Corporate Social Responsibility in Public Sector Supply Chains: An insight

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Abstract

Purpose- To provide an insight into the level of Corporate Social Responsibility (CSR) reporting in the Australian Commonwealth public sector supply chain. The view is taken that supply chain CSR reports are based solely on the performance and management of individual segments of a supply chain rather than the supply chain in its entirety.

Design/methodology/approach- This paper is a conceptual paper based on an examination of CSR reporting and the practices in public sector supply chains, using a generic Australian Commonwealth public sector supply chain. The direction of this examination is guided by the new public management paradigm where efficiency, effectiveness and accountability are the key principles.

Findings- The key finding from this initial review is that there is a relatively high level of CSR reporting by public sector organisations by individual segment in the supply chain. However, the issues of comparability and consistency are yet to be adequately addressed and it is this lack of comparability and consistency which weakens the potential strength associated with CSR reporting in the public sector.

Practical implications- This paper provides an opportunity for greater appreciation of the holistic view which should be taken on CSR reporting of a supply chain rather than the segmented approach currently practiced. While the goods and services provided by public sector organisations are “non-rival and non-exclusive” and the organisations involved are quite different to private sector organisations and non-government organisations (NGOs), the argument presented for a more holistic perspective to be taken on CSR reporting of supply chains is relevant to all sectors.

Originality/value- The literature review on CSR reporting has shown there is only minimal research on holistic CSR reporting of supply chains in both the private and public sectors. This paper is one of the very first to explore the concept of holistic CSR reporting of public sector supply chains.

Keywords: CSR Reporting; Supply Chain Reporting; Public Sector; New Public Management
Introduction

The recent economic downturn has increased the need for organisations in supply chains to work together to improve the efficiency and effectiveness of their operations. For private sector organisations this need is driven by the desire to either become or remain competitive while for public sector organisations this need is driven by an increased focus on accountability. The improvement of supply chains includes the strengthening of existing relationships as organisations can no longer operate solely as autonomous entities, but need to acknowledge they are part of a wider supply chain (Bowersox, Closs, and Cooper, 2002). By nature supply chain management (SCM) utilises the strengths of the value adding channel to benefit the efficiency of each organisation through supply chain activities. These activities include material information which flows from initial suppliers, through the channel members to the final end user or customer (Bechtel and Jayaram, 1997), via the network of suppliers, factories, warehouses, distribution centres and retailers through which raw materials are acquired, transformed and delivered to the customer (Fox, 2002). It is the strength of these inter-relationships that enable organisations to attain higher levels of efficiency and compete more effectively through their respective supply chains, (Monczka and Morgan, 1997; Giannakis and Croom, 2004).

To benefit as a supply chain member, an organisation must have the capacity to successfully integrate, maintain and enhance relationship development processes and functions (Gardner, 2004; Cohen and Roussel, 2005) and in recent times, the capacity to align ideals with the supply chain in relation to society and the environment. Understanding the expectations of business partners which include Corporate Social Responsibility (CSR) policies and procedures, becomes essential for long-term supply chain stability (Hausman, 2001; Clements, Dean and Cohen, 2007). While supply chain ideals of efficiency, effectiveness and responsiveness remain critical determining factors in inter-firm relationship development, organisations are increasingly acknowledging the need for strategic alignment with organisations. These strategic alignments include focusing on like ideals including the impact on society and the environment, that is, Corporate Social Responsibility (CSR) of their operations.

This paper begins with a brief discussion on the shift in the Australian public sector towards the adoption of more private sector management practices, commonly termed New Public Management. This discussion provides the context upon which the paper is based, and supports the applicability of the findings across both the private and public sectors. The paper then outlines the importance of reporting in enabling CSR to be adopted across a supply chain and in supply chain management. A generic Australian public sector supply chain is examined using secondary data from which the results provide an insight into the public sector and a potential framework for future supply chain social responsibility reporting and management.

New Public Management

Over the past few decades the public sector in Australia has undergone a succession of financial and non-financial reforms in an effort to improve its efficiency, effectiveness and accountability (Guthrie 1998, p. 2; Barton 2005, p. 138). These reforms are considered to be driven by an ideological shift in the public sector to adopt more business like, private sector, practices. This paradigm change in the public sector is commonly termed new public management (Jackson and Lapsley, 2003, p. 360) and is based on the perceived need of the public sector to improve productivity and competitiveness in response to increased globalisation (Boxall, 1998). Jackson and Lapsley suggest the major implication of these reforms is an increased emphasis on management rather than on administration of services (2003, p. 359). This shift towards managerialism in the public sector is seen as a response to a number of pressures “social, economic and technological” (Hoque and Moll 2001, p. 305)
the sector has been experiencing to improve its effectiveness, efficiency, responsiveness and, in the process, to become more accountable (Guthrie 1998, p. 6; Hoque and Moll 2001, p. 305). The new public management ideology seems to have gained support both within and external to the public sector due to the general perception that before these reforms the public sector was inefficient, in comparison to the private sector, (Guthrie 1998, p. 2; Barton 2005, p. 138; Ball and Grubnic 2007, p. 248).

