Ensuring Sustainability Beyond Tier-One

The Issue of Second-Tier Suppliers
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Abstract

**Background:** Exposure of non-sustainable practices put MNCs in bad light, hurting their brand image. Therefore, it is of great importance to ensure supplier sustainability upwards the chain. Vast focus has been put on the first-tier suppliers. However, there are few studies that have investigated the issue of second-tier supplier sustainability, and there are many real life examples of firms’ who failed to ensure second-tier supplier sustainability. Hence, the need for further investigation within the subject.

**Purpose:** The purpose of this study was to investigate how two Scandinavian MNCs ensure second-tier supplier sustainability within their supply chain.

**Methodology:** This thesis is conducted with an inductive approach, collecting qualitative data through semi-structured interviews and archival research, at two independent companies. Thus, a multiple case study. Empirical findings were analyzed through a template analysis. Based on the theoretical framework and formulated research questions, categories have been derived, constructing the outline for our empirical findings and analysis.

**Conclusions:** (I) Social and cultural distance are major determinants settling which second-tier suppliers being regarded as critical. Conclusively, the criticality is the major determinants identifying whom to prioritize. Furthermore, IT is recognized as a vital and beneficial tool to utilize when mapping the network of second-tier suppliers. (II) In order to achieve second-tier supplier compliance of CoC, “the grey area approach” is identified as the used approach by investigated companies. Further, long-term relationships with first-tier suppliers are a major key in order to ensure second-tier sustainability in long-term perspective. (III) Last but not least, first-tier supplier network investigation is regarded prior to choosing a first-tier supplier. However, it is nothing decisive since other factors are more important in the process.
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1 Introduction

The introduction chapter will present the topic of the thesis, and provide the reader with general information within the subject.

1.1 Background

In today’s business it is more common than ever that a company’s supply chain spin all across the globe. This has put the issue of sustainability in the spotlight, making it a current topic discussed on a daily basis. The globalization of today’s business is challenging the traditional view of supply chain management; historically, the biggest focus has been on profit and cost efficiency, but in today’s globalized environment there are other equally important business areas (Andersen & Skjoett-Larsen, 2009). As a consequence of their power (Gereffi, 1994), multinational companies (MNCs) are facing pressure from internal, as well as external stakeholders to perform business responsible. Most often this is done with requirements according to the triple bottom line (TBL), which includes economical, environmental, and social issues (Elkington, 1998; Gimenez & Tachizawa, 2012). Altogether, these factors represent sustainability, and a corporation should consider all these aspects in its business strategy in order to run a sustainable organization (Carter & Rogers, 2008).

MNCs source their materials and services from all over the world today, which creates complex networks stretching beyond national boundaries. This essentially means that the networks consist of interconnected companies who exchange material, information and products with each other (Kim, Choi, Yan & Dooley, 2011). This put great emphasis on MNCs to have a responsible supplier management due to their extensive supply chains, which make it obvious that a MNC need to take responsibility since the actions of their value chain directly impacts many communities and stakeholders.

Furthermore, in order to accomplish a true sustainable supply chain it is required to not only ensure sustainable activities in the first-tier of suppliers, but to also put same requirements on the second-tier of suppliers (Andersen & Skjoett-Larsen, 2009). In the literature regarding management of first- and second-tier suppliers, the term “Focal Firm” has been used frequently. Focal firm can be used to address the most powerful actor within a supply chain. However, Grimm, Hofstetter and Sarkis (2014) use the term while talking about the firm of interest within the study. Henceforth, the use of focal firm in this study aims at the firms in focus of the study, and their relationship with their suppliers and second-tier suppliers. A focal firm’s suppliers are often small or medium sized enterprises (SMEs) with scarce resources, which may imply that they lack control over their own suppliers i.e. a focal firm’s second-tier suppliers. Therefore it is as critical for MNCs to ensure that their second-tier suppliers are working sustainable as for the first-tier suppliers in order to achieve a truly sustainable supply chain. Earlier, most MNCs’ sustainability actions were mainly focused on the first-tier suppliers, but we can see tendencies of a shift upwards in the supply chain (Business for Social Responsibility Education Fund, 2001).

Several authors within the field of Sustainable Supply Chain Management (SSCM) suggests that further research needs to be done within the specific area of “Extended CSR requirements” i.e. how MNCs’ manages its second-tier suppliers in terms of sustainability. Literature and previous research has mainly investigated how MNCs work with the first-tier suppliers regarding sustainability and not further upwards in the supply chain. It seems to be a gap in the literature that deserves further attention. In order to understand how
sustainable the global supply chains really are, one needs to investigate how MNCs approaches the subject of second-tier suppliers in relation to sustainability (Andersen & Skjøtt-Larsen, 2009; Business For Social Responsibility, 2001; Linton, Klassen, & Jayaraman, 2007; Pagell & Shevchenko, 2014). Thus, this study will focus on how two separate MNCs manage their second-tier suppliers in terms of sustainability. The two MNCs chosen for investigation in this multiple case study are IKEA and Stora Enso, both serving in separate industries, and perhaps more important they possess different positions in the supply chain. IKEA works at the very end, serving the final consumer, while Stora Enso are located further up the chain. However, both actors are to be perceived as influential since they possess strong power within their network.

1.2 Specification of Problem

Today's focus on sustainability from different stakeholders has put pressure on MNCs to adjust their processes and act more responsible than earlier, since exposure of non-sustainable operations often put organizations in a bad position (Grimm, Hofstetter & Sarkis, 2016), hurting the brand image (Awaysheh & Klassen, 2010). This focus reviews the organizations' operations' from a holistic perspective, where MNCs are accountable and responsible for its partners' actions', as well as their own (Grimm et al., 2014; Vachon & Klassen, 2006). This implies that a company cannot solely work with sustainability internally; they need to consider their entire network and supply chain to ensure that all actors run their business accordingly. Nike and Nestlé are two well-known actors who received massive critiques regarding actions of their second-tier suppliers (Grimm et al., 2016; The Economist, 2010). The critic, revealed by Non-Government Organizations (NGOs) pushed Nike and Nestlé to work with sustainability upwards the supply chain in a more rigid way in order to repair the damage of their brand. Hence, the importance of how to manage first- and second-tier suppliers has grown significant during the last years. However, even if this issue has received attention in media (Awaysheh & Klassen, 2010), literature has overlooked how MNCs can, and currently do work with second-tier suppliers to a great extent (Choi & Linton, 2011; Lee 2008; Wognum, Fisscher & Weenink, 2002).

The issue of managing the supply chain upwards for a focal firm is urgent, but there are several factors making it to a complex task for all organizations (Awaysheh & Klassen, 2010; Grimm et al., 2016). Normally, relationships within supply chains are managed through bilateral contracts between two actors. Through these contracts, focal firms can put pressure on its suppliers to comply with their Codes of Conducts (CoC) where threats of termination can be made. However, since there most often is no binding contract between a focal firm and its second-tier suppliers, it can be difficult to ensure compliance further up the chain (Grimm et al., 2016).

Moreover, managing both first-tier suppliers as well as second-tier suppliers is a resource demanding process, which reduce the eager and will to make an effort among many focal firms (Welford & Frost, 2006). Some firms may lack financial ability to engage in these issues, others may lack influence in order to push these requirements upwards the chain (Awaysheh & Klassen, 2010). A common solution that numerous firms practice is to move the responsibility of ensuring CoC to the first-tier supplier, who is supposed to ensure these requirements and standards among its suppliers (Awaysheh & Klassen, 2010). This solution has some consequences, while letting first-tier suppliers acting as a middleman or rule-keeper may reduce insight and communication between the focal firm and the second-tier suppliers, increasing the distance between the actors (Awaysheh &
Klassen, 2010; Jorgensen & Knudsen, 2006). Furthermore, a firm’s ability to apply its CoC throughout the chain is a question of dependency and possessing power, where a firm with suppliers’ highly dependent on their business will have a greater chance to implement the requirements than if the situation was the opposite (Awayssheh & Klassen 2010). This is especially an issue for smaller first-tier suppliers, where a majority may not find themselves in a position where it is possible to follow up violations against their CoC with any concrete sanctions since they lack sufficient amount of power (Jorgensen & Knudsen, 2006).

One may also question how much effort focal firms do invest in follow-ups of their standards. Recent studies have revealed that even if focal firms put requirements on their suppliers to ensure compliance of CoC at second-tier suppliers, only 15% follow up the results or demand any sort of report regarding the progress (Grimm et al., 2016). Additionally, a survey conducted by Achilles indicated that about 18% of the companies in the UK had no information whatsoever about their second-tier suppliers in 2013 (Supply Management, 2013). This remarkable number raises the question of how MNCs work with its second-tier suppliers to ensure sustainability in the supply chain, and how much effort one should invest to reach an optimal level.

Previous literature has not assessed to which extent focal firms apply their CoC upwards in the supply chain. As been emphasized in earlier sections, today’s supply chains are more complex and vast than ever; a MNC may have over thousands second-tier suppliers in its network which make the issue even more compound. Is it possible to focus on all actors? Are some second-tier suppliers more important than others? Questions like this have not been answered so far, even if the topic is hotter than ever. As Grimm et al. (2016) highlighted, their study regarding second-tier sustainability management is one of the first in the field, exploiting a gap that needs further investigation. Hence, this thesis will explore how two MNCs, operating in different industries are working with these issues.
1.3 Purpose and Research Questions

Several research gaps have been identified. Firstly, there is a lack of literature regarding how companies manages their second-tier supplier sustainability, which is surprising due to the vast amount of literature regarding sustainability and supply chain management. Secondly, literature claims that few companies follow up their CoC throughout the supply chain, and there are a small amount of approaches suggested. Thirdly, a MNC has thousands of second-tier suppliers, but there is a gap in the literature regarding how MNCs prioritize between these huge amounts of second-tier suppliers. Thus, following purpose is stated:

“The purpose of this study is to investigate how two different Scandinavian MNCs ensure second-tier supplier sustainability within their supply chain.”

In order to be able to fulfill the stated purpose of this thesis, we have identified three research questions derived from previous literature. Each question has its own angle, based from a sustainability perspective, which will contribute with an answer to the purpose.

1. What factors are most important when prioritizing between second-tier suppliers?

2. How are the focal firms ensuring sustainability compliance and what are the major challenges encountered?

3. Does a focal firm consider a supplier’s business network before entering a partnership?

1.4 Delimitations

The results of this study will not show any tendencies of how different industries work with this problem in general, since it is a case study utilizing two samples. Rather, it will illustrate and give examples of how two Scandinavian MNCs, in two different industries, selling their products to two different kinds of customers, approach the issue of sustainability among their second-tier suppliers. Furthermore, the study will be narrowed down to how different actors within supply chain management address the issue, such as people responsible for procurement, sourcing, and sustainability. Other managers’ actions, such as the companies CEO or board members, will not be assessed, since the thesis is contributed within the field of supply chain management. As the purpose of the study concerns how these two companies work with sustainability issues with their second-tier suppliers, other concept related to sustainability, such as CSR and philanthropic investments or engagement will not be regarded.
1.5 Definitions of Key Terms

Throughout this study, some key terms related to the purpose will be elaborated frequently. To create a common understanding and ease the interpretation of the study, Second-Tier Suppliers and Codes of Conduct will be defined in following sections.

1.5.1 Second-Tier Suppliers

A buying firm has several suppliers, and the second-tier suppliers are the suppliers of the buying firm’s first-tier, or direct suppliers (Grimm et al., 2016). These are also known as sub-suppliers. In today’s global supply chains the relevance of ensuring sustainability within the entire supply network is of great importance, since focal firms often are kept responsible for controversies when they appear. Moreover, second-tier suppliers are a significant link in the network of focal firms, since they are providing the first-tier suppliers with material and correspondingly contributing with value to the focal firm’s operations. To sum it up, second-tier suppliers is the definition we will use in order to describe the supplier’s suppliers.

1.5.2 Codes of Conduct

In the literature of sustainable supply chain management, several authors frequently mention the term Supplier Codes of Conducts (CoC). CoC is a corporate document containing requirements demanded by the focal firm for its suppliers (Grimm et al., 2014). This is a legal agreement between two parts in a business relationship, where a focal firm often times demand their suppliers to sign the stated terms, if there should be any partnership. The CoC does often time contain the core values of the focal firm, and is the lowest acceptable sustainability standards that apply to all actors within the supply chain (Grimm, 2013). Through external pressure from different stakeholders, many firms extend the appliance of their CoC to partners within their network, ensuring that the supply chain work according to the same policies regarding responsibility and environmental issues (Grimm et al., 2014). If violations against the CoC occur by any actor in the network, it can create severe damage to the focal firm’s brand image (Grimm et al., 2014). Therefore CoC can serve as leverage, where it may be expressed that violations leads to termination of contract (Awaysheh & Klassen, 2010).
1.6 Outline

This segment provides the reader with the chapters that follows in the thesis in a chronological order. By providing an outline over the research, the reader is offered the opportunity to follow the study step by step, in order to get an overview and understanding of how the research was conducted. A short description of the content of all chapters will be included.

- **Introduction**
  - The introduction chapter provides the reader with general background and problematization of the topic, as well as clarification of key terms. Additionally, the purpose, research questions, and delimitation of the study can be found in this chapter.

- **Theoretical Framework**
  - This chapter includes the theoretical framework of the research, as well as a literature review covering previous researchers findings within the subject. The main theories are elaborated and explained in a deeper manner.

- **Method**
  - The methodology chapter gives a deep insight in how the study was conducted, where all decisions and choices are explained and motivated.

- **Empirical Findings**
  - In this chapter the empirical evidence and data collected from the interviews as well as secondary sources will be provided. After transcription of the performed interviews are done, we will present the most critical and vital results to the reader.

- **Analysis**
  - In the analysis chapter we elaborate the findings and explore it in relation to the theoretical framework.

- **Conclusion**
  - The final chapter includes conclusions of the research. A brief discussion of contribution and limitations of the study will be presented, as well as suggestions for future research.

*Figure 1: Thesis Outline*
2 Theoretical Framework

The following part will present the theoretical framework of the thesis. Further, it will provide the reader with a background of what previous studies have written about the subject of sustainability and supply chain management.

2.1 Sustainability within Supply Chains

Due to today’s global and complex supply chains the subject of sustainability within the topic is highly enlightened. It is particularly relevant to see the connection between sustainability and supply chain management due to the fact that SCM-practices can highly promote the sustainability practices, since it involves warehousing, transportation, purchasing etc. (Carter & Rogers, 2008). First, lets take a look at the definition of supply chain management; Jones and Riley (1985) define it as the holistic flow of materials from the supplier until the customer. Conclusively, this is a very broad scope, and due to the extensive supplies chains of today, a MNC need to incorporate the question of sustainability throughout the flow from raw material extraction to the end-user consumption. So, in order to ensure a true sustainable supply chain, this issue needs to be considered.

According to Carter and Rogers (2008) sustainability in supply chain management is about the equal consideration of social, environmental as well as economic aspects in the long-term strategic planning of a company. These assumptions essentially build upon the TBL developed by Elkington (1998). This model argues for a balance between the social performance, environmental performance, and economic performance of any organization. In order to have a truly sustainable supply chain the focal firm needs to avoid harming social or natural systems, but still make profit during a longer time-period. From this perspective, an organization operating according to the TBL should be able to keep their business forever (Pagell & Wu, 2009).

There are also other important aspects in Sustainable Supply Chain Management (SSCM), namely; risk management, transparency, culture, and strategy. Risk management touches upon the question regarding security and risk (Gladwin, Kennelly & Krause, 1995). It essentially regards disruptions in the supply chain following of an inability to meet the customers’ demand (Zsidisin, Panelli & Upton, 2000). Another example could be if the focal firm is performing poorly in terms of its environmental practices, which might result in sanctions and bad publicity. Furthermore, transparency is more crucial than ever in today’s digital community, where negative information travels in a fast pace. Reports regarding violations of any form of sustainability responsibilities get shared immediately, which hurt the brand image of the company in question (Tapscott & Ticoll, 2003) Thus, it is important to be transparent regarding your operations and processes around the world. It regards reporting to, engaging, and involving the stakeholders in order to keep up and to improve the supply chain operations of the company (Carter & Rogers, 2008).

In order to be successful with sustainability practices it is crucial that the sustainability strategy is closely aligned with the overall business strategy (Shrivastava, 1995). This means that the sense of sustainability shall be represented in the company values in order to maximize and streamline the sustainability practices. According to Hamel & Prahalad (1989) an organization-wide vision regarding sustainability would enhance the motivation and spur to actually change for the better. Thusly, sustainable supply chain management is defined as “the strategic, transparent integration and achievement of an organization’s social, environmental, and economic goals in the systemic coordination of key inter-organizational business processes.
for improving the long-term economic performance of the individual company and its supply chains” (Carter & Rogers, 2008, p.368). That is the definition of SSCM this study will use further on.

2.1.1 Sustainability, Second-Tier Suppliers & Governance

The supply chain of a MNC consists of several tiers of suppliers, where the supply chain network is complex and dynamic, as well as tremendously extensive (Choi & Linton, 2011; Choi, Wu, Ellram & Koka, 2002; Mena, Humphries & Choi, 2013). It can be described as a multi-tier network where the buyer (focal firm) is most often the leading actor in the specific supply chain. Mena et al. (2013) emphasizes that the main purpose of studying multi-tier networks is the issues of sustainability.

There has been an extensive focus on first-tier suppliers (Grimm et al., 2014), and a smaller focus on managing second-tier suppliers. The issue of second-tier suppliers has become widely important recent years; if they do not comply with the focal firm’s CoC the focal firm ends up in bad light (Matten & Moon, 2008). Often times, the most serious sustainability incidents are caused by higher-tier suppliers (Ernst & Kim, 2002). Further, second-tier suppliers are often a link with a small amount of power and in some cases they are also hard to manage (Mena et al., 2013). According to Jorgensen & Knudsen (2006) first-tier suppliers can have scarce resources, with the consequence of not being able to pass demands forward to the second-tier suppliers. Therefore, it is important to understand the governance and the operating context of different actors in a specific supply chain.

