

Corporate Governance and Global Supply Chains: How Self-regulation Replaces the Lack of Regulatory Initiatives or Do Regulatory Initiatives Add Value to Corporate Governance

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Summary:

This paper poses some questions related to the current state of international business and the way it is governed by big multinationals. The author aims to examine critically how corporate boards of listed companies design and monitor the policy of their companies towards their suppliers - Global Supply Chains. Environmental and social issues in the buyer-supplier relations are on the agenda of policy makers at both national and international levels. Global business players devise initiatives to fight child abuse, pollution, improper usage of natural resource. Academia examines the above issues through the prism of macro- and microeconomic studies, social and environmental research. This paper aims to analyze the role of good corporate governance in coping with bad working conditions in factories in developing economies and related environmental problems. The focus is on the compliance with one of the six corporate governance principles: recognizing the rights of

stakeholders. Traditional research methods are employed to meet the objective of the study: literature survey and case studies..

Key words: corporate governance, stakeholders, global supply chains, corporate social responsibility, boards, non-financial information

JEL Classification: F23,G3

About the rationale of the paper

At present, academia, international institutions, business community, as well as NGOs put Global Supply Chains/GSC/ and the related to their functioning economic, environmental and social issues (ESG) on their list of priorities. Their interests differ. NGOs focus on environmental and social issues. "Rana plaza" tragedy that occurred in Bangladesh in 2013 catalyzed the activities of the stakeholders: numerous meetings and publications channel the efforts of NGOs in their attempts to cope with the violations that took place in apparel factories in Bangladesh. IFC and local business people and communities initiated projects on improving labour conditions in the

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local suppliers. The German Development Agency /GTZ/ coordinated representatives of multinational/transnational corporations /TNCs/ for finding acceptable solutions of the problems within the relations between the buyers/TNC and suppliers/local SMEs. Even though the media focused on poor labour conditions in factories and instances of non-compliance with health and safety regulations, some preliminary research revealed that the problems were related to ***the efficient regulation and functioning of the GSCs as a system.***

On the other hand, supply chains (GSCs) that connect partners all over the world change the landscape of world trade. ***The paradigm shifts from trade between countries to trade between the partners of GSCs*** (Lamy, 2013). Politicians, experts and international institutions (UNCTAD, 2013; WTO, OECD, World Bank, 2014) set among their priorities the regulation of the above relationships. Some concerns are raised over the improper assessment of trade flows among the partners within GSC as well.

The increasing role of GSC in the world economy and the problems mentioned above, on one hand, and our previous work on international determinants of corporate governance, on the other, direct our research towards ***the examination of possibilities of corporate governance to contribute to good regulation and functioning of GSCs.***

The paper is organized in five sections. It starts with a discussion of GSCs and their role in both developed and emerging economies (part one). Next we intend to describe GSC in the system of relations within corporate governance with focus on stakeholders (part two). In part three

an attempt is made to see how corporate governance deals with stakeholders including suppliers and GSC. We examine how Corporate Social Responsibility, Shared Values and ESG cope with social and environmental issues within GSC (part four). In part five we communicate some results of our theoretical observations on ESG policy of corporate boards towards their suppliers within GSC. Our theoretical observations offer some conclusions that address our research topics. We reviewed some initiatives of international institutions related to CSCs and sustainability (part six). Our aim to test theoretical observations with findings from the practice was achieved via few short case studies (part seven).

1. Global supply chains: practical views and some theoretical observations

Global Supply Chains (GSCs) or Global Value Chains (GVCs)¹ connect businesses all over the world. It is the private sector that for many years has initiated and maintained relations in agriculture, extracting, food processing and manufacturing industries. Services are outsourced and delivered within GSC, as well. About 60 per cent of global trade, which today amounts to more than \$20 trillion, consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption (WIR, 2013). Gradually new borderless production systems emerged. These systems (global or regional) are commonly referred to as global value chains. (WIR, 2013) Networks are launched and coordinated by TNC,

