2004). Although the theoretical debate is still in progress (McWilliams and Siegel 2001), corporate responsibility can be seen as an umbrella term, gathering together the three aspects of triple-bottom line theory (Elkington 1997), namely economic, environmental and social responsibility. Globalization, increasing stakeholders demands, heightening public consciousness and rising demand for corporate transparency and accountability have among others built up the rationale behind this phenomena (BSR 2005).

During recent years the focus has increasingly shifted from the actual companies to include also their supply chain (Jamison and Murdoch 2004; PricewaterhouseCoopers 2005; Insight Investment 2004; Hartman et al. 2003). A significant and growing number of stakeholders see corporations responsible for the actions of their suppliers “even when the corporations themselves have no direct role in governing those third-party business partners” (Neef 2004: 4) Aggressive campaigns against well-known companies of different industries have forced many companies to adopt new strategies for their supply chain responsibility (CAFOD 2005). Also the media has reacted to and reinforced this development by devoting considerable attention to different sweatshop

scandals and other flagrant violations of human rights appearing in western corporations supplier base (PricewaterhouseCoopers 2005). Supply chain responsibility has become a common theme in newspapers and journals with investigative reporters and government agencies carrying out research with an increasing interest. (Neef 2004) Also the governments have in general shown more interest towards supply chain responsibility with for example the European Commission White Paper on Corporate Social Responsibility containing guidance on labor standards (PricewaterhouseCoopers 2005). Additionally the investment community is nowadays more interested in corporations social and environmental reputation. In fact, 12 per cent of investment assets under professional management in U.S. are in funds with socially responsible investment policies (BSR 2005). The newly developed Gradient Index by AccountAbility addresses specifically supply chain labour practices.

Supply chain responsibility is thus clearly becoming a vital part of corporate responsibility (Blowfield 2004; Jamison and Murdoch 2004). Despite this development academic research on the topic has still concentrated mostly on specific topics such as logistics social responsibility (Carter and Jennings 2002), purchasing's role in social responsibility (Carter and Dresner 2001; Carter 2004; Carter and Jennings 2004), the effectiveness of ethical trade and sourcing on its intended beneficiaries (Blowfield 1999; Blowfield 2000a; Blowfield 2000b; Blowfield 2004) and the codes of conducts utilized by companies (Kolk and Tulder 2002; Kolk et al. 1999). In addition some books tackling the whole concept have emerged (Jamison and Murdoch 2004; Hartman et al. 2003; Neef 2004) in recent years.

At the same time the growing globalization of business world has created a clear demand to understand and manage people from different cultures (Adler 1997; Schneider and Barsoux 1997). Culture has a vital influence on the practice of management (Lane et al. 1997). Hence the importance of cross-cultural management is recognized by more and more international managers (Adler and Bartholomew 1992). Cross-cultural management is a discipline that seeks to understand the behaviour of people in organizations around the world. It describes and compares the organizational behavior across cultures and countries and additionally aims at training people to understand differences in culture so as to improve the interaction between distinct cultures. (Adler 1997) It is about fostering cross-cultural learning and participation so as

not to neutralize cultural differences but to build on them (Holden 2002). In doing business and managing relations with companies from different cultures it is therefore vital to understand the rationale and lessons to be learned from the field of cross-cultural management.

Given the importance of cross-cultural management, the significance and role of differing cultures in supply chain responsibility is a topic that needs to be investigated. In an increasingly global economy manufacturing and suppliers of large western companies are more often than not at least partially sourcing their production from developing countries. Additionally challenges of supply chain responsibility are often greater in developing countries where surveillance of local laws might have inadequacies. Therefore managing supply chain responsibility is essentially also cross-cultural management. Despite this evident connection research that merges these fields of knowledge is still quite rare. To address this important gap, this thesis explores the impact of differing cultures to management of supply chain responsibility.

A case study approach is used to address this challenge. The theoretical fields of supply chain responsibility management and cross-cultural management are first addressed separately. Then they are applied to a case about supplying from China and India to draw out the relevant differences and similarities and their impact on supply chain responsibility management in these countries. The case used in this thesis is a multinational telecommunications company Nokia. China has currently a significant role in its supplier base and currently it is expanding its supplier base in India. Therefore it has an interest in knowing what should be done differently in Indian cultural context compared to Chinese culture.

1.2 Objectives of the study

The objective of this thesis is to explore the current knowledge of strategies for supply chain responsibility and investigate what relevance the differing cultures play in success of the strategy. As relevant research or theory on the exact research area seems to be non-existent the objective is achieved firstly through a theoretical examination of supply chain responsibility and cross-cultural management and drawing a synthesis between these two bodies of knowledge. Secondly, the objective is achieved by examining

Chinese and Indian cultures and assessing what difference do they impose to choosing a strategy for supply chain responsibility. Thirdly, the objective is achieved through applying this knowledge to a case study about Nokia's supply chain responsibility promoting strategies in China and India.

1.3 Research framework

Figure 2 represents the conceptual framework for the thesis. Supply chain responsibility along with corporate responsibility in general is presented. Cross-cultural management is presented and applied to India and China to come up with conclusions about their relevant features and differences. These two bodies of knowledge are then unified to come up with a comprehension of how to take cultures into account in promotion of supply chain responsibility. This comprehension is then used to make a suggestion of how these promotion strategies used mainly in China should be adapted to Indian culture.

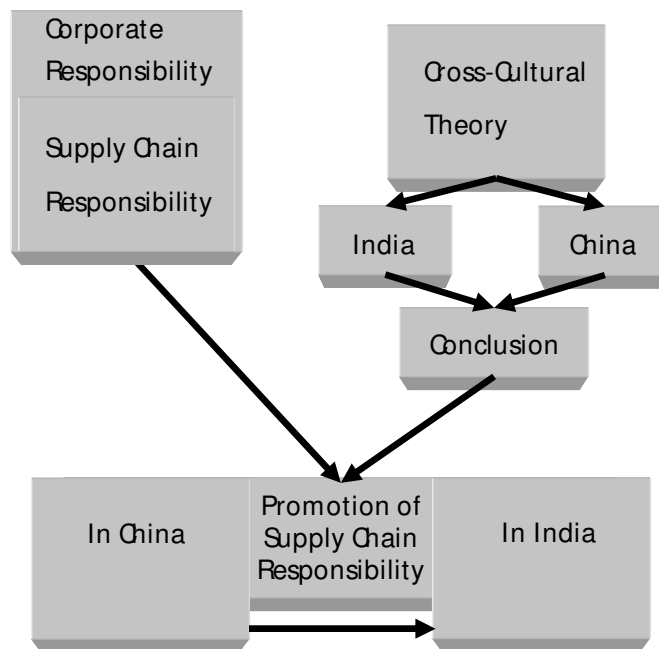


Figure 3 The Conceptual Framework

1.4 Research Problem

The objective of the research is defined in the previous chapters. This objective is formulated into two research questions. The research questions are:

1. What is the significance of differing cultures in supply chain responsibility?
2. How to best promote good performance regarding a company's corporate responsibility standards in Indian supplier network?

To additionally refine the scope of the research four assisting questions were specified aimed to gather relevant knowledge for answering the two main research questions:

1. What is the existing knowledge of strategies used for promoting corporate responsibility in the supply chain?
2. What is the cultural climate of India and what are the relevant differences and similarities to China?
3. What are the existing strategies and policies used in similar cases, especially in China?
4. To what degree should the strategies for supply chain responsibility be customized to different cultures?

1.5 Structure of Thesis

Part 2 of the thesis consists of a literature review of supply chain responsibility. Corporate responsibility and supply chain responsibility are firstly defined. Then different tools and strategies for promoting corporate responsibility in supply chain are represented along with their strengths and weaknesses. Also special challenges of supply chain responsibility management are represented. Thus a view of the current knowledge on promotion of supply chain responsibility is established.

Part 3 concentrates on the cross-cultural management. Culture is defined and different methods to assess different cultures derived from anthropology, social psychology and

empirical research are represented and their applicability discussed. The relevance of the nation-based approach is also considered.

Part 4 examines two different cultures, namely China and India. Through an analysis of their cultural dimensions and basic beliefs using methods established in the previous part a notion of the relevant cultural aspects is formed. After taking a brief look at corporate responsibility in those countries a conclusion is drawn about the pertinent features of their cultures in promoting corporate responsibility. The cultures are also compared to each other to highlight the essential differences.

Part 5 takes a look at Nokia's strategies for supply chain responsibility. As China has a significant role in Nokia's supply chain the general view of Nokia's strategies is complemented with a closer look at China. After that a suggestion is formed of what should be done similarly and what differently in India.

Part 6 includes then the conclusions of the research. The results and suggestions are laid out, their validity and reliability are discussed along with a general discussion about the implications and suggestions for further research.

2 SUPPLY CHAIN RESPONSIBILITY

2.1 Definitions

2.1.1 Corporate responsibility

As noted earlier corporate responsibility is used here as an umbrella term covering all aspects of responsibility. It is therefore a broad term and lacks a clear, unambiguous definition. In general it can be used anytime the corporation seems to support society or environment in one way or another. It is about policies, practices and programs that further responsible goals as well as concrete results of the impact of the company in the society and environment.

One way to define it would be as "achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment." (BSR 2005) Another way to put it could be "actions that appear to further some social [or environmental (added by author)] good, beyond the interests of the firm and that which

is required by law” (McWilliams and Siegel 2001). Still another definition is “a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” (CEC 2001). In general, taking some responsibility of corporation’s actions beyond financial interests is what corporate responsibility is about.

2.1.2 Supply chain responsibility

As with corporate responsibility in general, supply chain responsibility is also a concept that can be addressed with many different largely interchangeable labels and it lacks a clear definition. Carter and Jennings (2004) have used the term purchasing social responsibility to describe principles of corporate responsibility applied to purchasing decisions. Blowfield (2000a) uses the terms ethical trading as “trade in goods produced and marketed under conditions that are socially, environmentally and financially responsible.” At the same time he recognizes it as having no clear definition and additionally uses the term ethical sourcing interchangeably with it. In general he sees these two terms as umbrella terms that describe a large phenomenon consisting of codes of practice and other actions to further responsible goals in managing the supply chain. (Blowfield 2000b) Comparably, Jamison and Murdoch (2004: 10) define ethical supply chain management quite narrowly as “work undertaken to improve labor practices in the supply chain”.

In this thesis the term supply chain responsibility is used as an umbrella term to describe company’s all efforts to further social and environmental goals in their supply chain. Fundamentally supply chain responsibility is about making “corporations responsible for the actions of their suppliers and subcontractors” (Neef 2004: 3). It is therefore simply corporate responsibility applied to supply chain.

2.2 Management tools

Before going into the strategic decisions of management of supply chain responsibility an understanding of the major management tools and their strengths and weaknesses needs to be established. Three most important ones are supplier requirements, monitoring and awareness building. Here follows a brief introduction to them and their known strengths and weaknesses.

2.2.1 Supplier requirements

Introduction. Establishing written supplier requirements is usually the first step in managing the company's supply chain responsibility (Jamison and Murdoch 2004). Some firms and researchers call these supplier requirements 'Code of Conduct' but because others use that term to refer to company-wide ethical standards for clarity's sake the term supplier requirements is used in this thesis.

Supplier requirements consist of guidelines and requirements to establish social and environmental performance for the corporation's suppliers. (Jorgensen et al. 2003) In other words it establishes standards that all suppliers have to fulfill regarding corporate responsibility. Although companies can set these criteria on their own it is more common to use as a basis some accepted and well-established codes and standards set by some larger body or interest group. These codes and standards have the advantage of better comparability and transparency. Usually the supplier requirements require supplier to comply with local law and with some international standards (Jamison and Murdoch 2004).

To gain real effect these supplier requirements should be build into contracts with suppliers. This way the suppliers would have contractual duty to be responsible and suitable sanctions could be set to address the cases of non-compliance. Additionally proper indicators have to be set up so as the suppliers performance can be measured against set criteria.

Common sources for the requirements. ILO Core Conventions, OECD guidelines or United Nations Universal Declaration of Human Rights serve often as a basis for social standards. Two popular codes that use them include the ethical trading initiatives ETI base code and UN Global Compact that combines these social aspects with environmental principles derived from Rio Declaration (UN 2005).

Additionally there are more complete management systems that as well as including standards of acceptable behavior also include organizational structures, procedures, processes and a verification system to ensure this compliance (Ascoly et al. 2001). It is becoming more common of companies to require their suppliers to comply with them. Prevalent one in environmental matters is the ISO14001. For social issues SA8000

(appendix 1) has gained some status. The suppliers fulfilling the criteria and following the process gets a certification of their performance by an external certification body. A less standard giving approach is the AA1000 which sets out to establish a “framework of ‘best practice’ methods in social and ethical accounting, auditing and reporting. (Neef 2004)

The requirement of implementation of a management system can be very effective in assuring the corporate responsibility of suppliers (Neef 2004). However they can be very expensive to implement especially for small firms that can't simply afford the certification costs (Blowfield 1999; Collinson 2001).

Above-mentioned standards are horizontally focused covering broad areas of corporate responsibility and requiring of all suppliers the adoption and implementation of them might not be practical or relevant in all cases. There are also more industry-specific standards available for use. (Neef 2004) An example of an industry-wide approach is EICC, Electronics Industry Code of Conduct that seven electronic industry corporations including IBM and HP adopted in 2004. Using various sources including SA8000, ILO conventions and universal declaration of human rights they developed an own supplier requirement code that they self implement and encourage other companies to adopt. (EICC 2004)

Procedural or performance-based indicators. One decision to be made about the supplier requirements is whether they should include procedural or performance-based indicators. (Blowfield 1999)

Performance standards measure performance of the company against certain criteria and indicators and have specific limits of acceptable performance. Their strength is that they set clear standards that observers can understand regarding the corporate responsibility level of the company's suppliers. (Blowfield 1999) Its problem is that it is too static and encourages performance-measure on the pass-fail basis. After the supplier has fulfilled certain minimum levels it has no further motives to improve its ethical performance. (Blowfield 1999) Additionally strict compliance forcing can often result in falsified records or force companies to take potentially detrimental reactions (Jamison and Murdoch 2004).

Procedural standards on the other hand focus on suppliers adopting certain procedures that will lead to improved performance. This approach is more dynamic and values progress towards a goal more than simply accomplishment of a certain minimum. The drawbacks are that it is hard for observers to see if a firm is really committed to improvement and the set goals might prove to be too low. Without set minimum standards it is essentially too easy to hide corporate responsibility problems under the rhetoric of progression. (Blowfield 1999)

Given the limitations of both of the approaches corporations are increasingly adopting a strategy that combines these two by having certain minimum criteria as entry level for suppliers and support continuous improvement thenceforth. Performance-based approaches to restrict more serious problems like child labor are combined with procedural approaches to encourage long term continuous change. (Blowfield 1999; Jamison and Murdoch 2004)

Other choices. Company has to find a right balance with the elaborateness of the requirements. More detailed criteria might assure that the suppliers fulfill just the things that are needed of them. On the other hand too specific requirements will divert the supplier's attention to focus on details. Fundamentally the point is to increase the level of corporate responsibility of suppliers but too specific requirements don't often support the understanding of this message by suppliers. Instead they can cause problems with non-compliance (Jamison and Murdoch 2004), falsifying of records (Foster and Harney 2005) or complying strictly with standards but exploiting all possible loop-holes that might arise (Blowfield 1999).

Another thing that talks in favor of less detailed requirements is the fact that they let the supplier design its strategy for corporate responsibility itself. This way the purchasing company don't impose its own values and methods on the supplier from above but give room for the supplier to find its own ways of fulfilling the criteria.

It is also a challenge to set up a universal supplier requirement code that is challenging enough to enhance real improvement from suppliers but still reachable for all the relevant parties (Jamison and Murdoch 2004). As multinational companies deal with many suppliers in very different countries with different problems and levels of corporate responsibility it can be a real challenge to have a code that is applicable to all

of these suppliers. Therefore many times there is a “huge gulf between codes of conduct and actual working practices” (Jamison and Murdoch 2004: 28).

Strengths and weaknesses. The written supplier requirements are largely seen as a vital part of promotion and assurance strategy for corporate responsibility (Jorgensen et al. 2003; Jamison and Murdoch 2004; Neef 2004). It indicates that company is aware of the issue and helps the company to be clear about its priorities (Jamison and Murdoch 2004). A company needs set criteria so as to have clear targets for its suppliers. Therefore establishment of written supplier requirements is the first step in almost every company’s strategy for supply chain responsibility.

Complexity and breadth of corporate responsibility issues (Jamison and Murdoch 2004) provide one challenge for building up extensive supplier requirements. It is hard, if not impossible to include every aspect of corporate responsibility into the specific requirements. Therefore the limitations of requirements need to be recognized. (Blowfield 1999) Although the supplier fulfils all agreed standards of corporate responsibility, loopholes and blind spots might still exist that can make the supplier’s behavior irresponsible in many ways. This is one of the reasons why compliance strategy in supply chain responsibility is being criticized (Jamison and Murdoch 2004). Shift towards an approach where supplier agrees more with the spirit of corporate responsibility than exact details has increasingly being realized by to be the only practical long-term solution.

Doubts about the necessity of detailed codes have also been raised. Most of the countries in the world have ratified the United Nations’ Universal Declaration of Human Rights, Convention on Rights of the Child and ILO core conventions. The codes and requirements of companies that rely heavily on them are therefore in effect saying nothing more than that the suppliers should comply with local law (Jorgensen et al. 2003).

