

THE EFFECTS OF SOCIALLY RESPONSIBLE REPUTATION AND COMPLIANCE ON SUPPLIER SELECTION: A DYNAMIC CAPABILITIES APPROACH

1 INTRODUCTION

Global environmental and social challenges have urgently drawn academic and practical attention to Environmental and Social Governance (ESG) (Senadheera et al., 2022). In the supply chain context, the disclosure of ESG signals a responsible and transparent supply chain (Cao et al., 2023). Buyer companies are under increasing pressure from key stakeholders to implement sustainable practices, such as socially responsible supplier selection (Tondolo et al., 2024).

Regarding buyer-supplier relationships based on sustainability, supplier selection is a crucial element (Naffin et al., 2023). Despite its importance, social sustainability has still received less attention than economic and environmental sustainability in buyer-supplier relationships (Meena et al., 2023). There is a pressing need to better understand how suppliers' social reputation and social compliance practices affect socially responsible supplier selection. This knowledge is essential to identifying possible biases that adversely affect buyer-supplier relationships. Berlepsch et al. (2022) highlight corporate reputation as a value-creation resource underappreciated from the supply chain perspective.

Considering this gap, we aim to comprehend the effect of suppliers' social reputation and compliance practices on socially responsible supplier selection. Based on Dynamic Capabilities, we believe suppliers must develop sustainable capabilities channeled through their reputation and sustained by compliance program. To build our contribution, we employed a cross-country scenario-based experiment involving managers from the U.K., the U.S., and Brazil. This allowed for a comparative analysis between these three different realities. By doing so, we are inspired by the logic of the empirical replication.

2 THEORETICAL BACKGROUND

Our research focused on socially responsible supply chain management (SRSCM), which involves incorporating social aspects into the supply chain (Thomas et al., 2021). We focus on a key function in supply chain management: supplier selection. From a socially responsible perspective, selecting suppliers can be called socially responsible supplier selection (SRSS). This term is defined as "a firm's ability and/or orientation for selecting suppliers that adopt principles of sustainability and corporate social responsibility when conducting their operations" (Thornton et al., 2013, p.68). SRSS is crucial to the buyer firm's reputation and social strategy.

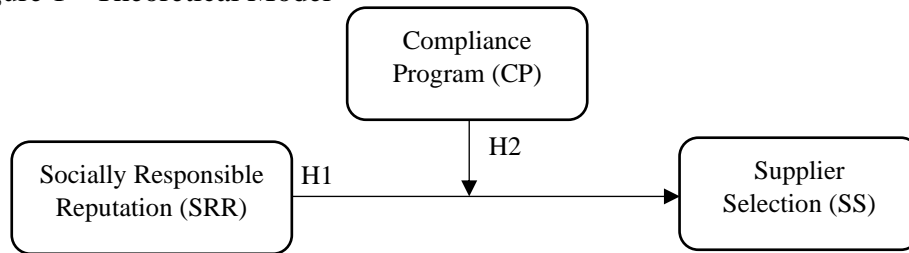
2.1 DYNAMIC CAPABILITIES APPROACH (DCs)

DCs are understood as a high-order firm skill that can reorganize the set of features and capabilities to deal with the dynamics of the environment (Teece et al., 1997). In operations management, DCs have been used to understand performance, competitive advantage, and environmental adaptation, as well as to develop and accumulate capabilities. The incorporation of DCs in Operations Management is central to the nesting of capabilities in operations (Pandža et al., 2003). Since reputation is considered a strategic intangible asset (D. Teece, 2009), capable of leading to competitive advantages (Fombrun, 2005), DC is a valuable lens to understand the potential effect of a reputation and compliance program on socially responsible supplier selection.

2.2 MODEL DEVELOPMENT

Our proposed model is based on that reputation is a key capability in the buyer-supplier relationship (Berlepsch et al., 2022). We hypothesize that suppliers' socially responsible reputation and compliance programs positively affect the likelihood of selecting the supplier. The model summarizing the hypotheses is shown in Figure 1.

Figure 1 - Theoretical Model



Source: authors.