One of the more recent reforms in the public sector has been an increased focus on procurement which is guided by “principles of transparency, accountability and achieving value for money” (Walker and Brammer, 2009, p. 128). In the Australian public sector the move to a more managerial focus is reflected in the development and implementation of specific guidelines, Commonwealth Procurement Guidelines, for public sector procurement which are based on the premise of “achieving efficient, effective and ethical procurement outcomes – as required by section 44 of the FMA [Financial Management and Accountability] Act” (DOFD, 2008, p. v). These guidelines specifically identify a number of key procurement principles including value for money; encouraging competition; efficient, effective and ethical use of resources; and accountability and transparency (DOFD, 2008, p. vii). Each of these principles appear to address the perception the public sector is inefficient and so by following these principles public sector procurement practices would reflect private sector practices.

The next section will outline the notion of corporate social responsibility and the importance of CSR in supply chains.

Corporate Social Responsibility in Supply Chain Management

Corporate social responsibility (CSR) is a term which has no specifically agreed meaning and interpretation (Andersen and Skjoett-Larsen 2009). However, the general notion of CSR is about how an organisation acknowledges and recognises the impact of their operations on society and the environment “in just the same way as their economic or commercial performance” (Lee and Kim, 2009, p. 139). To date, most of the research in supply chain management CSR has been on individual segments within a supply change rather than from a holistic perspective. This is focus on individual segments is highlighted in the 2009 special edition on Corporate Social Responsibility in [emphasis added] Supply Chains – volume 14, issue 2 - of Supply Chain Management: An International Journal (2009) where the majority of articles in this journal discussed CSR within specific segments of a supply chain rather than CSR of the supply chain.

To improve and enhance existing supply chain relationships, policies need to acknowledge and reflect that CSR has become a driving theme in guiding organisations in their responsibility to society by “minimising the social impact” of their operations (Keating et al, 2008, p175). The labelling by association concept is particularly prevalent in supply chains as inter-dependent units influence the reputation of all organisations in the supply chain. Nalebuff and Brandenburger, (1996) suggest that this concept is a key driver for supply chain partners to increase their CSR contribution across the chain. Typically the focus of CSR from a supply chain perspective has tended to focus on the internal operations and actions of an organisation in regard to their own relationships up and down stream rather than the contribution of their operations on the CSR of the entire supply chain.

CSR Reporting

The methods used by organisations to provide both “financial and non-financial information relating to [the] organisation’s interaction with its physical and social environment... which includes details of the physical environment, energy, human resources, products and community involvement matters” (Hackson and Milne, 1996, p. 78)
is defined as CSR Reporting. The increasing number of organisations who develop and produce CSR reports are motivated by an implied social contract between the organisation and their stakeholders in order to legitimise the various activities of their organisations (Adams, 2004; Deegan, 2002). Managers are beginning to accept they are required to give an account of the organisation’s total performance, financial as well as social and environmental (Adams 2004, p.732). To be accountable, the CSR reports should be “transparent and represent a genuine attempt to provide an account which covers negative as well as positive aspects of all material impacts” (Adams 2004, p.732). Deegan (2002) also identified a number of other possible motivations why an organisation decide to disclose their CSR performance including to comply with legal requirements; community expectations; manage particular stakeholder groups; comply with industry requirements; and to forestall efforts to introduce more onerous disclosure regulations (Deegan 2002, pp.290–291). These motivations are consistent with Gray and Bebbington (2001) who explain “to legitimise current activity ... to forestall legislation” (p. 208) and to “forestall criticism” (p. 234) organisations will disclose some aspects of their CSR performance. It is not a simple task (Gray and Bebbington 2001, p.209) to identify the specific reasons why some organisations will provide CSR performance disclosures [organisations are unlikely to admit that they disclose to forestall legislation]. However as Gray and Bebbington (2001) explain “it is rare to find consistent, systematic reporting of much that could be construed as other than public relations puff” ( p. 239).