The governance of multi-tier networks is of relevance in order to understand the phenomenon of truly sustainable supply chains and sustainable second-tier supplier management. Kaplinsky & Morris (2001) coined the terms “rule-makers” and “rule-keepers”. Rule-makers are those actors in the value chain that possess a dominant position, often because of their financial power. These actors set up the standards within sustainable supply chain management with regards to the environment, labor-rights, and anti-corruption (Jorgensen & Knudsen, 2006). Those rules are generally already set up in national regulation, but the rule-maker needs to adapt the rules to the setting of its supply chain. The rule-maker is often multinational, and therefore the focal firm has to take legal and cultural differences regarding sustainability into consideration. If rules are not applied and followed there will most likely be sanctions (Jorgensen & Knudsen, 2006). Moreover, there are also positive sides such as technology transfer assistance. The first-tier and second-tier suppliers are then seen as rule-keepers, and they are often SMEs perceived as change agents. On the other hand, due their lack of power they tend to have an undesirable effect as a change agent (Jorgensen & Knudsen, 2006).

The dominant firm is mainly focusing on its first-tier of suppliers; a common action by focal firms is to pass along the responsibility of securing second-tier compliance to the first-tier supplier. The rule-keeping role might be performed by either the first-tier supplier, agents of the focal firm, NGOs, or other entities, suggested by Jorgensen and Knudsen (2006).

Further, according to Tachizawa & Wong (2014) there are at least four governance mechanisms that a MNC can undertake in order to ensure second-tier sustainability compliance, depending on the different contingency variables essentially directing the relationship between the focal firm, first-tier, and second-tier (Tachizawa & Wong, 2014). The suggested approaches are: direct approach, indirect approach, work with third parties, and don’t bother. Further, the contingency variables describing the operative context are:
power, stakeholder pressure, industry, material criticality, dependency, distance, and last but not least knowledge (Tachizawa & Wong, 2014).

The direct approach essentially suggests that the focal firm has straight contact with the second-tier supplier, without intermediaries. By doing so, one can influence the second-tier more effectively through direct collaboration and continuous improvements. If a company possesses high power, it can pick its own second-tier suppliers by directly influencing the first-tier supplier (Wu, Choi & Rungtusanatham, 2010), and it is further likely that the powerful firm is a rule-maker in these cases. On the other hand, in an extensive supply network this effort would be too immense due to the fact that there might be thousands of second-tier suppliers. Therefore it might be tough to perform such activities with all second-tier suppliers (Mena et al., 2013). Further, in this case the first-tier serves as rule-keeper. Here one has to remember that the first-tier suppliers posses scarce resources in many cases (Jorgensen & Knudsen, 2006). The indirect approach is different; here the focal firm passes over the requirements to the first-tier supplier, who then is supposed to control and ensure second-tier compliance (supplier’s supplier). Thus they are acting as change agents (Jorgensen & Knudsen, 2006). Sharing of information plays a vital role here; if the focal firm and its supplier share the same CoC it is easier to pass it over to the second-tier supplier as well (Ciliberti, De Groot, De Haan & Pontrandolfo, 2009).

The third approach is to collaborate with NGOs. In this approach, the power possessing firm collaborates with NGOs or competitors in order to implement self-regulations (Prado, 2013). Companies can form alliances and in that way enhance the bargaining strength against second-tier suppliers. By doing so, one can force others to comply with the sustainability initiatives (Peters, Hofstetter & Hoffmann, 2011). In Grimm et al.’s (2016) study, both investigated companies, Migro and Hewlett-Packard, utilized NGOs in their work to influence second-tier suppliers. The last approach, “don’t bother”, essentially means that the focal firm possesses little power and thereby also little knowledge regarding its second-tier suppliers (Esty & Winston, 2006). In order to distinguish which approach a focal firm should undertake one has to distinguish between seven different contingency variables. These variables further explain how a focal firm can prioritize within the extensive network of second-tier suppliers (Tachizawa & Wong, 2014).

“Power” is the first variable, and perhaps the most basic and underlying characteristic. It regards the ability to have an impact on actors in the focal supply network (Pilbeam, Alvarex & Wilson, 2012). Power is always occurring in global supply networks, and it has an impact on relationships between different actors in the supply chain. If the supplier possesses more power than the focal firm, it has negative consequences for sustainable supply chain management from the focal firm’s perspective (Hoejmose, Grosvold & Millington, 2013). Thus, power decides whether the focal firm has the ability to control its second-tier suppliers. “Stakeholder pressure” is the next variable with magnitude. Here one can assume that there is a difference between B2B firms and B2C firms. Companies receiving rigid exposure from media tend to act more proactively with sustainability, while firms with less exposure tend to undertake a more reactive approach (Castka & Balzarova, 2008).

Next variable is “industry specific effects”. Firms acting in static business areas are more eager to work sustainable, while dynamic business tend to work less with sustainability, according to Wiengarten, Pagell and Fynes (2012). It is further suggested that it is easier to implement standards when a specific business has a static position. One can also see
differences between the social and environmental focus; some industries are more concerned with social causes and vice versa. There are also differences when it comes to different industries; the textile industry is more connected to the social side for example (Schneider & Wallenburg, 2012).

“Material criticality” is also associated with sustainability; products containing dangerous goods require higher attention. Therefore, second-tier suppliers delivering dangerous goods or performing harmful processes often time receives stricter controls, and is perceived as critical second-tier suppliers. According to Tachizawa & Wong (2014) it might lead to focal firms establishing direct contact with second-tier suppliers. Next variable regards “dependency”, which concerns the focal firm’s dependency of its supplier, influencing how a focal firm can ensure second-tier sustainability. The last two variables stated by Tachizawa & Wong (2014) are “distance” and “knowledge”. Distance refers to the physical, cultural, and social distance between the focal firm and its supply network. Awayshe & Klassen (2010) argues that this has an impact on the CoC practices. Knowledge regards the technical knowledge a focal firm possesses concerning sustainable management; if the knowledge is low, the possibility is higher that the focal firm works with an NGO (Esty & Winston, 2006).

In order to answer the research questions, one has to understand the governance and contingency variables that the two focal firms are operating according to. It is of significance to understand these aspects, approaches, and dimensions which previous research has brought up. Depending on how the structure look like in the specific supply chain, relationship features such as supplier collaboration and supplier assessments might differ.

### 2.2 Supplier Collaboration & Supplier Assessment

Previously it has been common to focus on internal contributions within a firm in order to address stakeholders’ sustainability issues. However, nowadays this focus has shifted towards an external perspective, where focal companies look at what other actors in their network can improve (Vachon & Klassen, 2006). Generally, literature has agreed upon two dimensions of external supply management efforts that a focal firm can use in order to assure certain level of sustainability along the supply chain (Grimm et al., 2014). Klassen and Vachon (2003) define these two dimensions as supplier collaboration and supplier assessment. Both can be used to reduce risk of getting the brand image demolished (Vachon & Klassen, 2006). The operating context of the specific supply chain essentially decides how the dimensions will take form.

Supplier collaboration is broadly defined as tacit knowledge transfer between the buyer and the supplier (Purdy & Safayeni, 2000), which optimally integrates the firms’ processes. Tacit knowledge in this context refers to knowledge being difficult to transfer by word or writing, where it is rather ambiguous and demands time to learn (Purdy & Safayeni, 2000). Further, collaboration can take many forms, where Klassen and Vachon (2003) count field visits, personnel switching, and technical support as the most common actions by a focal firm. Moreover, training sessions, financial investments and supplier development activities are also practices of supplier collaboration that an organization can implement to improve sustainability along the supply chain (Giminez & Tachizawa, 2012; Grimm et al., 2014). Fischer and Schot (1993) further suggest that these activities can increase the willingness to invest in environmental technologies among the supply chain members by reducing several factors connected to change resistance. Bowen, Cousins, Lamming, and Farukt (2001), as
well as Vachon and Klassen’s (2006) studies suggests that supplier collaboration increase environmental performance. If these actions are practiced to influence second-tier suppliers is unclear, where main focus is directed towards first-tier suppliers. However, one may reason that a focal firm could transfer such practices to manage their second-tier supplier as well, if they are in direct contact with them. Moreover, one of the major benefits with applying supplier collaboration activities is that it enhances the focal firms ability to recognize sustainability challenges and issues in the supply chain (Bonifant, Arnold & Long, 1995).

Furthermore, Grimm et al. (2014) suggest that supplier collaboration is best suited when inadequacy can be found at the supplier, which may require external support to enable adjustment of the supplier’s processes according to the CoC. By applying supplier collaboration activities in the relationship, there is a joint development and investment in the supply chain between buyer and supplier, which may be appropriate when handling a smaller supplier who lacks the financial power or knowledge to be able to fulfill the requirements independently (Klassen & Vachon, 2003). Hence, this could be an option for focal firms when managing second-tier suppliers who fail to meet the CoC. Supplier collaboration does also enhance trust building within the network, since investment and effort are mutually shared between several members and not solely directed toward a single actor (Klassen & Vachon, 2003; Narasimhan, Mahapatra & Arlbjorn, 2008). Hence, today’s complex and global supply networks’ makes it a tough challenge to collaborate with all critical second-tier suppliers.

Moreover, supplier assessment includes activities with an evaluative and monitoring nature. In supplier assessment, the focal firm collects information regarding their first-tier suppliers or second-tier suppliers. This data is used to evaluate and assess how well suppliers are performing according to the communicated standards and requirements, as well as ensuring that no illegal or unethical activities are taking place (Klassen & Vachon, 2003). The standards and requirements are usually established prior to the contractual relationship, often in form of CoC, and are initiated from stakeholders of the focal firm (Klassen & Vachon, 2003). Furthermore, questionnaires, audits, standardized evaluation processes, and providing feedback are common activities of supplier assessment, and the relationship is usually on an arm-length basis (Giminez & Tachizawa, 2012; Klassen & Vachon, 2003, Vachon & Klassen, 2006). Some of the benefits with supplier assessment are namely that it provides data enabling detection of high-risk suppliers, as well as it set clear standards to follow for all actors within the supply chain (Klassen & Vachon, 2003). Florida (1996) further suggests that supplier assessment can be an appealing alternative for many focal firms, where change and responsibility are moved upstream in the supply chain, leaving less responsibility domestically. Thus, it may be a convenient approach to hand over the responsibility of controlling the second-tier suppliers to the first-supplier.

Supplier assessment is often performed by the use of different measurements, controlling the performance of the CoC at suppliers. Since this can be a complex process, it is not uncommon that the focal company applies measurements that can be verified fast and smoothly, i.e. using values that are easier to collect and measure. Thus, Noci (1997) argues that this approach may advocate investments in short-term projects rather than more extensive projects, to reduce both time and financial efforts. Bonifant et al. (1995) agrees with the concern and argues that the purpose of supplier assessment, to ensure compliance, may narrow down potential improvements to simpler and less demanding alternatives. Moreover, Simpson, Power and Samson (2007) argues that supplier assessment
will not increase sustainability commitment at the suppliers base by itself. It is suggested that it is dependent on support from the focal firms side, in terms of financial investments (Giminez & Tachizawa, 2012; Simpson et al., 2007).

The major takeaway from Klassen and Vachon’s (2003) study about the subject is their findings supporting the argument that supplier collaboration had a greater impact on suppliers’ investment and effort in environmental friendly activities than supplier assessment. Though, there was a small correlation between number of audits and assessments conducted and investments made by the supplier. However, Theyel (2006) states that assessment efforts are only of advantage in the short-term, where no proactive actions are emphasized. Such advantages demand longer collaboration with suppliers (Giminez & Tachizawa, 2012; Theyel, 2006). Therefore many MNCs today want to establish long-term relationships with its suppliers. It is further argued that supplier collaboration adds more value to both the relationship and the environmental aspect than supplier assessment (Vachon & Klassen, 2006). However, trust is a prerequisite for successful collaboration. This suggests that collaboration should be done with a small number of critical suppliers, whom the focal firm have had a longer relationship with prior (Vachon & Klassen, 2006). Translating it to the second-tier level of the supply chain, it may be suggested that the focal firm identifies key actors among their second-tier suppliers, and collaborate with them instead of trying to focus on all second-tier actors, which could be an overwhelming task. Furthermore, Noci (1997) argues that collaborative relationships could increase the success of managing environmental issues, and Vachon and Klassen (2006) entail that supplier collaboration can contribute with multiple competitive advantages for the supply chain. Thus, according to the literature, supplier collaboration is the most influential dimension, contributing to increased engagement in sustainability issues throughout the supply chain.

It should be emphasized that previous literature regarding this theory mainly addresses the relationship between the focal firm and their first-tier suppliers regarding environmental issues. We realize that the issue of applying the collaboration perspective to the second-tier may be problematic, where the focal firm needs to bypass the first-tier supplier. However, since we find this theory highly interesting and applicable to the purpose it will be applied in a context of focal firm’s relationship and actions with its second-tier suppliers regarding sustainability issues in this study. The theory will further enable an analysis of how Scandinavian MNCs are ensuring compliance among their second-tier suppliers, as well as providing a theoretical framework for research question two.

2.3 Relationships & Networks

In recent years, the surroundings of a firm has become discussed on a frequent basis, where it has been suggested that organizations become more and more integrated with its environment, having transcendent relationships (Astley, 1984). Earlier it was common praxis to evaluate firms and individuals as autonomous islands during assessments, where the main focus was to consider internal attributes and qualities. However, according to Borgatti and Li (2009), as well as Håkansson and Snehota (2006), this focus has shifted over time, where evaluations of today include connected actors and firms’ environment as well. Snow, Miles, and Coleman (1992) further reason that industries of today are structured by clustered units coordinated by independent variables of the market, rather than independent wills of middle management, which often was the case earlier.
Håkansson and Snehota (2006) further elaborate on the notion of boundaries within networks. In their article, Håkansson and Snehota (2006) stress that focus from a firm should be on those areas where they possess an influential position, which enable control of specific resources. What is beyond this “boundary” should be left aside, in order to keep an efficient focus within the firm (Pfeffer & Salancik, 2003). By doing so, firms will cope with its surrounding in a better way, and adapt to the specific context of operations (Håkansson & Snehota, 2006). This perspective may be problematic in the context of industrial network, where Håkansson & Snehota (2006) reasons that vital resources with crucial value for the efficiency of the focal firm may be labeled as beyond the boundary of the firm. Instead, firms should consider their role in the context they are operating within, where its network access and can provide resources, making the subsistence of the firm to appear without any clear boarders. External resources may be as much within the reach of control as internal resources for any firm (Håkansson & Snehota, 2006).

Furthermore, Anderson et al. (1994) move the discussion of a firm’s environment forward and investigate business networks, where a network in this sense consist of two or more actors having a dyadic business relationship where exchange of information or material occurs. In this perspective, all actors of a network can be perceived as one entity (Anderson et al., 1994). The discussion of business network is complex, since there are different opinions regarding the definition of the term. Miles and Snow (1992) breaks it down and suggest that the terms refers to connected firms only, while Håkansson and Johanson (1993) take a more complex perspective, suggesting it regards several connected relationships between firms. However, in the business network approach, the “focal relationship” is between the two actors having a direct relationship with each other. Snehota and Håkansson (1995) agree with this, and further argue that all relationships are a part of a bigger picture, where one relationship is connected to several others. They further suggest that a network approach provides a gradated view of the challenges and opportunities a focal firm has to deal with in a supply chain (Snehota & Håkansson, 1995).

Anderson et al. (1994) also suggest that networks possess primary and secondary functions. Primary functions aims at the effects and influences two firms have on each other in the focal relationship. In the primary function, the two actors often times collaborate and exchange information to increase the efficiency of operations, in order to improve the relationship (Anderson et al., 1994). Snehota and Håkansson (1995) add that collaboration and mutual interest in partners’ success increase the focal firms chances on the market. Choi and Kim (2008) agree, stating that at the end of the day, the focal firms performance is highly dependent on its suppliers and their value chain. Moreover, secondary functions are then the effects other relationships have on the focal relationship. Anderson et al. (1994) also term secondary functions as network functions, suitably. It is this function that construct networks out of dyadic relationships (Anderson et al., 1994). The main takeaways are that one cannot perceive single dyadic relationships as independent, where they are a part of a more complex and dynamic network. This create interdependency, and change the way of how to act within relationships, where several actors needs to be encountered. It further suggests that a firm might chose a certain supplier in order to add a desire second-tier supplier to their network (Anderson et al., 1994; Håkansson & Snehota, 2006; Snehota & Håkansson, 1995; Van de Ven, 1976).
2.3.1 Social Network Analysis Theory

As an extension of the business network theory, the Social Network Analysis (SNA) theory is a supply management theory focusing on surrounding aspects rather than only internal, identifying and analyzing the structure of the social interaction between the actors of a network (Kim et al., 2011; Wasserman & Galaskiewicz, 1994). The theory was initially developed for social science, but has turned out to be beneficial and applicable within supply chain management as well (Borgatti & Li, 2009). Wasserman and Galaskiewicz (1994) argue that the SNA theory allows a buying firm to investigate the potential supplier from a holistic perspective, where the factor of their interdependency with different actors in the network is regarded as well. The purpose of the theory is to gain insight regarding how actions between actors in the supply chain influence the structure of the network, and analyzes the network as such (Cook & Whitmeyer, 1992).

In this theory, links and nodes are used as a metaphor to characterize a supply chain with multiple actors. This is illustrated in figure 3. Nodes illustrate the different persons or legal entities of the network, and links demonstrates the relationship between these nodes (Borgatti & Li, 2009; Choi & Kim, 2008). These connections arise when a contractual relationship is agreed upon, and Gulati (1995) suggests that these relationships should be perceived as channels within the supply chain where different kind of resources is exchanged; information, money, or raw material. Thus, once a buyer decides to source from a new supplier, that supplier becomes a new node in the buyers network.