¹ The survey of literature and documents of official national and international institutions do not offer an agreed term about GSC. Irrespective of some theoretical differences academia and official institutions use the terms as synonyms. In the document under reference N 1 the authors do not make any differences. GSC and GVC are interchangeable. However our understanding is that both terms depict one and the same phenomenon with different focuses on this phenomenon: from the perspective of international business transactions/GSC/ and from the perspective of added value or economic perspective. In the process of our research we used the multifaceted model of GSC/GVC.

their contractual partners and arm's-length suppliers (WIR, 2013). This paper looks at the GSC as a system and the existing relations between the partners. "GVCs have hierarchies of their own, in which leading firms play different roles from their smaller partners."(Baldwin, 2013). Leading firms that originate from developed economies are well known multinational and international retailers. Some studies on GSCs (Baldwin, 2013) pointed out that global supply chains are driven mainly by large wage gaps is highly misleading. It is not the purpose of the paper to go into detail with regard to the typology and structure of GSCs. As mentioned above, we try to find out how corporate governance copes with environmental and social issues related to GSCs. Or put differently, periodically some fatal events ease stakeholders' contempt and GCS are seen from a different perspective: how partners deal with environmental issues/pollution, greenhouse emissions or deforestation etc./social issues/human rights abuse, gender non- equality/or governance issues. (UNIDO, 2014)

For the purpose of our study we define GSCs as a set of determinants such as:

- Long-term relationships determined by globalization processes. Globalization is in line with information and communication technologies, liberalization and new business opportunities bounds processes and tasks within GSCs in automotive industry, apparel industry, food processing industry, electronics, etc.;
- GSC are initiated by big companies, most of which are key players on capital markets, and declare to comply with Corporate Governance Code/ Standards. The rationale behind the GSC differs for the partners across the industries: from enhancing operating efficacy (M.

Porter) to sharing basic knowledge; from focusing on core activities to mitigating unemployment (OECD, 2007) and bringing stability to SMEs.;

- Key players are TNCs from developed economies and suppliers and sub-suppliers from emerging and transition economies;
- GSCs are an alternative to FDI and encompass non-equity modes of entry (NME): cooperation, transfer of technology. Contracts such as contract manufacturing/assembly, outsourcing, offshoring/licensing, franchising and contract farming are the pillars of GSCs. (WIR, 2011, 2013) ;
- GSCs' mirrored current connectivity between various partners around the world poses new imperatives to politicians: the "them and us" of old thinking about trade has increasingly been shunted aside by an "us" focus (Lamy, 2013)²

In our research we tried to collect some theoretical views about GSC that are related to our conceptual framework. We turned to the International Business school of thought. Scholars such as St. Hymer, P. Buckley, M. Casson, J. Dunning etc. not only explored the nature of the key players in GSCs - multinationals/TNCs, but studied the ways they choose to penetrate the global markets. Eclectic paradigm or the O(ownership)L(location)I(internalization) theory is not only about the drivers of global expansion of TNC. It offers a framework for evaluating alternative ways via which firms may organize the creation and exploitation of their core competencies, given the locational attractions of different countries or regions (Dunning, 2000). According to the international business theory, contractual relationship is more expensive for the TNCs than the costs incurred within intra-firm

²It is important to underline that the World Bank studies government policies, business activities in the supply chains with focus on the logistics measures on annual basis (see Logistics Performance -Index LPI 2014)

relationship (parent companies and their subsidiaries). Internalization determined by capital, financial, technological and management connections between the parent and the subsidiaries is less risky for the owner/TNC. It is the opportunistic behavior of the partner or non-compliance with the contractual agreement that causes higher risks and costs for the multinationals. Opportunistic behavior is neither associated with environmental, nor with social issues. In his recent studies J. Dunning addressed some of the above issues. He broadens the domain of his research and encompasses social responsibility of TNS (Dunning, 2008)

Despite international business theory and the eclectic paradigm OLI do not provide theoretical answers about GSCs, some essential clues are suggested: contractual relations are alternative for TNCs activities on the global arena. The opportunistic behavior of the partners is the major drawback for the parent company. Some current ESG issues that are related to GSCs could be labeled opportunistic behavior.

