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Responding to second-tier customers' sustainability expectations through sourcing and procurement

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ABSTRACT:

Corporate responsibility is extending beyond company boundaries and home country. The reputation of multinational corporations (MNCs) is at risk due to the increasing number of scandals related to environmental and social responsibility violations. Moreover, MNCs are held liable for possible environmental and social problems of their suppliers. Equally, several scholars recognize the importance of sustainable procurement in sustainable supply chain management where stakeholder collaboration is considered the most effective in addressing issues on climate change. This thesis focuses on the cooperation aspect among multiple stakeholders and, explores how an MNC operating in the manufacturing industry responds to its second-tier customers' sustainability expectations through sustainable sourcing and procurement.

This study aims to address two key research gaps. First, our understanding about sustainability in procurement and supply chain is limited to the first-tier cooperation between different stakeholders such as manufacturer – supplier or manufacturer – customer. This study expands our understanding about sustainable procurement practices by researching the supplier – manufacturer – second-tier customer relationship in the supply chain. Second, although the literature recognizes the role of the first-tier customer in the supply chain as extremely important in shaping the operation of the manufacturer, the role of the second-tier customer is examined less. Therefore, this study focuses on the second-tier customers in the supply chain by illustrating how their sustainability expectations might shape the operations of the manufacturer. To address these research gaps a theoretical framework was established by conducting an extensive literature review focusing on the fields of sustainable development, sustainable supply chain management, and sustainable sourcing and procurement.

The research was conducted as a qualitative single case study to UPM Raflatac. To understand how UPM Raflatac responds to its second-tier customers' sustainability expectations, seven key people working within sourcing and procurement, sustainability and brand owner interface were interviewed. The data were collected and further analyzed through the lenses of interpretivism, allowing to understand how the topic of the research is perceived among professionals working in the field of the research.

The results indicate that UPM Raflatac responds effectively to the sustainability expectations of its second-tier customers. According to the findings the sustainability expectations of the second-tier customers focused on four main areas: the use of recycled materials in UPM Raflatac products, recyclability of products, traceability of raw materials used and overall, the availability of high-quality data. Additionally, sustainability is strongly integrated to the business model and UPM Raflatac has processes in place that support creation of a sustainable sourcing and procurement process that can be offered as an example to other companies working in the field.

KEYWORDS: Sustainability, Sustainable supply chain management, Sustainable sourcing, Sustainable procurement; Sustainability expectations, Second-tier customers

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TIIVISTELMÄ:
Yritysvastuu ulottuu yli yritysrajojen ja kotimaan. Monikansallisten yritysten maine on vaarassa ympäristö- ja yhteiskuntavastuu-rikkomuksiin liittyvien skandaalien lisääntymisen vuoksi. Lisäksi monikansalliset yhtiöt ovat vastuussa toimittajiensa mahdollisista ympäristö- ja sosiaalisista ongelmista. Samanaikaisesti useat tutkijat tunnustavat kestävien hankintojen merkityksen kestävässä toimitusketjun hallinnassa, jossa sidosryhmäyhteistyötä pidetään tehokkaimpana ilmastonmuutokseen liittyvien toimien ongelmien ratkaisemisessa. Tämä opinnäytetyö keskittyy useiden sidosryhmien yhteistyöhön ja tutkii, miten teollisuusalalla toimiva monikansallinen yritys vastaa toisen tason asiakkaidensa kestävyysodotuksiin kestävän hankinnan avulla.

Tämän tutkimuksen tavoitteena on käsitellä kahta keskeistä tutkimusaukkoa. Ensinnäkin ymmärryksemme hankinnan ja toimitusketjun kestävyydestä rajoittuu ensimmäisen tason yhteistyöhön eri sidosryhmien, kuten valmistajan – toimittajan tai valmistajan – asiakkaan välillä. Tämä tutkimus laajentaa ymmärrystämme kestävistä hankintakäytännöistä tutkimalla toimitusketjun toisen tason asiakassuhdetta. Toiseksi, vaikka kirjallisuudessa tunnustetaan ensimmäisen tason asiakkaan rooli toimitusketjussa erittäin tärkeäksi valmistajan toiminnan muovaamisessa, toisen tason asiakkaan roolia on tutkittu vähemmän. Siksi tässä tutkimuksessa keskitytään toimitusketjun toisen tason asiakkaisiin havainnollistamalla, miten heidän kestävän kehityksen odotuksensa voivat vaikuttaa valmistajan toimintaan. Näiden tutkimusaukkojen korjaamiseksi luotiin teoreettinen kehys tekemällä laaja kirjallisuuskatsaus, joka keskittyi kestävän kehityksen, kestävän toimitusketjun hallinnan sekä kestävän hankinnan aloihin.