Public Sector Supply Chain

The public sector supply chain is unique in that unlike goods and services provided by private sector organisations, the goods and services provided by the public sector are “non-rival and non-exclusive” (Barton 1999, p. 24). That is, if the government provides one member of society with a service, such as an unemployment benefit, this does not exclude another member of society receiving the same benefit if their circumstances meet the eligibility criteria. The following diagram is a simple representation of supply chains in the public sector.

Figure 1

The main linkages in a public sector supply chain are: the Government which is the ‘origin’ of the services identified to be delivered; the Central Agencies (CA) who provide specific holistic advice to the government on policies and programme delivery; the Portfolio Departments (PD) where the programmes are developed; Commonwealth Statutory Authorities (CSA) where the public services are delivered and the final link are the members of society who are the recipients of the services provided. The arrows from left to right, in the above diagram, represent the downstream flow of product or service in the supply chain while the arrows from right to left represent the upstream information flow between organisations.

The first link, the origin, is the Australian Commonwealth government. The government’s role includes setting the policy agenda (APH 2008) of the government which leads to the identification of specific outcomes which are the impacts desired from the implementation of government policy (MAB 1997). The goods and services government
organisations provide to achieve the outcomes are defined as outputs. Outputs are the “tangible presence of the agency amongst its clients, customers and stakeholders” (DOFA 2000, p.19). For example an output to achieve the outcome of a reduction in unemployment could be additional training courses on interview techniques for long term unemployed.

There are three central agencies in the Australian Commonwealth Government; Prime Minister and Cabinet (PM&C), Department of Finance and Deregulation (DOFD) and Treasury. PM&C’s main function is to “provide high-quality policy advice to the Prime Minister and the Cabinet on matters that are at the forefront of public and government administration, including domestic and international affairs … taking all relevant factors into account to make the best possible decisions” (PM&C 2009). The Treasury (2008) is the “government’s premier adviser on economic policy”, (pg 5) with particular focus on “sound macroeconomic environment, effective government spending arrangements, effective taxation and retirement income arrangements, and well-functioning markets” (p.9). DOFD assists the “government across a wide range of policy areas to ensure its [Government’s] outcomes are met, particularly with regard to expenditure and financial management, deregulation reform and the operations of government” (DOFD 2009). Together these three agencies direct and control the Commonwealth public sector in the delivery of government services to achieve government policy.

In the Australian Commonwealth Government there were at the time of this study, January 2010, 17 portfolios administered by 19 Departments of State. These portfolios cover all areas which are in the domain of government’s responsibility such as welfare, health, education, employment and national defence. The Departments of State are responsible for developing, directing and coordinating improvements to policy on service delivery and service delivery reform (HSP 2009) to meet government agreed outcomes. Commonwealth Statutory Authorities (CSAs) are body corporates incorporated for a public purpose by an Act or by regulations under an Act (CAC Act ss.7) that hold money on their own account and are separate legal entities to the Commonwealth. These organisations are responsible for the delivery of services, developed by portfolio departments, to members of society.

To provide clarity on public sector supply chains the following section will discuss a brief example of the flow of services and information in a public sector supply chain.

**Public Sector Supply Chain – example**

One of the key roles of government is to ensure that members of society who may be disadvantaged are provided with the necessary support to overcome or at least minimise the impact of their disadvantage. In relation to those members of Australian society who are unemployed, the Commonwealth Government has identified a particular outcome which it plans to achieve to support those individuals. The achievement of this outcome, “enhanced employability and acquisition of labour market skills” (DEEWR, 2009, p. 43) is administered by the portfolio department the Department of Education, Employment and Workplace Relations (DEEWR). The delivery of support, including welfare payments, to members of the Australian society who are unemployed will be used as an illustrative example of a public sector supply chain.

The actual delivery of the various programmes [outputs] which are to contribute to the achievement of this government agreed outcome, are made by a number of Commonwealth Statutory Authorities such as Centrelink. Centrelink’s role, in relation to this outcome, is to deliver a range of government payments and services, such as job application support, for various individuals within society including the unemployed (HSP 2009, p. 4).
The following diagram is a very simplistic representation of the supply chain in the delivery of unemployment benefits. This diagram is based upon the basic diagram presented above plus the downstream (left to right) flow of information and services and the upstream (right to left) flow of information in relation to the delivery of unemployment benefits.