![Figure 2: Links & Nodes](image)

However, it has been emphasized in the literature that when a new business relationship is entered, a whole new network of links and nodes are added to the buying firm’s (as well as the supplier’s) own network (Choi & Kim, 2008). Even if it appears that a relationship has been initiated between two parts only, i.e. the buyer and the supplier, several second-tier suppliers and customers of the new partner will influence the entire network’s performance, and eventually the focal firm’s performance (Snehota & Håkansson, 1995). Thus, a whole new network, rather than a single actor is integrated to the buyer’s supply chain, which is the idea of the SNA theory. In the perspective of this study, a focal firm gains a whole new network of second-tier suppliers once a new partnership is agreed upon with a first-tier supplier, hence, all the first-tier suppliers is added to the focal firm’s network.

When a firm searches for a new partnership it needs to assess not only the particular actor in interest, but also investigate the supply network of that actor, which includes second-tier suppliers (Choi & Kim, 2008). Even if it sounds logic to go beyond the first-tier when evaluating a potential partner, it is not uncommon that a buyer mainly assesses the supplier’s financials, offer, lead-time, and other internal performances (Narasimhan, Talluri & Mendez, 2001). When doing so, the buyer ignores the broader picture and how the supplier is dependent on its environment and second-tier suppliers in order to perform in a long-term perspective (Narasimhan, et al., 2001). However, SNA theory perceive all actors as interdependent on its surrounding, where opportunities and chances are provided by relationships with other actors (Gulati, 1995). Furthermore, today it is common to work
with partnership on a long-term basis rather than in shorter intervals, where more responsibilities are outsourced to suppliers than ever before. This factor intervene all actors in the supply chain, making their businesses dependent on each other. If, for example, the supplier gets problems with other customers or their suppliers, it could potentially hurt the buying company in an extension (Choi & Kim, 2008).

A central concept of the theory is node centrality (Borgatti & Li, 2009). Node centrality aims to identify key actors of a network, where several aspects are included to map them out. One aspect of centrality is the idea of closeness, which evaluates a nodes structural position in the network (Freeman, 1979). A node is regarded as “close” if it is located with a short distance to all other nodes within the network. Hence, a small number of links to the majority of the other actors within the chain makes a node close (Borgatti & Li, 2009; Freeman, 1977). Furthermore, Borgatti and Li (2009) discuss the concept of in-closeness, which defines the length of a supply chain through identification of all firms path to the focal firm. In other words, it maps out all the actors a raw material pass on its way to the focal firm. In this sense, longer chains are associated with increased risk of disturbance (Borgatti & Li, 2009).

Another way to identify key actors is through the concept of “betweenness” (Freeman, 1977). Betweenness stands for the shortest path between different nodes, where a firm who scores high in this sense is the “short path” between several actors of the network. Hence, the flow of products and information need to pass that firm on its way to the focal firm, which make them crucial for the supply chain. A firm with a high betweenness value control communication within the network (Freeman, 1979). If they have problem with their processes, it is going to affect all other actors of the network (Borgatti & Li, 2009; Freeman, 1977). Through the use of the node centrality concept, focal firms may be able to identify which second-tier suppliers being critical to their own performance. Thus, it can be a tool to identify which second-tier suppliers to invest money and time on in order to ensure sustainability.

Based on aforementioned information, one can assume that moving beyond first-tier suppliers upon evaluation has several advantages. It can increase the quality of supplier assessment and evaluation, as well as it enhances the understanding and insight of the firm’s context and network, which can offer a major strategic advantage for the firm (Choi & Kim, 2008). It provides the buyer with grounded information regarding potential business candidates upon selection of a supplier, and identification of all actors in their network (Ellram, Tate & Carter, 2007). By applying the perspective of relationships and networks, the researchers will be able to analyze a focal firm’s perception of its business network, and how different relationships influence the brand image. Further, Ellram et al. (2007) has recognized SNA as a valuable tool when investigating how different actors influence each other’s in the supply chain. By applying the SNA theory, we will have a greater chance of grasping how actions by firms within the network influence its direct and indirect relationships. Thus, how actions by a focal firm regarding sustainability issues impact and influence the behavior of actors upstream the supply chain.
2.4 Summarization of Theoretical Framework

The following table and model illustrates the connection between chosen theories, as well as which research question each theory is connected to. As shown, all research questions are connected to at least one theory, whereas research question number one and two are covered by two theories each. Both table 1 and figure 3 illustrates the connections between theory and research questions. However, the table provides a simple illustration of the theories coverage, while the figure provides a visual presentation of the same connections.

Table 1: Summary of Theoretical Framework

<table>
<thead>
<tr>
<th>Theory</th>
<th>Research Question 1</th>
<th>Research Question 2</th>
<th>Research Question 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability within Supply Chains</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Sustainability, Second-tiers &amp; Governance</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Supplier Collaboration &amp; Supplier Assessment</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Relationship &amp; Networks</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Figure 3: Model of Theoretical Framework
3 Methodology

This chapter will give an overview over chosen methodology used to assess the purpose of the study.

3.1 Research Methodology

When conducting a research, it is of vital significance to be aware of which type of methodology being used. In order to enable a thorough understanding of the conduction of this study, this chapter is divided into several segments. First, the applied research philosophy will be explained and motivated. Next is a description of the applied approach, and finally the research design is elaborated. By this chapter, the reader gets a holistic view of how the research was conducted. The outline is inspired by Saunders, Lewis and Thornhill's (2016) “research onion” presented below.

![Research Onion Diagram]

Figure 4: Research Onion

(Modified from Saunders et al., 2016)

3.1.1 Research Philosophy

Defining the research philosophy of the study is one of the most fundamental tasks a researcher has to do before deciding how the study should be conducted. Saunders et al. (2016) state that the research philosophy describes the development and nature of what constitutes as acceptable knowledge for the researchers, and it reveals how the researchers perceive their surrounding and environment. It will set the preferences for the research and influence how it will be conducted. Being aware of the philosophy of the study increase our chance of understanding our biases (Saunders et al., 2016). Only then it is possible to challenge it, which is the purpose of defining the philosophy.

According to Saunders et al. (2016) there is no superior “one philosophy fits all” alternative; certain philosophies are better suited for certain types of research questions. Hence, the choice of philosophy is strongly correlated with what questions we aim to answer with our study. Furthermore, the philosophies differ in three different aspects,
namely: ontology, epistemology, and axiology (Saunders et al., 2016). Ontology describes the researchers perception of reality and nature, and how it differs between the philosophies. Moreover, epistemology dives deeper and explains what kind of knowledge that is perceived as acceptable in the different alternatives. Finally, axiology describes the different perception of values in a research (Saunders et al., 2016).

In general, literature has listed four major philosophies within science. These are: positivism, realism, interpretivism, and pragmatism. This study was conducted with an interpretivistic philosophy. Interpretivism does not only regard generalizations and object as valuable knowledge. Instead, social structures are included as well, where human beings are perceived as individual actors who influence their surroundings and results (Saunders et al., 2016). Thus, individuals add value and impact organizations, which is of great importance within the philosophy. According to Saunders et al. (2016), this philosophy is suitable for research within business and management issues, and particularly regarding organizational behavior. Moreover, it is preferable to use an interpretivistic philosophy when investigating issues highly connected to human beings, their decision-making, and behavior. The purpose is to understand and find an explanation to the phenomenon being observed. Hence, the appropriateness of interpretivism when studying a focal firm’s approach for managing a second-tier supplier regarding sustainability issues. By the use of any other philosophy, we would risk missing out important information and values, which individuals assign to their work. However, it is important to emphasize that our values and assumptions have influenced the results, a consequence of the interpretivistic philosophy (Saunders et al., 2016).

Table 2 summarizes the concept of interpretivism from the ontology, epistemology, and axiology perspective.

<table>
<thead>
<tr>
<th>Ontology</th>
<th>Epistemology</th>
<th>Axiology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Researchers view of reality</td>
<td>Acceptable knowledge</td>
<td>Role of values</td>
</tr>
<tr>
<td>Subjective, based on social constructions</td>
<td>Subjective meanings Focus on soft values Meanings of actions</td>
<td>Researcher cannot be separated from the study</td>
</tr>
</tbody>
</table>

3.1.2 Research Approach

Based on the theory and purpose of the thesis, a study can generally take three different approaches: deductive, inductive, or abductive (Saunders et al., 2016). The first alternative, deductive, is a theory developing approach, where the researcher construct hypothesis that is tested against the gathered data, and the types of study is often quantitative (Ketokivi & Choi, 2014). On the other side of the spectra we have the inductive approach. Inductive is an approach where a theory is developed after the data is analyzed; hence, no initial hypothesis. Eisenhardt and Graebner (2007) further suggest that the inductive and deductive approach are straight opposite to each other, where inductive builds new theory, which deductive researches later can test (Saunders et al., 2016). Moreover, abductive is a hybrid approach, combining deductive and inductive.

In general, inductive fits well in a study with an interpretivistic philosophy, while deductive is better suited for a positivistic approach. However, Saunders et al. (2016)
emphasize that these suggestions are not cut in stone, where different studies can mix these philosophies and approaches depending on the research questions and purpose. However, after reviewing the literature and our purpose, we decided to conduct this study with an inductive approach. The approach works particularly well for the purpose of investigating and understanding a specific problem. Thus, there is always a risk with the inductive approach, where we may not be able to identify any general patterns in what has been collected. Furthermore, in this approach human behavior and experiences are perceived and encountered as valuable information, in opposite to deductive approach where informants are regarded as objects, where their subjective means are ignored (Saunders et al., 2016).

Since the context of the issue being researched is of significance in inductive theory building, small samples are preferable above larger ones. This enhances the chance of understanding the surroundings and context of the issue in question (Saunders et al., 2016). Further, an inductive approach allows the researcher to dive deeper in to the chosen area of study, and gain a thorough understanding of the issue being investigated. The approach is also best suited for newer topics, where a small number of prior research and literature can be found (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Ketokivi & Choi, 2014; Saunders et al., 2016). Hence, the inductive approach suited this research well since the subject is fairly new and there are relatively low amount of previous research about it, which made a deductive approach less applicable. Moreover, the inductive approach is generally aimed at enhancing understanding and provide explanation to why particularly things is the way they are, rather than explaining what is happening, which is the case of deductive approaches (Ketokivi & Choi, 2014; Saunders et al., 2016). These facts align with the purpose of this study. Furthermore, Eisenhardt (1989) argues that an inductive approach increase the probability of having a valid theory, since the analysis and conclusions are closely connected and based on the empirical evidence collected.

Based on aforementioned information, the inductive approach was preferable and more beneficial for the purpose of the study, rather than the use of a deductive or abductive approach. As been emphasized, there is a gap in the literature, where previous authors has neglected, or disregarded how prominent MNCs ensure second-tier supplier sustainability in practice. There is no secondary data that answers the research questions of this study in a proper way. With regards to the increasing interest and pressure MNCs receives to ensure sustainable supply chains, a theory of how to approach the task is emergent (Eisenhardt & Graebner, 2007). This increase the feasibility of theory building, based on an inductive approach (Eisenhardt & Graebner, 2007). Furthermore, by being aware of which approach the research is conducted with, the decision regarding the design of the study will be based on grounded information (Easterby-Smith, Thorpe & Jackson, 2008).

3.2 Research Design

This section will provide deeper explanations to the research strategy, choice of method, and the time horizon of the study. Further, these choices will serve as a blueprint for how the research questions and the purpose will be answered (Saunders et al., 2016). The section will give an overview of how the study was conducted.

3.2.1 Research Purpose

According to Saunders et al. (2016), a research purpose can be exploratory, explanatory, or descriptive in nature, all depending on the way the research question is asked. The characteristics of the research questions we asked in this study gravitate towards an
exploratory study, where the aim is to gain knowledge and insight regarding the issue of how MNCs approach second-tier suppliers to ensure compliance of sustainability standards. Thus, this study investigates a new topic in a new light.

### 3.2.2 Research Strategy

We decided to undertake this research through a case study in order to fulfill the purpose and to find answers to the research questions. A case study is a strategy that aims to create an understanding of the dynamics in a specific business setting (Benbasat, Goldstein & Mead, 1987; Eisenhardt, 1989). One can study either a single or multiple cases in this strategy (Saunders et al., 2016; Yin, 2003); this study has utilized two cases, i.e. a multiple case study. A fewer set of case studies is advantageous since there will be a greater probability of getting in-depth answers (Voss, Tsikriktsis & Frohlich, 2002). According to Morris & Wood (1981), a case study is highly suitable when a research wants to get a deep understanding within a specific field or setting and to find out how processes are constructed, which align with our purpose.

When performing a case study it is important to utilize different data collection techniques to ensure high quality and trustworthiness. We conducted this research through semi-structured interviews, as well as an archival study. Archival research refers to the use of records and data, kept and possessed by the company in question (Saunders et al., 2016). Saunders et al. (2016) further emphasize the difference between analyzing secondary data and data collected from archival research. Secondary data are primary collected for a different purpose; hence, they become secondary instead of first. However, archival research data should be regarded as a reflection of the processes at the organization, which is a part of the reality being investigated. By including this type of data, one is allowed to get a wider and deeper understanding of the day-to-day work within the organization (Saunders et al., 2016). Thus, archival research helped us to grasp the investigated phenomenon in a more thorough way.

As been aforementioned, the study is in its nature exploratory. This means that we wanted to investigate and explore a new type of phenomena. The exploratory nature of the study implies that this study tried to understand a new, and to some extent unexplored territory, searching for new insights within the specific subject (Saunders et al., 2016). There is a lack of literature within second-tier supplier sustainability; it is a fresh research area with major gaps. This makes a case study suitable, since it is an appropriate strategy when studying a field at an early stage (Benbasat et al. 1987). Thus, an exploratory case study allowed us to dig deeper into the investigated phenomena than other strategies would have. Further, it enabled deeper understanding regarding important variables for focal firms when distinguishing between different second-tier suppliers.

Moreover, Yin (2003) distinguishes between holistic and embedded case studies. In a holistic case study, the researcher approach the investigated organization as a whole, where the main interest is to get a broad picture of how the organization treats the specific question in focus. If the goal is to investigate particular departments or areas within the company, the research will be an embedded case study, since more than one unit is considered (Yin, 2003). Regarding this study, it is hard to place it as either holistic or embedded. In some sense, it is embedded, since we decided to investigate how the sustainability and sourcing department are working with the issue of interest. That makes it embedded, where more than one sub-unit is examined. However, the purpose of the study was to investigate how MNCs ensure second-tier supplier sustainability on a general level,
i.e. not to limit the study to a specific product category. This was done to not delimit our results to any product limitations, where some products are subjects to more rigid sustainability requirements than others. Therefore, we argue that the study could be classified as holistic as well. As a conclusion, we prefer to not label the study as either embedded or holistic.

To summarize it, Benbasat et al. (1987) coined three main reasons why a case study is appropriate. The first reason regards the ability to study the phenomenon in its natural setting, gaining a deeper understanding, and also extract new theory. Second, a case study is suitable when studying “why” and “how” questions i.e. to get a deep understanding of the subject. Third, it is further appropriate to undertake when studying a relatively new research field.

### 3.2.3 Choice of Methodology

In general, one can either use mono-method, i.e. single data collection, multi-method, where several quantitative or qualitative techniques are used to collect the empirical material, or mixed methods, where both quantitative and qualitative techniques are applied (Saunders et al., 2016). To precede this study, we decided to apply a qualitative multi-method technique, mainly through semi-structured interviews with respondents from IKEA and Stora Enso, but also through archival research of company reports.

The use of several sources of data is also referred to as “Triangulation”, which Saunders et al. (2016) argues increase the quality of the study. By using more than a single method, one can take advantage of the strengths and weaknesses of the different techniques, reducing the risk of missing valuable information in the collection processes (Saunders et al., 2016). Thus, triangulation was used, through semi-structured interviews and archival research to assess the research questions and answer the purpose in a trustworthy way. Furthermore, the triangulation was additionally strengthened since we interviewed employees from different departments (sustainability, sourcing, purchasing, business developer), providing us with inputs from different perspectives. In regards to the research questions, we believed that the aforementioned choice of method was the optimal alternative, in contrast to applying mixed methods, or a quantitative mono-method study.

According to Saunders et al. (2016), qualitative techniques is especially well suited for exploratory studies, where experts within the particular subject are a superior source of data collection. With this in mind, we believed that a mixed-method would not necessarily contribute with any significant benefits compared to qualitative multi-method/triangulation, as would have been the case if any of the research questions had been of descriptive or explanatory nature (Saunders et al., 2016). Moreover, explanatory choices suits questions regarding causal relationships between different variables (Saunders et al., 2016), which were not the purpose of the research question assessed in this study.

### 3.2.4 Time Horizons

A study can either be cross-sectional or longitudinal in the context of the time horizon, i.e. how the findings of the research relates to time (Saunders et al., 2016). This study is of cross-sectional nature, where the issue of how MNCs assess their second-tier regarding sustainability is a snapshot of how they do so at the time of investigation. The main reason behind the choice of cross-sectional was time constraints. However, Saunders et al. (2016) suggest that longitudinal studies can be performed even during shorter periods, through analyses of older secondary data about the subject. Though, since the chosen subject is
fairly new and there is a lack of previous research within it, this alternative was not an option. Easterby-Smith et al. (2008) suggest that quantitative data collection techniques are frequently used within cross-sectional studies, but that qualitative case studies are applicable as well. Thus, the appropriateness of a cross-sectional time horizon in this study was high.

3.3 Data Collection Techniques

There are several different techniques one can use in order to collect the data needed for the thesis. However, the choice of technique is highly dependent on the previous choices of the study, such as research questions, research approach, and research strategy (Saunders et al., 2016). In this study, the data collection techniques were, as been mentioned earlier, semi-structured interviews, as well as utilizing organizational documents through archival research. According to Easterby-Smith et al. (2008), qualitative semi-structured interviews are particularly preferable when seeking answers to open-ended and multifaceted research questions. This section serves as the research tactic of the study.