The written supplier requirements can also be criticized for being too static. Multinational company creating a single requirement code applying to all its diverse suppliers in different industries and in different countries might notice that the same code isn’t the optimal in promoting corporate responsibility with that particular supplier. (Blowfield 1999)

2.2.2 Monitoring and auditing

Introduction. Supplier performance monitoring consists of “activities carried out to keep a close watch over the implementation – to check that the code is consistently being complied with” (Ascoly et al. 2001: 9). It is a frequent or continuous process that assures that the company is aware of what happens in the supply chain and can detect variations in behavior or circumstances. Additionally the monitoring can include an element of guidance, cooperation and improvement. Typically, the procedures used will involve a combination of surveys, desk-based research assessments, site visits, and full-sized code inspections. (Neef 2004) According to an ETI research, roughly one third of these activities are desk-based (mostly surveys and public domain information), another third involved site visits and last third consisted of more full-blown code inspection visits (17 %) and external audits (10 %). (ETI 2001)

Perhaps the most important and at least most discussed part of monitoring is the auditing. Therefore auditing is discussed here in more detail. In auditing, the supplier’s real performance is examined through a visit to the factory or manufacturing location to establish the truth about the level of corporate responsibility it has reached (Ascoly et al. 2001). An important standard for auditing procedures is the ISO 19011 Guidelines for Quality and Environmental Management Systems Auditing (ISO 2005). It gives detailed advice on audit practices and auditor competencies needed (Hortensius and de Jong 2002) and additionally it can be applied also to social audits (Kortelainen 2005a). The typical auditing process consists of three parts: a pre-audit visit, the actual audit and after audit procedures (Blowfield 2000a; Neef 2004 p.203).

Firstly a pre-audit visit where audit teams explain the codes and standards against which the supplier is being audited and how the auditing process will be carried out. At the same time potential problems are identified and recommendations of corrective actions given. (Neef 2004)

Then is the actual audit where the auditing team inspects the production unit and other relevant areas such as waste treatment, health clinic or chemical storage, typically following a certain beforehand agreed procedure. Four specific elements are usually involved in the auditing process (Neef 2004). Firstly, collecting and verifying data and objective, quantifiable records will provide a good starting point. A tour of the actual

factory is essential so the auditing team can see for themselves the working conditions and how the environmental and social standards are carried out in normal operation process. Last two elements; interview of key individual employee and group discussions with employees are increasingly recognized as key components of an effective assessment (Jamison and Murdoch 2004). Additionally discussion with the management is usually included (Waddock and Smith 2000). A combination of these methods assures that the auditing visit is balanced and covers all relevant information. (Neef 2004)

After audit procedures consist usually of the auditing team summarizing their findings and listing risk areas and areas of non-compliance. These are then discussed in a management review meeting and a plan of how and when to enhance improvements and assure their accomplishment is made. (Neef 2004)

There are many different methods of assessment regarding the depth of the audit and which party is it done by. A general division can be made between three types of audits depending on who it is done by: internal audits that the company conducts itself, customer audits that are conducted by a company's customer and third-party audits conducted by some external body (Kortelainen 2005). A number of different audit types are introduced briefly here with their known strengths and weaknesses (Jamison and Murdoch 2004).

Dedicated internal audits. Here the company has a specialist ethical trading team that has been trained to carry out audits and is independent of any commercial agendas. Therefore they can carry out the audits rather impartially and with adequate knowledge of the challenges of corporate responsibility. These analyses usually last anything from one to three days and really try to dig deep into the problems of the factory assessed. These audits are therefore effective in finding the problems but some voices express the fear that these specialist teams might become too isolated from the commercial part of business and lack therefore the leverage to influence purchasing decisions. Top management commitment is needed to assure their influential power. (Jamison and Murdoch 2004)

Inbuilt audits. Here corporate responsibility issues are integrated with other operations and inspected alongside quality, buying or due diligence issues. This way corporate

responsibility is made part of business as usual and not something separate. Corporate responsibility is built into the common business process. Additionally, combining different functions makes the auditing more cost-efficient.

There are however a number of problems with inbuilt audits. Firstly the auditors are usually skilled in some other areas and not specialist in ethical issues. Therefore some problems might pass through unnoticeably or the corporate responsibility issues will get lost among other issues unless the process is very well developed. It is also hard to cover the problems as deeply as with dedicated corporate responsibility audits. Additionally there might be a conflict of interest as the auditing staffs role is often to facilitate supply. Corporate responsibility issues might hold up or threaten the continuity of the supply giving them a strong incentive to turn a blind eye on them. (Jamison and Murdoch 2004)

Audits done by intermediaries in the supply chain. Another approach that some companies have adopted is requirement of their first tier suppliers and agents to take self the responsibility of monitoring. Company then usually gives guidelines and training of how to build up these monitoring programs and additionally carries out some audits to ensure the functioning of suppliers or agents own program. (Jamison and Murdoch 2004)

Internal audits in general. Internal audits are in general more nuanced, flexible and cost-effective than external audits because the company and its supplier can by themselves arrange and carry out them as a part of their company-to-supplier exercise. But all forms of internal audits have the problem of credibility with external stakeholders. The NGOs, investment community and general public are apt to doubt any results the company produces itself. Given the amount of ignorance and underreporting infractions the companies have been found guilty at, they have all the right to be suspicious. Therefore audits involving external parties are almost necessary for the company's credibility. (Neef 2004)

External audits carried out by dedicated third party auditors. There are nowadays many companies that can carry out external auditing for firms. Independent from purchasing firm and with specialist expertise they can more easily reveal all the difficult problems. Being independent from the company their verification of company's

corporate responsibility is more trustful to outside stakeholders. The key problem with external auditing is that it can get quite expensive. Additionally some concern about the reduced engagement of company's own purchasing team and possibility of consistent follow up has been raised. Third-party auditing turns auditing easily into a test rather than learning experience (Blowfield 2000a). Also the quality of some third party auditors is an issue. (Jamison and Murdoch 2004)

Dedicated multistakeholder audits. In this format of auditing a combination of individuals from companies, NGOs, unions, academia or other third parties carry out the auditing together. Some critical stakeholders accept this to be the only legitimate way of monitoring and in solving particularly difficult problems this approach can be very fruitful. However, the skills and resources to audit are an open question concerning many of these parties. (Jamison and Murdoch 2004)

Combination of approaches. First-party auditing can be more nuanced and long-term but usually lacks the credibility external parties can give. External auditing is on the other hand quite expensive. Therefore a combination of these approaches is usually preferred. In it the company carries out the monitoring and auditing process by itself but invites third party auditors to verify the internal auditing process by auditing a random selection of production units. (Blowfield 2000a) Here the whole monitoring process is in company's hands but the verification for external stakeholders is taken care by third party audits (Neef 2003).

Strengths and weaknesses of auditing in general. "Social compliance audits are fundamental to successful ethical supply chain management" (PricewaterhouseCoopers 2005). This statement summarizes the centrality of auditing in assurance of corporate responsibility in the supply chain. Auditing and monitoring help to reveal rhetoric-reality gaps by letting the company know what issues exist within its supply chain and to address them (Waddock and Smith 2000). Auditing is also essential for continuous improvement (Kortelainen 2005a). The specific strengths and weaknesses of the monitoring process rely largely of methods chosen so no general account of strengths and weaknesses can be made. Making monitoring and auditing effective is a challenge for every company and there are several possibilities of how to arrange it.

The starting point and a key to successful monitoring is the training of monitoring staff (Neef 2004). A key challenge and success factor in auditing is the interview skills and techniques used. Interviewers must be able to select a representative cross-section of workers and be able to build up an atmosphere of trust so that the workers feel that they can talk freely. Cultural sensitivity is also vital. In some cultures people speak more freely in small groups while in others they need to be alone. Different attitudes to gender and respect for age have to also be taken into account. (Neef 2004)

A problem of auditing that occurs especially when strict compliance with requirements is stipulated is that they often can drive dishonesty when desperate suppliers try to conceal what is really happening in the factory and bribe the workers to lie about the conditions in order to keep their contracts. Secondly there are some problems that are hard to uncover with auditing like discrimination, harassment or restrictions on the freedom of association. (Jamison and Murdoch 2004)

Another issue is the follow-up procedures. Audits provide a snapshot of what is happening in the factory but without well-established follow-up procedures real change seldom takes place. (Jamison and Murdoch 2004) The strengthening of follow-up procedures is seen as a major matter in the future of supply chain responsibility management (PricewaterhouseCoopers 2005)

2.2.3 Awareness building & Training

Introduction. Awareness building and training are partly overlapping activities, the purpose of which is to communicate and raise the awareness of the targeted audiences to the company's philosophy and policy about corporate responsibility issues. Communication of issues to all staff, recognition and education of groups that need in-depth training and constant updates are key elements here. (Jamison and Murdoch 2004)

There are three potential audiences that these initiatives can be targeted at:

Internally within company's own organization to raise awareness of corporate responsibility issues and demonstrate the benefits of that approach. (PricewaterhouseCoopers 2005)

Externally to the management level of suppliers in order for them to understand the logic behind corporate responsibility, how important it is and also to understand the business case for it. (Jamison and Murdoch 2004)

Externally to the supplier's workers so they know what can be expected and demanded from their employer. This step is heavily important to assure that the codes are really carried into effect at the bottom level. (Jamison and Murdoch 2004)

Strengths and Weaknesses. Company's own supply chain management team not being adequately aware of the issues of supply chain responsibility or not understanding the logic behind them can impose serious problems with conflicting interests between corporate responsibility and supply chain management teams (Jamison and Murdoch 2004; Insight Investment 2005). Suppliers' top management can also show much resistance if the requirements of corporate responsibility are imposed on them without communicating the logic behind them (Jorgensen et al. 2003).

On the other hand if both of these parties are well aware of the issues the supply chain responsibility might run smoothly as part of the business as usual. The importance of awareness raising initiatives is therefore increasingly recognized as essential to build sustainable strategy for supply chain responsibility (PricewaterhouseCoopers 2005).

As it is hard to come up with other drawbacks the expenditures of training have to be mentioned. As supplier base of a multi-national company can be relatively large a targeted training program at them could prove to be very costly. This is naturally much dependent on the type and deepness of training as options are wide. Also opinions about is it the company's or supplier's own responsibility to train its own employees vary.

2.3 Management strategies

2.3.1 Compliance to requirements vs. capacity building

Supply chain responsibility management strategies tend to espouse one of two main approaches available. These approaches can be called compliance to requirement and capacity building. (Jamison and Murdoch 2004)

Compliance to requirements. The more traditional way of handling supply chain responsibility has been that of assuring compliance by strict rules (Jorgensen et al. 2003). This top-down ‘comply or die’ approach sets certain standards for the supplier and by a strict monitoring program tries to prevent the possibility of non-compliance. If non-compliance is detected, the contract with the supplier is terminated or business stopped until the corrective changes are implemented. (PricewaterhouseCoopers 2005; Jamison and Murdoch 2004) This has been a quite typical approach until recently (Insight Investment 2004).

The good about this approach is that with it the high risk suppliers are excluded from the supply chain quite effectively. (Jamison and Murdoch 2004) By being very black and white, this approach is also very clear

However, the experience from recent years have revealed many drawbacks of this top-down approach that have made companies to look for other measures to assure corporate responsibility (Jorgensen et al. 2003). Firstly, when facing contract termination, the suppliers are willing to go to extraordinary lengths to conceal problems (Jamison and Murdoch 2004). In the auditing chapter of this thesis the specific problems of auditing like the lack of effective follow-up procedures are discussed. As auditing is central to this compliance approach, the problems of auditing apply here also.

Falsified records have also proven to be a serious problem when suppliers have no commitment to corporate responsibility, other than fulfilling the specific given standard. Some auditors estimate that more than half of factories they see are forging some of their records (Foster and Harney 2005). As falsification of records and even coaching workers to “answer right” becomes more sophisticated the supplying company has harder and harder to know what the stage of corporate responsibility of its suppliers is really.

Additionally, just terminating the contract and leaving all the desperate, overworked workers unemployed is hardly a way to solve their problems. Although meaning good, too strict and situation-specific factors ignoring approach might cause more problems for the society than it solves. A starving child looking for any work just to keep alive isn’t going to benefit by being turned down from the factory by the new code. (Neef 2004) An example comes from Bangladesh where underage garment industry workers

were turned out from factories and ended up working in more hazardous and less regulated jobs (Department for International Development 2000)

As many of the suppliers are still a long way off full compliance to requirements (Jamison and Murdoch 2004) adopting a strict policy of terminating every contract with non-compliers might end up in a situation where the company has no standard-fulfilling suppliers. The shortage of materials resulting from this would be hazardous for the company's overall performance. An ETI survey (2001) revealed that of the 6763 suppliers monitored by companies of the survey, nearly one-third were listed as noncompliant.

Given these problems of compliance assurance the trend is now towards more dynamic and less black and white approaches of corporate responsibility promoting (PricewaterhouseCoopers 2005). Forward-looking companies are looking at approaches that can better take into account the specific situations of different countries and factories and the impact of the company for the society in large.

Capacity building. Capacity building seems for many to be an answer to above-mentioned problems. In management of supply chain responsibility it is somewhat of a trend right now (UNDP 2002; PricewaterhouseCoopers 2005). Capacity building aims at building up the supplier's own capacity of handling corporate responsibility issues. It has been defined as being "programs to create awareness and impart skills to make persons, group or organization capable of undertaking targeted initiatives" (UNDP 2002).

"The objective we're working for is not to divide factories into those that are acceptable and not acceptable so that companies only do business with the companies that are doing well. The objective is to provide incentives and assistance to build capacity, to have good human relations and good working conditions in all factories and farms." Alice Tepper Marlin, the President of SAI felicitously remarks (Drickhamer 2002). Compared to a traditional 'top down' approach, capacity building allows the supplier to 'own' the corporate responsibility process. Companies will then act more "as a partner and facilitator rather than a policeman" (Jamison and Murdoch 2004).

There are many elements of capacity building. Firstly it consists of promotion of a responsible culture so that the suppliers do not merely comply with external standards but understand the incentive behind them and by adopting it start to promote corporate responsibility themselves (Jamison and Murdoch 2004). The promotion often includes convincing suppliers that there is also a business case for more responsible business practices (CCC 2005). There are many good examples available of shorter working hours or more human working conditions improving the productivity of the workforce well beyond the cost of the new standard (Neef 2004).

Continuous improvement philosophy is also part of the capacity building approach. In it the corporate responsibility criteria aren't strict barriers of entry for suppliers but suppliers demonstrate their commitment to it by agreeing on step-by-step improvements decided mutually that aim at more responsible behavior in a realistic timescale. (Jamison and Murdoch 2004)

To promote this culture many aspects of communication are needed. To raise the awareness of the suppliers and to make them understand the importance of the topic, consistent management communication is needed. Continuous training programs for suppliers management and workers is needed to change their attitudes in favor of the idea behind corporate responsibility. This training is especially needed for the supplier's line manager or floor supervisor level. (Jorgensen et al. 2003)

A prerequisite for capacity building to work is the building of a long-term and close relationship with the supplier (Jorgensen et al. 2003). Capacity building takes time and effort and needs a close relationship so both the supplier and the buyer are not willing to invest into it unless their relationship has deepened and trust for a long-term relationship built (Jamison and Murdoch 2004). As responsibility of building up a proper strategy for corporate responsibility is bestowed on the supplier it needs strong incentives in order to assure that it really is ready to commit itself to the idea of corporate responsibility. This incentive can only be built up if the supplier feels that the cooperation is of a long-term nature. (Jorgensen et al. 2003)

There are many benefits of capacity building compared to more compliance-based approaches. It promotes a more open discussion of problems with suppliers and thus enables better to find solutions and by committing to long-term change it is more likely that the life of workers will improve. (Jamison and Murdoch 2004) Move from compliance to continuous improvement also assures that the suppliers don't just try to meet the minimum standards but have the incentive of continuing the improvement process from there. (Neef 2004)

Maintenance of this capacity building approach isn't easy to manage and is resource intensive so it requires more skilled staff and more effort in general from the corporation promoting corporate responsibility. It is more 'heavy' and committed approach. Additionally it can sometimes be criticized for allowing the continuing use of non-compliant suppliers under the guise of continuous improvement. (Jamison and Murdoch 2004)

Some comments have also been made of how deeply the corporation should get involved into supplier's strategy for corporate responsibility (Oxley-Green 2005). Well-thought supplier requirements with sufficient time to adapt to them might do the same trick as capacity building. If the target of these requirements is communicated well enough to suppliers and some support given to them if necessary the suppliers can themselves build them up to responsible business conduct. This way the suppliers can themselves build up the strategy for corporate responsibility that best suits their needs which might be a more sustainable approach in the long run (Oxley-Green 2005).

Combined approaches. These combined approaches mix elements from both strict compliance and capacity building approach. In practice the capacity building approaches usually have also some compliance elements left. These approaches can have a capacity building approach to most of the supplier's problems but have strict zero tolerance on some more serious issues like child labour or falsified records. Quite common is also the usage of minimum entry levels standards for new suppliers from which to build upwards (Blowfield 1999; Jamison and Murddoch 2004). These approaches reflect the reality of complex supply chains but need careful and dedicated management to succeed. Otherwise they might only create confusion to suppliers of what is really expected of them. (Jamison and Murdoch 2004)

2.3.2 Factory conditions vs. positive impact on the community

An important strategic decision is the scope of the company's corporate responsibility approach. A more focused approach concentrates on the actual factory conditions making sure they fulfill the standards available. Company efforts and resources are dedicated to ensuring that there is no child labor, excessive overtime, safety hazards or other harmful conditions *inside* the factory. This approach creates easily communicable indicators of company's corporate responsibility performance like 'no child labor in the factories' or 'satisfactory salary level reached in 83% of factories'.