Tutkimus toteutettiin UPM Raflatacille laadullisena yksittäisenä tapaustutkimuksena. Sen ymmärtämiseksi, miten UPM Raflatac vastaa toisen tason asiakkaidensa vastuullisuusodotuksiin, haastateltiin seitsemää avainhenkilöä, jotka työskentelevät hankinnan, vastuullisuuden ja brändirajapinnassa. Aineistoa kerättiin ja analysoitiin edelleen selittävän tutkimusfilosofian linssien kautta, jolloin voitiin ymmärtää, miten tutkimusaiheen aihe koetaan tutkimusalalla työskentelevien ammattilaisten keskuudessa.

Tulokset osoittavat, että UPM Raflatac vastaa tehokkaasti toisen tason asiakkaidensa vastuullisuusodotuksiin. Tulosten mukaan toisen tason asiakkaiden vastuullisuusodotukset keskittyivät neljään pääalueeseen: kierrätysmateriaalien käyttöön UPM Raflatac -tuotteissa, tuotteiden kierrätettävyyteen, käytettyjen raaka-aineiden jäljitettävyyteen ja yleisesti korkealaatuisen datan saatavuuteen. Lisäksi vastuullisuus on vahvasti integroitu liiketoimintamalliin ja UPM Raflatacilla on käytössä prosessit, jotka tukevat kestävän hankintaprosessin luomista, jota voidaan tarjota esimerkkinä muille alalla toimiville yrityksille.

KEYWORDS: Sustainability, Sustainable supply chain management, Sustainable sourcing, Sustainable procurement; Sustainability expectations, Second-tier customers

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1 Introduction

1.1 Background of the study

The current linear model of production sees nature as a resource that can be utilized infinitely without consequences, to maximize economic growth (Franco, 2017, p. 833). However, this model can be seen as the reason for many environmental challenges that our planet is currently facing such as climate change, loss of biodiversity, scarcity of resources, and increasing pollution levels (Franco, 2017, p. 833). The increased heatwaves and floods affect already the lives of billions of people worldwide (United Nations, 2022a, p. 3), whereas climate change on its own is recognized as a "constant threat to the global economy" (CDP, 2021, p. 3). Additionally, the world is facing a variety of social challenges such as child labor and worker's rights (Epstein et al., 2014, p. 23) with over 40 million people globally victims of modern slavery, where most cases are in the private sector among women and girls (United Nations, 2018). Moreover, other global crises such as the ongoing COVID-19 pandemic and its variants, significant supply chain disruptions, the war in Ukraine, rising inflation levels, and increased pressure on labor markets (United Nations, 2022a, p. 2) are creating challenges. The pandemic alone has caused the loss of the lives of 15 million people, overly charged health care systems, increase in extreme poverty and hunger (United Nations, 2022a, p. 2). As a result of the current situation, greenhouse gas emissions are estimated to increase by almost 14% during the current decade (United Nations, 2022a, pp. 2–3).

Collective actions and stakeholder collaboration play a key role in addressing and taking action on climate change (CDP, 2021, p. 3). The sustainability expectations towards companies are continuously expanding (Foerstl, 2014, p. 67) and stakeholders are increasingly requesting companies to address the social and environmental impacts of their business operations and enhance the transparency of their actions (Engida et al., 2018, p. 734). The pressure and expectations from different stakeholders such as customers, consumers, investors, and regulators (Cherel-Bonnemaison et al., 2021;

KPMG, 2021) force companies to focus on the environmental and social impacts of their supply chain (SGS, 2021).