Social issues within GSC are examined by another international research - R. Baldwin. As a researcher into international economics issues, he studies GSC from the perspective of social issues. According to his observations, labour costs and salaries of the employees in the "factories" in emerging markets increase in 21st century (Baldwin, 2013). Although his views are not always supported by real life, his observations underline that GSCs are not only about exchange of resources and business operations. Social issues and the way they are being resolved impact the relations between the buyers and suppliers. Environmental issues are not on his agenda.

2. Corporate Governance and GSCs

Corporate governance is a system of relations that encompasses shareholders,

directors and managers. It has to contribute to the long-term financial stability of the corporations. **Good and fair relations with stakeholders are a must for good corporate governance.** According to the Principles of Corporate Governance (G20/OECD, 2015) suppliers of raw materials, intermediary products and final products are stakeholders. What is more, they contribute to the economic benefits of the companies. The competitiveness and ultimate success of a corporation is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, and **suppliers.**³ (G20/OECD, 2015) Good corporate governance is about

- recognition on the part of the company that stakeholders constitute a valuable resource for building competitive and profitable companies (OECD, 2004; Zollinger, P., 2009)
- Recognition and protection of the rights of the stakeholders established by law or through mutual agreements (G20/OECD, 2015)
- Co-operation between corporations and stakeholders (G20/OECD, 2015)

G20/OECD CG Principles (G20/OECD, 2015) shed light on the role the suppliers play for the company performance and its competitiveness. Good corporate governance is responsible for the good and long-term relations with the stakeholders including suppliers. The new document sheds light on the issues related to the globally functioning suppliers - human rights protection; proper usage of the natural resources.

The choice of G20/ OECD principles is determined by various reasons, among which the role of the international institutions in encouraging business community to

³ Text is bolded by the author

address ESG issues (Walls, Berrone and Phan, 2012).

We found out that some scholars address the role of corporate governance in overcoming environment, economic and social and government problems (Salami, Johl and Ibrahim, 2014). Our interest focuses on studies that deal with the interrelation between corporate governance as a system and suppliers with focus on environmental, social and governance issues (Mason and Simmons, 2014). We see corporate governance in its relationship with institutional arrangements that largely lie outside the corporate organizations and limits in company law (Galanis, 2013). Our research is in line with the understanding that corporate governance defines its policy/ selection of stakeholders because their resources fit together (Galanis, 2013). The statement about the interrelation between GSC and sustainability relates to the aims of our research. In terms of global value chains, it is about ensuring that those who manufacture and assemble goods share equitably in the benefits. It is about creating an environment in which small and medium-sized equity enterprises can participate in supply chains, without being shut out by costly regulation, poor administration or exclusionary behaviour. (Fung, 2013)

Irrespective of the limited number of studies on the interrelation between corporate governance and GSC we believe that the practice and the standards for corporate governance (G20/OECD) give us confidence to raise the issue about social and environmental issues.

3. Corporate governance, GSC and ESG issues

The researcher and the practitioners suggest a variety of concepts, guidelines and definitions about the norms /mandatory and voluntary/ that are related to fair and ethical performance. Researches and

businesses employ general understanding of sustainable development (Brundlandt 1988, German Sustainability Code). Others see two forms in corporate governance issues related to other stakeholders: stakeholder management and social issue participation/corporate social responsibility (Classens and Yourtoghlu, 2012). Corporate social responsibility is addressed by international business scholars (Dunning, 2012). Social and environmental issues resonated in Shared Value (Porter and Kramer, 2011). And both practitioners and academia decode sustainability, sustainable development as a system of ESG indicators (Elkington, 1998; Savitz and Weber, 2012)

As mentioned above standards and codes for corporate governance do not deal with GSC. Only suppliers as a component of this chain are considered. Environmental and social issues within GSC are not treated. On the other hand, good corporate governance practice promotes corporate social responsibility /CSR/ and Social Responsible Investment /SRI/ as standards for ethical, environmentally friendly business operations and investments. Both standards refer to the overall companies' activities and do not treat the relations within GSC. SRI is about the investment decision that integrates environmental, social and ethical criteria (Crifo and Forget, 2008). Non- equity modes of entry are not within the scope of SRI.