The alternative approach takes into account the larger community around the factory (CCC 2005). The point isn't only to meet certain standards in the factory but to look how to have the most positive impact on the community. In many developing countries the workers real concerns aren't the factory conditions while more urgent problems caused for example by the lack of infrastructure take up their time. Providing clean drinking water for the villages around the factory where the workers live can for the workers carry a much more positive impact than any improvement inside the factory.

This second, more inclusive approach, needs careful management and much expertise of the communities and cultures in question to assure that efforts to support the community really pay off. Therefore partnering with some NGO with good reputation to achieve these goals is often a good idea because that way you can get the expertise needed. The added credibility from inclusion of an NGO is also good because sometimes the most positive impact on a certain community can include allowance of in western eyes harsh conditions in the factory considering for example overtime working. For example cases where workers are willing to work longer than allowed working days to support their families are not uncommon (Jorgensen et al. 2003). For these reasons this wider approach isn't always so easily communicable to stakeholders.

2.3.3 Standardized approaches vs. customized approaches

Somewhat connected to the previous strategic decision is the level of customization the company uses in their corporate responsibility policies. A more standardized approach is of course more easy to manage and cost-efficient to communicate. On the other hand the situations in different countries, factories and industries vary considerably.

Therefore to really address the specific problems of certain areas the efforts should be customized to ensure the most positive impact on that community. This is a more resource-consuming and expertise-needing approach but then again the potential real impact for the community in question is more substantial.

2.3.4 Stages of corporate responsibility

In all three strategic decisions the situation is somehow the same. There is the easily manageable approach that is also quite easily communicable. By having certain strict and universal standards in effect inside the factories helps to avoid the more serious corporate responsibility scandals. It creates easily communicable corporate responsibility slogans like 'committed to not have any child labor' or 'no hazardous substances used in the production phase'. These approaches are simple to understand and can be applied without great expertise and understanding of the corporate responsibility issues.

Then there are available the more complex approaches that take into account the reality and complexity of the actual conditions of the supply chain. They need more careful management, more resources and more expertise to succeed. On the other hand they might be the only way to really have corporate responsibility working in the supply chain as companies have experienced that universal compliance based approaches simply don't do the trick (Knight 2004). The results of these approaches are often more individual success stories than easily communicable general standards. But then again, they have the potential to be really beneficial for the community and are thus much closer to real spirit of corporate responsibility and not just being responsible in the eyes of the consumer. The continuous raise of consumer awareness and NGOs monitoring companies can make these approaches also economically more favorable for the companies. Right now as companies are just emerging to this stage of strategy in corporate responsibility issues the question of the successfulness of these approaches is still an open question. Clear is however that this is the direction that responsible companies are heading at (Jorgensen et al. 2003; Jamison and Murdoch 2004).

This development of corporate responsibility issues is also seen in the model suggested by Kortelainen and Oxley-Green (2005). They have created a model consisting of four building blocks for integrating social aspect into supply chain management. First

building block is the *awareness building* because to implement change raising internal awareness is the essential beginning. This is done by training sourcing and purchasing people and all other employees working with suppliers to understand and internalize the company values and requirements for corporate responsibility. Awareness building stage also covers the awareness raising of suppliers so that they know what is company's approach and requirements towards corporate responsibility.

Second building block is the *processes and tools in place*. In here all sourcing and procurement processes are reviewed so as to include the corporate responsibility aspect. These processes to be modified include supplier requirements, monitoring practices, supplier selection process, risk management tools among others. Engagement in dialogue with suppliers on corporate responsibility issues and building up the management commitment for it are also part of this stage.

Third building block is *processes working*. Here the supplier compliance and the functioning of different processes put up in previous stage have to be verified. For this purpose different relevant indicators and measures have to be defined and followed up. Having functioning process indicators and integrating corporate responsibility indicators as part of corporate business control are important aspects of this stage.

Fourth and last building block is *business as usual and continuous improvement*. After the successful implementation of previous three stages corporate responsibility is gradually integrated as part of everyday business. Still for the good progress to not stop, the commitment to continuous improvement is required. Naturally the effectiveness of this model is dependent on how well its different blocks are implemented.

2.4 Focal challenges

2.4.1 Integration of corporate responsibility issues within regular management

Connected to the previous chapter, a serious development issue for firms involved in management of supply chain responsibility is how well they can integrate the corporate responsibility issues into regular supply chain management.

There is a serious problem of conflicting interests between procurement targets and corporate responsibility targets (Jamison and Murdoch 2004). Mainstream business strategies can undermine the good work the corporate responsibility team is trying to achieve. Especially true this is for social issues. Environmental issues and management systems have been around for so long that they have already been largely made part of mainstream business (Kortelainen and Oxley-Green 2005). Firstly accused is the just-in-time management philosophy (PricewaterhouseCoopers 2005). Short lead-times and largely varying demand means in the supplier level largely varying labor burden. This need for flexibility leads to excessive working hours, usage of temporary workers with no benefits that can be hired and fired instantly and increased performance pressure on the working place. (Insight investment 2004) Market instability is of course a real problem for the purchasing companies themselves. But badly managed buying procedures – inefficient decision-making, holding back decisions and information, general lack of communication and poor information sharing – contribute to a bullwhip effect that makes these changes in demand come to suppliers in much greater effect creating problems. (Insight investment 2004)

Another problem is the increased cost pressure that can lead to manufacturers reducing wages and cutting corners in health and safety. Given the sinking margins the supplier's are earning they simply might not have the money to spend on urgent corporate responsibility issues that are demanded of them at the same time. (Insight investment 2004)

Given these problems it is seen as a crucial step for the companies to align their internal processes of supply chain responsibility and mainstream supply chain management. (PricewaterhouseCoopers 2005) This way the buy-in process can reinforce rather than undermine the responsible trading agenda (Jamison and Murdoch 2004) Additionally building up of a procedure for supply chain responsibility can contribute to the firm also through increased knowledge of suppliers and better relationship with them (PricewaterhouseCoopers 2005).

To achieve this procurement teams and buying agents have to be trained to understand the case for corporate responsibility and the demand it sets on them (PricewaterhouseCoopers 2005). Also the general buying procedure has to be developed

to better support the corporate responsibility targets by for example increased sophistication of forecasting, simplifying decision-making, increasing the transparency and communication with suppliers etc. (Insight Investment 2004). Greater price stability and longer-term relationships with suppliers also contribute to greater possibilities of corporate responsibility (Blowfield 1999). In general creating an internal buying culture that supports the achievement of corporate responsibility is the key in this matter. One tool to achieve it would be rethinking of buyer appraisal frameworks. (Insight Investment 2004; Jamison and Murdoch 2004)

2.4.2 Importance of Partnerships

A good job cannot be done alone. Emphasizing the importance of partnerships in management of supply chain responsibility seems to be a central claim that everybody is willing to support as shown by the survey conducted by World Economic Forum (2005). In it over 90% of respondents felt that partnerships would play either a major role or some role in addressing key development challenges. Basically there are two sorts of partnerships: those between different companies and those between companies and NGOs, governments or other groups.

Company-company partnerships. There are many reasons why greater cooperation and partnership between companies is good for the company's corporate responsibility strategy. Firstly, as the whole field of supply chain responsibility is relatively new, there are few established ways of doing things. Innovativeness is strong and sharing of best practices and information benefits all participants.

One important reason for cooperation is the insufficient leverage over suppliers that companies have alone (PricewaterhouseCoopers 2005). The company can be only one of many buyers for a certain supplier and in that case the supplier lacks the incentive to adjust its business practice to that specific buyers standards. When companies unite to form an industry-standard or to promote ethical issues they together have much greater influence to force even the bigger suppliers to adopt corporate responsibility standards. Many companies have understood this and a strong trend towards a more collaborative manner is emerging (PricewaterhouseCoopers 2005; Jamison and Murdoch 2004)

Another issue driving industry-collaboration is the amount of different standards and individual auditing schemes. Usually these standards are largely overlapping with some minor differences in details. This can lead to a certain factory being audited more than 30 to 50 times a year (Jorgensen et al. 2003) or the same foam extinguisher being moved from one hook to another depending on who is auditing (CCC 2005). Standard harmonization and collaborative auditing is more cost-efficient for the buyers and more convenient to the suppliers. (Jorgensen et al. 2003)

Additionally there are benefits to be gained from companies not having to duplicate each others work. For example companies within the retail industry are working together in the development of system called Sedex. It allows companies to maintain data on labor standards at production sites and make it available to companies with which they are in a trading relationship, in order to drive and demonstrate improvements. (Sedex 2005)

With other organizations. Because the issues of corporate responsibility are relatively complex and because disentangling the real influence of company's actions for the society in large is a tough challenge, companies' own expertise is seldom enough. Therefore to ensure best possible influence of the company and to avoid harmful side effects of good deeds and to address the most important problems, the company can benefit greatly of the expertise a dedicated NGO or some government organization can give. Local organizations have invaluable knowledge of local situation and larger organizations have special expertise in a certain area, for example child labor (Jamison and Murdoch 2004). Facilitating more widespread and positive change engagement with these organizations is necessary (Jamison and Murdoch 2004).

2.4.3 Immediate results vs. progressive developments

Faced by the pressure from NGOs the companies are many times demanded to give immediate results of a more responsible culture (CCC 2005). The swift measures needed to produce these results can sometimes leave worse off the ones it tries to help. Setting a too high minimum wage level might for some areas mean persistent unemployment (Collinson 2001). There are also cases where reducing working hours to a western standard have caused the workers to try to work on two shifts or taking up

another job to gather enough money for their living (CCC 2005). In such situations it is in everybody's interest that the development is achieved in a more progressive way.

On the other hand, too slow progression can lead to a situation where no real improvement is achieved. So companies have to be careful in deciding what pace of development is the most beneficial for all parties affected.

2.4.4 How to manage non-compliance?

As non-compliance to some standards is so common among suppliers, every company has to take stand towards what to do with non-compliance. Strict termination of the contract is seldom the solution. It leaves the problem intact, makes the supplier's workers potentially worse off and leaves the company with under-capacity until a standard-fulfilling new supplier has been found. In reality suppliers are almost always given a period of time to make improvements. (Neef 2004)

To assure the positive progress of the non-compliant supplier the company needs an effective non-compliance follow-up procedure. The necessary parts of this procedure include clear feedback to supplier of the issue and non-compliances detected. Then there is the need to mutually agree on an action plan with appropriate timetable and sub-goals to be met for the supplier to achieve better corporate responsibility level. This action plan needs then to be followed with regular checks and evidence of progress. (Jamison and Murdoch 2004)

2.4.5 Other challenges

Another challenge is getting more effectively beyond the first tier of suppliers. Most corporate responsibility efforts are still targeted at first tier suppliers leaving the suppliers behind them intact or entrusting them to first tier suppliers responsibility. (Jamison and Murdoch 2004)

3 CULTURAL INSIGHT

3.1 Cross-cultural management

3.1.1 Introduction

To assess the challenges different cultures pose to management of supply chain responsibility and to examine Chinese and Indian cultures scientifically a theoretical framework is needed. It is sought from cross-cultural management, a discipline that seeks to understand the behavior of people in organizations around the world. It describes and compares the organizational behavior across cultures and countries and additionally aims at training people to understand differences in culture so as to improve the interaction between distinct cultures. (Adler 1997)

To understand different cultures and to be able to compare them, cross-cultural management uses a number of cultural dimensions derived from the fields of social psychology and anthropology that can be empirically calculated (Schneider and Barsoux 1997). These are going to be presented along with their criticism and their managerial implications. Other ways to assess cultures are also discussed. Important is also the discussion of the problems of assessing cultures on a national basis altogether. But first we have to define what is meant by culture.

3.1.2 Definition of culture

Culture is one of those broad-ranging concepts that everybody knows but no-one can define satisfactorily. Therefore there exist a plethora of definitions that in general are quite similar but approach the concept from a different angle. The classical anthropologist Claude Lévi-Strauss defines culture as “systems of shared meaning or understanding” which drive or explain the behavior observed (Lévi-Strauss 1971; translated in Geertz 1973). Here it is important to understand a general distinction that is expressed for example by Edgar Schein (1985), Fons Trompenaars (1993) and Schneider and Barsoux (1997). They divide culture into three general dimensions: the surface level, the middle level consisting of values and beliefs and the bottom level of basic assumptions.

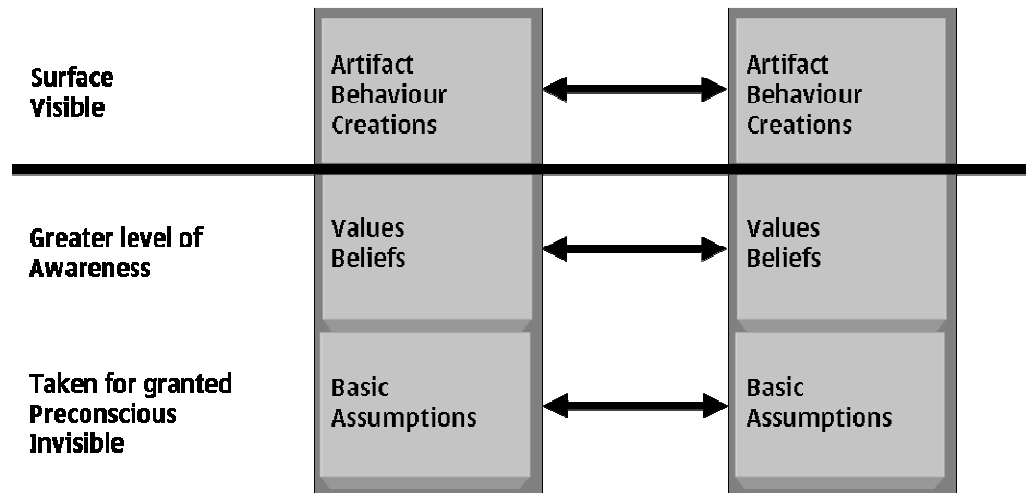


Figure 4 Three general dimensions of culture (Taken applied from Schein 1985; Schneider and Barsoux 1997)

On the surface are artifacts, behavior and creations. These are visible to everybody and easily observable. When arriving to a new culture you firstly notice these differences: clothes, art and food are dissimilar from what you have been used to and people behave differently. The second layer consists of values and beliefs. These tell people how things ought to be and help to explain the differences on the surface level. Of these people are somewhat aware of and they are testable in the physical and social environment and therefore can be changed quite easily by evidence. Underneath these comes the bottom level, the basic assumptions. These are invisible, preconscious and taken-for-granted assumptions of the world and people's place in it.

When discussing culture Lévi-Strauss is thus not referring to the surface level behavior but to the bottom level that explains that behavior. Edgar Schein (1985) defines culture as “a set of basic assumptions – shared solutions to universal problems of external adaptation (how to survive) and internal integration (how to stay together) – which have evolved over time and are handed down from one generation to the next”. Thus the culture is somewhat of a software of the mind, collective programming that defines how one group interprets and interacts with the world and other people. (Hofstede and Hofstede 2005)

Culture in general can thus capture a number of different aspects as seen in the definition given by Samovar, Porter, and Jain (1981: 25). They view culture as the

culmination of "knowledge, experiences, beliefs, values, attitudes, meanings, hierarchies, religion, timing, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a large group of people in the course of generations through individual and group striving." In this work the view of culture is focused on the deepest levels because understanding it is vital to drive necessary organizational and attitudinal changes for an organizational culture more understanding of corporate responsibility. Culture is here defined to be a stable set of basic assumptions through which we interpret the world, others and ourselves. It is shared by a certain group through a collective programming of mind resulting from interaction between group members.

3.1.3 Cultural dimensions

Different anthropologists and social scientists have attempted to classify above-mentioned basic assumptions to different categories. The rationale behind all these approaches is that there are certain issues and problems that all human societies have faced throughout time and therefore all societies have developed a certain response to these that can then be untangled.

One of the first attempts was by Kluckhohn and Strodtbeck in 1961 where they studied different cultures inside USA to come up with their typology of cultural dimensions (Kluckhohn and Strodtbeck 1961). This attempt has been followed by Edward T. Hall, Edgar H. Schein, Nancy Adler, Geert Hofstede and Fons Trompenaar who all have developed their own typology to capture the basic dimensions of human culture. (Schneider and Barsoux 1997) These divisions carry many similarities and the basic categories of them are represented in figure 5.

<p>Kluckhohn & Strodtbeck¹</p> <ul style="list-style-type: none"> Relation to nature Orientation to time Belief about basic human nature Mode of human activity Relationships among people Use of space 	<p>Hall²</p> <ul style="list-style-type: none"> Space: personal/physical Time: monochronic/polychronic Language: high context/ low contexts Friendships 	<p>Schein³</p> <ul style="list-style-type: none"> Relationship to nature Truth and reality Human nature Human activity Human relationships
<p>Adler⁴</p> <ul style="list-style-type: none"> Human nature: (good/evil) World: (dominant/subjugation) Individualism vs. collectivism Human activity (being/doing) Space (private/public) Time (past/present/future) 	<p>Hofstede⁵</p> <ul style="list-style-type: none"> Power distance Uncertainty avoidance Individualism vs. collectivism Achievement vs. quality of life Long term orientation 	<p>Trompenaars⁶</p> <ul style="list-style-type: none"> Relationship with people Universalism vs. particularism Individualism vs. collectivism Neutral vs. emotional Diffuse vs. specific Achievement vs. ascription Attitudes to time Attitudes to nature

Figure 6 The key dimensions of culture along to different scientists. Sources: 1. (Lane et al 1997) 2. (Schneider and Barsoux 1997) 3. (Schein 1985) 4. (Adler 1997) 5. (Hofstede and Hofstede 2005) 6. (Trompenaars 1993)

Of these dimensions, the Hofstede's model is the only one based on empirical research while others are merely. It is also the one where there is available the most empirical country-specific data. Therefore the Hofstede dimensions are applied to China and India later on in the paper and they are presented here in more detail.