3.3.1 Semi-Structured Interview

Saunders et al. (2016) suggests that there are three ways of conducting qualitative interviews: structured interviews, semi-structured interviews, and in-depth interviews. In general, these types differ in the way they are formed. An interview can either be rigid and based on predefined questions (Structured interview), informal, similar to an ordinary conversation (In-depth interview), or somewhere in between these two (semi-structured interview). According to Healey (1991), these can also be categorized as standardized (structured interviews), and non-standardized (semi-structured and in-depth interviews). In the case of a standardized structured interview, the goal is often to collect empirical material for a quantitative study. Thus, the respondent is provided predefined alternatives as response to the given questions. The opposite of structured interviews is in-depth interviews, where no questions are defined prior to the interview (Saunders et al., 2016).

The non-standardized alternative semi-structured interviews consist of a different procedure, where a subject and general questions is defined prior the interview, serving as a guide. It is not crucial to ask the question in the exact order as stated in the interview guide, since it is of more value to get a flow in the conversation. To ensure that no important information is missed, the interview should be recorded (Saunders et al., 2016). In the contrary to the structured interview, the data collected through a semi-structured interview is analyzed through qualitative tools (Saunders et al., 2016).

With the research questions and purpose of this study in mind, semi-structured interviews appeared as the superior choice of data collection technique. A standardized interview would increase the risk of missing valuable information, especially since the topic is rather new and there is a lack of previous literature to base the questions upon. The use of an in-depth interview would increase the risk of missing data connected to the research questions, since you cannot steer the interview in the same way as in a semi-structured interview. Additionally, Saunders et al. (2016) suggest that semi-structured interviews are a suggestive technique when conducting a case study.

However, it is important to be aware of potential shortcomings of the chosen collection technique. According to Dalen (2007), it is of vital significance to create trust and confidence between the respondent and us as researchers. If this fails, the respondents may be reluctant to share any detailed insights or information, which hurts the quality of the
study. Our own bias as researchers is also important to consider. In this study, both authors were employed at the companies investigated during data collection. This fact may influence our analysis and interpretation of the empirical material (Dalen, 2007), and it is crucial for us to keep an objective standing as a researcher. To reduce this risk, no interview was conducted with respondents, which we had any prior relationship with.

### 3.3.2 Archival Research

As been mentioned earlier, we decided to perform an archival research as a complimentary data collection technique, in order to not miss any valuable data. This type of collection technique makes use of internal and public corporation documents, which reflects the daily processes at the organization (Saunders et al., 2016).

Archival research concerns data not gathered to answer any scientific research questions, which would make it secondary data. This requirement put high demands on us as researchers during analysis and interpretation. Bryman and Bell (2015) suggests that one of the major advantages with archival research is that the data is non-reactive, which means that errors such as reactive effects by respondents, hurting the validity can be disregarded. However, Scott (1990) has coined four aspects connected to the quality of the data that needs to be considered when contributing an archival research. These are: authenticity, credibility, representativeness, and meaning. By being aware of all these criteria and assessing all documents with a standpoint in them, we reduce the risk of quality errors. Thus, we applied this perspective during the collection of archival research data.

Scott (1990) has also divided the types of documents one can use as either personal or official documents. Personal documents regards data such as journals and letters, while official documents regard corporate and state published documents (Bryman & Bell, 2015). However, organizational documents can be considered as an external category, which we have chosen to utilize in this study. These kinds of documents are published by the companies themselves, and are often accessible to the public. According to Bryman and Bell (2015), credibility and representativeness is particularly important to consider when handling official documents, where authenticity and meaningfulness may be less of an issue. This has been taken into consideration during the analysis, where we have kept an objective and critical standpoint.

In this study, organizational documents and sustainability reports have been investigated and analyzed. These have all been collected through virtual public sources, such as the companies’ websites.

### 3.3.3 Interview Guide

An interview guide was developed prior to the conducted interviews. The interview guide was adapted and customized to match the particular respondent’s position and knowledge in question, suggested by Saunders et al. (2016).

The guide is divided into three meta-categories, which will ease the analysis of the interview. Each category is grounded in the research questions of the study. The categories are: Second-Tier Supplier Prioritization, Second-Tier Sustainability Compliance, and Supplier Network Investigation. These categories were identified by us, and cover the major areas of investigation. Since the interviews are semi-structured, the guide was not followed strictly, and there was room for follow-up questions. The interview guide can be found in the appendix.
3.3.4 Selection & Sampling of Cases

When performing a multi-case study there is, according to Voss et al. (2002), crucial to select and frame the right cases. The framing consists of two significant steps. First, identify what you actually can study, and then connect to the purpose and research questions. Second, make a relevant sampling frame (Huberman & Miles, 1994). The cases shall also either predict similar results, or produce contrary results (Voss et al., 2002).

First of all, the samples are small by definition when it comes to case studies (Gerring, 2006). Unlike quantitative studies, qualitative case studies need to be sampled based on a non-randomized sampling technique (Gerring, 2006). There are several sampling techniques one can use when conducting a case study, but when focus is on in-depth understanding and a small sampling frame, purposive sampling is common (Neuman, 2005). The sampling technique we applied is purposive, and the one conducted is deviant sampling. The rational is that the choice of cases is highly dependent on our purpose and research questions, and the case companies chosen are scoring high in sustainability scorecards and can therefore be seen as “exceptions to the rule”. The objectives will be described subsequently.

Thus, the sampling objectives of this study were clear upon selection; the cases had to consist of two MNCs working actively with supplier sustainability, and actively approached second-tier suppliers in this work. We further wanted to investigate companies from two different industries, possessing different position within their supply chain. This was set as prerequisites in order to capture a broad picture of how the subject of sustainability is approached by MNCs, where industries and supply chain position might have an impact on how to manage these issues. Further, the case companies (IKEA and Stora Enso) shall be well known as outstanding for their sustainability practices, in order to ensure that it will be possible to investigate their sustainability actions in regards to second-tier suppliers.

3.3.5 Interview Respondents

We have selected our interview respondents carefully, in relation to the purpose and to research questions. When sampling interviewees in qualitative research there are several aspects that need to be considered, and Bryman & Bell (2015) states that a lack of transparency is common when undertaking qualitative research and it is highly related to the sampling process.

In order to fulfill the purpose we decided to demand that the organization, which the interviewee is employed by, must be either the focal firm, or a supplier. We also considered second-tier suppliers, but since the focal firms do not have a contractual relationship with them it was difficult to identify a relevant second-tier supplier. Furthermore, respondents shall possess a position that gives him or her a deep insight and knowledge regarding the sustainability work with second-tier supplier sustainability of the firm. These demands are essential for the purpose and to the research questions.

First, in order to identify how a focal firm ensures second-tier sustainability, we needed to interview respondents who are involved in these processes, namely sustainability managers, purchasers, business developers, and other relevant people with insights of the involved firms. Second, in order to investigate the prioritization between second-tier suppliers we needed to interview people that are involved in the sustainability questions in regards to suppliers/second-tier suppliers, namely sustainability managers and
purchasers/purchasing managers/business developers. Third, we want to investigate if a focal firm investigates their supplier's industrial network before entering a partnership. In order to deal with this, we need to conduct interviews with respondents who are involved in sustainability and sourcing issues, and here it was relevant to interview sustainability managers of either the focal firm, or a supplier. These three requirements has been emphasized when approaching respondents within this study:

Table 3: Requirements on Respondents

<table>
<thead>
<tr>
<th>Requirements on Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involved in sustainability work at a focal firm, or supplier</td>
</tr>
</tbody>
</table>

Moreover, we have applied a type of “snowball-approach” (Saunders et al., 2016) when identifying respondents for the study. In order to identify relevant respondents we always ended our interview asking for recommendations of other knowledgeable persons within the field of sustainability, which could contribute with value to the thesis. Thus, in this sense we have used snowball sampling. However, the first interview respondents were selected and contacted based upon our need in order to answer the purpose and research questions. This could be done due to our networks within the two focal firms.

Furthermore, we have chosen to interview different sustainability managers within different product categories. We wanted to investigate how MNCs ensure second-tier sustainability on a broad level, rather than investing one single product category. Also, in order to enlighten the problem of second-tier supplier sustainability, it always differs from case to case, where different product categories face different challenges. Table 4 is a summary of the conducted interviews, the respondents, their organization and position, duration of interview, date of collection, and finally how the interview was performed. The interview with the Sustainability Manager and Project Leader within Sustainability 3/3-2016 was performed together, as was the interview with the VP Responsible Sourcing and the Responsible Sourcing Manager, performed 11/4-2016.
It was our ambition to perform all interviews in-person at the respondent’s office. However, due to logistical constraints and non-matching schedules, about half of the interviews were performed via Skype, and two via email. Our last alternative was to interview via email, but in these two cases we did not have any other alternative due to non-matching schedules, although we received good and extensive answers. In advance to all interviews, the interview guide was provided to the respondents in order for them to prepare. According to Bryman and Bell (2015), this strengthens the dependability of the study. All interviews were opened with a brief introduction of the topic and thesis, followed by a confidentiality discussion. This was made in order to enable the opportunity to identify questions and areas suggested by the respondent, which could have been mixed conducting the interview according to a strict pattern.

3.4 Data Analysis Techniques

After the empirical findings have been collected, it further needs to be analyzed. According to Saunders et al. (2016) there are at least two types of data analysis, either qualitative data analysis or quantitative data analysis. This study has collected non-numerical data, and therefore a qualitative analysis is preferred. Qualitative data is mainly based on vocabularies through in-depth interviews and non-standardized data (Dey, 2003). Further focus is put on meaning rather than quantifying subjects (O’connor & Gibson, 2003). Due to this subject’s newness and complexity, a quantitative approach was not suitable in our case. Further, this study seeks conceptualization, which is another reason
behind our choice to not conducting a quantitative approach, but instead conducting a qualitative study containing semi-structured interviews and archival research.

According to Saunders et al. (2016) there are a least three types of techniques in order to analyze qualitative data. These are namely: summarizing of meanings, categorization of meanings, and structuring of meanings using narrative. This thesis is done using summarization and subsequently categorization in order to create a structure and to perform a solid data analysis.

Table 5: Data Analysis Techniques

<table>
<thead>
<tr>
<th>Technique 1</th>
<th>Technique 2</th>
<th>Technique 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summarizing of Meanings</td>
<td>Categorization of Meanings</td>
<td>Structuring of Meanings using Narrative</td>
</tr>
</tbody>
</table>

First, the interviews conducted have been transcribed. Additionally, we have summarized and analyzed company reports. Hence, the collected data has been summarized in order to identify key points, which have been brought up during the interviews and in the reports. By doing so, one can easily identify relationships between different themes, which can be of relevance for the purpose and the research questions of the study (Saunders et al., 2016). This enabled us to identify the significant themes within the data, which further helped us in the later data collection sessions.

Furthermore, in order to continue with the analysis we categorized the collected data. According to Saunders et al. (2016) this process involves two steps; developing the categories and attach those categories to a cluster of collected data. Categories are essentially labels or codes, which enables grouping of the data. By doing so, a great extent of structure is created (Saunders et al., 2016). Thus, we have developed an interview guide, derived from the purpose and research questions of the study. During construction, we also considered the theoretical framework, and in this way we coined categories, which enabled structure within the analysis. As mentioned earlier and been emphasized by Saunders et al. (2016), we derived the categories before we performed the actual data analysis. The interview guide consists of following main constructs: Second-Tier Supplier Prioritization, Second-Tier Supplier Sustainability Compliance, and Supplier Network Investigation. According to Saunders et al. (2016), a categorization that is aligned with the research questions makes it possible to discover relevant relationships and to identify important data, which enable us to come up with relevant conclusions.

In order to analyze collected data a template analysis was performed. A template portrays a set of categories, which is derived by the collected empirical material. Although, in a template analysis one is allowed to develop these categories before the data collection process actually begins, and they can be modified along the way (King, Cassell & Symon, 2004), and in our case we developed the categories prior to collection. This make the template analysis tool a mixture of both deductive and inductive approach, in contrast to grounded theory where the researcher constructs the categories after data collection (King et al., 2004). Additionally, when conducting a template analysis one shall develop the categories and thereafter analyze the data in order to identify themes, patterns, or relationships. During the analysis the empirical material will be compared to the theoretical framework. We have developed three main categories, which can be found in the interview guide, which are based on the research questions and the interview guide.
3.5 Research Quality

In order to ensure a certain level of quality in a qualitative study, credibility and trustworthiness need to be taken into consideration during conduction. When conducting a study, one can never be truly certain that the results actually imply what is concluded. This is particularly important when conducting a qualitative study, where the method has been criticized for lacking scientific thoroughness compared to quantitative studies (Cope, 2014). What has been pointed out as the downside of using a qualitative study are mainly; results is exposed to bias of the researcher, it regards subjective interpretation, and the outcome is not generalizable to other cases (Koch & Harrington, 1998).

However, by being aware of the major pitfalls along the way, the risk of ending up with false conclusions can be reduced significantly (Saunders et al., 2016). Hence, the vital importance of the research design, where a thorough and well elaborated methodology makes us aware of what to focus on, and what to avoid (Saunders et al., 2016). By making stringent and coherent decisions based on grounded information, we have reduced the risk of conducting a study with low sincerity. Moreover, regarding the trustworthiness of the study, Lincoln and Guba (1985) suggests five different areas of focus that needs to be taken into consideration. These are: credibility, dependability, confirmability, transferability, and authenticity (Guba & Lincoln, 1994). A brief description of all areas will be presented in what follows, as well as our actions in order to secure a high level of quality of the study.

According to Polit and Beck (2008), credibility in the context of qualitative research refers to the level of certainty of respondent’s perceptions and answers during interviews, as well as the researchers interpretation of it. A sign of high credibility is when a person with similar experience of the respondent recognizes and share the view presented. In order to secure a high level of credibility, Cope (2014) argues that the researcher needs to provide the reader with methods of observation and engagement. To attain a high level of credibility, we explained and discussed our chosen method thoroughly with all respondents. We also made sure to let them speak freely about our questions, to not bias the answers. Effort has further been made to avoid all forms of leading questions. Regarding our interpretation of the collected material, we have always aimed at keeping an objective stand. However, since we use an interpretivistic philosophy, we do realize that our own beliefs and values may have influenced our perception of the empirical material. By being aware of this issue, we increase the possibility to detach our own bias to the result.

Moreover, dependability of a study concerns its consistency, where a study is perceived as possessing high dependability if the same findings would be discovered by a researcher conducting it the same way, with comparable respondents (Polit & Beck, 2008). By conducting interviews with several respondents in charge of sustainability issues for both cases, we believe that we reached a level of saturation, where several independent employees have verified statements of others. We have also conducted interviews at one supplier of both companies, to complement what representatives for both cases have expressed. Data triangulation was also applied to increase dependability, where sustainability reports and CoC of the companies has been analyzed. However, it is not to guarantee that our findings are applicable to other companies, since it may be specific to our cases. Nonetheless, by interviewing respondents independent of each other as well as complement it with archival research, we believe that the dependability of this study is high.

Furthermore, confirmability aims at the researchers ability to present findings in an objective way, where the data should be as free from bias as possible (Polit & Beck, 2008).
To secure confirmability, Cope (2014) suggests transparency throughout the study. To achieve this, we have described the way of how we conducted the study as detailed as possible. By attaching the interview guide in the appendix, we have provided future researchers the opportunity to test our findings based on the same questions. However, follow-up questions, which are a part of semi-structured interviews, are not included. This may reduce the level of transparency of the study. Additionally, transferability refers to which extent the results of a study can be transferred to other settings (Polit & Beck, 2008). Transferability is mainly a concern for studies aiming for a generalizable result, which is not the purpose of this study. Hence, transferability is a minor concern.

The last area, authenticity, regards the researchers ability to express the respondent’s feelings and perspective in a correct way (Polit & Beck, 2008). To achieve a high level of authenticity, quotes from which we base our conclusions upon are presented, a method suggested by Cope (2014). In order to push the authenticity even further, descriptions of the context it is taken from is provided in table 4. By being aware of these four areas, transferability excluded with regards to the purpose, we have increased our chance of conducting a credible and trustworthy study.

3.5.1 Research Ethics

As a complement to the aforementioned discussion regarding trustworthiness and credibility, a brief segment of the research ethics will be presented. Saunders et al. (2016) argues that privacy, voluntarily participation, confidentiality, as well as effects on participants of how we used and analyzed the data should be addressed during the conduction of a research.

Regarding privacy, we decided to keep all respondents anonymous. This may reduce transparency to a certain degree. However, by including the title of all participants, as well as which company they represent, we believe that the reader gets a fair view of where the data was collected. The question of including respondents’ title was touched in all interviews, where no respondent felt unease regarding the request. Prior to all interviews, the purpose of the study was explained to all respondents, where they got the opportunity to ask questions regarding the topic and their contribution. In this way, all respondents participated on fair grounds, and voluntarily.

To ensure confidentiality, the discussion was always covered in the beginning of the interviews, together with the request to record it. All respondents received the opportunity to review and revise what has been used from their interviews in one of the later versions of the study, and make changes if they found any irregularities or errors in the material. If they felt unease by the content, we offered them the opportunity to exclude their contribution. This was done in order to ensure that the study was conducted in an ethical way, and that no participant felt blind-sided by the material presented.

Furthermore, transcriptions and data have only been stored on our personal computers, with no external persons having access to it. This was done as an action to ensure both participants and the companies’ confidentiality. Moreover, the data has been used for the purpose of this thesis and this purpose only. By using the APA system of citation, we have clearly declared where all theories are derived from in a responsible way. The conclusions and ending discussion are based on the data throughout the study.
4 Empirical Findings

In this chapter, the empirical findings collected will be presented, where IKEA & Stora Enso are separated.