**Figure 2**

In the first segment of the above supply chain (Govt) the government develops its policy on how best to meet the requirements of the individuals in society who are unemployed. In consultation with the Central Agencies (CA) and the Portfolio Departments (PD), in this example the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Human Services (DHS), the overall approach on how to achieve the government’s policy objectives are discussed and the outcomes agreed. The PDs in consultation with the CA (upstream) and Centrelink, the relevant CSA, (downstream) then determine the specific outputs the CSA will deliver to contribute to the achievement of the outcomes identified and agreed upstream in the supply chain. The upstream flow of information is primarily in relation to the performance of the outputs and the reporting of the resources, including funds, used so as the Govt and CA are able to determine the effectiveness and efficiency in the delivery of the agreed services. The upstream flow also contributes to discharging accountabilities to various stakeholders, for example Centrelink discharges some of its financial accountability to the DHS by reporting their performance on the use of funds appropriated for specific outputs. In this scenario accountability is simply explained as the obligation to answer for decisions made and actions conducted on authority which has been transferred from another (Funnell and Cooper 1998, p. 30).

The following section will review the level of CSR reporting of the various government organisations in the public sector service supply chain example provided above.

**CSR Reporting**

The level of CSR reporting of the government organisations, identified above, involved in the delivery of unemployment assistance was assessed based on the disclosures in three different reporting mechanisms. The first being the organisation’s Annual Report where the disclosure of financial performance and other relevant data, including environmental performance, contributes to the discharge of the Commonwealth public sector organisation’s accountability to government, parliament and society (Gibson and Guthrie 1996, p. 69). The second mechanism assessed was the organisations’ website where it was anticipated that as this was most likely to be the main source of information on the organisation for the majority of stakeholders – members of society. The third area of assessment was based on the organisation’s level of compliance to the reporting
requirements of the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act). The EPBC Act provides a “framework for a more effective national approach to environmental management, ensuring resources are focussed on delivering better environmental outcomes at all levels of government” (ParlInfo Web 1998) and under section 516A of the EPBC Act the type and nature of environmental performance and management information to be included in the annual reports of Commonwealth government organisations covered by the EPBC Act is defined (Bowrey and Smark, 2008, p. 14).

In assessing and comparing the level of CSR reporting by government organisations in the example provided above, three distinct qualitative measures were used: Detailed; Broad; and Nil. The measure Detailed indicates the level of CSR reporting which provides specific details of the organisations CSR performance. The criteria with which this category has been applied is based on the level of specifics provided in the CSR reporting disclosures of the organisations. For example Centrelink’s 2006-07 Annual Report explicitly quantifies it environmental performance in areas such as energy use, green house gas emissions and waste management (refer to Centrelink’s 2006-07 Annual Report pp 223-225). The Detailed measure was also allocated based on the level of CSR performance and management disclosures that allowed for reliable comparisons to be undertaken between the different organisations within the supply chain as well as with past performance. The measure Broad indicates the level of reporting by an organisation that is clear and relatively transparent however specific details of the organisation’s CSR performance is not provided. For example the Department of Finance and Deregulation’s 2008-09 Annual Report discusses in general terms their level of compliance with the EPBC Act however it does not provide specific measures on their level of performance. So whilst they have met their compliance requirements of the EPBC Act they have not provided sufficient specific details of their CSR performance and management to enable informed comparisons with other organisations within the public sector supply chain nor with their past performance. The final measure Nil indicates the organisation has not provided any disclosure on their CSR performance or management.

The following sections presents and discusses the assessed level of CSR disclosures of the government organisations, in the above example, in their 2007-08 and 2008-09 Annual Reports, on their websites as at January 2010 and in relation to their compliance with the reporting requirements of section 516A of the EPBC Act for the years 2007-08 and 2008-09.

**Assessed Levels of CSR Disclosures**

In relation to Annual Reports, all organisations in the supply chain example provided above include specific details of the performance of their outcomes and were assessed as Detailed (refer table below). This result was not unexpected as the objectives of these organisations, as discussed above, were on the delivery of government agreed services to members of society. In relation to the organisations’ websites the measure of Broad was allocated to only two organisations, as they provided access on their websites to the details of their environmental policies. The other four organisations’ websites did not provide access to or any indication they had a specific environmental policy and as such their level of reporting was assessed as Nil. These results are presented in the following table (Table 1).
Table 1
Assessed Level of CSR disclosures