Corporate reputation can be seen as the collective evaluations made by observers regarding a firm, considering its long-term financial, social, and environmental effects. Reputation over time generates corporate reputation capital, which is an economic and intangible asset (Barnett et al., 2006). This, viewed through the DCs approach lens, makes reputation a strategic asset (Busby, 2019). Reputation can be developed in the supply chain through its supplier relationship (Berlepsch et al., 2022). Implementing socially responsible supplier selection can positively influence the firm reputation. Thus, we suggest the following hypothesis, H1: *The supplier's socially responsible reputation positively affects the buyer's likelihood of selecting the supplier.*

CP is the company's formal activity to ensure the transparency of suppliers' actions along the supply chain and monitor suppliers' adherence to business relationships' rules and standards. This is particularly evident when there are concerns about social sustainability, such as human rights and working conditions (Mitkidis et al., 2019). In this context, the damages resulting from a supplier firm's lack of compliance can strongly impact the capital of the buying firm (Goebel et al., 2018). A program or monitoring system for supplier activities is crucial to ensure transparency in social sustainability within the supply chain (Duan et al., 2021). However, it is not enough for the buying firm alone to bear this responsibility, buyers exert pressure on suppliers to comply with sustainable standards, enhancing compliance practices' (Emberson et al., 2022). These arguments lead us to the following hypothesis, H2: *The supplier's socially responsible reputation effect on the buyer's likelihood of selecting the supplier is greater when the supplier has a compliance program*

3 METHODOLOGICAL PROCEDURES

We used a scenario-based, role-playing experiment with a full factorial between-subjects design. This design allows us to observe and measure the effect on participants' decisions by modifying scenario descriptions. We developed the vignette following the validation stages Rungtusanatham et al. (2011) suggested. The vignette was inspired and adapted from previous studies (Belhadi et al., 2021; Duan et al., 2021). We featured two independent variables, SRR and CP, each with two levels. Frame 1 summarizes the experimental treatment conditions.

Frame 1 - Experimental Treatment Summary

Independent Variables	Treatments	
SRR	No good SRR	Good SRR
	Not satisfied, you try to carry out a broader search and discover that Thai Electronic does not have a good reputation in the market regarding social responsibility and sustainability, and that it focuses very little on the well-being of its employees or the community.	Not satisfied, you try to carry out a broader search and discover that Thai Electronic has a good reputation in the market for social responsibility and sustainability, and that it focuses a lot on the well-being of its employees and the community.
CP	No CP	CP
	You research a little more and discover that Thai Electronic does not have a compliance program, so it is practically impossible to identify and reduce fraud in its processes and avoid child and slave labor activities in the supply chain.	You research a little more and discover that Thai Electronic has a compliance program, which seeks to identify and reduce fraud in its processes and avoid child and slave labor activities in the supply chain.

Source: authors.

All participants were randomly assigned to one of the four vignette versions by the A/B test provided by SurveyMonkey Inc. Participants were told to assume the role responsible for purchasing management for a fictitious manufacturer. After reading the vignette, subjects answered questions about the likelihood of selecting a fictitious supplier with three items on a 7-point scale adapted from Thomas et al. (2021). Subsequently, they all answered questions regarding experimental checks and a set of general questions. To ensure the quality and validity of results, we used the following procedures: attention questions, realism, manipulation, and demand effect checks.

A total of 461 individuals with managerial experience were recruited by Prolific (www.prolific.co) to participate in this experiment. Three responses were eliminated because respondents failed to the attention questions. Sixty-four responses were eliminated because the respondents indicated that they were less than 4 (on a scale from one to seven) in confidence in their ability to answer the questions. This resulted in 394 valid responses, with 86 from Brazil, 156 from the UK, and 152 from the US. Of the total, 220 came from females, and 170 came from males, while 4 preferred not to identify. Subjects were 42.9 (s.d. = 11.5) years old, on average, and 22.34 (s.d. = 11.0) years of work experience, on average.

4 RESULTS AND DISCUSSION

We ran a moderation analysis using Hayes's (2018) PROCESS macro (model 1) with 10,000 bootstrap samples and 95% confidence intervals, with SRR and CP as the independent variables and SS as the dependent variable. Due to the controlled nature of the independent variables, it is not necessary to access multi-collinearity issues. The Cronbach's alpha value for the supplier selection construct was 0.988. We tested the general model for the effects of control variables: age, work experience, country, and gender. None of the controls show a significant relationship. Table I shows the regression model for each country and the general model. Models show a positive and significant effect of SRR (H1) on SS. Considering the general model, the results were ($b = 2.07$, $SE = 0.13$, $t = 15.67$, $p = 0.000$), revealing that the supplier's selection likelihood is greater when the supplier holds a good socially sustainable reputation, supporting H1. The effect of the interaction between SRR and CP (H2) on SS is positive in all models but was not significant in the Brazilian sample. The interaction results for the general

model were ($b = 1.38$, $SE = 0.26$, $t = 5.20$, $p = 0.0000$), supporting H2. In addition, the Johnson-Neyman test for conditional effects reveals that when the supplier has a compliance program, the effect of SSR on SS on trust increases, suggesting that CP has the potential to increase the effect of SSR on SS.