We try to find answers in literature

The literature survey provides evidence that the paradigm of corporate governance discussions have shifted progressively toward contemporary social issues (e.g. climate change, labor rights and corruption) (Walls, Berrone and Phan, 2012).

Most authors explore CSR as a unit for measuring the functions given above (Walls, Berrone and Phan, 2012). Unfortunately both the understandings and statements of international institutions

(EC Green Paper on CSR), and some observations by academia representatives do not go beyond the essence of CSR and its relationship with variables of corporate governance such as investors, stakeholders, remuneration, committees (Walls, Berrone and Phan, 2012). The fundamental concept of A. Carrol (CSR pyramid) does not go beyond the 4 norms that the companies have to comply with: economic, legal, ethical and philanthropic (Carrol, 1991). In line with our research objective - to study the reaction towards GSC - we have to point out that early publications on corporate responsibilities underline the fact that it is about responsibilities towards the stakeholders, including suppliers (Carroll, 1991).

Current studies reveal that CRS initiatives go beyond the formal reach of organizations (Mason and Simmons, 2014). We found that socially responsible suppliers and logistics practices are considered. There is evidence of corporate governance that encourages ethical and responsible behavior within GSC (Mason and Simons, 2014). Meaningful that CRS deals with the environmental issue with think that ESG issues requires broader framework of measures. CRS is becoming an important topic on the agenda of corporate boards, on the one hand and indicates the **relationship between corporate governance, corporate social responsibility and sustainable development** (Clarke, 2007). We agree with the understanding that many multinationals **accept inclusive approach** or stakeholder based approach. Good corporate governance encompasses measures that address environmental and social issues (Masson and Machony, 2007). This view echoes the statement that global CSR is all about thinking and acting in socioeconomic categories (Eder and Oettingen, 2008). International

business school defines CSR as the responsibility of corporations to meet the objectives of society (Dunning, 2008). Despite a variety of views and thousands of pages dedicated to how to decode CRS, we think that the message is clear : it is **about general social and environmental policies**.

We also tried to understand the essence of another concept that deals with environmental issues and social inclusiveness. **Share value** (Porter and Kramer, 2011) addresses pre- and post-crisis problems in developed economies.

Another school of thought **offers indicators to evaluate the response of the companies to the pressure of social and environmental issues** (Elkington, 1998). Critics of the social responsibility of the business are addressed by **Triple Bottom line model** (Savitz and Kramer). They decode social and environmental policies into a set of measurable indicators.(ESG), aligned with the system of factors that businesses have to address - **ESG (triple bottom) experts offer triple advantage sustainability strategy** (WEF/Accenture, 2015): Profitability: Revenue uplift of 5-20%; supply chain cost reduction of 9-16%, brand value increase of 15-30%, significant company risk reduction; Local development and societies: Improved customer health, local welfare and labour standards (wages, working conditions) and Environment: Carbon gas reduction of 13-22% on overall footprint.

Our **observation on the three directions** in the current theory on the responsibility of the companies and their work for better societies revealed similar views. Different events in the end of 20th century and the beginning of 21st century motivated scholars. The comparison of the reviewed above theories and concepts aim to find out how they treat GSC, on the one hand and how they fit the corporate governance framework. (Table 1)