3.1.4 Hofstede's five dimensions

Geert Hofstede surveyed 116.000 IBM employees from 40 different nations between years 1967 and 1973 to gather a database of cultural attitudes. By using a factor analysis he then could distinguish three value dimensions of which he divided the largest into two parts to come up with four dimensions, namely power distance, uncertainty avoidance, individualism-collectivism and masculinity-femininity. (Gooderham and Nordhaug 2003) Later, to answer critics who claimed that the choosing of questions

created a western cultural bias, he together with Bond (Hofstede and Bond 1988) made a new research in which the questions were created by native Chinese. This questionnaire produced three similar dimensions as the original study and one new dimension. This was named long term-short term orientation. (Hofstede 1993) Later the validity of these dimensions has been reinforced by other studies. By using these dimensions Hofstede along with other researchers have gathered an extensive database of different countries of what is their score on these dimensions. Here follows a brief introduction to the dimensions (Hofstede and Hofstede 2005):

Power distance focuses on how the society handles inequality among its members. It measures how the people of a country “expect and accept that power is distributed unequally. (Hofstede 1993: 28)” High power distance means bigger inequalities of power and wealth and often comes together with strong class systems between which the mobility is restricted. Low power distance is an indication of society’s attempts to de-emphasize these differences and promote equality and opportunity for everyone.

Uncertainty avoidance measures the level of tolerance for uncertainty and ambiguity within the society. High uncertainty avoidance means low tolerance for uncertainty and leads to a rule-oriented society that with laws, rules, regulations and controls tries to fight the uncertainty. Low uncertainty avoidance countries are respectively more tolerate towards a variety of options and less concerned about uncertainty or ambiguity. They are therefore less rule-oriented, accept more readily change and take more risks. Additionally the concept of one truth (present for example in Christianity and Islam) is connected with high uncertainty avoidance while the existence of parallel truths is connected with low.

Individualism-collectivism dimension focuses on the degree the society reinforces individual and collective achievement and interpersonal relationships. Highly individualized countries take individuality and individual rights to be of paramount importance. More collectivist countries people are strongly tied to their extended families or collectivities and feel great mutual responsibility in ways that put the group’s interest in front of the individual’s interest.

Career success – quality of life dimension looks at how much the society reinforces the traditional masculine work role model of male achievement, control and power.

Hofstede has named this dimension masculinity-femininity (Hofstede and Hofstede 2005) but following the example of Adler (1997) this has been renamed to a more politically neutral name that also resembles better the underlying rationale of the dimension. Highly career success oriented countries emphasize assertiveness and achievement. They usually have also high degree of gender differentiation. More quality of life – oriented countries emphasize relationships among people, concern for others and the overall quality of life. Level of differentiation and discrimination between genders is also lower.

Long-term orientation measures the degree the society fosters virtues oriented towards future rewards. Societies high on this aspect have a tendency to plan for the long-term future and value particularly perseverance and thrift. Short-term oriented societies on the other hand foster virtues related to past and present and have stronger respect for personal stability, quick results, social status, tradition and fulfilling social obligations.

3.1.5 Validity of dimensions

These dimensions are by no means all-inclusive or only ways to understand and compare cultures. There is much different criticism available that can undermine the validity of the chosen dimensions. For example only Hofstede's dimensions seem to be empirically derived; all other dimensions are more or less constructed following the scientist's own intuition about the cultures. Also Hofstede's dimensions - as he noted himself in his attempt to find new ones with Bond (Hofstede and Bond 1988) – reflect largely the chosen questions and can therefore be strongly biased and ignore factors that the question maker didn't think of. There are also many other methodological criticisms about Hofstede's dimensions (Gooderham and Nordhaug 2003; Bond 2002; Fang 2003). Still the Hofstede – dimensions stand scientifically on much firmer ground than for example Trompenaars attempt that has drawn much attention in the business world during last years. Hofstede at least has based his dimensions on a factor analysis and it has been replicated by many further studies (Merritt 2000; Hofstede and Hofstede 2005). Trompenaars findings rely only on his intuition about cultural dimensions and many aspects and dimensions of it have been questioned (Hofstede and Hofstede 2005).

Derivation of dimensions is therefore quite questionable and reflects in all cases mostly the researchers own intuitions. This makes them scientifically questionable as the true

dimensions of culture. This, however, doesn't affect the fact that as tools to understand differing cultures they are still invaluable. One needs only to understand not to take them as static facts but apply differing dimensions as far as one can bearing in mind that despite casting light on many relevant cultural dimensions their explanation power is limited and many additional differences can be noted when digging into cultures.

An important thing to note about these dimensions is that the result that a country gets reflects only the average value of that particular country. The values of individual people inside that country go along normal distribution meaning that even in most individualistic countries you find people that think more collectively than the more individualistic minority of a collective-thinking country. These internal differences can be greater or smaller depending on the consistency of that country and its culture.

Another thing to bear in mind is that cultures are by no means static but change constantly by internal growth and from culture exchange. The era of globalization that we are facing right now has increased this change process. Hodgetts and Luthans (2000) argue that some differences in country-specific results between Hofstede's and Trompenaar's research can be explained by the changes that have occurred in national cultures between these two researches. Especially younger people in developed countries are according to some arguments converging around same set of values (Gooderham and Nordhaug 2003). This change of culture and resulting diversification between values of different generations is important to take into account.

An interesting critique of these dimensions is noted by Lane et al. (1997). It states that the basic assumption behind the whole rationale of trying to find these dimensions is itself a manifestation of Western 'just do it' attitude of mastering one's own environment. The western idea that it is possible or even desirable to categorize and master one's environment is manifested in the cultural dimensions.

3.1.6 Other approaches

The importance of presented dimensions is also that there are not many other ways to compare cultures scientifically. Most of the research concentrates on one culture only and additionally relies much on intuitive or case-specific evidence. In these researches the researchers and the people he interviews personal remarks construe the material for

building up of cultural knowledge. As these researches usually concentrate to a specific situation or specific group inside the culture, the results are not so easy to apply to a different situation.

Some dimensions outside the above-mentioned that need to be mentioned include the attitude that people have towards companies, are they seen as social group or as a system that for example Trompenaars (1993) has studied between countries. Another very important aspect is the eagerness to adopt foreign models that differs significantly between countries. (Schneider and Barsoux 1997) This aspect is of special importance in our case where foreign approach to corporate responsibility is being implemented to a local culture.

A specific nation's culture is also affected by a vast amount of other factors. These can be anything from the political structure of a nation to national sports that often reflect and reinforce nation's general cultural attitudes. Religion, humor, history of the society in question, the educational system or the climate of the country all affect the culture (and all but last are affected by the culture). (Gannon 2001)

The dynamic process of culture covers all possible interests and attitudes that the people of that culture have. Therefore, to get a full picture of a culture is a lifetime project (Schein 1985). In this study we therefore use the dimensions as a starting point to understand a certain culture but also include information about other aspects of that culture that might have an impact on the managerial and business attitudes.

3.1.7 Critique of the nation-based approach

The most common approach to cultures is to look at them on a nation-level. This is primarily because people inside a certain nation tend to have similar values and beliefs and secondarily because the nationality of a person is quite unambiguous while participation in many subcultures is hard to delimit. Unfortunately in our postmodern world this has received heavy criticism from many directions. While the national-based approach might be the best available its limitations need to be taken into account. Central themes of these critics are presented here.

Regional differences in culture. Most obvious criticism is that the culture inside a nation can be significantly different from each other. Many nations, actually most of them, carry inside at least two distinct cultures. US with its 9.7% of people being foreign born has many distinct cultures with different attitudes and religion. (Samovar and Porter 2001). India has its Muslim minority. Sources for regional differences include religion, same historical settings, geographical reasons (living in a desert in China differs greatly from coastlands drawing its marks on culture) or political and economic forces (Schneider and Barsoux 1997). Different language is always a source of much diversification. Also just the sheer distance from another part of the nation causes cultures to diversify. These regional differences are often significant making general approaches to national culture inapplicable in some parts of the nation. (Schneider and Barsoux 1997)

Influence of modernization. There is also evidence that modernization can cause differing attitudes inside a nation. Younger generation's attitudes in different nations appear to be less divergent from each other than their parents. (Vieregge 2000) When talking of managerial attitudes in developing countries it must be heard in mind that people that have reached manager positions relatively often have studied abroad in a western university or attended a western-style managerial school at their home-country. Therefore they often have adopted more western style attitudes than people in general. Another source of more western-style managerial attitudes is interaction with foreign companies. Naturally, the more a certain business-man has relations with west, the more these interactions shape his attitudes. (Sarin 2005)

There is evidence that modernization and more western-shaped moral attitudes are linked (Redfern and Crawford 2004). On the other hand in another study made in China Vertinsky et al. (1990) find evidence that change in some attitudes support the globalization hypothesis. But they also found out that some norms that reflect basic cultural values are resistant to change and convergence. The impact of modernization and globalization on people's attitudes is thus clear but the question of how deep these changes go remains somewhat unsolved (Schneider and Barsoux 1997).

Different cultural spheres. The existence of different cultural spheres complicate the issue further. National culture is only one of these spheres. A certain human being is a

member of a multitude of different partly overlapping cultures. Hofstede and Hofstede (2005) identify six different layers of culture. These are national, regional (ethnic, religious or linguistic), gender, generation, social class and organizational.

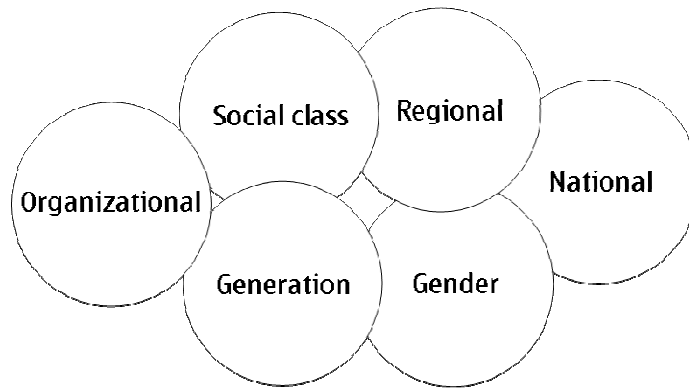


Figure 7 Six different layers of culture (Hofstede and Hofstede 2005)

These all spheres affect how individuals behave and often are sources of great difference inside a nation. Different social classes can have significant differences in attitudes and values and gender differences are often deep in developing countries. In this study the last-mentioned – organizational layer of culture – is of special interest.

Organizational cultures. Organizational cultures, the cultures inside a company, are naturally shaped by national culture but in addition to that there are many other things that form a certain firm's internal culture. Schneider and Barsoux (1997) provide us with six interacting cultural spheres of influence. Two of these, national and regional have already been discussed. Industry specific characteristics such as sources of competitive advantages or technology affect the corporate culture. Next, different professionals have different education and socialize with different people and thus have own cultural characteristics. Company-specific things such as the personality of founder or CEO and the size of the firm have often a strong impact on corporate culture. Inside the firm also different functions like finance or R&D usually have separate cultures that derive from their own special characteristics. (Schneider and Barsoux 1997)

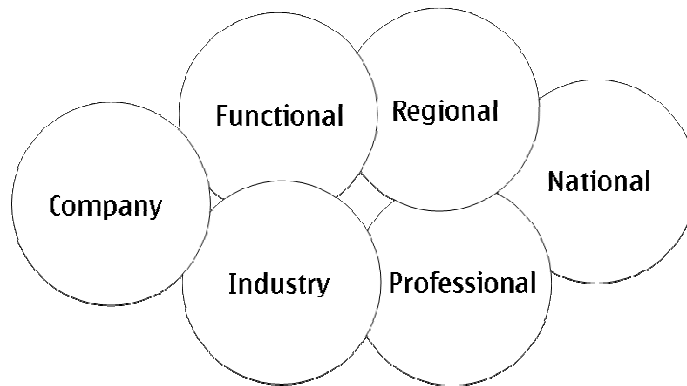


Figure 8 Interacting cultural spheres inside an organization (Schneider and Barsoux 1997)

These different spheres have then their own set of artifacts and behaviors, beliefs and values, and underlying assumptions. They may fit together nicely but can also clash causing internal turmoil.

These all differentiations cause that an advertising company's culture might be more similar to another advertising company in Brazil than to the culture of a tire-making company based in a small town in southern France.

The opinions about the relative power of organization culture versus national culture vary. Hofstede reports that his national dimensions account for 49% of variance in data leaving the rest for other more company-specific factories (Hofstede 1993). Country was thus more significant factor than the answerers age, gender or role in the company. Other studies have arrived at somehow lower figures and Gannon (2001) concludes that national culture can be accounted for 25% to 50% of our attitudes.

Some have raised the hope that strong organizational cultures might override national culture. (Schein 1985) If this would be true companies might avoid having to contemplate how to operate with different cultures by applying their own company culture strong enough to all employees. This view has however been called into question by a research made by Laurent (1983) that showed that national attitudes do not reduce in multinational companies. Instead he found evidence that working in a multinational environment might in opposite enhance own cultural attitudes making Germans more German and Swedes more Swedish. Adler concludes by saying that more research is needed to understand the reasons for this phenomenon. (Adler 1997)

Additionally it can be assumed that opportunistic people can be found in any culture. Therefore despite the national culture of a country if there are ways to exploit the system there usually is someone trying to do this. Therefore it can be assumed that the culprits of worst forms of irresponsible behavior usually don't represent major cultural drafts of the country. Culture in general might support corporate responsibility but the specific individuals do not share this aspect of the culture around them.

3.1.8 Conclusion

Assessing cultural differences is a tough challenge. Even the scope and definition of the term culture have variation. Theoretical frameworks available to measure cultural differences are few. Of these Hofstede's five dimensions seem to be best available although it also has some theoretical and methodological flaws. Still it is better than Trompenaars' seven dimensions model that is included primarily for the reason that it is the only other model where empirical country-specific data is available. Because of the magnitude of cultural aspects and limitedness of these models it is needed in order to get an adequate picture of the cultures in question to rely much on deductions and reasoning of individual people who have had the privilege of getting to know the cultures deeply enough.

The insights from organizational culture suggest that national level of culture is only one source of influence in a company's culture. Additionally the professional, functional, industry and regional cultures all have their influence on the organizational culture of a company. The influence from each of these spheres varies and national culture might be one of the stronger influencers. National culture is thus important to take into account and understanding the differences in it might solve many problems. Still it is only one source of influence and its importance should not be exaggerated. This view is well summed by Marchese (2001): "Organizations may be better off considering the local organizational culture of each location rather than the larger societal culture".

3.2 China

3.2.1 Introduction

China's prestigious history reaches back many thousand years B.C. and it has been one of the most stable central-governed states throughout this time. Nowadays it is world's largest country with 1.3 billion people (CIA 2005a) and also world's leading manufacturing location (UNCTAD 2003). Though it has been under communist rule for the last 50 years and that has given certain characteristics to its political system and society, its cultural atmosphere's origins are to be traced far back in the history. (Keller and Kronstedt 2005) Three central items of the Chinese culture are strong family orientation, Confucianism and Taoism.

The importance of the family and kinship is a fact that cannot be overestimated when trying to understand Chinese culture. Chinese are a collectivist culture where people don't as much consider themselves as individuals but as parts of a certain family. An individual exists or is someone only as a part of family. This thought-pattern is reflected for example in the fact that Chinese traditionally give the family name first or in traditional concepts of justice where collective responsibility is often exercised. (Gannon 2001)

Confucianism origins from the thoughts of Confucius who is believed to have lived 551-479 B.C. His thoughts form more a system of ethics – guidelines of how one should live one's life – than a religion and it doesn't involve any deity or other supernatural creatures. Obligation and propriety are its central themes, everyone has a role in family and in society and the purpose of life is fulfilling that role. Putting group's interests before one's own (or more like blending group's interests with one's own so that one doesn't even recognize one's individual interests as separated from the group), respect for elders, deference to authority, rank consciousness and modesty are all parts of this collectivist obligation of Confucius. In arranging society this means hierarchical, unequal structures where everybody has their own obligations to fulfill. Also the central theme of Chinese life, the importance of family, is reinforced by Confucius' teachings. (Burns 1998; Gannon 2001; Keller and Kronstedt 2005)

Harmony is also a central element of Confucianism and this is seen in one's relations where the Chinese use extreme sensitivity so as not to inflict open conflicts and to avoid losing one's face. Losing face is defined as "when the individual, either through his action or that of people closely related to him, fails to meet essential requirements placed upon him by virtue of the social position he occupies." (Ho 1976: 867) Face describes thus the proper relationship with one's environment and as Chinese are very conscious about this context, losing it is taken very seriously and avoidance of situations where either of the parties might lose face is taken to the utmost.