However, the pressure is not only on the focal company's operations but also on its supply chain partners (Boruchowitch & Fritz, 2022, p. 1). Supply chains have a huge environmental and social impact. They are estimated to employ 450 million people around the world (SGS, 2022) while for many products majority of their greenhouse gas emissions, almost 90%, are generated in the value chain (scope 3) where two-thirds originate from the upstream supply chain (Cherel-Bonnemaison et. al., 2021). The general development of society and globalization have increased supply chain complexity. Changes in society such as the development of information and communication technologies, low shipping costs, and trade liberalization have encouraged companies to buy instead of making the products by themselves from beginning to end (Kim & Davis, 2016, p. 1897). While globalization has enabled companies to work with suppliers from different parts of the world (Koplin et al., 2007, p. 1053), it has also made supply chains more complex, scattered, and non-flexible (KPMG, 2021). Scattered supply chains are recognized as one of the biggest challenges of our era extending the accountability of a company beyond its boundaries and making it difficult to identify who has made the product (Kim & Davis, 2016, p. 1897).

Focal company's corporate social responsibility is also extending beyond the company boundaries or the home country (Kim & Davis, 2016, p. 1911), and the reputation of multinational companies (MNCs) is at risk due to the increasing number of scandals related to environmental and social responsibility violations (Villena, 2018, p. 1149). The buying company is held liable for possible environmental and social problems arising from the operations and actions of its suppliers (Cordón et al., 2012, p. 4; Koplin et al., 2007, p. 1053) and the "negative press" is most likely directed towards the buyer (KPMG, 2021, p. 4). In addition to the harmful consequences to the company's reputation and brand, not recognizing and taking action to solve environmental and social risks and possible scandals can have economic consequences such as an increase in costs, a

negative effect on share price or profit margins (KPMG, 2021, pp. 5–6). For many companies supply chains are vulnerable to risks even though they are strategically critical in nature (KPMG, 2021).

Many authors have emphasized the importance of sustainable procurement in creating sustainable supply chains (Cherel-Bonnemaison et. al, 2021; Meehan & Bryde 2011; Villena, 2018; Walker et al., 2012), networks (Villena, 2018, p. 1167) and in implementing sustainability practices and policies throughout the whole supply chain (Meehan & Bryde, 2011, p. 94). As a function, they can shape the company's environmental, social and governmental (ESG) performance with their purchasing decisions (Cherel-Bonnemaison et. al., 2021) and the possibility to influence external organizations in the supply chain (Meehan & Bryde, 2011, p. 96). Despite this important role, many MNCs don't include procurement functions in the discussions concerning the company's sustainability targets or offer related training or incentives that could support focusing on sustainability in addition to traditional purchasing priorities (Villena, 2018, p. 1163;1165). According to Cherel-Bonnemaison et. al. (2021), even though procurement's crucial position is recognized among procurement managers, many companies are still missing an actual sustainability strategy for procurement and haven't incorporated sustainability into category strategies or procurement decisions.

1.2 Research gap

Supply chain management (Drake, 2011; Hugos, 2018) and sustainable development in supply chains has been actively researched in the past by many authors (Carter & Rogers, 2008; Kim & Davis, 2016; Miemczyk & Luzzini, 2018; Winter & Knemeyer, 2013). Sustainable procurement is also recognized as a growing field of research (Walker et al., 2012, pp. 202–203; Meehan & Bryde, 2011, p. 95) that has been already studied from different perspectives. Authors have conducted research on sustainable procurement practices (Meehan & Bryde, 2011; Walker et al., 2012), the role of procurement function in creating sustainable supply networks (Villena, 2018) as well as specific procurement practices such as supplier selection (Mohd et al., 2017). Moreover, Walker et al. (2012,

p. 202) recognize that especially sustainable operations, sustainable supply chain management, and sustainable procurement are all perceived as current research topics with growing academic interest. Even though prior literature on the topic already exists, the field it is still believed to be in the development phase (Walker et al., 2012, pp. 202–203; Meehan & Bryde, 2011, p. 95). Therefore, Walker et al. (2012, p. 203) recognize general theory building, and testing as one of the research gaps in the field of sustainable procurement. Thus, this study aims to contribute to this research gap by exploring existing theories on sustainable supply chain management and sustainable procurement. However, this study adopts a different perspective and expands the understanding about sustainable supply chain management and sustainable procurement practices by studying the supplier – manufacturer – second-tier customer relationship in the supply chain.