Table 1. GSC from the perspective of CSR concepts: comparative analysis

Concept/parameters	CRS (A.Carroll)	Shared value (M.Porter, M. Kramer)	Triple bottom line (J.Elkington, A. Savitz, K. Weber)
Economic	Economic responsibilities :E/S; operation efficiency	No explicit statement.	sales, profit, ROI paid taxes, monetary flows, new jobs and suppliers relationship.
Environmental	No explicit statement	Consumption of water and energy and impact on the environment	Carbon footprint; pollutants emitted; recycling and re-usage, water and energy use,
Social issues and community	No explicit statement	Safety and health for employees, skills of employees Training Job creation	safety and health, company impact community, human rights and privacy protection, product responsibility relations with employees.
Legal issues and compliance	Legal responsibilities/ compliance	No explicit statement	No explicit statement
Ethical	Ethical responsibilities/ corporate citizenship, ethical behaviour	No explicit statement	No explicit statement
Philanthropy	Philanthropic responsibilities/ charitable activities	No explicit statement	No explicit statement

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Sources: Carroll (1991) , Elkington (1998), Savitz and Weber (2014), Porter and Kramer (2011)

The analysis proves **similarity** of the three sets of norms and indicators. The **authors share common concerns about protection of environment, social inequality and sustainable development**. In this part of the paper we found that current corporate governance establishes **voluntary norms to cope with environmental and social issues that are related to GSC**. Because of its improved structure and visibility of parameters that the ESG concept feature, we employed it for the next step of our research.

4. Corporate governance, GSC and ESG: how corporate boards react and the essence of disclosure

We decided to **explore the board behavior** from a more general perspective (corporate governance, GSC and ESG issues). Literature is insufficient.

Observation of publications is disappointing. We agree with some conclusions that the number of studies on the responsible behavior of the corporate boards towards various stakeholders is limited as well (Walls, Berrone and Phan, 2012). A good example of the role of the Board members in establishing ESG standards within GSC is Nike (Paine, 2014). According to the publication the board **and especially independent directors are the most important factors that drive and shape the responsible corporate governance towards ESG issues within GSC**. The Board's role in setting the required standards, on the one hand and the Board's oversight of management activities determine company's success in improving the worsened reputation of Nike due to some scandals with suppliers in emerging markets (Paine, 2014). One has to underline **the long-term direction of the board's policy towards sustainability: sustainability**, ESG issues within ESG and foreign direct investments

are among the priorities; future board members are educated to be responsible towards sustainability and ESG issues. Long term prioritization of sustainability and compliance with ESG good practice of Nike is considered an exception rather than a standard for corporate boards. One fourth of Fortune 500 companies have a board committee overseeing the natural environment (Walls, Berrone and Phan, 2012). The authors clearly communicate that various academic researches offer mixed results on the board's attitude to CSR. In their (Walls, Berrone and Phan, 2012) study on corporate governance and environmental issues they focus on the corporate boards engagement in sorting out environmental issues. Their research does not address social concerns. Suppliers are not on the radar of the empirical work.

A different trend is revealed in a review of the US National Association of Corporate Directors. Corporate responsibility issues are consistently ranked at the bottom of a number of possible board priorities (Paine, 2014).

We do not address the role of *gender* in the ESG involvement of the boards. Nevertheless, the case with Nike is in line with the gender contribution: the main hero in Nike's progress is Mrs Conney (Paine, 2014). Some studies confirm the ***existing positive relation between the diversification of corporate boards - female and CRS*** (Walls, Berrone and Phan, 2012; Webb, 2004).

Board awareness of and engagement in directing companies' sustainable development is associated with ***voluntary disclosure of non-financial information*** (Peters and Romi, 2014). The study is about a more regulated - GHG (green house gas) - disclosure. Some sources report on the positive association between CG quality and voluntary disclosure of CSR. Similar views are shared by Clarke on the implementation

on voluntary disclosure. ***Global Reporting Initiative (GRI) Principles that are considered invaluable tools for working towards international confidence in the trustworthiness of corporate reporting*** (Clarke, 2007).