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Annual Report</th>
<th>Web Site</th>
<th>EPBC Act compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007-08</td>
<td>2008-09</td>
<td>Jan 2010</td>
</tr>
<tr>
<td>DOFD</td>
<td>Detailed</td>
<td>Detailed</td>
<td>Nil</td>
</tr>
<tr>
<td>Treasury</td>
<td>Detailed</td>
<td>Detailed</td>
<td>Nil</td>
</tr>
<tr>
<td>PM&amp;C</td>
<td>Detailed</td>
<td>Detailed</td>
<td>Broad</td>
</tr>
<tr>
<td>DEEWR</td>
<td>Detailed</td>
<td>Detailed</td>
<td>Nil</td>
</tr>
<tr>
<td>DHS</td>
<td>Detailed</td>
<td>Detailed</td>
<td>Broad</td>
</tr>
<tr>
<td>Centrelink</td>
<td>Detailed</td>
<td>Detailed</td>
<td>Nil</td>
</tr>
</tbody>
</table>

The main CSR reporting indicator appears to be based on the level of compliance with the legislated reporting requirements of the EPBC Act. The CSR disclosures of the organisations that complied explicitly with section 516A of the EPBC Act and provided specific details of their environmental performance and management, in line with section 516A in their annual report and were assessed as Detailed. The organisations which generally discussed their environmental performance and management, and complied with section 516A of the EPBC Act but without specific details, were assessed as Broad. It is important to note these organisations whose disclosure was assessed as Broad did comply generally with the reporting requirements of the EPBC Act, however the discussion was more general rather than providing specific quantitative measures of their performance. For example some organisations reported the actual amount of energy they consumed whereas others discussed a general reduction in energy consumption. It is also not possible to conclude that those organisations’ environmental disclosures rated as Detailed, were more informative than those rated Broad. The level of reporting compliance with the EPBC Act by the organisations in this public sector supply chain was of a standard that none were assessed as Nil.

The above table indicates a slight variation in the level of CSR disclosures by the organisations within the identified supply chain however the material disclosed and the manner in which it is disclosed varies widely. This contributes to a general finding that the level of CSR reporting of the organisations in the above supply chain is not appropriately comparable and therefore the focus is predominantly on individual segments rather than the contribution of individual segments to the entire supply chain’s CSR. Even though there is a lack of comparability it is not possible to suggest one organisation’s disclosures could be considered best practice. The other concern with trying to qualify one organisation’s disclosures as best practice over others is the issue of consistency. As noted above by Gray and Bebbington “it is rare to find consistent, systematic reporting” (2001, p. 239). The EPBC Act creates a foundation for reporting consistency in the public sector however this in-turn requires organisations to maintain an internal focus on their individual focus rather than their contribution all the entire supply chain.

Conclusion

The current literature and the simple supply chain example discussed above indicate that CSR reporting in supply chain management is generally focused on the CSR management and performance of individual segments of the supply chain rather than on the entire supply chain. This conclusion is supported by Andersen and Skjøtt-Larsen (2009) who suggest “CSR is no longer the individual company’s domain; increasingly, it encompasses the entire supply chain” (2009, p. 77). This paper contributes to this emerging area of research by highlighting the need for further examination of CSR reporting practices along all segments of a supply chain so as to improve the discharging of CSR accountability.
Even though the example provided is based on public sector CSR reporting by organisations who provide goods and services that are “non-rival and non-exclusive” (Barton 1999, p. 24) the shift in the ideology in the public sector to new public management plus the findings from this initial study indicate a need for more inclusive CSR reporting across all sectors.

In addition to the need for more research in supply chain CSR reporting this paper highlights the need for consistency in CSR performance and management disclosures so as to improve the usefulness of the reported information. The need for consistency, and in-turn comparability, is important to ensure that those charged with management of these organisations can show they have meet their accountabilities through their management of their organisation’s contribution to the CSR of the supply chain in which they are a member. The implication of improved consistency is that organisations will support their legitimacy in society as their CSR reporting will demonstrate they are indeed behaving responsibly. This will improve their credibility to both internal and external stakeholders including a more socially aware customer base. This is important in the public sector due to the increased public scrutiny of the operations and performance of relevant organisations.

Future Research

Future research could focus on determining which organisations or institutions, such as industry bodies or regulators, are responsible for driving the changes required to ensure consistency in CSR supply chain reporting disclosures. Future research could also be based on the assurance requirements, if any, of private sector CSR supply chain reporting and the audit of the legislative compliance requirements of public sector supply chains to ensure the quality and level of CSR disclosures are both reliable and relevant.

This emerging research stream gives rise to the increased need to advance interdisciplinary research incorporating the disciplines of corporate governance, supply chain management, auditing and assurance practices and accounting in relation to the discharge of management and organisational accountability. Interdisciplinary research will be able to address some of the more important implications of the expanded requirements, both actual and perceived, of CSR reporting.
Reference List


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