4.1 Introduction

The outline of this chapter is constructed in following order: first explanations of the chosen cases will be presented, where basic information as well as illustrations of the companies supply chain is provided. The data collected from the interviews and the company reports will be presented based upon the constructions originated from the interview guide. These constructs are derived from the purpose, the research questions, as well as previous literature, which provide a simple design of the empirical findings. The constructs are: Second-Tier Supplier Prioritization, Second-Tier Supplier Sustainability Compliance & Challenges, and Supplier Network Investigation. To enhance the structure, the findings of IKEA and Stora Enso will be presented in separate sections.

4.2 Case Descriptions

4.2.1 IKEA

IKEA is a Swedish furniture company founded year 1943 by Ingvar Kamprad. Currently IKEA has 335 stores in a total of 37 different countries. It is a value-driven company striving to offer affordable furniture to a wide market. Further, IKEA is a company working rigidly with sustainability. The company has received many awards for their extensive sustainability actions (The Guardian, 2015; Green Retail Decisions, 2016). The supply chain structure of IKEA within the categories we have investigated within this study can be seen in the figure below. The first-tier supplier is a manufacturer, where the second-tier supplier is the direct supplier of the first-tier.

![Figure 5: IKEA’s Supply Chain Structure](image)

Below is a table illustrating basic information regarding IKEA’s operations, as well as their supply chain network.

<table>
<thead>
<tr>
<th>Core business</th>
<th>Furniture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>28.7 billion euro</td>
</tr>
<tr>
<td>Employees</td>
<td>147,000 employees</td>
</tr>
<tr>
<td>Amount of Suppliers</td>
<td>2,511 suppliers</td>
</tr>
<tr>
<td>Amount of Second-tier Suppliers</td>
<td>18,954 second-tier suppliers</td>
</tr>
</tbody>
</table>
4.2.2 Stora Enso

Stora Enso is a Swedish-Finnish company, founded 1998 after a merger between Stora AB and Enso. The company is producing pulp and paper mainly acting in Europe, Asia, South America and North America. Stora Enso is a company known for its sustainable operations, and has been ranked high in several different lists regarding their sustainability work (Gaia, 2016; GlobeNewswire, 2015), especially within the product category Wood Supply. In other categories, Stora Enso has faced challenges connected to sustainability at higher tiers, which makes them an interesting company to investigate. Stora Enso’s supply chain is slightly different from IKEA’s, where the first-tier suppliers can be both trades and actual suppliers. The trader’s role in the supply chain can be described as an intermediary actor, connecting Stora Enso to suppliers within specific markets. The use of traders is necessary when it comes to certain geographical regions, where a trader represents numerous amounts of smaller suppliers, or when the timber comes from longer distances. Within this supply chain structure, Stora Enso has a legal contract with the trader who in turns connects them with a supplier. However, Stora Enso does not have any agreement directly with the supplier in those cases. In this sense, the traders are regarded as the first-tier, where the suppliers connected to Stora Enso is the second-tier.

![Figure 6: Stora Enso’s Supply Chain Structure](image)

Below is a table illustrating basic information regarding Stora Enso’s operations, as well as their supply chain network.

<table>
<thead>
<tr>
<th>Core business</th>
<th>Forest, Pulp and Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>2.5 billion euro</td>
</tr>
<tr>
<td>Employees</td>
<td>26,000 employees</td>
</tr>
<tr>
<td>Amount of Suppliers</td>
<td>30,000 suppliers</td>
</tr>
<tr>
<td>Amount of Second-tier Suppliers</td>
<td>Unspecified</td>
</tr>
</tbody>
</table>

4.3 IKEA

4.3.1 Second-Tier Supplier Prioritization

According to their sustainability report IKEA has approximately 19,000 second-tier suppliers, where roughly 2000 second-tier suppliers are regarded as critical. In order to find out how IKEA prioritize between second-tier suppliers in their massive network, we asked relevant questions in relation to this research question. Several of the respondents did highlight the issue of the vast amount of second-tier suppliers during our interviews; it is a...
major challenge to investigate all of them. Therefore, IKEA has chosen to prioritize the second-tier suppliers identified as critical within their network. A project leader within sustainability explained that a second-tier supplier is to be perceived as critical either if the processes performed are dangerous for the workers or the environment, or if the second-tier supplier operates in an industry that is prone to forced- or child labor.

“At the second-tier, where the amount is huge, it would be very resource demanding to have same working methods. Full IWAY on all second-tier suppliers would require a massive amount of audits. We have already 80 auditors plus external auditors. So, it differs, it is about priorities”

This is also confirmed in the IWAY, IKEA’s CoC. Furthermore, several criteria for critical second-tier suppliers have been identified during our interviews. We have consciously interviewed sustainability managers from different business areas and product categories, in order to illustrate differences between priorities and challenges depending on which product category it regards. From the interviews, it was clear that the geographical area plays a significant role when identifying which second-tier supplier to put focus on. This is important because of the differences in laws i.e. social and culture variables, between different regions. At least two sustainability managers mentioned that this is one indicator when identifying critical second-tier suppliers. Furthermore, IKEA has faced IWAY compliance challenges within certain geographical regions when it comes to second-tier suppliers. Consequently, those second-tier suppliers located in critical areas are in general regarded as critical. Hence, they are prioritized above second-tier suppliers that are not located in critical areas. One sustainability manager illustrated this with an example taken from Southeast Asia; a region known historically for facing labor issues. Therefore, suppliers from this region are perceived as critical. This was further confirmed during our visit at a Swedish first-tier supplier to IKEA, where it was suggested that their suppliers were most likely not viewed as critical.

“If a second-tier supplier originates from that specific area (Asia), they are being called a critical second-tier supplier”

Furthermore, there are other variables than geography included when deciding which second-tier suppliers to prioritize. Power is another factor IKEA takes into consideration, where a sustainability manager implied the magnitude of power structure within the specific industry. Another variable regarded is the criticality of the processes. If the processes of a specific product category are viewed as risky, the second-tier supplier is perceived as critical as well. One example brought up by a sustainability manager is within the product category of metal. In the metal category, traceability of the material is challenging, which is a major issue, since it indicates lack of transparency of the value chain. This does further align and merge with the geographical issue; a process might be perceived as more critical in one region than another, according to the same sustainability manager. Moreover, in general terms, developed and developing countries can also serve as a differentiation, where suppliers from India is perceived as higher risk than suppliers from Sweden, as an example. Nonetheless, a sustainability developer did clarify that it further depends on the product category, during our interview:

“For example, a supplier in India is a higher risk than a supplier in Sweden, that is how one in general define developing countries as well as developed countries”
Another important factor discovered is the level of maturity of relationship between IKEA and their supplier, where long-term business partnership is the goal. When IKEA assess a supplier where they have a prior successful history, more responsibility regarding ensuring sustainability compliance is handed over to the first-tier supplier. Hence, those suppliers, IKEA’s second-tier suppliers, become less prioritized. A project leader within sustainability states:

“Take supplier x for example, this relationship is mature and therefore it is to some extent up to them to check their suppliers, otherwise it could be strange if we ask them for contact with their suppliers”

So, the issue of prioritization is highly dependent on the question if the second-tier supplier is perceived as critical or not. However, if major companies would fail in the supply chain NGOs are often the ones discovering it and spreading the news to the world. Therefore, when IKEA focus on critical material or critical processes they often consult NGOs for guidance. A sustainability manager stated that IKEA often consult NGOs regarding sustainability issues, since they possess advance competence regarding sustainability challenges between different areas and regions.

“We take help from NGOs that are good at analyzing these types of things”

This is confirmed in the sustainability report, where the chemical industry serves as an example. Here, IKEA cooperate with NGOs, but also governments, to phase out dangerous and hazardous materials. Furthermore, during our interviews with the sustainability managers, as well as the sustainability developer we discovered one of the most interesting findings regarding prioritization; the mapping tool of IKEA called Sub-Supplier Tracking System (SSTS). SSTS is a tool IKEA utilize on all second-tier suppliers within their network. It essentially requires all first-tier suppliers of IKEA to register their suppliers (IKEA’s second-tier) in the system. The tool is used in order to screen all second-tier suppliers, and to identify which ones that shall be perceived as critical and non-critical. Once a first-tier supplier logs their suppliers in this data system, the system itself automatically identifies which ones being critical and that shall be prioritized by IKEA. This tool is further used to monitor the audits conducted at the second-tier suppliers, where the auditors need to register the results from the supplier audit in the web-based tool. The criteria that SSTS takes into account are; health & safety, environment, child labor, and forced & bonded labor. The sustainability team leader also expressed that geography is a major aspect that the system takes into account. SSTS evaluates these variables and the processes of the second-tier supplier, suggesting where to put focus, and which second-tier supplier that shall be perceived as critical as well as non-critical. Thus, this system essentially decides the prioritization of IKEA.

4.3.2 Second-Tier Supplier Compliance & Challenges

IKEA have a clear strategy regarding how to face the issues of second-tier suppliers, which is expressed both in the IWAY and the sustainability report of 2015. Due to IKEA’s massive and extensive network, responsibility for certain second-tier suppliers is handed over to the first-tier suppliers. This was confirmed by several of our respondents, as well as the IWAY. However, IKEA still perform audits and compliance checks on their own, with a special focus on critical second-tier suppliers.

“Our suppliers are responsible for communicating IWAY must requirements with critical off-site sub-suppliers and ensuring their compliance”
Furthermore, as expressed in the first section, IKEA differ between non-critical second-tier suppliers and critical second-tier suppliers here as well. Although, the first-tier supplier is still supposed to communicate the IWAY-requirements to all of its suppliers. The assistant to CSO Steve Howard explains this further:

“The supplier is also responsible to communicate the IWAY standard to all their suppliers”

In order to get an insight in how IKEA actually deals with their work of both investigation and ensuring compliance at second-tier suppliers in reality, we conducted an interview with a first-tier supplier of IKEA. As stated in IWAY and the sustainability report, the first-tier supplier confirms that IKEA are very strict regarding the demand that second-tier suppliers shall sign IWAY, as the first-tier. The purchaser of the first-tier supplier stated:

“We have the same requirements for our suppliers, they need to sign IWAY, if not they will not be our suppliers, in a sense they become IKEA’s suppliers as well”

Moving forward, for first-tier suppliers full IWAY compliance is required, while second-tier suppliers only need to live up to the first chapter of IWAY, which is referred to as IWAY musts. This reveals a lot about the stringency of the IWAY. Though, there is a difference between just passing requirements along and to follow it up. Our interviewees from IKEA stated that compliance audits are performed at suppliers, general agreement second-tier suppliers (general agreement in this context means that IKEA have a legal contract with the second-tier supplier, who further supply their first-tier), and critical second-tier suppliers in a standardized and fixed way. However, some respondents stated that IKEA do not perform audits on their own at non-critical second-tier suppliers on a regular basis. A sustainability manager explained:

“The critical second-tier supplier must undergo an IWAY must audit. For the non-critical suppliers, I do not think that we do anything regarding that area”

Moreover, IKEA does have direct contact and discussions with second-tier suppliers, but not in a standardized way. To clarify; all second-tier suppliers must sign IWAY and by that they promise to follow the CoC. Furthermore, the first-tier suppliers are responsible to ensure that their suppliers do comply with these requirements. Hence, the first-tier suppliers of IKEA are in fact responsible when it comes to compliance. If the supplier wants they are allowed to perform follow-ups through a third party auditing firm. Although, our findings do indicate that IKEA do perform audits at critical second-tier suppliers.

As been aforementioned, second-tier suppliers who are not perceived as critical are prioritized differently. Here IKEA again put a lot of responsibility on the suppliers to ensure sustainability, where the suppliers are responsible to follow up the second-tier suppliers and keeping them informed about the demands of the focal firm.

“The big group of second-tier suppliers where we do not perceive geographical risk of some kind, those become informed and here we expect a lot from our supplier”

So, the first-tier suppliers are supposed to perform audits themselves in order to ensure that their suppliers fulfill the CoC. A purchaser at the first-tier supplier of IKEA stated:
"Then they have audits, where they make field visits to check that everything is carried out accordingly, and we are also supposed to perform audits on our suppliers."

Moreover, a sustainability manager clarified that the intention of IKEA is not to be an auditing firm. Although the focus on critical second-tier suppliers has been on the agenda for a long time, IKEA emphasized value alignment and cooperation with their first-tier suppliers in order to assess sustainability challenges, which further creates opportunities. Since IKEA is a global company operating on many different markets, they also need to consider cultural differences when assessing suppliers. This means that their work with second-tier sustainability varies severely between product categories. Regarding a shared value base a sustainability manager express:

“It is not enough to only have an auditing control or function to audit. It is rather about building up a shared value base, that we share the same view of doing things.”

The type of collaboration and assessment of second-tier suppliers does also differ accordingly, where IKEA mainly collaborates with the first-tier suppliers, but also with the critical second-tier suppliers to some extent. IKEA offers education within sustainability and get support from knowledgeable NGOs, which is perceived as an investment internally, a sustainability manager stated:

“For a critical second-tier supplier, it can require a lot more education from our side or from a NGO or a third party audit firm”

Furthermore, IKEA do collaborate actively with their first-tier suppliers primarily, but also with certain second-tier suppliers. This is the case for second-tier suppliers whom IKEA has a general agreement with. A sustainability manager stressed that collaboration can take many different forms at IKEA, but workshops, education, as well as cooperative projects are the types being emphasized. Additionally, a collaboration tool used by IKEA is the “supplier sustainability scorecard”, which is used as an improvement tool evaluating supplier’s sustainability performance. By applying this tool IKEA can identify improvement areas at the suppliers. Hence, today this tool is mainly used for suppliers, but it is also applied at some critical second-tier suppliers. A sustainability developer stated:

“It is used in the selection process, where we want to see which supplier we want to work with. After this process, we use the scorecard more as improvement and collaboration”

In order to ensure sustainability among second-tier suppliers, it is clear by IKEA that the first-tier suppliers have a significant role. To improve collaboration with second-tier suppliers a sustainability manager at IKEA emphasized the importance of having a dialogue with the supplier. In order to be as efficient as possible regarding this it is required by both parts to be transparent and share information, since the non-contractual relationship between IKEA and the second-tier supplier makes things complicated.

“What you can do as a company is to make all the first-tier suppliers aware of what we stand for, it is a dialogue between us and the supplier.”

Today’s sustainability work with the second-tier is mainly about auditing and ensuring compliance of IKEA’s CoC. Hence, in the future there will most likely be a positive shift towards collaboration instead of assessment. However, a sustainability manager stated that
there are some collaborative projects ongoing with second-tier suppliers at the time of the interview, where critical second-tier suppliers are included. Then it is not only to ensure compliance, where higher tier can offer advanced competence regarding raw materials. If IKEA can exploit this competence they might develop new sustainable solutions. This would be possible through collaboration. As it appears there is a shift ongoing towards collaboration with second-tier suppliers. Although, before entering a collaborative partnership, a standardized IWAY check is always performed. A sustainability manager stated:

"The further down you go you find a lot of competence in especially raw material"

One example of collaboration performed by IKEA can be found within the product category of textiles. Here IKEA is collaborating with several textile actors, numerous from Sweden, four suppliers from China, as well as two second-tier suppliers from India. According to our archival research this is one of the first times IKEA collaborate fixed and actively with second-tier suppliers, as stated in the sustainability report. However, they are seen as critical second-tier suppliers. Another sustainability manager stated that IKEA strive to have the same approach towards all second-tier suppliers in the future.

From our interviews with the respondents representing IKEA, as well as their first-tier supplier we can clearly distinguish that IKEA ensure second-tier supplier sustainability in several different ways. First and foremost, IKEA’s approach is highly dependent on the product category. The approach taken by IKEA is mainly auditing, but also collaboration to some extent. This has mainly been done with first-tier suppliers, but cases with second-tier suppliers have occurred. Secondly, the decision of which approach to undertake is highly based on the question if the second-tier supplier is perceived as critical or not. However, it all depends on the purpose of the approach: if it regards ensuring or if it has a collaborative purpose.

When ensuring second-tier sustainability compliance a MNC face various challenges due to their enormous network. The assistant of CSO Steve Howard express that the greatest challenge IKEA face when ensuring compliance among the second-tier suppliers are training and competence creation at the suppliers, since they are an important actors when ensuring sustainability at the second-tier. Other issues brought up during our interviews were: distance, complexity, as well as the extensive network of second-tier suppliers. IKEA does further face issues when deciding whether a second-tier supplier is critical or not, where should the line be drawn? The non-contractual relationship does also complicate second-tier sustainability compliance, since it might be legally challenging to perform audits. This was further emphasized by one of the sustainability managers, who highlighted that a shared value base and a mutual dialogue could mitigate this problem. Another major challenge that several sustainability managers mentioned is the issue of traceability. This seems to be a problem in many product categories. Moreover, prior to 2010 the sustainability organization at IKEA was different; there was no sustainability department within each and every product category. During 2010 the sustainability organization shifted form becoming fixed, e.g. all product categories have their own sustainability manager that works for this specific supply chain, which increases the knowledge, but also the ability to improve traceability issue.
4.3.3 First-Tier Supplier Network Investigation

When conducting interviews we did put focus on the network of the suppliers, since the second-tier suppliers are in fact direct nodes of the suppliers of the focal firms. If a supplier got a major network of suppliers that cannot fulfill the IWAY must requirements, reaching compliance within a reasonable timeframe will be problematic. Therefore, in order for IKEA to ease this process it might be necessary to investigate the suppliers network prior to signing a contract. In our interview with a purchaser at IKEA, it became clear that IKEA does investigate how the network of their first-tier supplier looks like to some extent:

"Very often in the procurement process we ask how many suppliers they have and then go backwards in the supply chain"

However, the process of mapping a supplier’s network is enhanced through the use of SSTS, where, as been aforementioned, suppliers need to log their suppliers during the procurement process. Although, this section mainly refers to how IKEA investigate the supplier before the procurement is undergone. As one sustainability manager stated, if it regards a supplier in a country (geography) known for using many critical second-tier suppliers, it is most likely that the issue of second-tier supplier comes on the table straight away. In other case IKEA communicates that IWAY must have to be fulfilled at the second-tier to their suppliers. Further, another sustainability manager suggested that they do ask suppliers where their suppliers are located; again the issue of geography plays a role.