5. Do international institutions add value to greener corporate governance

As mentioned international institutions initiate different measures for coping with ESG issues that are related to GSC and global business. ***UN Global Compact sets a new voluntary norm for responsible corporate citizens***. We share the view of some scholars that despite globally accepted principles of UN Global Compact (10 principles), give good general directions, not all signatories translate them in concrete practical measures (Haack and Scherer, 2014). This could be explained by the fact that UNGC is a dynamic, voluntary initiative and is far from perfect (Rasche and Waaddock, 2014). But one has to underline that the initiative aims at a higher degree of involvement of the global players into the governance of the global markets, particularly since the state-based solutions in the international political arena remained limited (Rasche and Waaddock, 2014). Or stating it differently, the current practice in implementation of UNGC aims to sort out problems that were declared on previous stages - lack of governance framework for GSC. Irrespective of different views on the effectiveness on the UNGC we think that it is worth mentioning that their efforts should go beyond the 10 principles and to propose some practical solutions (BRSUNGC Supply Chain Report, 2010). The focus is on business policies that have to establish vision and objectives for supply chain sustainability; establish sustainability expectations for the supply chains. Partnership and collaboration with

suppliers are recommended. Disclosure is among the priorities, as well. Signatories of Global Compact - 84% of big companies include corporate responsibility in the relevant documents (contracts, purchase documents). And finally this essential set of guidelines includes norms stipulating the relations with the sub suppliers. With reference to the aims of our research we found that the guidelines envisage the role of the boards in overseeing the work of the management with suppliers to guarantee effective solution of ESG issues (BRSUNGC Supply Chain Report, 2010)

Similar activities are followed by another international institution - **UNIDO recognizes that aligning business strategies, operations and supply chains with sustainable development outcomes is not only a social responsibility, but also increasingly a business imperative.** Adopting more socially inclusive and environmentally sustainable business operations will help to mitigate risks, develop new markets and cultivate sustainable relationships with suppliers, customers and investors (UNIDO, 2014). In 2009, UNIDO and the METRO Group, one of the world's largest retailers, joined forces in a strategic alliance for safe and sustainable food supplies. Through the first full-scale application of the Global Markets Protocol, established by the **Global Food Safety Initiative (GFSI)**, a joint capacity-building programme was developed and successfully implemented, enabling clusters of suppliers to meet METRO and GFSI market requirements in terms of food safety and quality (UNIDO, 2014). UN Value chains and supplier development Inclusive and Sustainable Industrial Development.

We observe the initiatives whose spill off effect is visible: increasing number of

followers and supporters; transformation from general recommendations to practical guidelines.

The difficulties that challenge our research activities are shared by some authors as well: although their evaluation is subjective, one has to agree about the small number of studies on corporate governance and environmental issues that companies are exposed to (Walls, Berrone and Phan). Theoretical assumptions or clear theoretical evidence on the above relation are at an initial stage. One has to point out that it refers not only to overseeing boards on compliance with legal requirements, but it is also valid for **their proactive role in going beyond the legal requirements.**

6. **Why our research does not cover traditional academic requirements**

We find **theoretical evidence about the increasing role of the suppliers in the structure of the stakeholders with whom the corporate boards have to cooperate and whose interests they have to respect in their global business activities.** Suppliers from all over the world raise new issues: protection of limited natural resources, coping with carbon emission, protection of human rights and fair payment. Some of these issue are addressed by **CSR initiatives.** Voluntary disclosure of non-financial information (GRI-G4) exemplifies these new trends. ESG format of disclosure is embedded in the Sustainability Codes of German Multinationals.⁴

Our preliminary research plan envisages empirical research. Our goal is to find evidence on:

- How does corporate governance on the level of multinationals' headquarters deal with ESG in their relation with suppliers(GSC);

⁴It is necessary to point out the EU Directive on non-financial disclosure(2014) will shift the focus from voluntary to mandatory ESG disclosure. G20OECD Principles of corporate governance (2015) recommend non-financial disclosure

- How do suppliers/factories in emerging markets become aware of the buyers / multinationals activities for protecting environment, respecting human rights and contributing to better quality of life in the community of suppliers.