"The Tao that can be explained with words is not the Tao." (Lao Tsu 1997: 1) This opening quote from the central book of Taoism, *Tao The Ching* (The Way and the Power) reflects the mystical and inaccessible nature of Taoism. As Confucianism is more relationship – oriented, the Taoism digs deeply into one's inner world and has a very mythical and ambiguous character not easily accessible for a western mindset. The Tao can be seen as the ordering principle of the universe, or as the way a person should order his life to be in balance with the universe. Inner harmony is a central theme of Tao and along with it comes the being in harmony with the world. *Wu wei* or creative quietude is central to this harmony-seeking and means simultaneous action and relaxation and letting behavior flow spontaneously. Simplicity of life, rejection of all forms of self-assertiveness or competition and being in union with the nature are central to Taoism. It also features the traditional Chinese symbols *yin* and *yang* that represent the eastern believe in a world where there are no clear dichotomies, no unambiguous truths but that all matters and values are relative to the mind that entertains them.

In addition to these two, Buddhism and ancestor worship play also an active part in the religious life of Chinese, especially in different rituals (Burns 1998). All in all the unambiguous nature of truth is seen in China in the fact that all these different forms of belief systems live in harmony in Chinese individuals minds and in society. They occupy somewhat different territories in one's life and are emphasized differently by different individuals but are all part of the Chinese world-view.

3.2.2 Diversification

Diversification of a country of such magnitude as China is almost unavoidable. Therefore although there is only one written version of Chinese language that is

understood by every literate Chinese, the spoken dialects of Chinese languages are so diverse that people from different parts of countries cannot understand each other (Keller and Kronstedt 2005). The universality of written language is only due to Chinese having a system of symbols each representing a single word. Therefore although the words might be pronounced totally different, they are still written the same way. The main ethnic group of Han Chinese constitute about 93% of the population but even within it there are about eight mutually unintelligible dialects. Additionally the cultural differences are great with different social customs and attitudes. Therefore although some general conclusions can be drawn one have to be very careful with treating Chinese culture as one. (Dunung 1995)

3.2.3 Hofstede dimensions

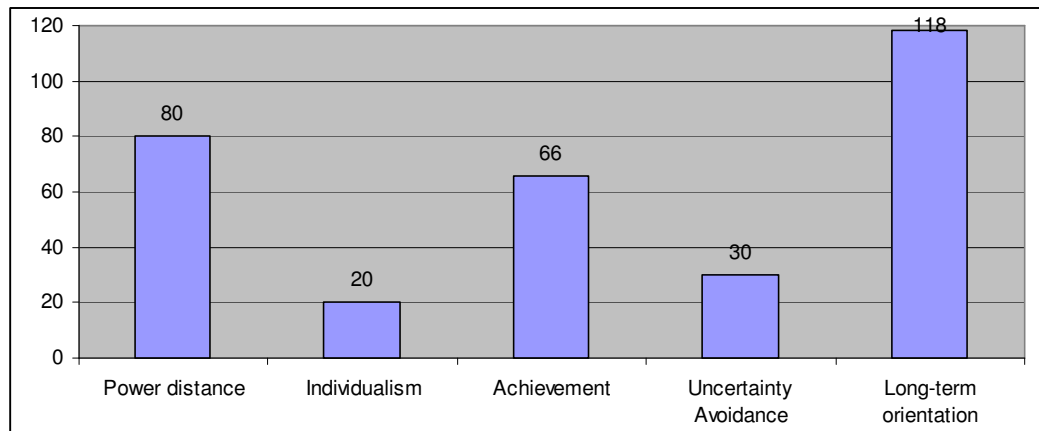


Figure 9 The Hofstede dimensions for China (Source: Hofstede and Hofstede 2005)

As can be seen in Hofstede's category scores for China, the most characteristic features of China are very high long-term orientation and very low individualism. In fact, China has the highest long-term orientation value in all countries Hofstede has measured. This relying on tradition and planning long-term is also reflected in Chinese business environment where planning scope can include 10-, 20-, or even 100-year periods (Gannon 2001). Long-term orientation is also reflected in the fact that China is a high context culture where business relationships take long time to build as discussed later in this text.

The significantly low individualism follows then from the Confucian value of collectivism and obligation towards your family and society in large. Loyalty towards the close and committed group and strong relationships where everyone takes responsibility for fellow members are characteristic of Chinese collectivist culture.

This Confucianism is also reflected in the fairly high power distance that Chinese show. This reflects high level of inequality of power and wealth within the society. Obedience towards authorities and rules without questioning them is emphasized in the society following Confucianism's principles.

Uncertainty avoidance is then relatively low in China. This reflects the unambiguous nature of truth that is typical of eastern thought. Characteristic of Chinese society has been that it doesn't work with strict laws and rules but relies more on the subjective judgment of those in charge. They are then expected to follow broad general principles in their judgments. This situation- and person- specific approach tolerates uncertainty in a much broader way than a more law-obedient country.

In achievement versus quality of life category China is significantly among the more achievement-adoring countries in the world. As Hofstede's original name for this category – masculinity – suggests, this means that the society appreciate manly values of achievement and that equality of sexes is still a far-away dream.

3.2.4 Business climate

For understanding how Chinese behave in business relations and on working place there are some straightforward results like that high power distance means hierarchical business organizations with strict submission to superiors' orders. In addition there are some specific features that need to be mentioned to understand the Chinese working culture.

The combination of high power distance and low individualism with low uncertainty avoidance means that Chinese are very obedient in the working place. There is a lack of individual empowerment (Kortelainen 2005a). But they aren't obedient towards specific rules but more to the people in superior positions to them.

With the low uncertainty avoidance combined with high esteem for personal relationships and a somewhat non-functional government control there is a strong case for relationships-based business. Contractual agreements are not as effective in China as they are in West as the building up of right relationships is of paramount importance. (Fan and Zigang 2004)

Chinese culture is also very diffuse (Trompenaars 1993) and high context (Burns 1998). This means that relationships take a long time to build in general and also in business. Contrast to US and North European managers who keep business matters separated from their personal life to Chinese everything is connected to everything. To them relationships come first, business only second. Therefore they prefer an approach where potential business partners get to know each others well before any actual business negotiations is going to take place. On the grounds of two of Trompenaars' questions that measure the specificity versus diffuseness level of relationships China seems to come out as the most diffuse country of all measured (Trompenaars 1993). Personal and all-embracing relationships are thus a central part of the way of doing business in China.

One aspect of Chinese culture that can provide to be a challenge when trying to impose western business concepts is their sense of cultural superiority and suspicion of outsiders. This results in a tendency to adopt Western ideas and technology slowly. (Burns 1998)

3.2.5 Corporate Responsibility in China

As in many other developing countries, people in general see a company's role as more expanded than in more developed countries. Many see that taking care of the workers and the society around the company is part of the company's role (Trompenaars 1993). This can mean providing for example health care, clean drinking water, housing or even schooling for children of the workers. Traditionally the company's and employees' relationship has been long-term - many times for a lifetime - and in exchange for his loyalty the employee expects the company to take care of him and his family also outside working place. There has thus been an independent tradition of corporate responsibility towards employees and their families existing in China. (Burns 1998) Unfortunately the role of this tradition in the business world nowadays is unclear. The

huge environmental problems of China (reference) indicate that the environmental management is still quite new concept in Chinese business.

Key problem of corporate responsibility in China is the lack of government control of corporate responsibility issues. The laws either don't exist as for some environmental matters or then they are not controlled as for many social issues. Therefore it is quite much up to an individual company to decide how much corporate responsibility they are willing to carry out towards the society.

Therefore despite general attitudes of corporate responsibility the lack of control creates room for environment and labor – exploiting companies. These 'sweatshops' are infamous for poor safety at work, excessive working hours, no written contracts that allows illegally low wages and hiring and firing workers at will. At the moment the problem of sweatshops is progressing a little bit following the economic development of the country. The factories with worst reputation have simply found it hard to find workers as people have more possibilities of employment and are not so desperate to take any job available anymore (ICO 2005).

3.2.6 Managerial impact of Chinese culture in promoting corporate responsibility

The Chinese inclination to focus on distinct components of a situation compared to following general policies and regulations (Berrell et al. 2001) and their suspicion to western imposed business principles can be seen to manifest itself in the extensive problem of falsified records of Chinese suppliers. Falsified records to hide non-compliance with corporate responsibility standards exist also elsewhere but in China it is most common and also deception methods are most sophisticated (Foster and Harney 2005). Engaging in this cat-and-mouse – game of more efficient audits and more cunning ways to evade the real characteristics of the suppliers would be increasingly costly and can't be the best way to build up corporate responsibility in the long term. Therefore the compliance to requirements – strategy is very likely to have come to the end of the line in China. A more collaborative and progressive development strategy in corporate responsibility issues is thus required.

The long-term orientation and relationship-based culture of the China are characteristics upon which the supply chain responsibility strategy needs to be built on. To build up trust between your company and the Chinese supplier is an essential preconditioning for them to be ready to adapt their business model along with your needs. To gain this trust the corporation has to show that it is really committed to the supplier in China, with long-term orientation of mutual cooperation and personal relationships (Zinkin 2004). Only when the Chinese counterpart believes that there is more in this partnership than mere profits is the company able to really influence their way of conducting business.

This need to build a relationship-based approach to corporate responsibility is further strengthened by the fact that strict contractual agreements are not the Chinese way of doing business.

In a high-power distance and authority-oriented culture like Chinese the top management is the target where the efforts of promoting corporate responsibility should be addressed even more clearly than in Western cultures. The change in organizations has to originate from them and therefore their commitment is vital for the corporate responsibility to be realized in the organization. If they are really made to understand the case for corporate responsibility the middle management is likely to follow their authority in their actions.

As there is a traditional concept of corporate responsibility already present in the Chinese corporate culture this could be used as a basis on which to build on the modern more western-centered concept of corporate responsibility.

3.3 India

3.3.1 Introduction

India is often cited to be the world's largest democracy. With its 1, 08 billion people (CIA 2005b) it is actually host to almost half of the world's people that live in democratic societies (Dunung 1995). As opposed to China which has been more or less united under one ruler for the most of its history India's political history is very fragmented. It is full of small kingdoms rising and falling in different areas and having virtually no impact on other areas of India. Until the brief Muslim empire (roughly from

mid-17th century to mid-18th century) and British rule starting in mid-19th century India was never united under one ruler. This diversification has resulted in wide linguistic, cultural and religious differences that are a central element in understanding India. (Dunung 1995) Along with it Hinduism and the British impact are the key elements of Indian culture.

India is the only country in the world where Hindu is the main religion. Of Indians more than 82% are Hindus. Hinduism is a unique blend of religion and philosophy and unlike Christianity or Islam it doesn't have a single founder, a specific theological system or a central religious organization that oversees the purity of the religion. There is no one truth about Hinduism or one right way of practicing it. Instead it consists of thousands of different religious groups that have evolved in India since 1500 BCE (Levinson 1998). There are thus as many versions of Hinduism that there are practitioners of it. Common to all of them is the believe in one divine principal that's various aspects are represented by a number of gods of which Brahma – the creator, Vishnu – the preserver and Shiva – the destroyer are most important. A telling fact of the diversity of the religion is that number of gods recognized in Hindu religion exceed 330 000 (Weightman 2002).

Central to Hinduism is the concept of *karma*. The world is an illusion where people are born again and again into different beings. Karma, which is the consequence of all your thoughts and physical actions, defines into what being you are born in the next life. Bad actions and thoughts result in bad karma and a lower level of reincarnation and respectively good deeds result in good karma. World is seen as ultimately illusionary place consisting of fleeting pleasures and pain where true happiness cannot be found. The only happiness worth seeking is the permanent spiritual happiness. The ultimate goal is to gather so much good karma that you can get released from the cycle of life. (Kinsley 1982)

Dharma, or the natural law, is another essential concept of Hinduism. It imposes the belief that there are certain social and religious obligations that members of Hindu society have to fulfill. Individuals are thus expected to play their proper roles in the society as determined by their dharma. (Dunung 1995) Good karma is gathered

primarily through two ways: fulfilling your dharma and doing good deeds. (Kinsley 1982)

These fundamental beliefs along with the caste system which is discussed later contribute to the stability of Indian society. Belief in predestination is strong and therefore there is a limit to what a person can do to change his or her life. Accepting your situation and fate, whatever it is, is valued more than fierce attempts to change it. This leads to a certain passivity compared to improvement-oriented Westerners. (Kinsley 1982)

There is also a significant Muslim minority of 11% which in India still means over 100 millions Muslims. Other religions include Christian (3%), Sikh (2%), Buddhists, Jain and aboriginal animists. (Gannon 2001 p. 60) The minorities are mainly concentrated to certain areas of the country and resist being dissolved to the Hindu culture. The dispute between Muslims and Hindus causes ongoing tension and occasional violence (Gannon 2001).

3.3.2 Caste system

A question that comes to every prejudiced western mind when talking about India is the caste system and therefore, whether it would deserve it or not, it has to be discussed here also. The Hindu concepts of reincarnation and karma give legitimacy to the system by stating that every man has by his earlier deeds deserved to be born in a certain caste and by living a good life can earn a place in a higher caste in next life. You are thus born into a caste and remain member of that caste for your whole life, no matter what you do. (Gopalan and Rivera 1997; Dunung 1995)

There are four castes in ranking order starting from the Brahmins or the priest class. Each caste has traditionally contributed to the society with its own specific ways and had its own honors and duties. There has been a clear tendency of the top castes profiting from the caste system in expense of those lower down. Especially clear this is in the case of the dalits or the untouchables, a group of people that are not members of any caste. They have been considered to be contaminated and therefore usually performed the dirtiest and least valued jobs of the society and were targets of ostracism

from the rest of the society. Caste system has thus traditionally legitimized social inequality. (Gannon 2001)

Caste system was officially prohibited after India got independent and government has certain quotas to ensure the representation of all castes at different levels of governance. Although education, modernization and urbanization of society have lowered the caste consciousness it is still strong in certain areas of life such as choosing of a spouse. The opinions about how the caste system affects the working environment vary. Many Indians are eager to prove that caste has no bearing on the work place. It is said that “many Indians have developed a state of mind that allows them to put aside caste prejudice in the workplace but, on returning home, to conduct all of their social activities strictly according to caste norms.” (Gannon 2001: 77) Still there is evidence that caste based feelings affect for example group work in the working place as feelings of cooperation and affective reciprocity characterize working with members of same caste and other caste members are treated more as adversaries (Gopalan and Rivera 1997). Also of historical reasons and for the fact that Indians tend to favor friends and relatives higher castes are well represented in top positions of business with blue collar work being taken care mostly by lower castes (Gopalan and Rivera 1997).

Caste consciousness also varies greatly depending on which part of India you are in. Generally in more educated and developed regions caste system is more abandoned while in poorer regions it still dominates people’s attitudes. (Gannon 2001)

3.3.3 Diversification

As said before diversification is a central element in understanding India. In the words of Gannon (2001: 57) “virtually every writer describes it as one of the most culturally and geographically diverse nations in existence.” Therefore it has been said that India should not be treated as one country but as a continent. As noted by Dr. Sarin (2005) this comparison to a continent like Europe is not far-fetched as India’s population is three times bigger than Europe’s and cultural and language differences are as wide as in Europe with 33 main languages (of which 18 are recognized in the constitution as official languages) and 1650 dialects. Each state of India has its own ethnic culture and often its own language and Indians are fiercely loyal to their region ensuring that these differences continue to exist (Dunung 1995). For Indians national identity usually

comes only after regional, religious and often linguistic identities. Especially clear is the division between northern and southern parts of India which has its historical roots 1500 B.C when Aryans (now 75% of India's population) invaded the north forcing Dravidians (25% of India's population) to flee to the southern part of the country (Dunung 1995). These wide differences make cultural generalizations about Indians even less accurate than generalizations about most of the other nations.

3.3.4 Hofstede dimensions

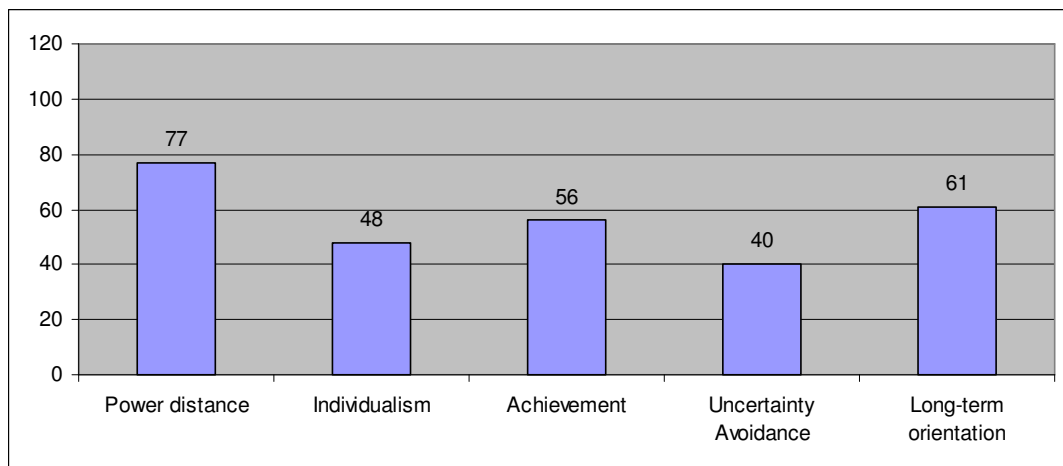


Figure 10 The Hofstede dimensions for India (Source: Hofstede and Hofstede 2005)

A dominant feature of India's score is the fairly high power distance. This reflects high level of inequality of power and wealth within the society. Accepting inequality of power as a cultural norm is understandable thinking of Hindu principles of dharma and caste system.