"When we talk to first-tier suppliers we do ask: Where are your second-tier suppliers based?"

However, according to our findings there is no extensive first-tier network investigation in the procurement process. Although, it seems to be a discussed topic during the procurement process and it is clearly stated that all second-tier supplier need to fulfill IWAY musts, which in fact is up to the supplier.

4.4 Stora Enso

4.4.1 Second-Tier Supplier Prioritization

As been discussed in the literature, a MNCs supply chain consists of a vast amount of second-tier suppliers, making the task of working thoroughly with all impossible. During all our interviews we asked our respondents questions related to how the company they represents prioritizes between second-tier suppliers, and what factors being considered upon the decision of where to steer focus. The respondent working as Head of Procurement at the packaging division raised concern regarding the amount of second-tier suppliers, suggesting that one has to identify critical few second-tier suppliers, where effort and resources should be invested to make a greater impact. Managing all second-tier suppliers would be a task too immense, it was argued. When it comes to how Stora Enso identifies which suppliers to focus on, it is hard to generalize, and all cases are unique in its own way. However, the VP of Responsible Sourcing named geography as the single most important indicator when identifying first- and second-tier suppliers to look closer at:

"From our point of view, generally, the geography or geographical location is seen or used as the main identifier when looking at the risk profile of a supplier"
The significance of a supplier’s geographical location as an indicator was stressed multiple times during our interviews, where areas such as China, Russia, and Latin America receive strenuous focus. This is mainly due to differences in laws and regulations between countries, where some countries are stricter than others when it comes to environmental and social requirements. For example, the first thing Stora Enso looks at when sourcing Paper for Recycling is if the supplier is acting within whole EU, and if they are certified. If they are certified, it reveals they got a sustainable process and a large radius of business, making them less crucial for further investigation, and is regarded as key suppliers for Stora Enso. Additionally, countries prone to child labor are an additional indicator. This is a complex issue, where cultural differences also influence the implementation of sustainability standards, and needs to be encountered when approaching suppliers. However, it was highlighted several times that how to identify critical suppliers always depends on a numerous external variables, and it differs from case to case. One cannot apply one golden rule that can be used for all first- or second-tier suppliers when identifying critical ones.

In the case of Stora Enso, critical suppliers are defined and labeled as high-risk profiles internally within the company. In this context, the term is equivalent to the definition IKEA use when referring to critical suppliers. Hence, what Stora Enso mentions as high-risk profiles will be interpreted as critical suppliers in this study. Nevertheless, on general basis geography and the first-tier could be pointed out as the main indicators for which second-tier suppliers to prioritize highest, according to the VP of Responsible Sourcing:

“It is a bit challenging, there are so many but's, if's, depends, because it always goes down to the first-tier and geography”

Moreover, Stora Enso has developed a sustainability tool in collaboration with the non-profit organization BSR, a NGO. The tool is used to identify critical suppliers, and is based on multiple inputs. All suppliers in critical markets must be assessed by it prior to negotiation of contract, which applies to new, as well as current suppliers. The tool allows Stora Enso to get a holistic perspective of their network, and enables risk mapping of suppliers on a higher level than earlier, according to the VP of Responsible Sourcing. The tool is primarily used to assess suppliers within the first-tier of Stora Enso, but it does include second-tier suppliers as well, indirectly:

“It’s based on our direct supplier but it takes the supply chain into account, and the indexes are coming from the supply chain.”

The tool evaluates the country of origin of the supplier, where criticality is calculated by the use of four independent indicators. By incorporating these indicators into the risk-mapping tool, Stora Enso can subjectively determine whether a supplier’s origin should be considered as critical or not. In addition to the country aspect, origin of material, certifications possessed by supplier, which product category the supplier belongs to, exposure in media, and Stora Enso’s bargaining power in the relationship is further assessed by the tool. The idea is to evaluate the sustainability of the supplier in an objective manner. Below is the four indexes used for calculating the geographical risk:
The size of the first-, as well as the second-tier supplier does further influence Stora Enso’s prioritization of the supplier regarding ensuring sustainability compliance. For example, when dealing with MNCs, the supplier is already receiving audits and requirements from numerous additional stakeholders: it would not be efficient for Stora Enso to invest time and resources to make sure that they are complying to their sustainability standards as well. Since they are exposed to pressure from several other stakeholders, one can assume that they follow equal or stricter standards than demanded in the CoC. Therefore, focus is directed towards suppliers receiving less focus from others, identified through the risk-mapping tool. Though, it was underlined during our interview with the VP of Responsible Sourcing that Stora Enso does not ignore larger suppliers within their network, and the subject of CoC has been agreed upon. Rather, internal resources are steered in another direction, where Stora Enso relies on other actors regarding MNCs.

“It wouldn’t make any sense to audit those suppliers, since they are already audited and monitored by others. That’s why our controlling and follow-up process is based on the risk profile of the supplier.”

Furthermore, the supply chain structure is an additional variable influencing the scope of the focal firm when prioritizing between second-tier suppliers. When Stora Enso sources material through a trader, the need to scrutinize the second-tier suppliers takes an upturn. When dealing with a trader, traceability of the supply chain might decrease compared to sourcing straight from the original supplier, which forces Stora Enso to trace and identify the origin of the material. This might be difficult, where the supply chain structure may vary from case to case: some traders might have bought their materials straight from the forest owner, as well as from other traders. Thus, a second-tier supplier connected to Stora Enso through a trader becomes critical, according to the Responsible Sourcing Manager:

“Critical ones are those where we have poor traceability because they are traders, and they buy from other traders, or other private companies. You don’t know how those companies are collecting the material”

As a final note regarding second-tier supplier prioritization, the VP of Responsible Sourcing mentioned Stora Enso’s long-term relationship with its suppliers as a factor enhancing their sustainability work. By having a good business relationship with a long prior history, Stora Enso is aware of the supplier’s network and their particular supply chain. Thus, the identification of original source of the raw material is simplified, and the
opportunity to assess tiers beyond the first level is enhanced. By keeping suppliers for a longer period of time, prioritization becomes easier for Stora Enso.

4.4.2 Second-Tier Supplier Compliance & Challenges

In their CoC, Stora Enso touches the subject of how to ensure sustainability compliance upwards the supply chain, with a specific focus on second-tier suppliers. Essentially, it is stated that responsibility of ensuring and managing second-tier suppliers is handed over to the first-tier suppliers of Stora Enso, who is supposed to inform required standards to their suppliers, the second-tier of Stora Enso:

“The Supplier shall duly ensure and monitor that its own suppliers and sub-suppliers comply with this CoC or their own equivalent codes of conduct. The Supplier is liable for the performance of its sub-suppliers as for its own work.”

As can be understood, suppliers are not forced to communicate Stora Enso’s CoC in particular to the second-tier. Rather, it is the requirements of Stora Enso’s CoC that the second-tier suppliers have to comply according to. If, for example, the first-tier has equal or more rigid demands regarding environmental and social issues than what is required according to Stora Enso’s CoC, it may be communicated to the second-tier instead. This was confirmed during our interview with the first-tier supplier to Stora Enso, BillerudsKorsnäs, who communicates their own CoC to their suppliers. This has been agreed between the parts, since the first-tier supplier’s requirements are regarded, as at least equal to Stora Enso’s. The vast amount of second-tier suppliers is a part of the explanation to why responsibility is handed over. The amount of suppliers is named as one of the general challenges regarding ensuring sustainability at the second-tier level. This was emphasized by the Head of Procurement at Stora Enso Packaging, who further mentioned their dependency on the first-tier regarding the issue:

“They shall either use ours (CoC), they are allowed to do so, or they should have an internal, which they have to prove is in parity with ours. But they also need to show that they have an organizational system, where they show us that they can maintain control. The chain is massive, so in some sense we have to rely on our selected suppliers.”

However, before working with the second-tier suppliers, it is of significance to secure and work with the first-tier, and make sure that all standards are complied according to on that level first and foremost. It is not uncommon that companies spend insufficient amount of time at the first-tier in order to move on and work with the second straight away, according to the VP of Responsible Sourcing. This can be problematic, since one may not realize the challenges and issues that you have to deal with at the first-tier prior to working upwards the chain. Stora Enso takes this into consideration, where ensuring sustainability on the first-tier is prioritized. It was further suggested that it is more efficient to make an impact on a second-tier supplier by making sure that the first-tier understands the meaning of your sustainability standards. The VP of Responsible Sourcing at Stora Enso stressed this during our interview, and further highlighted the major issue with ensuring compliance at second-tier suppliers: the non-contractual relationship between a focal firm and a second-tier supplier:

“[…] Moving forward to the second-tier is never happening without working with the first-tier.”
“Legally, we never have, not even Nestlé or Unilever have legal contracts with the second-tier. They all go, generally with their first-tier supplier, or pushing their second-tier with their first-tier suppliers.”

The issue of the non-contractual relationship with the second-tier supplier enforcing responsibility and compliance is the main reason why focal firms must approach and treat second-tier suppliers differently compared to first-tier suppliers. According to the Manager of Responsible Sourcing at Stora Enso, agreement regarding the CoC with suppliers can serve as a guarantee that the supplier will comply to suggested sustainability standards: a non-existing guarantee when it comes to the second-tier suppliers. In these relationships, Stora Enso do not possess the same bargaining power as they do towards their first-tier suppliers, since they cannot apply the same treatment as with their first-tier suppliers. With them, Stora Enso reserve the right to terminate the contract if the supplier does not fulfill what is agreed upon in the CoC, which is possible since there is a legal contract between the parts. Thus, the non-contractual relationship is one of the greatest challenges regarding second-tier supplier compliance. Below is the Responsible Sourcing Manager’s answer on our question whether their approach towards first- and second-tier suppliers differs in regards to ensuring sustainability:

“Of course it differs because for the first-tier suppliers we have enforcement, direct enforcement, but with second-tier we do not have it. We are not guaranteed through any contract or whatever.”

Though, not to say that there are no strategies of Stora Enso regarding how to deal with non-complying second-tier suppliers. According to the same Responsible Sourcing Manager, the enforcement against the first-tier can be used as a form of leverage, where pressure can be put on the first-tier supplier to take responsibility for the situation. It is also emphasized that the first-tier have a responsibility to inform and report to Stora Enso once a violation against the CoC is identified, something that a focal firm have to rely on the first-tier supplier that they will do. Regarding the question if, and how Stora Enso follow up that their first-tier actually have communicated the requirements of their CoC, concerned was expressed about the difficulty of the task. However, during our interview with the Manager of Responsible Sourcing, it was reasoned once again that it is up to the first-tier supplier to ensure sustainability among its supplier, referring back to the CoC:

“How do we follow if our first-tier has communicated our supplier codes of conduct? Of course that’s difficult to check. What we require is what is mentioned in article 2.5 (of the CoC): that the supplier codes of conduct must apply in our suppliers supply chain.”

This statement was further confirmed during our interview with BillerudsKorsnäs, a first-tier supplier to Stora Enso. Mutual trust and a good business relationship were emphasized during our interview, where partners usually rely on each other when it comes to ensuring sustainability at the second-tier. This was clearly expressed by the Head of Business Development & Control at BillerudsKorsnäs, responsible for sustainability issues of the company:

“Our suppliers are respondents for us, and we guarantee our customers that they work according to codes of conducts. So the answer is, the message of Stora Enso’s CoC is delivered forward, but not the document itself, which I believe is right.”
Moreover, on our question whether Stora Enso had performed any kind of follow-up on BillerudsKorsnäs to ensure that the sustainability standards was communicated to suppliers connected to Stora Enso, the answer was negative.

“No, they have not. They do not follow up this, they trust our word.”

As been aforementioned, the supply chain structure of the particular product category influences the opportunity of working with second-tier suppliers. Traders, serving as a middleman, may have a negative influence on a firm’s chances of ensuring second-tier sustainability. The VP of Responsible Sourcing raised this concern during our interview:

“If you don’t have that many traders it’s easier to work with the second-tier or third-tier.”

During our interview with the VP of Responsible Sourcing and the Responsible Sourcing Manager, the product categories Wood Supply and Paper for Recycling was discussed and compared, where Wood Supply serves as a benchmark example regarding sustainability throughout the supply chain, and Paper for Recycling as a developing area. For both cases, traders are being used when sourcing raw material, as well as direct sourcing from the core supplier. However, one variable enhancing the sustainability work within Wood Supply is all external certifications that companies acting within the industry needs to possess in order to be accepted as a supplier. This was emphasized several times during our interview with the Responsible Sourcing Manager, who also suggested that the number of certified Wood Suppliers is so high one can assume that all first-tier supplier are approved. Example of these certifications are ISO 9.001 measuring quality performance, ISO 14.001 measuring environmental performance, and ISO 18.001 measuring Organizational Healthy and Safety Assessment series. Additionally, the industry is regulated under the European Timber Regulation (EUTR) and several other laws and regulation, making it prohibited to place illegal harvested timber on the market. These external factors increase the traceability within the industry. Stora Enso is also regulated under these conditions, and possesses the suggested certifications.

The certification factor does also apply when dealing with suppliers within chemicals, which is an industry regulated by strict demands, suggested by the Head of Procurement at the Packaging Division. Moreover, waste is extremely well managed and regulated when it comes to Europe, where Stora Enso source most of their Paper for Recycling. However, in certain markets the supply chain structure is uncertain, which has steered Stora Enso towards the decision to have a mandatory requirement for risk assessment in critical markets, as well as recommended in non-critical markets according to the Sustainability Manager:

“In Wood Supply it is easier because there are a lot of schemas in place, but in Paper for Recycling it gets rather critical because you can never be sure how many steps it is in the supply chain”

Regarding the question whether there is any direct contact between Stora Enso and their second-tier suppliers, it does occur. However, this shifts from case to case, where some second-tier suppliers raise concern demanding extra attention from the focal firm. Nevertheless, Stora Enso always goes through their first-tier when communicating or working with the second-tier. Hence, they never bypass their first-tier suppliers. On the question whether Stora Enso ever had direct contact with the second-tier, the VP of
Responsible Sourcing named examples in China and Pakistan, two critical markets where Stora Enso has made an extra effort to ensure compliance:

“Yes, for example in China. There are more example, but of course, even in Pakistan we are working more closely with the with higher tiers than the first one. It depends. It depends on a lot of factors. It depends on the category, it depends on the country, and it depends on the supply chain.”

The focus on ensuring sustainability compliance in Pakistan is a result of Stora Enso discovering the use of child labor by its suppliers in that specific geographical area. According to the sustainability report of 2015, suppliers acting on the Pakistan market got scrutinized attention, where both first-, as well as second-tier suppliers received audits executed by the joint venture in the country, partly owned by Stora Enso. In total, 395 supplier audits were conducted by the joint venture in Pakistan. Out of these 395 audits, 44 were conducted at second-tier suppliers, all within the category of agricultural by-products, according to the same annual sustainability report.

Furthermore, there are some cases where it simply is not possible for a focal firm to assess or work closer with the second-tier supplier. This may be due to many reasons, and again, local laws and regulations does influence, as does state ownership in any first- or second-tier, which could be the case when dealing with a supplier in China for instance. This reveals one of the delicate issues of ensuring sustainability at the second-tier for a focal firm, where one has to consider numerous external factors. The quote below is taken from our interview with the VP of Responsible Sourcing at Stora Enso, commenting how to prioritize between second-tier suppliers:

“It could be that automatically, there are categories where you will never investigate the second-tier. It does not mean that you don’t want to go there, or that you don’t need, it’s more that you can’t.”

Regarding the question whether Stora Enso put focus on assessment or collaboration when it comes to sustainability among second-tier suppliers, Stora Enso rely heavily on the traceability of the material, which reveals where the material origins from. Additionally, suppliers being responsible for ensuring sustainability among their suppliers complement this, as a way of assessment, as well as audits, which is performed if there is a concern that the CoC is not enough in the specific case. However, training and other collaborative activities are performed in some specific cases on first-tier suppliers, where the VP of Responsible Sourcing explained that geography is a big factor influencing the chosen approach:

“We have engagement, different kinds of engagement programs depending on the geography. For example in Russia we focus more on engagement, in China we do more audits. After the audits we have the follow-up of corrective action plan and have training, different kinds of follow-up audits if needed.”

At the end of the day, Stora Enso provides the opportunity of training and education to suppliers, where factors such as bargaining power, product category, geography, supplier attitude, and duration of the relationship decides the amount of effort invested. Though, assessment is the common approach towards ensuring sustainability, where certifications are significant within some categories. Additionally, Stora Enso’s approach towards sustainability is rather proactive, particularly within Paper for Recycling, where the company has developed labeling for bales materials, increasing the traceability.
Collaboration is also set up with the Confederation of European Paper Industries, in order to identify and develop quality control guidelines to be used within entire EU.

### 4.4.3 First-Tier Supplier Network Investigation

When discussing the question whether a supplier’s network was a variable evaluated during the assessment of a new supplier, all respondents representing Stora Enso confirmed the relevance of network investigation. This is particularly of interest when dealing with a critical supplier, suggested by the VP of Responsible Sourcing:

"Of course, if it’s a high-risk supplier you consider those things"

When the topic was brought up during our interview with the Head of Procurement at Stora Enso Packaging, it was suggested that the whole value chain is considered when choosing a new supplier. In practice, suppliers usually perform a presentation prior to selection, where the topic is discussed between the parts. However, it was mentioned that the pool of potential suppliers usually is not substantial in the specific case of the Packaging industry, which may affect the significance of network investigation.

"It depends on what it regards. But sure, we should look at their whole chain when during evaluation. But often times the case is that there are not 15 suppliers to choose between."

The Responsible Sourcing Manager further emphasized that this was particularly important within Paper for Recycling at Stora Enso, the developing area. To assess this, Stora Enso performs internal assessment where potential and current suppliers are evaluated, considering supplier network as well. During the evaluation, the sourcing managers at Stora Enso have a major responsibility, and they need to evaluate several aspects, sustainability being encountered as one of them. In the scenario of facing a situation choosing between two equal suppliers in a cost perspective, sustainability can be decisive for Stora Enso, as suggested by the Responsible Sourcing Manager during our interview:

"The awareness is very high from the sourcing managers. When they have same price from two different suppliers, they will always pick, and always consider the sustainability point of view."