What comes to prior research between buying company's procurement function and relevant external stakeholders the studies focus mostly on the relationships and communication between the buying company and the suppliers (Foerstl, 2014; Wilhelm & Villena, 2021; Cangurde & Chavan, 2016; Villena, 2018) instead of focusing on the downstream entities, the customers. Even though, general research on customers as stakeholders (Ferrell, 2004; Friedman & Miles, 2006) and related sustainability aspects (Carroll, 2017) has been addressed, the prior literature on the relationship between second-tier customers and the manufacturing company's sourcing and procurement function is scarce. As a result of a profound literature review, the lack of prior research was found especially in the field of second-tier customer's sustainability expectations and manufacturing company's ability to respond to those needs through sourcing and procurement. However, due to the critical role of sustainable procurement in creating sustainable supply chains (Cherel-Bonnemaison et. al, 2021; Meehan & Bryde 2011; Villena, 2018; Walker et al., 2012) and in implementing sustainability practices and policies throughout the whole supply chain (Meehan & Bryde, 2011, p. 94) this research gap is perceived to be important to explore. Since prior theory is limited, this part of the study will focus more on creating new insights of how an MNC is working towards

responding to second-tier customers' sustainability expectations and contribute to the creation of theory in this field in the future.

However, the research is not relevant only to fill the gaps in the literature, but also to contribute to the field of sustainable sourcing and procurement in business context. Corporations (Deloitte, 2017; KPMG, 2019;2021;2022, SGS, 2021) and organizations (CDP, 2021; United Nations, 2022a) have shown increasing interest towards corporate sustainability and sustainable supply chains in the recent years. Additionally, the global agreements and legislation that has been and will be developed in the field of sustainability, (European Commission, 2022a;2022b; Ministry of Foreign Affairs of Finland, 2022; United nations, 2022b) will have a major effect on global supply chains of MNCs in the future. Therefore, the practical application of this study is to provide valuable information about what second-tier customers value regarding sustainability and how sourcing and procurement function can support meeting those expectations.

1.3 Research question and objectives

The main focus of this study is on sourcing and procurement as a supply chain activity, and its ability to respond to the requirements and expectations of its second-tier customers. The aim of this research is to contribute to the two research gaps identified in the section 1.2. The first one focuses on creating sustainable supply chain management and sustainable procurement processes. The second gap focused on second-tier customers and their sustainability expectations. Therefore, to contribute to the research gaps recognized one research question and one clarifying sub-question were formed.

RQ: *"How does an MNC perceive and respond to the sustainability expectations of second-tier customer through sourcing and procurement?"*

Sub-question: *"What are known processes and practices that sourcing and procurement function implement to support the sustainable procurement process?"*

To increase the relevance of the business context, the study is conduced as a single case study on a multinational stock-listed manufacturing company, UPM Kymmene Oyj. UPM has a strong focus on creating sustainable solutions with its 20 000 material and service suppliers, 11 400 customers, and 200 million end users, making it a highly relevant and interesting case company for this study (UPM Kymmene Oyj, 2021, p. 8;83). The study focuses on one of the businesses' that is a leading producer of sustainable labeling, UPM Raflatac. From the business' perspective the second-tier customers are brand owners operating in large scale of different industries. More detailed case description is offered in chapter 3.7.

To answer the research questions the following objectives of the study were identified. The first objective is to study and understand the previously published literature, research, and theories that support the chosen area of research for this study. This means focusing on research and theories in relevant fields such as sustainable supply chain management and sustainable sourcing and procurement. The second objective aims to collect relevant data to answer the research questions by conducting empirical research. The third objective of the thesis is to present the findings by describing, analyzing, and evaluating the collected data. The fourth and final objective is to compare the collected data to the created theoretical framework and make conclusions and suggestions for further study.

1.4 Structure of the study

The structure of this thesis aims to be logical and easy for the reader to follow. The study consists of five main chapters. The first chapter focuses on building the background of the study by introducing the topic, identifying the research gap, and defining the research question and objectives. Additionally, the structure of the study is introduced in this chapter. The second main chapter focuses on building the theoretical framework for the thesis through a literature review. This part of the thesis introduces the relevant theory in the fields of sustainable development, sustainable supply chain management,

sustainable sourcing and procurement and customers and suppliers as stakeholders. In the third chapter, a profound introduction of the methodology of the study is offered by focusing on the research philosophy and approach, research strategy and method and collecting and analyzing the data. Rigorousness of the research is also discussed in this chapter. As a final part of the third chapter, a description of the case company is provided. The fourth chapter focuses on introducing the collected data and the findings made. The fifth section connects the findings with the theoretical framework of the study, concludes the research paper, and offers suggestions for further study.