Uncertainty avoidance is quite low for India indicating a tendency of the society to handle situations uniquely than rely on strict and pre-decided rules. Indians feel comfortable in less structured environments and can handle risk and uncertainty in their professional and personal lives.

In long-term orientation India positions itself quite high on the list of countries ranking number 8 in a sample of 39 countries. Still its score of 61 is far away of China's (118) or Japan's (80) scores. This indicates that Indians have a tendency to think matters in

the long-term perspective but is closer to the Western countries on this aspect than many other Asian nations.

In the individualism vs. collectivism and achievement vs. quality of life – categories the diversification of Indian society might be apparent. In both categories India gets scores very close to the world average for these categories. This means that Indians in general don't show strong preference for either opposites of these but positions itself somewhere in the middle of individualism-collectivism and achievement vs. quality of life – indexes. However, considering that regional and other cultural differences are great inside India there are bound to be parts of country where any of these dimensions might be dominant.

3.3.5 Business climate

Value transition process. An issue that has a significant effect to business climate of India is that the society is going through a value transition process. After year 1991 India has opened up its economy and entered gradually into market economy and global competition. This has imposed new organizational and social forces that managers have to face. Foreign companies have invaded into Indian markets and more and more business managers are in direct contact with them. Additionally many Indian management schools have adopted Western-style values that they teach to their students and it is nowadays not at all uncommon for Indians to go to USA or UK to earn a degree and simultaneously adopt parts of their culture. Differences among generations are visible with younger people having more western-style values (Dunung 1995) All this has led to a clash of values between the more traditional Indian values and the values of market economy adopted from West. (Chatterjee and Pearson 2000)

This leads to a situation where managerial values differ greatly between individuals. There are those who cling to traditional values. Then are those, especially young people or people with international background or experience that have almost fully adopted Western values and business styles. Perhaps the largest group is those who through various strategies mix these two value sets. Chatterjee and Pearson (2000) recognize a pattern among Indian senior managers of deriving personal values from the embedded culture and tradition but at the same time apply global values at their work ideology level.

All in all there are thus wide differences between different managers in how western or traditionally Indian their values are. In general younger people, those who have been studying in West or have much Western business contacts tend to have more Western-style values but also other managers values are in a transition (Sarin 2005).

Other. As India is a high power distance country business hierarchies are high and Indians enjoy displaying power and authority. Class structure is distinct and superiors will not engage in any work perceived to be below their level. Group consensus is not a priority but the one person in top makes the decision after having heard the opinions of the subordinates. (Dunung 1995) As subordinates have come to expect this kind of behavior from their superiors they might be uncomfortable with managers giving them more authority or treating them more equally. There is evidence that Indian employers rated their supervisors low when empowerment was high and that empowerment also had a negative effect on co-worker satisfaction (Marchese 2001). Individuals obtain a sense of strength and security from power coming from higher managerial ranks (Gopalan and Rivera 1997). Therefore consultative leadership models might not work as well in India as more authoritative models.

Due to the British rule or more intrinsic cultural values, Indians have always viewed foreigners, particularly Westerners, as more superior. As “white” skin is associated with the upper class so too are Western products and ideas viewed with admiration. (Dunung 1995) The British rule and having English as a common language makes Indians more familiar and responsive to Western influences. Therefore Indians can and are willing to adopt Western concepts – for example corporate responsibility – more easily.

3.3.6 Corporate Responsibility in India

Corporate responsibility has long traditions in India at least in the social side of it. As social security system is almost non-existent the employers’ responsibilities towards the worker have been seen as more extended than in the west. A survey in 1984 already showed that companies were spending substantial amount on social development (Mohan 2001) and nowadays most of the larger companies include social responsibility in their corporate strategy (UNDP 2002). The tradition of family-owned companies contributing to the social welfare of the nation has been strong and is still seen in most of the companies’ practices.

Corporate responsibility has been seen as something intrinsic to the company (Sagar and Singla 2004; Mohan 2001). Therefore few companies have had any written policies on the matter but still most of the big companies in India report having social activities on an ongoing basis and with long-term commitment. Corporate responsibility of the company has thus commonly been taken for granted as part of the business as usual. It has been an objective on itself and not about furthering any instrumental objective of primary shareholder interest. “Most businesses are seen to be driven by internal values that maintain profits as a by-product and stakeholder concern as intrinsic” (Mohan 2001: 115). Indians expect companies to take wider social concerns into account when doing business. Indian companies and MNCs in India are benchmarked against these expectations. (Mohan 2001)

The traditional attitude to corporate responsibility is holistic considering not only the worker inside the factory but also workers life outside the factory and the community around the company. Employers are often responsible for the workers housing, education of his children, healthcare for workers family and sometimes to the extended family also and other matters. (Mohan 2001) This is somewhat tied to the concept of being in the same job for a lifetime and might change as younger workers are becoming more flexible in changing jobs along their career.

In the recent years interest in corporate social responsibility has been increasing in India (Sagar and Singla 2004). The UNDP (2002: 33) survey on corporate social responsibility in India revealed that “vision of holistic stakeholder approach to CSR is now firmly in place”. The corporate world is moving from a philanthropy and worker centered approach to a more “integrated model that mainstreams through business visions and processes” (UNDP 2002: 2). Business is now more directly engaged in mainstream development and concern for the disadvantaged groups in the society (Mohan 2001).

3.3.7 Managerial impact of Indian culture in promoting corporate responsibility

As the concept of corporate responsibility is strong in India the efforts need to be built on to that basis. A firm should commit itself to a holistic approach that takes a view on responsibility towards society at large. Especially important is that employees are taken

care of also outside the factory supporting their housing, healthcare etc. Not taking these issues into account the firm's corporate responsibility efforts might risk the change of not been taken seriously in India.

With most of the bigger companies claiming commitment to corporate responsibility (UNDP 2002) it shouldn't be hard to find a partner that takes corporate responsibility seriously. And as Indians are in general responsive to Western business concepts communicating the western case for corporate responsibility should also succeed. With a right partner that already has a responsible organizational culture taking care of the topic could go very smoothly. (Neef 2004)

That said monitoring the supplier and building trust are still important. Government control is weak and number of desperate poor people willing to take any job is large which means that there are always those who are willing to abuse the situation. This is reflected most strikingly in the fact that there are still 60 million children working every day to support their families or themselves in India (Manier 2004). Selecting a supplier that is truly committed to corporate responsibility is thus crucial in assuring corporate responsibility in India.

Indians have a tendency of not taking responsibility of their mistakes. Errors and problems are either blamed on subordinates or simply passed over. (Dunung 1995) This can cause problems in the identification of corporate responsibility issues and needs to be taken into account when discussing the topic with Indians. Another connected issue is that Indians are very proud of their nation and dislike when Westerns are interested only in its faults. Therefore taking up issues like problems of caste system should be handled with care so as not to insult the locals and interrupt the mutual trust-building process.

As long term orientation is quite strong in India long term commitment need to be shown on both sides for the buyer-supplier partnerships to be successful. The high power distance with low uncertainty avoidance means that top-level commitment is more crucial to the success of corporate responsibility than any written rules.

Indian concept of corporate responsibility also has some improvement areas compared to the Western standards. Especially clear this is considering a good workplace

environment with health and safety norms often below minimum levels. Also in environmental issues Indian companies tend to be behind their Western counterparts. (Mohan 2001)

3.4 Comparison of China and India

3.4.1 Hofstede dimensions

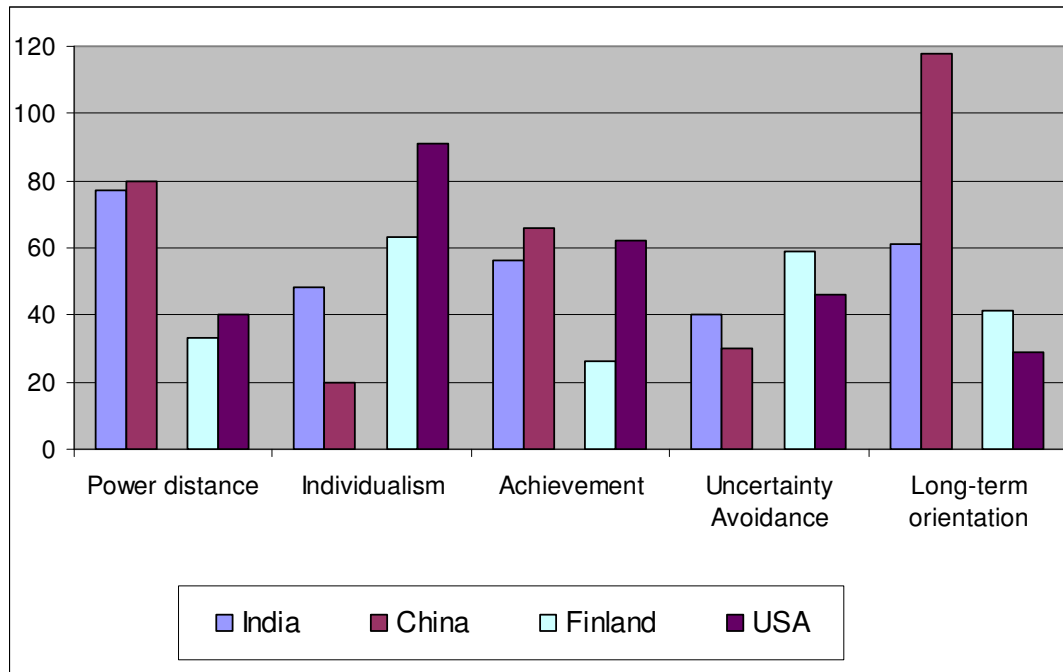


Figure 11 The Hofstede dimensions for India, China, Finland and USA (source: Hofstede and Hofstede 2005)

As can be seen in the figure 12, India lies somewhere in the middle between China and the Western countries (here represented by Finland and USA) in practically all categories. This reflects the geographical position of India in middle of Asia with influences coming both from west and the east. It can also be due to the internal diversification of India which levels out the scores. From a western point of view then many of the same considerations apply to India that do to China only with the difference that in China this tendencies are even stronger. For example building up long-term partnership and trust are very important in India too, but not as vital as in China.

In power distance both countries have practically equal scores and in uncertainty avoidance India isn't far away either. This means that both countries place great emphasis on hierarchies and positions of power and are less rule-oriented. They are willing to obey the superior, not specific rules.

In long-term orientation India is far behind China but still quite much ahead of western countries. Indians are thus oriented to work for far-reaching goals but are more familiar with the western view of quick results.

In both countries intrinsic motivation theories applied in West don't work as extrinsic aspects of work are more important. This is quite much due to the collectivist nature of the culture. Work is more often considered as a duty towards one's family or society and virtues such as self-sacrifice are valued over personal achievement. (Gopalan and Rivera 1997) In India where individualism is rising the intrinsic work goals are also getting more appeal among people.

3.4.2 Other

All in all the British rule, the history of cooperation with foreign firms, the more developed legal system and more developed financial sector all make Indian business world be more western than Chinas. This should make the formation of business partnerships more easy as Indian business people "speak the same language" both literally and metaphorically. Indians are less formal and lower context people in establishing a relationship. The decision-making is faster and group consensus isn't that important. They are more result-oriented than Chinese although still can sometimes in western eyes look process-oriented. The concept of losing face isn't that important in India so feedback giving and receiving is easier and people can speak matters more straight out. India also has an established entrepreneurial class that understands modern business concepts and ethics and who often have gained their degree in western universities.

As the traditional corporate responsibility culture is stronger in India than in China it should be easier to find firms that take these issues seriously. As Indians are also more familiar with western business concepts it should be easier to communicate the point of modern corporate responsibility movement to them.

Formal rules and managing relationships by them is more accepted in India than in China although also Indians tend to overlook written contracts in favor of taking issues as unique and relying much on relationships. In corporate responsibility Indians view responsible organizational culture more important than any written policies about it (Mohan 2001).

Due to the British rule or more intrinsic cultural values, Indians have always viewed foreigners, particularly Westerners, as more superior. As “white” skin is associated with the upper class so too are Western products and ideas viewed with admiration. (Dunung 1995) The British rule and having English as a common language makes Indians more familiar and responsive to Western influences. At the same time Chinese feel sometimes cultural superiority and are less responsive. Therefore Indians can and are willing to adopt Western concepts, like for example corporate responsibility more easily.

4 CASE NOKIA

4.1 Supplier network and corporate responsibility

4.1.1 Background about Nokia’s supplier network

As a global company Nokia has a large supplier network spread around the globe. Nokia’s own production units are located in 9 countries, namely Brazil, China, Finland, Germany, Great Britain, Hungary, Mexico, South Korea and USA (Nokia Corporation 2005b). The supply chains in the electronic sector tend to be very long and complex (Nokia Corporation 2004b) and Nokia does not give out its suppliers. Therefore their distribution between countries is hard to know but it can be assumed that many of the suppliers are of logistical reasons gathered relatively close to the production units.

At the moment China is central in Nokia’s production chain. Of Nokia’s 15 manufacturing facilities, four are located in China along with five R&D units (Nokia Corporation 2005c). China has also been central when Nokia has developed its strategy for supply chain responsibility. For example when Nokia introduced its in-depth labor conditions assessments in 2003, it piloted them first at supplier sites in China and refined them after the experience there (Nokia Corporation 2005h). Nokia thus has

much experience of their supply chain responsibility strategy's functioning in China and Chinese culture.

At the moment Nokia is establishing two new manufacturing facilities in Chennai, India. The construction work has already started and the production at both units is expected to begin in the first half of 2006. (Nokia Corporation 2005d; Nokia Corporation 2005e) These manufacturing units are major investments for Nokia and along with them comes the need to establish a working supplier base in India that can supply the facilities with necessary materials and raw products. Knowing what challenges Indian culture inflicts for promotion of corporate responsibility is therefore of great interest for Nokia.

4.1.2 Commitment to supply chain responsibility

Nokia has been active on corporate responsibility issues for a number of years now. It created a regularly updated internal code of conduct already in year 1997 and has been recognized in recent years as having good overall performance in corporate responsibility (Vigeo 2005). Its continuing efforts in the field can be seen for example in the fact that Dow Jones Sustainability Index has selected it as a sector leader in both World Communication Technology and European Technology sectors for two consecutive years (SAM research 2005). Especially its environmental performance has received much commendation. "Nokia has a long and strong history of environmental performance and reporting" (Storebrand 2003a).

Also supply chain responsibility has been high on the company agenda for a number of years (Consumentenbond 2003). Nokia is carrying out an ongoing effort to strengthen supply chain responsibility practices to "learn and develop an even swifter and more effective future response" (Sundbäck 2004). In recent years Nokia has according to Senior Vice President Veli Sundbäck recognized "increased public scrutiny from a range of parties" in its supply chain practices (Sundbäck 2004). Several big operators that are Nokia's major customers have already made public their supply chain requirements. These include Vodafone's Code of ethical purchasing (Vodafone 2003) and British Telecom's sourcing with human dignity standard (British Telecom 2002).

In its code of conduct Nokia defines its responsibilities towards supply chain as follows (Nokia Corporation 2002):

Nokia will do its utmost to contract only with subcontractors or suppliers who themselves adhere to international human rights and environmental laws and practices. Nokia commits to monitoring the ethical performance of its suppliers and to taking immediate and thorough steps in cases where the ethical performance of its suppliers comes into question.

This general commitment is then translated to Nokia's supplier requirements and Nokia's supplier network management strategy.

4.1.3 Supply chain responsibility approach of Nokia

The general approach of Nokia in supply chain responsibility is one that bestows responsibility on the supplier (Klemetti 2005; Kortelainen 2005b). Nokia wants its supplier to own their own process of corporate responsibility. This follows a general trend in management of supply chain responsibility in which a transition from strict top-down approaches to more bottom-up approaches is supported (Jorgensen et al. 2003). Supplier is given as much freedom as possible to come out with its own standards of corporate responsibility and strategies and methods to achieve these standards. All suppliers need to proactively comply with Nokia supplier requirements but through their own processes and monitoring activities. Nokia is not imposing its own supplier requirement documentation on its suppliers or force them to manage corporate responsibility with Nokia's methods. Imposing western standards can be seen as cultural imperialism. When a supplier is able to build up their own corporate responsibility approach it is more likely to correspond to their own value system and culture. Nokia sees this approach as the only sustainable way to promote corporate responsibility to the supply chain; as sustainable results are based on capacity building (Oxley-Green 2005). (Klemetti 2005; Kortelainen 2005b).

Nokia sees this approach as the only sustainable way to promote corporate responsibility to the supply chain (Oxley-Green 2005). This is connected to Nokia's willingness to support long term change. They want to encourage actions that further the

society and environment in the long term and don't just provide good snapshot results. (Klemetti 2005; Kortelainen 2005b)

This general approach is reflected in Nokia's supplier requirements and management strategies for supply chain responsibility. The supplier requirements include a general description of the requirements, not the methods or actions to be taken to comply. That leaves out freedom for the supplier to ply its own strategy and processes for corporate responsibility (Kortelainen 2005b).

For this kind of bottom-up – approach to work Nokia itself needs to show real commitment to corporate responsibility. If it hasn't self built up a culture of corporate responsibility and integrated it to its business it cannot expect its suppliers to commit to the idea of corporate responsibility. Nokia seems to have realized this and is addressing the challenge as is shown in chapter 4.2.1.