As a final note on the topic, supplier’s network is something that Stora Enso does take into consideration during sourcing decision, as been illustrated in aforementioned quotations. However, it was further highlighted that it is not a crucial variable that Stora Enso focus on when looking at new suppliers, rather a compliment to other areas of interest that Stora Enso include in their evaluation.
4.5 Summary

Following table summarizes the key findings presented from the cases in prior sections. Since we divided the empirical findings between IKEA and Stora Enso this table shows the findings we received from the both companies summarized. Here it is easy to identify the differences between IKEA and Stora Enso when it comes to Second-Tier Supplier Prioritization, Compliance & Challenges, and last but not least Network Investigation.

Table 9: Summary of Key Findings

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5 Analysis

In the following chapter, the empirical findings will be analyzed through the theoretical framework presented in chapter 2.

5.1 Second-Tier Supplier Prioritization

From the interviews we identified numerous interesting findings that we have compared and analyzed in the light of our theoretical framework. As been emphasized multiple times, the amount of second-tier suppliers of these two focal firms is tremendous; thereby the question of where to put focus becomes an issue. Both companies highlighted this several times when it comes to prioritization, which further is emphasized by Choi et al. (2002), Mena et al. (2013), and Choi & Linton (2011). Based on these findings, we can also recognize that extensive networks still are a fundamental problem without a single solution; each company has their own customized approach towards it. During our interviews it became clear that both firms possess the power to actually influence their first-tiers, and also the second-tier suppliers in specific cases, this aligns with Mena’s (2013) suggestion about power in relationship, stating that bigger buying firms usually possess power towards their suppliers. With power comes the ability to investigate higher tiers (Tachizawa & Wong, 2014), a prerequisite for prioritizing among the second-tier suppliers. If a firm does not possess the power in its focal relationship, it is hard to influence the second-tier suppliers. In those cases companies tends to become a rule-keeper. Hence, investigated focal firms are identified as rule-makers in this study (Jørgensen & Knudsen, 2006).

Both companies prioritize critical second-tier suppliers highest, although the aspects considered making them critical differs to some extent. Nevertheless, one significant factor for both companies is the issue of distance and geography. Both IKEA and Stora Enso emphasized that the geographical location of the supplier plays a major part, where Stora Enso named it as the most decisive. Tachizawa & Wong (2014) mention distance as a variable that is of great importance when it comes to ensuring sustainability compliance, which goes in line with these findings. According to Tachizawa & Wong (2014) it mainly concerns physical, cultural and social distance, all named by IKEA and Stora Enso. Both companies commented the issue of child labor, as well as differences in regulation when it comes to reasons behind the magnitude of geography, which is referred to as social and cultural differences in the literature. This pinpoint one of the major issues for MNCs, and we suggest that the social and cultural distance is of greater significance than the actual physical distance regarding prioritizing. Alwaysheh & Klassen (2010) suggested that increased supplier distance leads to greater variety in CoC. This is confirmed in our findings, where respondents reasoned that if the second-tier suppliers originate from a culturally close region, they received less focus regarding sustainability. When social and cultural distance is low, anticipation that the second-tier suppliers are fulfilling the demands are made to a greater extent, leaving them more space. However, both companies reserve the right to perform audits, as a way of keeping control. Randomized audits do also occur, in order to control compliance.

Hence, there is a correlation between distance and effort of ensuring CoC compliance, where increased distance leads to increased attention. Distance is a “trigger” both companies emphasized during the prioritization process. Further, it is considered being challenging and problematic and an area that needs to be approached efficiently. Based on our findings, we conclude that this is crucial when identifying critical second-tier suppliers.
However, as been aforementioned the firms do consider other factors as well when distinguishing criticality, where industry, material criticality, first-tier supplier and supply chain structure are all encountered. First, we suggest that material criticality and industry is interconnected. There are major differences between prioritization and identification of critical second-tier suppliers between different industries, depending on the supply chain structure in the specific case. Hence, certain industries regard material criticality as more urgent than critical processes, and the other way around. This cohere with what Schneider & Wallenburg (2012) suggest, where they stated that social issues are more critical for the textile industry than other industries. Therefore second-tier suppliers producing textiles might be considered as a critical second-tier supplier. Consequently we argue that industry related aspects and material criticality is highly correlated.

Another approach highlighted by Stora Enso was to prioritize and identify critical second-tier suppliers through their first-tier. This strategy is performed in two ways, where a company first of all may consider all critical first-tier suppliers’ supplier to be critical, and in that way identify critical second-tier suppliers. In the second alternative the focal firm utilize the first-tier by handing over responsibility, being both time and financially efficient, which is the same approach as towards non-critical second-tier suppliers. The main reason behind this strategy is scarce resources. This scheme is partly supported by Anderson et al. (1994), who stated that both parts of a dyadic relationship benefit working through a mutual interest. On the other hand, the theory suggests that one should not perceive dyadic relationship as a separate unit independent from other relationships (Anderson et al., 1994; Håkansson & Snehota, 2006; Snehota & Håkansson, 1995; Van De Ven, 1976). We suggest that a global company’s strategy should be more proactive than solely utilizing the first-tier, where the focal firm becomes dependent on their competence. This is especially the case where development and influence is the major goal, as for critical second-tier.

Furthermore, another concern brought up by Stora Enso is the supply chain structure. In our empirical findings it became clear that prioritization depends on the governance of the specific supply chain, and which type of value chain the first-, and second-tier supplier is operating in. If both these suppliers already receives audits and requirements from other stakeholders, the focal firm often chose to prioritize these suppliers lower than others. This further illustrates the major difference between different supply chains and industries, and we suggest this as an explanation why this area is hard to investigate, and why it is fairly undeveloped. Thus, one single approach can never be universal. There are major differences; one cannot apply one approach for each specific supply chain. Therefore companies need to have different strategies when prioritizing between risk scenarios, which make it impossible to develop one golden theory that is used on a wider scale.

Moreover, as can bee seen in the findings, Stora Enso needs to source their material through traders where direct sourcing basically is not possible. In the occasions traders are being utilized, the supply chain structure becomes uncertain, where it is difficult to map out the exact track of the material and how many steps it has been transported. Use of traders decreases the traceability, creating a certain risk regarding sustainability. This aligns with the concept of in-closeness and node-centrality (Borgatti & Li, 2009; Freeman, 1977); the longer the chains are the higher risk for disturbances. This suggests that by utilizing traders in the supply chain, one sacrifices a big part of traceability, reducing insight and increasing the risk. Furthermore, Stora Enso’s use of traders can also be connected to betweenness (Freeman, 1977). In this sense traders should be regarded as key actors, since they are the
shortest paths connecting Stora Enso to several significant second-tier suppliers. Vital information and materials flow through the traders, making them crucial in the value chain.

The last notable aspect of prioritization is the IT-tools, serving as a base for identifying critical suppliers. Even though it is not a variable of prioritization, it is an important finding due to its determinant function of the prioritization activity. This finding has not been covered or discussed in previous literature, making it particularly interesting. IKEA uses a tool called SSTS, and Stora Enso uses a Risk-Mapping Tool, both developed by the company themselves in collaboration with others. The first tool mentioned is connected to second-tier suppliers and enables mapping of them, while the second is rather connected to the first-tier suppliers.

As mentioned by Anderson et al. (1994) and Håkansson and Snehota (2006), the relationships between different business partners are highly vital since it creates interdependencies, with the consequence that actions made by a higher-tier might have an impact on the focal firm. However, these web-based IT tools provide the firms an opportunity to get an overview of the second-tier suppliers, supporting them to prioritize between different actors in their extensive network. It helps the focal firms to identify which second-tier suppliers having the highest risk of harming their business. By being aware of these actors they can prioritize efficiently and invest their resources in the most efficient way in order to improve sustainability in their chain. Thereby, we suggest that it will be easier to get a further transparent overview of the entire value chain in the future. The evolving technology eases the process of keeping track of the second-tier suppliers, and makes the identification of critical ones more efficient than earlier.

5.2 Second-Tier Supplier Compliance & Challenges

As been showed and discussed in the empirical findings and previous sections, both IKEA and Stora Enso have identified critical second-tier suppliers within their network whom they have decided to scrutinize regarding sustainability. The effort towards critical second-tier suppliers differs from the ones consider to be non-critical in several ways. To illustrate the disparities, how IKEA and Stora Enso manage their non-critical second-tier suppliers will be discussed first, followed by critical second-tier suppliers.

In both cases, it was revealed that the initial step to approach sustainability in the supply chain is to hand over the responsibility of ensuring compliance among second-tier suppliers to the first-tier. As been discussed, this is stated in both IKEA’s and Stora Enso’s CoC. Laying over responsibility comply with Kaplinsky and Morris’s (2001) notion regarding the use of rule-keepers, where the first-tier shall ensure sustainability. Though, the approach of how to do so differs slightly between the companies. In the case of Stora Enso, it was clearly emphasized that the document itself was not to be handed over to the second-tier suppliers, rather the requirements that was stated in it. In contrast, IKEA demand their first-tier suppliers to both forward their CoC to the second-tier, as well as get it agreed and signed by all their suppliers. This can be compared to the importance of information sharing suggested by Ciliberti et al. (2009), who argued that shared CoC between focal firm and first-tier enhances the possibility of influencing the second-tier. Since IKEA has the requirement of everyone signing the CoC, there is no question of what to follow, which increases transparency and reduces complexity (Tapscott & Ticoll, 2003). The case where we interviewed Gyllensvaans, a first-tier supplier to IKEA, serves as a perfect illustration. Gyllensvaans did not have any internal CoC, but strictly followed and forwarded IKEA’s
CoC upwards their chain. If a supplier did not agree to sign IKEA’s CoC, they were excluded from their network. The fact that IKEA operates further away from the source of raw material than Stora Enso could be an explanation to the rigidity, where a signed CoC provides them certain amount of control and insight upwards the supply chain.

This way of managing non-critical suppliers goes in line with the indirect approach discussed by Tachizawa & Wong (2014). The characteristic of this approach is to pass over responsibility, having the first-tier acting as change agents to the focal firm to ensure sustainability (Jorgensen & Knudsen, 2006). The reason behind the choice of managing non-critical second-tier suppliers in this way seems to be two-folded, where both the amount of suppliers and risk management appears to be the justification. As been stated by Stora Enso, it does not make sense to invest wide effort in ensuring compliance at MNCs, where resources should be put on actors operating according to less rigid external pressure and regulations. By approaching non-critical suppliers with an indirect approach, a focal firm release both resources and time, which they can devote to actors demanding extra support or focus. In this sense, non-critical and critical second-tier suppliers could serve as the focal firm’s boundaries, where they decided to leave what is outside (non-critical) in order to be resourceful (Pfeffer & Salancik 2003). Another explanation to why Stora Enso and IKEA may be reluctant to work closer with certain second-tier suppliers may be explained by uncertainty. At the end of the day, it regards their first-tier suppliers’ suppliers, and if they change their partner for some reason, the focal firm may have spent both time and effort to ensure sustainability on an actor not longer in their supply chain. With this in mind the indirect approach is both tempting and logic, since major sustainability improvement is not the main target (Bonifant et al., 1995; Tachizawa & Wong, 2014), rather a form of risk mitigation.

In comparison, the management of sustainability issues regarding critical second-tier suppliers differs on several levels. As a compliment to handing over requirements, both IKEA and Stora Enso performs some field visits and audits themselves, to ensure that their requirements are being fulfilled. As been revealed in the findings, IKEA does require all critical second-tier suppliers to sign and fulfill IWAY must, a lighter version of the full CoC. In addition, some collaborative activities are offered as well, although in a less standardized way. Connecting back to the theory, one cannot label IKEA’s or Stora Enso’s approach as either collaborative nor as assessment purely; both companies customize their management specifically to each case. If they identified a supplier where extra support is needed, collaborative actions such as workshops, feedback, and education are possible alternatives (Noci, 1997). All these activities are identified as collaborative, according to Klassen and Vachon (2003). As an example, IKEA always suggests possible solutions for suppliers who face struggles with compliance of their CoC. This was further suggested by Grimm et al. (2014), naming collaboration as the superior approach when difficulties or inadequacies have been identified at second-tier suppliers. The mixture of collaboration and assessment aligns with Håkansson and Snehota’s (2006) statement regarding a focal firm’s approach towards first-tier suppliers, pointing at the lack of standardized model.

Giminez & Tachizawa (2012) argued that financial investments in suppliers could enhance sustainability performance within the supply chain, a potential option according to Stora Enso and IKEA, but an approach very seldom applied. The main approach used is supplier assessment, where audits are the most common way of ensuring compliance. One could argue that this ties back to the TBL discussed by Elkington (1998), where economical issues are as important as social and environmental for companies. Investing and devoting
resources in collaborative activities are demanding; it would not be possible to do it in a wide perspective. Even though it may enhance trust and sustainability performance in the supply chain, we suggest that the investment is too great, making supplier collaboration impossible to implement full scale. Thus, IKEA and Stora Enso only provide it in specific cases, estimated to be crucial enough for the investment to be justified. Otherwise supplier assessment is preferred, which demands less, though still a substantial amount of resources.

However, in contradiction to what Noci (1997) and Theyel (2006) suggested, who argued that supplier assessment does not lead to improvement, rather to investment in short-term projects, the cases of IKEA and Stora Enso appears to point in the opposite direction. The sustainability scorecard used by IKEA should logically be labeled as a supplier assessment tool since it evaluates supplier’s sustainability performance. Though, we reason that the tool further possesses qualities enhancing development; a supplier performing well on the scorecard is supposed to be rewarded with increased business with IKEA. This characteristic implies a long-term vision with the tool, even though it leans towards supplier assessment rather than supplier collaboration. By applying an assessment approach encouraging development, one can still identify critical improvement areas at the first-, and second-tier level, enhancing sustainability in a long-term perspective.

In both cases, contact with critical second-tier suppliers does occur on a regular basis. Although, it was highlighted by several respondents that it never happens without first contacting the first-tier supplier. If field visits or a contact is made, it is in collaboration with the first-tier supplier or trader. When discussing the type of approach a focal firm can apply within its network, Tachizawa and Wong (2014) suggested that direct contact means straight communication with another actor, without any intermediaries. Since IKEA and Stora Enso never bypass their first-tier in critical cases, one cannot label their approach as direct (Tachizawa & Wong, 2014). However, it is neither indirect, which is defined as passing over requirements to the first-tier, as done with non-critical second-tier suppliers (Jorgensen & Knudsen, 2006; Tachizawa & Wong, 2014). Where these definitions seem to be too static in our case, the used approach is within a grey area. Though, one could argue that it gravitates towards direct rather than indirect, where actual contact essentially is established between the actors. Since critical second-tier suppliers is regarded as important players to develop regarding sustainability, indirect contact would not be substantial enough for a focal firm, where it may indicate lack of interest and engagement from their side. However, bypassing the first-tier could potentially hurt the focal relationship between the companies, with a risk of conflicting interests. Thus, including the first-tier may be a sort of assurance that no business proceeds behind their back, emphasizing the significance of their business relationship. By applying this grey area approach, one can resolve trust issues. It appears that there is no general approach applicable towards this issue, due to the uniqueness and differences between different supply chains.

![Figure 7: The Grey Area Approach](image-url)
The third approach discussed was to collaborate with NGO’s (Esty & Winston, 2006; Prado, 2013). As revealed, both focal firms do receive support from several independent NGOs regarding sustainability issues. Prado (2013) argued that a focal firm can use a NGO in order to implement self-regulations within their supply chain, where Peters et al. (2011) further suggested that companies could form alliances to increase their bargaining power towards higher-tiers, a strategy to enforce compliance. As been presented in the empirical findings, Stora Enso and IKEA’s relationship with NGOs is of a different character, having other goals than enforcing their bargaining power. In Stora Enso’s case, the collaboration was made in order to develop the risk-mapping tool, while IKEA uses NGOs as consultants to identify development areas. These relationships indicate that the role of NGOs in our cases is to support and enhance the sustainability work at the focal firm, rather than to increase bargaining power towards first- or second-tier suppliers. By trying to form alliances, higher-tiers may feel as subjects of attacks and becomes defensive, which potentially could hurt both the relationship and the sustainability development. The fact that both firms already possess relatively high bargaining power could be a possible explanation as well (Pilbeam et al., 2012). However, by having NGOs as consultants, the focal firm can protect their relationships, while still improving their sustainability insight and knowledge internally.

To enable a successful sustainability development within the supply chain, both firms argued that the focal-relationship was of crucial significance. Together, IKEA and Stora Enso strive to have long-term relationships with partners promoting similar values and visions, enhancing and simplifying sustainability work upwards the chain. In the literature, Shrivastava (1995) argued that efficient sustainability work demands value alignment, having the issue of sustainability included in the company values. IKEA and Stora Enso both emphasize the importance of sustainability within their organizations, where Stora Enso included it in their sourcing strategy, and IKEA has the term represented within their democratic design, a tool guiding business decisions within the company. By phasing out firms who shows no interest for sustainability improvement, IKEA and Stora Enso both streamline their processes, as well as liberating resources to invest where it is needed. This goes in line with Hamel and Prahalad’s (1989) study indicating that an aligned organizational vision regarding sustainability increase motivation and change.

Based on the findings, one can see that the compliance work at the second-tier level differs vastly in comparison with the first-tier. In the first-tier relationship, IKEA and Stora Enso take the role of rule-maker, where CoC are communicated and agreed upon with the first-tier. As argued by Jorgensen and Knudsen (2006), these standards regards social and environmental requirements, as well as labor rights. These might be obvious for companies operating in the western world, but since a MNCs supply chain stretch over the globe cultural differences needs to be regarded, tying back to Tachizawa and Wong’s (2014) statement concerning cultural distance. This trace back to the challenge of both physical and cultural differences between companies, which can be a barrier towards sustainability compliance upward the chain. Both IKEA and Stora Enso emphasized this, where they often need to explain and motivate their requirements to suppliers in certain regions.