We tried to use traditional tool-field research with two groups of respondents:

- Bulgarian suppliers (SME) for international buyers (we include in our group of respondents suppliers that deliver products for multinationals from EU (Germany)⁵
- Suppliers from emerging economies (Bangladesh, India)

Unfortunately we did not get sufficient data - responses to our questionnaires (Appendix N1). The questionnaires are based on the items of GRI-G4. The focus is on the policy of the buyers (big multinationals) towards the compliance with ESG norms in their work with the suppliers/sub-suppliers from emerging economies.

Because of difficulties with data collection we employed another research tool - a *case study*. We elaborated two small case studies: "*Rana plaza*" (*case study N 1*) and "*Sub suppliers case*" (*case study N2*)⁶

Case study N1

Rana Plaza case

The collapse

The Collapse of Rana Plaza (2013) poses concerns, criticism and initiatives. The story drew our attention to a very important issue: ***although companies/buyers develop their efficient ESG policy within their corporate governance framework, this policy does not cope with some ESG issues within the hierarchy of GSC.*** In the case of **Rana Plaza** that accommodates many local suppliers disclosed non-compliance of local suppliers on the site.

Pre-collapse initiatives

In 2010 a joint initiative was launched to address social and environmental problems in the local suppliers facilities - the Bangladesh Responsible Sourcing Initiative- BRSI. The ***Multi stakeholders theory*** is supported by the structure of the BRSI: Government; private sector actors from supply chains (textile mills; local trade associations; auditors; multinational corporations and retail brands) development institutions (World Bank; Natural Resources Defensive Council/US based NGO, the network of which include Gap; Wal-Mart; H&M, Levi's; Li &Fung; International Finance Corporation). The document puts forward recommendations for clean textile and garment industries in Bangladesh. This initiative proves the importance of theoretical statements (theory about the numerous stakeholders, on the one hand, and the algorithm that guides corporate boards and management how to work with the stakeholders including suppliers (Global Compact; IFC; WEF/Accenture). The publication focuses on standards and guideline for cleaner manufacturing. It was clear that intuitive exists and that both buyers and suppliers are involved.

Post collapse period

Some investigation within Rana plaza case shed light on the lack of adequate practice that causes the fears of local expertise: factories often lack the necessary knowledge, information, and skills to improve their social and environmental compliance status. The retail chains do not see it as their role to provide education and training programmes for their suppliers. (Koch, 2013)

The above statements do not provide for generalization on ethical behavior and corporate governance measures towards the GSC. The gap is bridged by development

⁵ By the end of 2015 some results of the study in Bulgaria are expected to be received.

⁶ Both cases are prepared by the author of the article. Information from various sources was used.

agencies that work on ESG awareness of suppliers (Koch 2013). From the perspective of corporate governance of the buyers this could increase the pressure for mitigating ESG risks within GSC. According to international media this was the organization that tried to coordinate the buyers measures in regard to the Rana Plaza collapse. It is important to point out that the Rana Plaza disaster led to increasing the number of multinational brands (100) that joined the initiative.

Case study N2

Sub suppliers case

The above findings focus our interest on exploring some other practices related to corporate governance and GSC. We tried to match some reports on negative cases in emerging markets (suppliers; factories) and disclosure policy of some buyers (multinationals; headquarters) in developed economies. We took data from the **annual ranking of RepRisk, a leading provider of business intelligence on ESG risks**. For year 2014 the company ranks as the most controversial project (RepRisk MCP Report, 2014). The Kunshan Zhongrong Metal Plating Factory in China is owned by Zhongrong - a subcontractor for General Motors , Volkswagen and Mitsubishi Motors. In the explosion in the factory on August 2, 2014 more than 70 workers were killed and more than 180 others were injured. Experts explained the explosion **with bad working conditions and non-compliance with the safety and healthy regulations**. We tried to find how this event was addressed by the German car producer: an annual report in compliance with the Sustainability Code was examined. **Information about the accident was not disclosed**. It is difficult to draw reliable conclusions on how the disclosure policy – a key principle of corporate governance, really shed lights on triple bottom line. Academia correctness provides a statement that needs further examination since current disclosure policy does not support some findings in the theoretical part of the

paper - "ESG integration appears as another tool used to reduce information asymmetry and to improve business (Crifo and Forget , 2008). Another project associated with the issue is the **non compliance with labour standards in a construction project for Qatar's World Cup facilities**: during 2014, construction and engineering companies including Carillion, Hochtief, Bilfinger, Siemens, Bouygues and Vinci were accused of **benefiting from the exploitation of workers** (RepRisk MCP Report, 2014). Annual reports of some of the above companies were analyzed and disclosure on the above deviations was not found.