4.2 Management strategies of supply chain responsibility

Nokia's management strategy for supply chain responsibility can be concentrated around two concepts. Firstly there is the integration of corporate responsibility issues into general supply chain management, as part of the 'business as usual'. Secondly is the Nokia's supplier network management program which includes internal training, contractual agreements and supplier assessments. After introducing these two the characteristics of Nokia's strategy in supply chain responsibility some specific questions are discussed.

4.2.1 Integration of corporate responsibility issues into supply chain management

One of central themes of Nokia's strategy for corporate responsibility is the integration of corporate responsibility issues into general supply chain management. This is reflected in Nokia's organizational structure where sourcing and procurement officers manage the environmental and social issues of the suppliers themselves. Naturally they are supported in this task by a corporate CSR team and an environmental team. (ISIS 2004; Vigeo 2005)

In this process Nokia follows the model represented by Kortelainen and Oxley-Green (2005) with four building blocks discussed in chapter 2.4.4. The building blocks were awareness building, processes and tools in place, processes working and business as usual. Following this model the change implementation begins with raising awareness, then supply chain management processes have to be reviewed to include also the social aspects. After having implemented the new processes it has to be assured that they are working with appropriate indicators and measures. Finally after these three steps have been implemented successfully the business as usual mode emerges and has to be supplemented with commitment to continuous improvement.

The estimated implementation time for the building blocks is two to three years (Kortelainen and Oxley-Green 2005). Nokia has reached quite good results in awareness building and most of the processes and tools of supply chain management have been reviewed to include social aspects. At the moment Nokia is building up relevant indicators to measure progression (Kortelainen 2005b). Nokia is thus reaching for the fourth building block – business as usual – but the procedure of verifying that processes and tools are working is still in progress.

Nokia's integration strategy has been acknowledged by external monitorers. In their analysis of the company Dow Jones Sustainability Index (SAM research 2005) state that "Nokia is successfully integrating its sustainability strategy into corporate culture and its performance is clearly positioned at the top of the industry" (SAM research 2005).

4.2.2 Supplier network management

Supplier network management oversees the environmental impact of suppliers (Nokia Corporation 2004a) and upholding of social standards (Nokia Corporation 2005f). The main components of it are the internal training, supplier requirements and supplier assessments. (Nokia Corporation 2005f) In addition the selection process and relationship building with suppliers can be thought of as a fourth element as it is a clear strategic decision made by Nokia with direct consequences on management of supply chain responsibility.

Internal training and awareness building. Nokia trains its staff both in environmental and labor issues. Employees have access to detailed environmental information on

internal and external websites, and environmental issues are part of management training. (ISIS 2004) In the case of sourcing and procurement personnel, three hours long classroom based sessions by Nokia specialist in supply chain ethics have been carried out since 2002 (Nokia Corporation 2005a). The training covers the concept of corporate social responsibility, the Nokia Code of Conduct, social requirements to suppliers, SA8000, and practical information on auditing social aspects in regular supplier assessments. In addition, lead assessors for indepth assessments have SA8000 auditor training (Vigeo 2005) This training has covered over 700 personnel working with supply chain leading to 60 percent coverage of all personnel working with supply chain (Nokia Corporation 2004a).

As Nokia continues its “systematic learning (Nokia Corporation 2004a)” the awareness of corporate responsibility issues in supply chain management is relatively good.

Supplier requirements. Nokia has included both environmental and social issues in its “Supplier Requirements” since year 2000 (Nokia Corporation 2005g). These requirements are included in its purchasing agreements with suppliers (Nokia Corporation 2004a).

In the case of social responsibility Nokia requires its suppliers to comply with the following statement (Nokia Corporation 2005g):

The Supplier shall be committed to ethical conduct, full compliance to applicable national and international laws and respect for human rights in the spirit of internationally recognized ethical standards, e.g. SA8000.

The more specific requirements for Nokia suppliers are thus derived from SA8000. This means that the ethical considerations are based on international labor standards in the ILO Core Conventions, the United Nations’ Universal Declaration of Human Rights and the Convention on Rights of the Child (SAI 2005). SA8000 defines workplace standards for all relevant labour right aspects from child labour to freedom of association (Appendix 1). The areas covered are included in the table 1.

Basic standards are set for:	
Discrimination	Child Labour
Disciplinary Practices	Forced Labour
Working Hours	Health & Safety
Remuneration	Freedom of Association & Right to Collective Bargaining

Table 2 Basic Ethical Areas covered by SA8000 and Nokia (source: Nokia Corporation 2005g)

Thus SA8000 certification as such is not required, but its elements must be met which leaves room for some flexibility considering the compliance to ethical standards. The reason for not demanding certification is primarily the high costs it would mean for suppliers (Kortelainen 2005b).

In environmental matters Nokia's requirements are more specific. The supplier shall have a documented Environmental Management System that satisfies the requirements of ISO 14001 or other internationally recognized standards and demonstrate constant improvement. The supplier must commit to consider environmental aspects in all phases of product development and implement continuous improvement programs to reduce harmful elements and negative impacts on environment. Legal compliance and evaluation of suppliers own suppliers are also required. (Nokia Corporation 2004d) Additionally new purchase agreements have clauses reflecting RoHS and WEEE directive requirements (Oekom 2005). The complete requirements are presented in appendix 2.

Additionally suppliers have to record the raw material content of products supplied to Nokia with end-of-life treatment recommendations (Nokia Corporation 2004d). Nokia substance list (Nokia Corporation 2005i) lists substances that are restricted and banned in the production of Nokia products. This list also has a list of monitored substances that Nokia strongly advises to avoid because Nokia expects them to be reduced or phased out in the future. (Consumentenbond 2003; Vigeo 2005)

Supplier assessment. Nokia has integrated the environmental and working condition issues as a part of all regular audits conducted at suppliers (Consumentenbond 2003). The company's supplier auditors are specifically trained to conduct the environmental and social part of the supplier section assessment (Oekom 2005). Audits are done internally because that way they can provide Nokia with useful first-hand information

about its suppliers (Klemetti 2005). Additionally the audits provide communicating and learning opportunities between Nokia and the supplier (Kortelainen 2005b).

On social side complementary in-depth audits are made. Nokia methodology for labor conditions auditing was created after the pilot labour conditions audits during January 2003. (Kortelainen and Oxley-Green 2005) These audits consist of a factory tour that includes dormitory, canteen and chemical storage, review of relevant documents and interviews with relevant management and workers. The interviews are confidential and in native language. After the audit the findings are presented in a closing meeting and, if necessary, corrective action plans made. The aim is to carry out around five to ten of these in-depth assessments annually. (Nokia Corporation 2005h)

Additionally Nokia does some supplier self-assessments to gather general information about the levels of corporate responsibility of its suppliers.

Worth to note about Nokia's supplier audits is that no independent or external audits are conducted. Quantitative results, to evaluate the general trend of Nokia's sourcing performance on corporate responsibility, are not either available to the public. (Vigeo 2005) Inclusion of these aspects would add credibility of these audits in the eyes of the general public.

Relationship building with suppliers. Nokia's general strategy is to build long-term relationships with its suppliers (Klemetti 2005). According to Consumentenbond (2003) Nokia has a long term (more than five years) business relationship with 75 % of their suppliers. This makes it worthwhile for suppliers to adjust the production processes to the demands of the buyer. This makes also business sense in countries like China or India where business relationships tend to be deep and personal and with a long-term focus.

In corporate responsibility issues Nokia also supports the continuous improvement philosophy. It believes that best results are achieved through working together with the supplier to improve their behavior and address corporate responsibility problems rather than terminate the contracts in case of non-compliance. Progressive and committed development is the key to real improvement according to Nokia's strategy. (Oxley-Green 2005)

4.2.3 Approaches to different corporate responsibility issues

Capacity building of suppliers. Following its bottom-up – approach to corporate responsibility Nokia doesn't seem to have any specific program to build up the capacity of their suppliers considering corporate responsibility issues although some support is provided. In its corporate responsibility report (Nokia Corporation 2004a) it states for both environmental and social responsibility issues that “a supplier company must reach the standards set in the Nokia Supplier Requirements through its own efforts. However, Nokia does provide training and advice when required.” Commitment to corporate responsibility and its requirements are mainly communicated to suppliers as part of normal business processes (Kortelainen 2005b).

To support the supplier's efforts to build its own way of corporate responsibility the training is thus provided only according to need. When training is provided it is mainly targeted at the top management or to environmental, human resources and health & safety management. The focus is on promoting the concept of responsible business as only knowing how to meet certain criteria is not sustainable. This way the suppliers can take responsibility for these issues themselves. (Oxley-Green 2005)

Additionally the supplier audits serve as a process where Nokia auditors and supplier management are able to discuss and learn from each others thus supporting the continuous improvement of suppliers (Klemetti 2005). Also the annual Nokia Supplier Days include corporate responsibility themes and in October 2004 Nokia organized also its first supplier workshop dealing with corporate responsibility (Nokia 2004a).

Supplier is seen to be self responsible to educate its own staff and employees according to its own needs. Therefore Nokia doesn't for example have attempts to raise the awareness about Nokia's social supplier requirements among the workers of the supplier.

Beyond first tier. Nokia makes its suppliers obliged to monitor and take care that their own suppliers fulfill the environmental and social criteria set by Nokia (Nokia Corporation 2004d). This is seen as only sustainable approach (Oxley-Green 2005). Additionally Nokia requires records of sub-supply chain, in order to properly assess

energy efficiency, material selection, reuse and recycling into a comprehensive material declaration (Vigeo 2005).

Non-compliance. In the case of non-compliance in environmental or social issues, Nokia adopts the same procedures as for any other breach: the supplier is required to provide a Corrective Action Plan within 30 days. After the corrective actions have been taken the supplier submits a report or the matter is verified through an on-site visit. (ISIS 2004) No financial support is provided by Nokia to suppliers (Vigeo 2005). This more tolerable approach to non-compliance is consistent with Nokia's general progressive development strategy.

4.3 Corporate responsibility promotion in China

As noted, for Nokia's supply chain responsibility China is very much the centre of attention. Much supplying is concentrated there and additionally China's importance as the second largest market in the world for Nokia with 11% of the annual turnover makes it sure Chinese concerns for corporate responsibility need to be taken into account (Nokia Corporation 2004c).

Most of the non-compliance issues are found on the social side. Typical challenges can be found in health and safety requirements, overtime hours, pay structure, freedom of association and disciplinary practices. Also subsupplier monitoring systems are still many times non-existent. (Nokia 2005a) However, no major social controversies have been revealed by external or internal research in recent years (Oekom 2005).

Issues of non-compliance are therefore still existent although the system to reveal these problems is working and situation is thus improving. Especially freedom of association and collective bargaining are tough issues in China where only working union allowed is the one controlled by government. Nokia's efforts here have concentrated to see how information flows between employees and management and are the processes and forums available effective (Oxley-Green 2005).

Also on the environmental side some cases of non-compliance still exist. As most of the suppliers have a certified environmental management system or non-certified systems the situation is relatively good (Nokia Corporation 2004d). Nokia supply chain

responsibility specialist thinks that the non-compliances can be related to the general environmental consciousness. The general attitude in China focuses still much on economic growth with environmental protection still being relatively new concern. (Oxley-Green 2005)

Nokia states that it has not experienced any cases of falsified records in its responsibility assessment (Oxley-Green 2005). With some general statements of more than half of factories audited falsifying some records in China (Foster and Harney 2005) this can be seen as almost an exception. According to Nokia this can be due to Nokia being often the first one to audit factories which therefore have no previous knowledge of what to falsify. Also the fact that Foster and Harney (2005) seem to be talking mostly of footwear and garment industry might explain the difference. Another reason is Nokia's progressive development strategy in which it is communicated to suppliers that non-compliance is not a sign to terminate the contract but to start improvements. (Kortelainen 2005b) This underpins the hypothesis stated in chapter 13.6 that a more collaborative and progressive development strategy works better in China.

Awareness raising of social issues is harder in China than in some other countries. This is partly due to the fact that it is still quite difficult to talk about human rights issues in an open manner there. Nokia has also experienced some encounters with the different understanding of individual as Chinese culture is much more collectivist. Additionally the Chinese that haven't been aware of the ongoing corporate responsibility discussion in western business world might see the scope of corporate responsibility more narrowly. (Oxley-Green 2005)

When comparing Nokia's management of supply chain responsibility in China to other countries where Nokia has suppliers the differing problematic issues constitute the main difference. In different countries the main non-compliance issues are different and therefore the emphasis of corporate responsibility promotion is different too. Another key difference between countries is the local laws and their implementation by authorities. (Oxley-Green 2005)

In general management of supply chain responsibility no significant differences related to cultures has been noted. More important than the country of firm's origin is the orientation towards corporate responsibility of a certain firm's organizational culture.

Therefore the Chinese suppliers are managed quite similarly in corporate responsibility issues as suppliers for example in Mexico. (Oxley-Green 2005)

When talking about the cross-cultural management between Nokia and its suppliers in China one important aspect needs to be taken into account. Although some suppliers are Chinese firms with Chinese management, there are also many firms that either are subsidiaries of Western companies or have Western top management and owners (Oxley-Green 2005). This means that although the workers are mainly Chinese, the organizational culture often resembles more the country of origin of owners. Especially the top management that is the main target in promoting culture of corporate responsibility is therefore more influenced by Western culture than average Chinese. This can effectively obliterate the effect of customizing the promotion of corporate responsibility to Chinese culture.

When comparing foreign-owned and Chinese suppliers in China on their corporate responsibility Chinese have no reason to blush. On the contrary the Chinese firms often outperform foreign-owned suppliers in their attitudes and approaches to corporate responsibility. (Klemetti 2005) This supports the view that worst forms of irresponsibility are not about the national culture but more about existing opportunity. In countries where local laws leave room for exploitation there is always someone to prey on it.

4.4 Suggestions for corporate responsibility promoting in India

4.4.1 The soundness of customizing the strategy for corporate responsibility to national cultures

First thing that needs to be investigated is whether there is a rational in customizing Nokia's strategies at all to suit different cultures. Although cultural differences clearly can have a role in promoting corporate responsibility to suppliers there are many points of view that suggest that this is not the case.

Firstly experience of Nokia suggests that orientation towards corporate responsibility of a certain firm's organizational culture plays a more important role in promoting

corporate responsibility than the firm's country of origin. This suggests that organizational culture plays a more important role than national culture in a supplier's receptiveness towards corporate responsibility. (Ch 4.3)

This hypothesis is further strengthened by the evidence from India. Although general evidence suggests the existence of a national culture of corporate responsibility the exploitation of child labor is wide with 60 million children working every day (Crawford 2000). This coexistence of conflicting evidence suggests that regardless of national culture there are always organizations that are willing to exploit every loophole in government control. Organizational culture thus again overrides national culture.

The owner-structure of typical suppliers for multi-national corporations in developing countries further turns down the national culture based approach. Quite often these suppliers are foreign-owned or subsidiaries of some developed countries companies (ICO 2005). This means that the top management and organizational culture of these firms reflect usually more some other national culture than of the country where the supplier operates.

It is also good to bear in mind that applying different standards in different countries might be seen as non-preferable by some countries and stakeholders inside them (Zinkin 2004).

Along with all this comes the fact that is especially relevant in India: the diversity of culture inside the nation (Ch 3.1.7). In most of the countries there are clear differences in culture between different regions but in India these differences, strengthened by language barriers, strong regional identities and long geographical distances, are wider than in almost any other country (Ch 3.3.3). Also the influence of modernization sweeping across developing countries has a varying influence on people's attitudes making differences inside the nation even greater (Ch 3.1.5).

All this suggest that the choice of a promotion strategy of corporate responsibility for suppliers should not be based on national level of culture. This said, national cultures should not be ignored either. Cultures still have an important role in different companies' attitudes towards corporate responsibility and their ability to adapt to Nokia's requirements. But national level of culture seems not to be the most relevant

level. The organizational culture of a firm is much more important and in it the national culture is only one source of influence (Ch 3.1.7). Therefore customizing corporate responsibility promotion strategies to national cultures is not recommended.

4.4.2 Insights for corporate responsibility promoting in India

Although customizing promotion strategy of supply chain responsibility to national cultures is not suggested some insights about what influences Indian culture might have for promotion of corporate responsibility are still worthwhile to look at.

In general it might be easier to find a supplier in India that is committed to corporate responsibility than in China. This is because the corporate responsibility culture has been and still is strong in Indian business world. Additionally Indians are more receptive towards western influences and more familiar with western business philosophy. This should make the communicating of Nokia's corporate responsibility principles easier in India. (Ch 3.3.6) Common language and closer scores on Hofstede's dimensions should make the understanding of each others in general more easy (Ch 3.3.1).

As noted before the most important differences in corporate responsibility issues are related to frequency of different problems and effectiveness of local laws and their surveillance. Therefore it is suggested that Nokia should make an investigation about typical corporate responsibility problems in India and local laws and their implementation related to both environmental and social responsibility issues. Especially important it is to find out are there any new Indian-specific problems that Nokia has not experienced before and therefore might not have taken into account in its present strategy. Benchmarking other firms with similar manufacturing structures to see what problems and solutions they have found would be one good way of doing this.