2 Theoretical background

This part of the study focuses on building the theoretical background for the empirical part of the research through a literature review. The main focus areas are sustainable sourcing and procurement process and suppliers and customers as stakeholders. To create a comprehensive understanding of the topic, a general introduction to sustainable development and sustainable supply chain management is offered.

2.1 Towards sustainable development

There are both contradictory and complementary definitions for the word sustainability. The term sustainability is occasionally confused and used interchangeably with other similar terms used in the business context such as corporate social responsibility (CSR), and corporate responsibility (CR) (Carroll et al., 2017, p.61; Savitz, 2013, p. 3), corporate citizenship (Carroll et al., 2017, p.61) and ESG (environmental, social, and governmental) (Leonie, 2022). However, the terms have different meanings. According to Savitz (2013, pp. 3–4), CSR refers to the obligations the company has towards society as a whole whereas the word *responsibility* emphasizes the impacts on social groups outside the company. Similarly, Carroll et al. (2017, p. 35) define CSR by emphasizing the impact company's actions have on society. However, the authors add that the specific definitions for the concept vary and refer to earlier found 37 different definitions for the term. Another term that has been increasingly used in the corporate context when discussing sustainability is ESG which refers to the environmental, social, and governance factors. However, Leonie (2022) underlines that ESG is not the same as sustainability. The author explains that if a company has been focusing on ESG factors by for example creating a related policy, it doesn't automatically make the company sustainable, but guides them in the right direction.

The concept of sustainability was first introduced in a document published in 1980 by the International Union for the Conservation of Nature and Natural Resources (IUCN) under the title "World Conservation Strategy" (Bakari, 2017, p. 27). At that time the

focus of the concept was merely on ecological sustainability and related concerns such as the conservation of natural resources (Bakari, 2017, p. 27). Currently, the most widely used definition for sustainable development was published a few years later by the World Commission on Environment and Development (WCED) (Bakari, 2017, p. 27), which defines sustainable development in the following way: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (WCED, 1987). The definition has been referenced by several authors focusing on sustainability (Bakari, 2017; Carter & Rogers, 2008; Epstein et al., 2014; Krause et al., 2009, Mohd et al., 2017; Wilson, 2015; Winter & Knemeyer, 2013) UN organizations, NGOs and financial organizations globally such as the World Bank (Bakari, 2017, p. 27). The concept of sustainability has been derived from the definition of sustainable development, which recognizes a long-term, future-oriented perspective as a key consideration (Carroll et al., 2017, p. 61).

In this thesis the concept of sustainability is built around the sustainable development definition presented in the previous paragraph and the Triple Bottom Line (TBL) approach introduced in the next section (see chapter 2.1.1). When conducting research on sustainability, the TBL is perceived as a highly relevant model that understands sustainability as a combination of three areas: social, environmental, and economic sustainability. Additionally, since the study is conducted in corporate context it is inevitable to also discuss the corporate sustainability (see chapter 2.1.2) concept and surrounding issues and have a brief overview of some of the relevant agreements and regulations (see chapter 2.1.3) that guide the sustainable performance of companies now and in the future.

2.1.1 The Trible Bottom Line (TBL) approach

Companies use different types of resources to conduct their business. The most traditional are the financial resources such as investments and sales revenues (Savitz, 2013, pp. 4–5). However, companies also use environmental resources such as raw materials and energy and social resources such as their employees’ time and

competencies (Savitz, 2013, p. 5). Since companies use financial, environmental, and social resources, John Elkington, suggested that companies should be able to measure their performance and impact on all of these three aspects (Savitz, 2013, p. 4). Savitz (2013, p. 5) supports this by stating that corporations should be able to measure, document, and report a positive return on investment (ROI), on these three aspects as well as the benefits they have created for their stakeholders. At the core of this idea is the Triple Bottom Line (TBL) concept that considers the company's sustainability performance in all these three areas (Savitz, 2013, p. 5).