Both brief cases reveal **deviation** from the established norms and ethical and responsible behavior of the multinationals. There is not sufficient information and evidence to support some of our theoretical assumptions. Despite the limited data, we believe that our research **highlights some issues ranking high on the agenda of corporate governance researchers**.

7. Conclusions

We offer some preliminary observation that new players on the global business arena - global supply chains that connect companies from developed economies and SMS/farmers from emerging economies - challenge corporate governance. Our research confirms that it is a new domain for corporate governance and the analyses of interactions with suppliers and CRS-related issues are almost empty research fields in emerging market countries (Classens and Yourtogley, 2012). This paper contributes to the limited knowledge and research on corporate governance from the perspective of the suppliers and ESG/CRS related issues. More attention has to be given to GSC within the framework of corporate governance. Currently only voluntary disclosure signals about corporate governance engagement with ESG within GSC. We suggest that companies have to incorporate norms that corporate

boards have to comply with: this new category of suppliers. Current practices: CSR policies, ESG disclosure, or some objective assessment (Dow Jones Sustainability; UNGC, RepRisk etc.) offer limited information about the result.

The research and the results are in line with our interest in international activities of listed companies with focus on their GSC. We think that this paper contributes to opening a **new window for research**. The future work would be successful provided scholars **on both sides: developed economies and emerging economies cooperate on the research of Corporate Governance, GSC and ESG**.

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Appendix N1**Questionnaire N1**

CG and environment: GSC perspective

N	Question	Positive answer	Negative answer	n.a	Comments if any	n.a.	Comments if any
1	Does the transportation of products and other goods and materials for foreign buyers have significant environmental impacts						
	Are local water sources significantly affected by withdrawal incl . water supply to local communities and indigenous peoples						
3	Do the agreements along the supply chain support jobs						
4.	Do the companies screen new suppliers on environmental criteria.						
5	How many local suppliers are identified as having significant actual and potential negative environmental impact.						
6	Do the companies identify significant actual and potential negative environmental impacts in the supply chain.						
7	Are there any suppliers identified as having significant actual and potential negative environmental impact with which improvements were agreed upon as a result of assessment						

Questionnaire N2

CG and Human Rights/labour issues: GSC perspective

N	Question	Positive answer /yes/	Negative answer /no/	n.a.
1	Does the practice of formal agreements (either local or global) with trade unions cover health and safety.			
2	Does information exist about ratio of the basic salary and remuneration of women to men ?			
3	Do foreign buyers screen new suppliers using labor practices criteria.			
4	Are any suppliers identified as having significant actual and potential negative impact on labor practices..			
5	Is there any actual and potential negative impact on labor practices identified in the supply chain.			
6	Do the contracts between foreign buyers and local suppliers include human rights clauses or ones that underwent human rights screening.			
7	Are there any operations and suppliers in which employee rights which exercise freedom of association or collective bargaining may be violated			
8	Do foreign buyers take measures to support rights to exercise freedom of association and collective bargaining			
9	Are there operations and suppliers considered to have significant risk for incidents of: Child labor -Young workers exposed to hazardous work			
10	Do foreign buyers take measures to contribute to the effective abolition of child labor.			
11	Are the suppliers screened using human rights criteria.			
12	Are local suppliers familiar with sustainability policy of their foreign buyers			
13	Are there suppliers identified as having significant actual and potential negative human rights impact			
14	Are local suppliers screened by the foreign buyers using criteria for exerting impact on society			