The strong corporate responsibility tradition in Indian business is important for Nokia for another reason. As India is already the fifth largest market for Nokia with sales of 1.3 billion euros year 2004 and with much growth potential (Nokia Corporation 2004c) the attitudes of Indian consumers are very relevant for Nokia. Right now Nokia enjoys a good reputation in India having been chosen the brand of the year 2005 by Confederation of Indian Industry (CII 2005). As Nokia opens factories in India with

associated supplier base its actions will be under public scrutiny and therefore more vulnerable to any criticism. To keep up the good reputation Nokia needs to show that it is a responsible company according to Indian standards. As Indians see the responsibility towards employees often wider than in western context this needs to be taken into account. Nokia needs to follow Indian consumers' attitudes to corporate responsibility and its effect on their consumer choices to be able to deliver the kind of corporate responsibility they expect.

4.5 Case Nokia Conclusion

Although the national culture based approach was turned down it doesn't mean cultural sensitivity should not be of key importance to promotion of corporate responsibility. The focus should however be elsewhere, on organizational culture.

Organizational culture of a supplier is a decisive determinant when choosing an appropriate strategy for promoting and assuring corporate responsibility of the given company. Dealing with corporate responsibility issues with a committed and highly ethical top management is very different from an experience with a short-term profit-maximizing supplier with a casual attitude to law and working conditions, regardless of the nation. Both types are to be found inside every nation. Therefore when designing methods and processes for promotion of corporate responsibility enough space should be left to analyze and customize approaches to respective organizational cultures of individual suppliers.

Assessing company's organizational culture and being sensitive are therefore to be encouraged. The organizational culture of a certain supplier might reflect the national culture more or less but it must be beard in mind that the national culture is only one influence among others. The industry where the firm operates, the age, social class or professional and educational background of top management among others might all have as big influences to organizational culture (Ch 3.1.7). Still, understanding national culture is one challenging and important part in this process and people dealing with suppliers should have appropriate training to understand cross-cultural management in general among with knowledge of countries where they operate.

This emphasis on the importance of organizational culture in promoting corporate responsibility leads to another conclusion. Great focus should be placed on the procedure of choosing new suppliers. Organizational culture and organizational attitudes towards corporate responsibility should be carefully scrutinized before the choice is made. Only company's that reflect sufficiently Nokia values and attitudes should be included in the supplier base.

In general it is interesting to see how Nokia's bottom-up approach which allows suppliers to self build up their strategies and processes for corporate responsibility will work in the long term. As noted in chapter 2.3.1, these strategies that let the supplier themselves to build up the capacity to be responsible are somewhat of a trend right now. Due to their novelty empirical examinations about their successfulness are still hard to find. Nokia's strategy has a good forecast, as long-term commitment with the supplier along with purchaser's own commitment to responsibility are seen as key successful factors of these approaches. Both of these aspects seem to be well managed in Nokia.

Additionally, as the topical corporate responsibility issues vary from one geographical region to another the assessment methods should be flexible enough to address these differences and be able to find out relevant topical issues in each region. Especially true this is for social issues. They are complicated by different views about human nature, individualism and sufficient working conditions.

5 RESULTS AND CONCLUSION

5.1 Results

The insights and results gathered from the case study were consistent with the theoretical review of cross-cultural promotion of supply chain responsibility. This suggests that these results could be generalized to apply to other multinational corporations operating in China and India.

5.1.1 National based approach dismissed

The first research question was: "What is the significance of differing cultures in supply chain responsibility?"

This question was approached from a nation based approach looking at the Chinese and Indian cultures and their impact on strategies for promotion of supply chain responsibility. The most important result from the research was the conclusion that the customizing of promotion strategies for corporate responsibility to national cultures is not advised.

As discussed in chapter 3.1.7, this is due to many reasons. Most important is perhaps the insights gained from cross-cultural management about organizational cultures. The impact of a supplier's organizational culture to successfulness of corporate responsibility promotion is great. Organizational culture can include six interacting cultural spheres, namely company, functional, industry, regional, professional, regional and national. As can be seen national culture is only one sphere among others and although it can sometimes have a quite strong overall influence it should not be taken into account separately. Many times the industry of the firm or the specific values of the founding fathers of the firm have much stronger influence. Especially true this is for corporate responsibility issues because here national culture seldom is a strong source of influence as corporate responsibility of individual companies inside a nation vary greatly.

This point is strengthened by the diversity inside a nation and existence of differing regional cultures which varies between countries but is in many times quite significant factor underpinning the possibility of usefully assessing cultures on a national level. In developing countries where the corporate responsibility issues of suppliers are most relevant the varying influence of modernization is also remarkable source of cultural diversity. Western values might have a strong influence on some parts of the country or in some people while others remain loyal to traditional values.

Another reason is the owner-structure of typical suppliers for multi-national companies in developing countries. More often than not these suppliers are foreign-owned or subsidiaries of some developed countries companies. This means that the top management and organizational culture of these firms reflect usually more some other national culture than that of the country where the supplier operates.

These insights are strengthened from the experience from the case study. The evidence there suggests that orientation towards corporate responsibility of a certain firm's

organizational culture plays a more important role in promoting corporate responsibility than the firm's country of origin.

Although basing the promotion strategy of corporate responsibility to national cultural differences is discouraged, taking into account national cultures is still encouraged. The point is that national cultures should not be assessed separately but as important parts of the organizational culture of individual suppliers.

5.1.2 Cultural sensitivity towards differing organizational cultures

The first result discussed above leads naturally to a second one. Supplier's organizational culture is of key importance in promoting corporate responsibility. Depending on the supplier's organizational culture and the role of corporate responsibility in it, the task of promoting corporate responsibility can be of very different type and difficulty. Also the promotion strategies that best work, vary greatly depending on the organizational culture of the supplier. This leads to the conclusion that cultural sensitivity should be emphasized in promotion of supply chain responsibility. Only through understanding the organizational culture of the supplier can the purchasing company be sure to have the right methods and processes in promotion of corporate responsibility to a specific supplier.

For the purchasing company this means that they have to develop proper methods to assess the organizational culture of supplier. The auditors and other key personnel dealing with supply chain have to be trained to understand and investigate the role of culture in an organization. Rating of the organizational culture has to be built as part of the monitoring processes of the company.

Additionally when designing the proper methods to promote supply chain responsibility enough flexibility to customize the efforts to suit different organizational culture types of suppliers have to be left. The methods have to be adaptable so that the supply chain responsibility team can take into account the insights gained through monitoring of suppliers organizational culture in choosing the best possible promotion strategy.

5.1.3 The importance of selection process in supply chain responsibility

The importance of organizational cultures in promotion of corporate responsibility leads also to another conclusion. As organizational cultures are rather stable and hard to influence from outside the emphasis of promotion of corporate responsibility should be placed on supplier selection process. Through choosing of right suppliers the later promotion processes of corporate responsibility

Corporate responsibility should therefore be well integrated into supplier selection process and its criteria should be emphasized. Suppliers should be scrutinized carefully to find out if their organizational cultures and values reflect sufficiently the corporate responsibility strategy and values of the sourcing organization. This could also turn out to be more cost-effective because extensive auditing and training costs needed later on in promotion process of corporate responsibility could be avoided with a supplier that internalizes the idea of corporate responsibility straight from the start. By integrating promotion of corporate responsibility in this first stage of supply chain management the later stages of supply chain responsibility should be considerably easier to carry through.

5.1.4 Long-term commitment as key enabler of bottom-up approaches

Theoretical review also discovered that for bottom-up approaches in supply chain responsibility to work long-term commitment with the supplier is needed. In bottom-up approaches the responsibility of building up a proper strategy for corporate responsibility is bestowed on the supplier. Therefore the supplier needs strong incentives in order to assure that it really is ready to commit itself to the idea of corporate responsibility. This incentive can only be built up if the supplier feels that the cooperation is of a long-term nature.

For bottom-up approaches to really work it is therefore needed that the purchasing company itself shows true commitment to corporate responsibility and additionally has a committed and long-term relationship with its supplier.

5.1.5 Insights for corporate responsibility promotion in India

The second research question was: How to best promote good performance regarding a company's corporate responsibility standards in Indian supplier network?

Following the answer to the first research question, which was that strategies shouldn't be customized on a national basis the direct answer to the first question would be that promotion of corporate responsibility in India should be made similarly as it is done in other locations. Individual Indian suppliers' organizational cultures should be analyzed and efforts customized appropriately. However as national cultures still are important parts of organizational cultures a few insights of central features of Indian culture are represented.

First fact about India is the great diversity of the nation and strong regional cultures. India has been called most diversified nation in the world. This makes any generalization about Indian culture doubtful. This also supports the fact that promotion strategies for corporate responsibility should not be customized on a national basis, not at least in India.

Secondly, compared to China, Indian culture is closer to the Western in practically all indicators. The shared language, the long British rule, longer history of cooperation with foreign firms, the more developed legal system and financial sector all contribute to this fact. Indians are less formal and more result-oriented than Chinese. Additionally Indians are responsive, almost eager to adopt western influences.

Thirdly, there exists an independent tradition of corporate responsibility inside India. This should make finding of a responsible supplier and communicating the corporate responsibility issues easier. However as the scope of this concept can be different from the western concept this can also involve challenges. This tradition of corporate responsibility should be taken into account when building a strategy for supply chain responsibility – and corporate responsibility in general – inside India.

5.2 Validity and reliability of the research

In a descriptive case study, the criteria for judging validity and reliability include assessing the construct validity, external validity and reliability (Yin 1994).

Construct validity means having the correct operational measures as collecting data for the research (Yin 1994). This is done by using multiple sources of evidence, which is also called triangulation. As for the case study part evidence was gathered both from

public information Nokia provides and external analyzing companies analyzes of Nokia. This data was then checked with Nokia's corporate responsibility specialists to assure its correctness.

External validity stands for the generalizability of the findings of the study. This is assured through replications of the findings in several cases. (Yin 1994) The usage of only one case study can limit the generalization of the results. To be noted is however that in cross-cultural supply chain responsibility the industry and company characteristics of the purchasing company are not so significant. Other thing that can lower the generalizability of the research is the changing nature of supply chain responsibility promotion. As the field is still quite new the methods are evolving all the time and the results attained might not be applicable in future anymore. Otherwise, as the case study underpins the theoretical examination, the results should be generalizable.

Reliability is about minimizing errors and biases in a study. Firstly this means making the steps of the research evident by documenting the research in detail. This enables the repeating of the same case over again which should lead to the same findings and conclusions. (Yin 1994) As the research is almost completely based on public sources with references to them clearly marked the repeatability of it is good.

On the other hand the reliability of the results is influenced by the used information gathering. The used documents can be seen very reliable as they are mostly from peer-reviewed magazines although also other sources have been used. The existence of a bias cannot be totally excluded but as material was gathered from a wide range of sources it should be reliable.

In interviews with Nokia the conclusions drawn were cross-checked by other company corporate responsibility specialists to assure their reliability and existence of no biases.

5.3 Discussion and suggestions for further research

Firstly the results attained in this research were gathered through a theoretical examination of supply chain responsibility and cross-cultural management. These results were then validated against a descriptive case study in one company. Although

the case study underpinned the results the evidence is still quite vague. Therefore a more thorough empirical examination of the results would be appropriate. Empirical research in the field of cross-cultural supply chain management would in general be of value to gain important knowledge of this area that is becoming relevant for more and more companies.

Organizational culture was identified as an important fact in promotion of corporate responsibility. The supplier's internal culture and attitudes towards corporate responsibility were seen to be of key importance when building a promotion strategy for corporate responsibility. However no specific research seems to have been conducted on the impact of supplier's organizational culture to promotion of corporate responsibility. This too appears to be an area where both theoretical and empirical research could be of value for companies to be able to better influence and enhance the corporate responsibility of their suppliers. Research into organizational cultures influence on promotion of corporate responsibility and supply chain responsibility is therefore called for.

Customizing approaches of supply chain responsibility to different countries on a cultural basis was not suggested. At the same time it was identified that greatest differences between nations was in frequency of appearance of different corporate responsibility issues. This was connected to the appropriate countries legislation and enforcement. Although not falling inside the scope of this thesis, research on how efforts of supply chain responsibility could be customized to take into account these differences and how companies are handling the situation right now would be interesting.

Capacity building was recognized as one of the central trends in supply chain responsibility at the moment. As companies are only emerging to this stage of corporate responsibility promotion, the lack of empirical research was no surprise. But even theoretical examination of the phenomenon or proper methods for it were scarce. This is clearly also a topic in need of more examination.

During the course of research it was revealed that business both in China and especially in India have a corporate responsibility tradition of their own. Being the two biggest countries in the world with markets that develop with fast pace more and more western

companies are targeting their products to these markets. Taking into account these consumers attitudes is therefore vital for conquering these markets. The attitudes towards the scope of corporate responsibility seem to vary compared to western notions. Thus far there seems to be no signs of consumers in these countries reflecting their attitudes to corporate responsibility to their consumer choices but when that day comes companies need to be ready. Careful scrutiny and research on this topic would therefore be of importance.

5.4 Summary

The main objective of this study was to find out what relevance does taking into account different cultures have in promoting responsibility in a company's supply chain. In corporate responsibility discussion companies are increasingly held responsible also for the actions of their suppliers. At the same time following the globalization process supplying increasingly crosses national and cultural boundaries. An important question have arised: should companies take into account the impact of differing cultures when designing their supply chain responsibility strategies?

After investigating the relevant literature about supply chain responsibility and cross-cultural management these two bodies of knowledge were applied to a case about China and India. India's importance as a supplying location is rising while China has been a major location for supply for a number of years. These two cultures were compared to find out what should be done differently in Indian culture and business climate than has been done in China. A case firm with strong supplier base in China and plans to start sourcing from India is investigated to see how they should design their Indian responsibility promotion strategy in supply chain.

Five important results from the research were recognized. Firstly it was found out that responsibility promotion strategies should not be customized on a national culture basis. This is due to many reasons including the diversification of cultures inside a nation, the often foreign top management of many suppliers operating in developing countries and the varying influence of modernization.

Most important reason was still the second result of the research, that organizational cultures have a wide impact on the functioning of responsibility promoting strategies.

Cultural sensitivity is therefore emphasized but on an organizational culture level. Auditors and other key personnel working with suppliers should be trained to understand cultural differences and proper methods to assess these differences should be built into monitoring strategies. Strategies for supply chain responsibility should have enough flexibility to have room for taking differing organizational cultures into account.

As organizational cultures are rather stable this underlines the importance of supplier selection process as part of the corporate responsibility promotion. Assessing organizational culture and supplier's orientation towards corporate responsibility should be integral part of selection process as this makes promotion of corporate responsibility considerably easier in later stages.

A trend towards bottom-up approaches instead of strict top-down approaches was recognized in supply chain responsibility. In bottom-up approaches the suppliers themselves are given responsibility to build up their own strategies and processes for corporate responsibility. Therefore for this approach to work long-term commitment with the supplier is a key enabler along with purchasers own clear commitment towards corporate responsibility.

Lastly, although national culture was not to be the basis of customizing approaches it still can play a vital role as part of firm's organizational culture. Therefore a few insights of Indian culture were included. First of all, India is one of the most diversified nations in the world with strong regional cultures and therefore hard to be generalized about. Secondly, as compared to China, India is more Western which makes communication and building up of a business relationship easier. Indians are also more eager to adapt to Western ideas and influences. Thirdly, there exists a traditional culture of corporate responsibility inside Indian business. This should be taken into account when designing strategies for corporate responsibility there.

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APPENDIXES

1. SA8000 Standard Elements

Source: SAI 2005

SA8000 is based on international workplace norms in the ILO conventions and the UN's Universal Declaration of Human Rights and the Convention on Rights of the Child. The official standard is at www.sa-intl.org and here is a summary:

Child Labor: No workers under the age of 15; minimum lowered to 14 for countries operating under the ILO Convention 138 developing-country exception; remediation of any child found to be working

Forced Labor: No forced labor, including prison or debt bondage labor; no lodging of deposits or identity papers by employers or outside recruiters

Health and Safety: Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water

Freedom of Association and Right to Collective Bargaining: Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining

Discrimination: No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment

Discipline: No corporal punishment, mental or physical coercion or verbal abuse

Working Hours: Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement

Compensation: Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions

Management Systems: Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices

2. Nokia's Global Supplier Requirements on Environmental Management

Source: Nokia 2004d

EMS: The supplier shall have a documented Environmental Management System to ensure effective planning, operation, and control of environmental aspects. This Environmental Management System shall satisfy the requirements of ISO 14 001 or other internationally recognized standards. Continuous improvement efforts shall be addressed within the Environmental Management System.

Design for Environment: The supplier shall consider environmental aspects in all phases of product development, e.g. with specific Design for Environment tools or defined checklists. Choices made during this phase shall reduce or eliminate negative impacts on the environment. All reasonable attempts should be made to reduce or eliminate hazardous constituents from the product and pursue the use of recyclable materials.

Raw Material Content: The supplier shall record the raw material content of products supplied to Nokia, and provide end-of-life treatment recommendations for such products. These records shall be available to Nokia upon request.

Legal Compliance: The supplier shall be knowledgeable of environmental legislation and applicable regulations and provide evidence of compliance with such regulations.

Programs for Improving Environmental Performance: The supplier shall identify significant environmental impacts associated with its operations and implement continuous improvement programs to address them. These programs shall cover the

efficient recycling and/or disposal of waste materials and improving treatment and control of waste emissions affecting air, water, and soil. The supplier shall be able to provide supporting evidence.

Suppliers' Environmental Performance: The supplier shall evaluate its subcontractors' and suppliers' performance and set necessary environmental improvement targets. If a subcontractor is used for waste disposal the supplier shall determine if that subcontractor is correctly authorized and licensed through on-site inspection or third party certification.