The TBL approach by John Elkington is a central concept when discussing sustainability performance (Savitz, 2013, p. 4) and it has been described to "capture the essence of sustainability" (Savitz, 2013, p. 5). The concept has been utilized and referenced by many authors as a guiding concept in sustainability-related research and publications (Carroll, 2017; Clarke, 2000; Carter & Rogers, 2008; Miemczyk & Luzzini, 2018; Mohd et al., 2017; Savitz, 2013; Wilson, 2015; Winter & Knemeyer, 2013) as well as by organizations and agencies (Wilson, 2015, p. 433). According to TBL, sustainability consists of three areas: social, environmental, and economic (Carroll, 2017, p. 61; Epstein et al., 2014; Savitz, 2013, p. 5; Wilson, 2015, p. 433) also known as people, planet, and profit (Carroll, 2017, p. 61; Wilson, 2015, p. 433; Winter & Knemeyer, 2013, p. 22). Social sustainability focuses on the quality of life and equity between *people* in different countries and communities (Carroll, 2017, p. 61). In environmental sustainability, the emphasis is on protecting the natural environment in other words, the *planet* (Carroll, 2017, p. 61). Economic sustainability focuses on *profits* by creating "material wealth" such as financial income and assets (Carroll, 2017, p. 61). Following the TBL approach, Krause et al. (2009, p. 20) also recognize three pillars for sustainable development: environmental stewardship, societal equity, and economic performance. The authors demonstrate the three pillars by connecting environmental stewardship with minimizing waste, reducing emissions, and protecting natural resources, societal equity with human rights, poverty and injustice, and economic performance with meeting the needs of the company and its stakeholders.

To create sustainable operations all the dimensions of TBL should be integrated into company operations in a balanced way (Carter & Rogers, 2008, p. 365). Carroll (2017, p. 61) identifies *corporate sustainability* as the goal of the TBL approach (see figure 1). The author further recognizes shareholder value creation by utilizing opportunities and managing related risks as the goals of sustainability. However, when sustainability is considered as the combination of social, environmental, and economic dimensions, measuring and integrating sustainability becomes more challenging. Compared to the environmental and social elements of TBL, the economic aspect is perceived as a more traditional dimension that has been widely used in the business context (Winter & Knemeyer, 2013, p. 23). To measure organization's performance in the different sustainability dimensions different measures are needed (Winter & Knemeyer, 2013, p. 24). Measuring company's economic sustainability performance (e.g., long-term success and competitiveness) is perceived to be more straightforward compared to measuring environmental or social sustainability due to more developed, well-understood, and used measures (Winter & Knemeyer, 2013, p. 23).

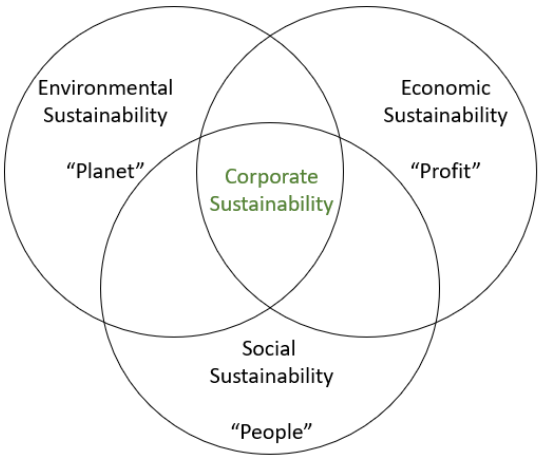

Figure 1 Sustainable corporation through the TBL (modified from Carroll, 2017; Carter & Rogers, 2008, p. 265; Wilson, 2015, p. 434)

Challenges are also recognized in the integration of sustainability into daily management decisions (Epstein et al., 2014, p. 28). According to Epstein et al. (2014, p. 28), a conflict

lies in incorporating social, environmental, and economic sustainability and financial goals, which forces the management to make trade-offs between allocating resources. The authors state that it is not often clear what aspect should be prioritized at a certain point in time and the stakeholders' desires complicate the decision-making process even more. The authors continue by stating that it is often unclear what the stakeholders recognize as important aspects to focus on at the time and how they will react to the decisions made by the company.