Furthermore, IKEA and Stora Enso keeps their CoC as leverage towards their first-tier suppliers, where they reserve the right to terminate the contract if violations towards standards does occur, a strategy also suggested by Jorgensen and Knudsen (2006). This is the single most important fact differentiating the sustainability work between first- and second-tier suppliers, where direct leverage often times does not exist with second-tier due
to the non-contract relationship. IKEA’s case of general agreement with second-tier suppliers illustrates the significance of having a legal contract, where they basically treat those second-tier suppliers the same way as first-tier suppliers, demanding full IWAY compliance. This is possible since IKEA have a direct relationship with the second-tier suppliers, including legal contract, an anomaly in today’s business. This challenge is hard to overcome for focal firms, where general agreement is not a strategy IKEA aims to apply on a wider scale in the future. Additionally, general agreements was initially setup in order to ensure quality and supply, rather than for sustainability purposes. However, a focal firm can use their agreement with their first-tier as leverage, putting pressure on them to ensure sustainability at higher tiers. In this way, the relationship’s primary function of influencing ones partner is utilized, where the decisions impact the second-tier suppliers, known as network function, as suggested by Anderson et al. (1994). This is one potential solution to the problem, where a lot of responsibility ends up at the first-tier. This highlights the importance of having a solid business relationship, and may further be an explanation to why long-term partnership is preferred, where it is easier to influence suppliers with a prior successful history.

As illustrated in table 9, non-contractual relationship and traceability has been named as major challenges by both companies regarding second-tier sustainability compliance. Additionally, competence creation at the first-tier was highlighted by IKEA as another great challenge. Both the latter and traceability seems to be approached by establishing long-term relationship with the first-tier supplier, as emphasized earlier. With this strategy, the focal firm can assess sustainability on a deeper level, and further enjoy supplementary outcomes, such as knowledge sharing regarding materials, which higher tiers possess advance knowledge about (Esty & Winston, 2006). One could argue that this strategy will be the leading way of approaching sustainability on the second-tier in the future, leading to an outcome of more collaborative activities on higher-tiers, as suggested by several sustainability managers at IKEA.

5.3 First-Tier Supplier Network Investigation

The essence of network investigation was brought up due to increasing complexity of today’s business networks. When entering a business relationship with a new partner it is clear that more than just one node is added to the network. This is important where the entire network influence and impacts the holistic performance of the specific supply chain, creating interdependencies between actors (Snehota & Håkansson, 1995). Both companies take this factor into consideration prior to signing the contract with a new supplier. However, even though it is on the agenda it is not perceived as a deal breaker. IKEA, as well as Stora Enso, mentioned that they do ask about the supply network of the supplier prior to signing any contract. This is more important regarding suppliers operating in critical regions, or handling processes perceived as high-risk by the companies, than for non-critical suppliers. Though, according to Narasimhan et al. (2001) companies tend to value other aspects higher than a suppliers network, such as financials and lead-time. In this context, the question of who the second-tier suppliers are might be secondary.

Based on our interviews, we can conclude that this is the case at investigated companies as well. Even though networks are being considered it is regularly not a crucial element during the procurement process. At the end of the day it is hard to weigh all different aspects against each other. Investigated companies do acknowledge the importance of network investigation, but little point towards it as being of significance. Network
investigation should be seen as a vital part during supplier selection, since it both has an effect on the raw material, but also on the long-term performance of the focal firm (Choi & Kim, 2008). Where it was emphasized by both companies that they where aware of their second-tier suppliers as an outcome of having long-term relationships, network investigation could ease that process in a bran new partnership.

Network investigation is particularly important for Stora Enso when sourcing materials through a trader. Where the trader is a simple node linking Stora Enso to the actual source of the raw material, the business network increase in importance (Borgatti & Li, 2009; Choi & Kim, 2008). In these cases, Stora Enso does choose their first-tier suppliers based on their network, thus, which second-tier suppliers they want to add to their network. However, in the cases where the first-tier supplier is a manufacturer or normal supplier it appears to be a sidetrack not devoted any magnitude or energy during procurement processes; it is just one of the aspects considered when deciding upon whether the supplier is critical or not, for both companies. Hence, if the supplier is regarded as critical the firms might investigate the network more extensively, but there is no fixed second-tier supplier investigation, rather a focus on the holistic picture where other aspects seem to be valued higher. Thus, this could be a risk for the focal firms; if a network investigation is not carried out carefully on a regular basis unexpected happenings could occur putting the firm at risk.

A firm should investigate a suppliers network thoroughly to increase the possibility of achieving long-term success, according to Narasimhan et al. (2001). However, both focal firms expressed their will to strive for long-term relationships with their suppliers, which could be interpreted as a factor reducing the need for an actual network investigation when it comes to existing partnerships. In networks with longer history, IKEA and Stora Enso have had time to collect information and gain knowledge regarding their second-tier suppliers through their focal relationship. As an outcome, both companies are aware of important actors within their network, even without a proper investigation.

Furthermore, according to literature first-tier suppliers may lack resources needed to secure compliance; therefore they might not be able to assure CoC compliance throughout the whole network (Jorgensen & Knudsen, 2006). While this issue was not acknowledged as a major concern for IKEA or Stora Enso, it is an issue supporting network investigation. Operating as a MNC, your organization is more sensitive to scandals than firms being less known to the public (Klassen & Vachon, 2003). Network investigation is a way of mitigating risks, being aware of whom the other actors connected to the firm are.

Based on our findings we conclude that network investigation is one of the aspects considered when deciding if the supplier is critical or not, as well as during selection of first-tier supplier. In the cases first-tier suppliers are perceived as critical, their network becomes of greater concern for the focal firm. This is interrelated to prioritization in a sense, where other triggers such as geography, distance, and supply chain structure may catch the attention of the focal firm, pushing them to perform a network investigation prior to entering the partnership. We believe that increasing the focus on this area in comparison to how companies approach it today could increase their sustainability operations, where it serves as a development area during the time we conducted the interviews.
5.4 Summary of Analysis

Following is a summary of the analysis. The analysis was derived from the semi-structured interviews conducted, as well as from the archival research. The empirical findings was later compared and analyzed in the light of the theoretical framework. Based on this, key analysis have been developed, which is illustrated in figure 8. The logic presents prioritization, compliance, and network investigation together, representing the effort IKEA and Stora Enso invest in ensuring sustainability in their network. Beneath the three categories, notes of the most significant analyses are given. These turns out in the challenges connected to ensuring second-tier supplier sustainability for the focal firms. The final crucial strategy for ensuring second-tier supplier sustainability for IKEA and Stora Enso, now and in the near future, are long-term relationships and value alignment.

![Figure 8: Summary of Analysis](image-url)
6 Conclusion

This chapter provides answers to our purpose and research questions, as well as major conclusions derived from the study.

The purpose of this study was to investigate how two Scandinavian MNCs ensure second-tier supplier sustainability compliance within their supply chains. By answering the three formulated research question of the thesis in what follows, we fulfilled the purpose of this study, outlining how IKEA and Stora Enso approach and ensure second-tier sustainability compliance.

First, we can conclude that when these two focal firms prioritize between their second-tier suppliers cultural and social distance are major determinants steering whom to scrutinize. These two factors are, on a general basis, the indicators of whether to regard a second-tier supplier as critical or not. Another finding we perceive as interesting regarding prioritization is the utilization of IT. In order to streamline the process of prioritizing among second-tier suppliers, both companies have developed their own IT-tools enabling a faster assessment. IKEA demand their suppliers to log all second-tier suppliers in a web-based tool. By requiring this IKEA manage to keep track of all second-tier suppliers in their dynamic network. In contrast, Stora Enso did not demand such requirements from their suppliers, making it hard to give an exact number of how many second-tier suppliers included in their network. This could be explained by the fact that IKEA is a larger organization, possessing greater power in their relationships compared to Stora Enso. However, by mapping out the number of second-tier suppliers orientation becomes simplified, increasing the quality of the sustainability work. The conclusion drawn upon this is that strong collaboration and value alignment with the first-tier supplier enable efficient sustainability work with higher-tiers, simplifying the issue of prioritization.

The approach of ensuring compliance among second-tier suppliers differs substantially depending on if the actor is regarded as critical or non-critical. Regarding non-critical suppliers both companies apply an indirect approach. Trust is important when the focal firms rely upon their first-tier to ensure a sustainable supply chain from them and upward. For critical second-tier suppliers it becomes further complex. Conclusively, the “grey area approach” is dominating: a proactive approach where the connected first-tier supplier always is involved, making it a mixture of direct and indirect. Further, both collaboration and assessment is used with critical second-tier suppliers, customized according to the needs of the specific case. In contrast to previous research, assessment seems to encourage long-term improvement of sustainability with the approaches undertaken by the firms investigated in this study. Our final conclusion regarding compliance is that by striving towards value alignment and long-term relationships with the first-tier suppliers, the task of using appropriate techniques or actions to ensure sustainability at higher-tiers are improved. Regarding challenges, the consequences of the non-contractual relationship is hard to address straight away, but value alignment can ease the process. By having a first-tier supplier striving for equal sustainability standards, it is easier to convince them to make the final push needed to influence the second-tier supplier. Traceability is more complex, but Stora Enso’s development of labeling for bales material is a step in the right direction, simplifying the process of tracing raw materials.

The last research question regards first-tier supplier network investigation. Our conclusion derived from the findings is that it is not decisive. If the focal firms’ chooses between suppliers, variables such as price or quality are more important. Then the suppliers are most likely operating within the same network.
7 Discussion

This chapter will discuss the contribution and limitations of the study, as well as suggestion for further research.

7.1 Contributions

This study contributes with new theory and understanding within the field of second-tier supplier sustainability. First, the recognition of importance of long-term relationships in order to ensure second-tier supplier sustainability is a contribution as well as confirmation. Grimm et al. (2016) published one of the first articles within the field and identified mutual trust and involvement of first-tier suppliers as important components when assessing second-tier suppliers. Their research was made within electronics and retail. Nonetheless their conclusions align with our findings based within the furniture and paper and pulp industry. This strengthens the hypothesis of the significance of mutual trust and first-tier involvement. This further led us to the grey area approach, which implies the significance of the first-tier supplier relationship, enabling management of the second-tier suppliers from a sustainability perspective. The major governance mechanisms recognized in the literature were direct- and indirect approach. The grey area approach is a mixture that has not been highlighted prior to this thesis. Grimm et al. (2016) further identified use of external business partner to improve second-tier supplier sustainability, which aligns with our findings of consulting and collaborating with NGOs.

This study further highlights the issue of social and cultural distance between the focal firms and the second-tier suppliers; we can conclude these as major determinants upon identification of critical second-tier suppliers. Therefore, our second contribution is the identification of social and cultural distance as a key aspect when managing second-tier suppliers. Our third contribution, which has not been regarded in previous literature, is the utilization of IT in order to map out second-tier suppliers, where IKEA’s praxis serves as a benchmarking example. By utilizing IT within second-tier supplier management in the future, companies can strengthen and improve second-tier sustainability compliance. Our final contribution regards our choice of investigation two companies possessing different positions in the supply chain, enriching our findings with different perspective of the issue.

7.2 Limitations

While conducting this thesis, we had several limitations restraining our choices. First and foremost, budget and time limited our alternatives when it comes to respondents. The conducted interviews were with respondents from both focal firms as well as from one of their first-tier suppliers, originating from Sweden. Since geographical location was emphasized as crucial when it comes to sustainability, it would be of interest for this study to conduct interviews at second-tier suppliers located in high-risk markets. Identifying these actors would demand both extensive time and further cooperation with first-tier suppliers, which is why our choice was to focus on first-tier suppliers. However, looking in a retro perspective, this is one part that we could have done differently in order to increase the quality of the thesis.

Another limitation of the study is the unequal number of respondents from each case. The aim was to conduct an equal amount of interviews from both companies. However, we had difficulties identifying the same amount of appropriate respondents from Stora Enso than at IKEA. This is due to many reasons, where the size of the firms may be a part of the explanation. Additionally, IKEA’s organization was more accessible in our case, since the headquarters is based in Sweden. In contrary, Stora Enso’s headquarter is in
Finland. Even if we believe that we gathered sufficient amount of data in this study, an equal amount from both cases would increase the quality to some extent.

The strengths of this study is first and foremost the fact that we got insight in two companies, operating in different parts of the supply chain, who truly emphasizes sustainability organizational wide. This provided us the opportunity to investigate two benchmarking examples approaching the issue in two different ways with a broad scope, capturing several approaches and challenges, which would have been lost in a single case study. Additionally, respondents with high managerial positions and responsibility for sustainability questions have been included from both companies, taking our trustworthiness to a higher level. Further, by conducting interviews at first-tier suppliers we where able capture the focal firms’ approach from several perspectives. However, our broad scope in terms of to not delimit ourselves regarding product categories could be perceived as a weakness of the thesis. The findings and conclusions are made on a general basis, where both companies emphasized the difficulty to identify one common approach. By narrowing the scope down, we could have identified more specific patterns and behaviors.

As a final note, a qualitative study conducted with an interpretivistic philosophy is highly influenced by our skills as researchers. The quality of the study is dependent on our ability to step out from our own bias and interpret our empirical material from an objective standpoint. Even if this has been our intention, we cannot assure that this has not impacted our findings, and other researchers conducting a similar study with similar cases may derive different conclusions, influenced by their own biases. This makes it harder to assess the research quality from a scientific point of view, the main weakness with a qualitative study.

7.3 Further Research

Due to the freshness of this specific subject there is numerous areas within second-tier supplier sustainability deserving further investigation. An option for future researchers could be to investigate a specific product category, where this study has taken a broader, more holistic perspective. This would enable a chance to map out the entire value chain and provide the opportunity to get a clearer picture of how sustainability is ensured in particular cases, and what is perceived as crucial and significant for that category.

Another suggestion, which could contribute with new insights, would be to conduct a similar investigation but instead focus on focal firms originating from a different cultural setting. Since geography has been highlighted multiple times throughout this study as an indicator of critical actors, it may be specific for our settings. This study, the companies, and we as researchers originate from a western culture in general and a Scandinavian in particular; it would be highly interesting to investigate how MNCs from other cultures approach the same issue, and what challenges they perceive as urgent. A firm’s perspective on sustainability issues, as well as chosen approach may be connected to their country of origin, where cultural biases needs to be considered.

As a final suggestion, future researchers could utilize our findings and conclusions to develop hypothesis to test through a quantitative study. A qualitative method was natural in our case because of the lack of previous literature, but our contributions have to be tested in the future. Hence, a quantitative research is further needed within the field of second-tier supplier sustainability. Only by doing so, a transferable and generalizable theory can be developed, which is crucial for the field of second-tier supplier sustainability.
References


Fischer, K., & Schot, J. (1993). Environmental strategies for industry; international perspectives on research needs and policy implications (No. GTZ 904).


# Appendix

## Interview Guide

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Questions</th>
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<tbody>
<tr>
<td><strong>General/Background</strong></td>
<td>1. Can you give a brief description of the supply chain of the company?</td>
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<tr>
<td></td>
<td>2. How many suppliers do you have?</td>
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<td>3. What the biggest sustainability issue/focus of the organization?</td>
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<td>4. How is the distribution of focus between environmental and social issues?</td>
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<td>5. Do you regard your organization as proactive or reactive when it comes to sustainability?</td>
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<tr>
<td><strong>Second-Tier Supplier</strong></td>
<td>6. Do you know, roughly how many second-tier suppliers you have?</td>
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<tr>
<td>Prioritization</td>
<td>7. Do you have different categories of suppliers?</td>
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<td></td>
<td>8. Do you have different categories of second-tier suppliers?</td>
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<td></td>
<td>9. Have you identified critical suppliers, and/or critical second-tier suppliers in your chain?</td>
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<td>10. What differs in your approach towards critical and non-critical second-tiers?</td>
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<td></td>
<td>11. What are your actions towards critical- and non-critical second-tier suppliers to ensure sustainability?</td>
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<td></td>
<td>12. Do you consider any of the following variables when prioritizing between second-tiers: Power, Stakeholder Pressure, Industry, Material Criticality, Dependency, Distance, and Knowledge Resources?</td>
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<tr>
<td><strong>Second-Tier Supplier</strong></td>
<td>13. Do you measure compliance of CoC among suppliers?</td>
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<td>Sustainability Compliance</td>
<td>14. Do you any form utilize a NGO when it comes to sustainability?</td>
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<td>15. How do you ensure that your suppliers comply with your CoC?</td>
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<td>16. Do you work, train, or collaborate with your suppliers?</td>
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<td>17. How do you apply your CoC to your second-tier suppliers?</td>
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<td>18. Do you focus on all second-tiers actors?</td>
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<td>19. How do you/your suppliers communicate the requirements of the CoC to the second-tier?</td>
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<td>20. How is compliance followed-up?</td>
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<td>21. Does the tools or processes used for compliance differ between suppliers and second-tiers?</td>
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<td>22. Do you have any direct contact with your second-tier suppliers?</td>
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<tr>
<td><strong>Supplier Network</strong></td>
<td>23. Do you receive any external pressure from stakeholders regarding your second-tiers?</td>
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<tr>
<td>Investigation</td>
<td>24. Do you as a focal firm provide resources or support to your suppliers to ensure compliance of sustainability standards?</td>
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<td>25. Before entering a partnership with a new supplier, do you consider or investigate their industrial network?</td>
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<td>26. What is the biggest challenge you face regarding managing second-tier suppliers?</td>
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<td>27. Does the non-contractual relationship make the issue more complex?</td>
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<td><strong>Other</strong></td>
<td>28. Do you believe there is a difference in perspectives regarding the subject between industries?</td>
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<td></td>
<td>29. Do you have any strategy of how to deal with this issue in the future?</td>
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