Table 1 – Study Results

Models	I		II		III		General	
Dependable variable (SS)	BRA		UK		US		General	
	b	SE	b	SE	b	SE	b	SE
(Constant)	3.52***	0.18	3.42***	0.10	3.28***	0.10	3.39***	0.07
<i>Experimental variables</i>								
SRR (H1)	2.11***	0.34	2.06***	0.19	2.06***	0.21	2.07***	0.13
CP	2.28***	0.34	2.56***	0.19	2.58***	0.21	2.50***	0.13
<i>Interactions</i>								
SRR x CP (H2)	1.03	0.69	1.43**	0.39	0.05	0.46	1.38***	0.26
R^2	0.5173***		0.6561***		0.6564***		0.6208***	
R^2 change	0.0132		0.0308**		0.0330**		0.0263***	
F -statistic	29.2927		96.6715		94.2302		212.8156	
n	86		156		152		394	
The Johnson-Neyman test for conditional effects of SSR on SS based on CP								
	Effect	SE	Effect	SE	Effect	SE	Effect	SE
No CP	1.59**	0.47	1.34***	0.25	1.28***	0.28	1.39***	0.18
CP	2.61***	0.49	2.78***	0.30	2.83***	0.31	2.76***	0.20

Notes: Unstandardized coefficients are reported. * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$; Based on Hayes (2018) model 1 bootstrapping 10,000 subsamples b: regression coefficient SE: standard error of the estimated coefficient p: p-value t: t statistic value

Source: authors.

Our findings provide several theoretical contributions. First, our study contributes to understanding how SRR drives SS. Previous research has highlighted firm reputation as an intangible asset (e.g., Bensebaa, 2004) that can be developed through supplier relationships (Berlepsch et al., 2022). Our results demonstrate that a supplier's good reputation for social responsibility signals to a buyer the attractiveness of a potential business partner, particularly in uncertain environments (Gulati, 2007).

Second, our study contributes to transparency and compliance in the supply chain. Compliance practices are key for suppliers to demonstrate that they act correctly (Duan et al., 2021). This is especially sensible when a buyer firm wants to keep a good image in its markets. Our results showed that buyers are more likely to select the supplier when the supplier has a CP. We expand the findings to the context of social sustainability. Since compliance has the potential to reduce the information uncertainty on how the potential partner conducts its processes, we provide evidence that if a supplier has a compliance program to ensure that its practice is socially sustainable, this signals to the buyer that its products/components may also comply with the expectations, generating competitiveness to be selected.

The results of our research carry some implications for management. Our findings highlight the significance of suppliers developing and keeping a strong socially responsible reputation. Buyers are concerned with these aspects, especially when selecting a supplier, emphasizing how important it is for suppliers to prioritize and enhance their reputation for social responsibility. By doing so, managers can effectively use a socially responsible reputation as a strategic capability. Our findings underscore the positive impact of compliance programs on supplier-buyer relationships. Suppliers can effectively signal their commitment to a socially responsible supply chain by developing such programs, increasing their appeal to buyers, particularly in the context of ESG practices.

Our study, like any empirical research, has its limitations. We recognize that different scenarios may yield different results, and we, therefore, encourage future researchers to replicate our study but simulate other scenarios and situations, including the location of the supplier, procurement risks, and costs of change instance. Moreover, our study primarily examined the context of procurement with physical products in buyer-supplier relationships. We believe this opens possibilities for future research, particularly in services and end-consumer situations.

5 CONCLUSION

Our analysis of the impact of the SRR and CP on supplier selection likelihood has brought to light a crucial finding of the pivotal role of capabilities in the buyer-supplier relationship. Therefore, it becomes imperative for suppliers to establish a reputation for social sustainability and compliance programs to enhance their competitiveness in supplier selection. The results of our study demonstrate the interaction effect of SRR and CP on SS. Suppliers must prioritize their reputation and compliance practices in social sustainability. When managed effectively, this strategic focus can confer a significant competitive advantage upon the supplier, particularly in light of the mounting pressure from stakeholders and buyers to engage in ESG. On the other hand, a failure to build a reputation and adhere to compliance practices could leave the supplier at a disadvantage compared to competitors who actively participate in such initiatives.

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