2.1.2 Corporate sustainability

Corporate sustainability consists of a wide range of concerns that companies should address in a coherent way concerning the environment, worker's rights, protection of consumers, and corporate governance, but also the impact of the business in more extensive issues such as human rights, poverty, education, and healthcare (Savitz, 2013, p. 4). Savitz (2013, p. 2) describes a sustainable corporation as "…one that creates profit for its stakeholders while protecting the environment and improving the lives of those it interacts with". Savitz (2013, p. 6) highlights the increasing importance of sustainability. The author emphasizes the accountability of companies which is no longer limited to the actions and impacts of the company itself but also its suppliers, communities in which they are located, and consumers who use their products.

In the 21st century, it has become difficult for companies not to consider the sustainability of their operations and the impact they have on their stakeholders (Epstein et al., 2014, p. 23) and society through their actions. Companies are receiving pressure to improve especially their environmental and social sustainability performance internally through their investors and employees and externally through legislation and customer demands (Winter & Knemeyer, 2013, p. 23). Many companies have faced negative impacts on their reputation due to their negative social, environmental, or economic impact (Epstein et al., 2014, p. 25) and are aiming to become "better corporate citizens" (p. 27). The need for managing and controlling the company's corporate responsibility performance has been recognized and the question has shifted from

whether to incorporate corporate sustainability into management decisions but *how* to do it (Epstein et al., 2014, p. 23). According to Epstein et al. (2014, p. 25) companies can be in different stages of integrating sustainability into their businesses and have a reactive or proactive way of incorporating it. The authors explain that some companies haven't developed a systematic way of thinking or managing their sustainability nor developed sustainability strategies while other companies have recognized the effects of their actions in all the sustainability areas (social, environmental, economic) and have developed policies and systems to handle related issues. However, Epstein et al. (2014, p. 25) notify that is unlikely that any company would have integrated or achieved sustainability in its operations to a full extent.

Adoption of sustainable business practices first started as a response to regulations (Mohd et al., 2017, pp. 1956-1957), but companies have since understood that incorporating sustainability can also bring long-term economic benefits and competitive advantage for the organization (Carter & Rogers, 2008, p. 364; Mohd et al., 2017, p. 1959).

According to Savitz (2013, p. 45), sustainability can help to protect, run and grow a company. Protecting refers to reducing risks by identifying and taking action on emerging risks in their early stages (Savitz, 2013, p. 45), while running is related to cost reductions, productivity improvements, and access to capital at a lower cost (Savitz, 2013, p. 47). With growing Savitz (2013, p. 48) refers to for example the possibility to launch new products and services due to increased innovation pace, increase the number of satisfied and loyal customers, possibility to expand to new markets as well as improved reputation and brand value. Additionally, by promoting sustainability operations within the company by focusing on aspects such as material reductions, working conditions, and fuel usage companies can reduce their costs while improving the corporate image (Carter & Rogers, 2008, p. 361). However, Epstein et al. (2014, p. 28) state that even though implementing sustainability is considered to bring financial benefits, the changing costs related to sustainability and the long-time horizon make it difficult to measure the impact of integrating sustainability into the business. This creates

uncertainty on how far companies should go with their sustainability-related efforts and therefore differentiates it from the implementation of other strategic initiatives.

2.1.3 Regulation as guidance

Current and developing ESG requirements have diverse focus areas, but they all have the same primary goal which is to support governments in meeting the commitments of the Paris Climate Change Agreement (KPMG, 2019, p. 5). The Paris Agreement entered into force at the end of 2016 and since then 194 parties have joined the Agreement (United Nations, 2022b). The Agreement aims to limit the global temperature increase to 2 degrees Celsius by guiding nations and corporations to reduce their greenhouse gas emissions (United Nations, 2022b). Moreover, the 17 Sustainable Development Goals (SDGs) introduced by the United Nations in 2015 aim to guide companies toward a more sustainable future (KPMG, 2022, p. 57; Soosalu & Larsson, 2022) acting as a basis for sustainable operations of many MNCs. From the total of 17 Sustainable Development Goals (SDGs), most companies report on specific goals they have identified as the most important to their operations (Soosalu & Larsson, 2022). The most popular SDGs for companies to report against are 8: Decent Work and Economic Growth; 12: Responsible Consumption and Production; and 13: Climate Action (KPMG, 2022, p. 60). Although it is good that companies consider the SDGs, the emphasis is strongly on highlighting the positive impacts. According to KPMG (2022, p. 60), only one-tenth of the nearly 5000 N100 and G250 companies examined the report on both the positive and negative impact they have on the SDGs.

Additionally, regions and countries are taking action to prevent the use of corporations' unsustainable business practices during the manufacturing and distribution processes through more specific regulations. As an example, in February 2022 European Commission adopted a proposal for a corporate sustainability due diligence directive with a focus on human rights and environmental issues in the company's operations and their value chains within and outside Europe (European Commission, 2022 a). Another example is the Uyghur Forced Labour Prevention Act that came into force in December

2021 in the US banning the import of any goods mined, produced, or manufactured partly or fully in the Xinjiang Uyghur Autonomous Region of the People's Republic of China (CBP, 2022). Similarly, the EU proposed in September 2022 a regulation that would ban products made with forced or child labor (The Ministry of Foreign Affairs of Finland, 2022). The regulation would cover the EU market area and concern all companies as well as products manufactured in the EU or imported products (The Ministry of Foreign Affairs of Finland, 2022).

To direct investments toward more sustainable activities, projects, and corporations, also sustainable finance legislation has been developed in the EU. One example is the EU Taxonomy, which provides a classification system of environmentally sustainable economic activities (European Commission, 2022 b). The first two objectives of the Taxonomy (climate change mitigation and climate change adaption) came into force in January 2022 and the remaining four will be applicable from January 2023 onwards (European Commission, 2022a).

However, according to Epstein et al. (2014, p. 40) social and environmental regulations are still loose in many countries. Additionally, the authors claim that MNCs are facing a challenge when operating globally regarding whether to build the company's sustainability strategy on the global, country, or locally adapted sustainability standards. Even though the specific regulation would not be applicable in the countries in which the MNC is located, it is most likely applicable in some parts of its supply chain making the MNC accountable as well.

2.2 Sustainable supply chain management

To understand the concept of sustainable supply chain management, it is essential to start by defining supply chain (SC) and supply chain management (SCM) concepts. Both terms are rather new and were first introduced in the early 1980s (Winter & Knemeyer, 2013, pp. 19–20). Garcia-Torres et al. (2019, p. 86) define supply chain (SC) as the "range of activities involved in the design, production, and marketing of a product". Similarly,

Hugos (2018, p. 2) describes SCs by stating that they consist of "… business activities needed to design, make, deliver and use a product or service". Additionally, Hugos (2018, p. 4) emphasizes the relationship between the different companies in a supply chain by describing the concept as "… networks of companies that work together and coordinate their actions to deliver a product to a market". Respectively, Winter & Knemeyer (2013, p. 19) emphasize the non-linear nature of supply chains and describe them as "complex relationship networks". Cordón et al. (2012, p. 6) describe supply chains by emphasizing the fundamental impact they have on the company's finance, leadership, innovation, and risk management processes. Depending on the author the definition of the supply chain can have different nuances, but they all have the same core idea: supply chains are complex networks of companies that participate in delivering products to the end user through different business activities. Thus, this research is built around this definition for supply chain.

The second core concept is supply chain management (SCM) which can be defined as: "…the coordination of production, inventory, location, and transportation among the participants in a supply chain to achieve the best mix of responsiveness and efficiency for the market being served." (Hugos, 2018, p. 4). The definition by the Council of Supply Chain Management Professionals (CSCMP) emphasizes the need to coordinate and collaborate with supply chain partners by defining SCM as: "encompass[ing] the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party, service providers, and customers." (Drake, 2011, p. 3). Consequently, the supply chain management process includes managing everything from the sourcing of raw materials and manufacturing to delivering the final product to the end customer (Kim et al., 2020, p. 2). Cordón et al. (2012, p. 7) characterize supply chain management as a challenging task due to the complexity of working closely with multiple different organizations and managing change across several different companies (Cordón et al., 2012, p. 7).

According to Cordón et al. (2012, p. 4) supply chains have been traditionally divided into three main flows: the flow of goods, the flow of information, and the flow of cash (see figure 2). First is the flow of goods from supplier to the retailer through manufacturer and distributor. Second is the flow of information between these different supply chain partners. The information can be for example order replacements, expected delivery dates, or forecasts. The third flow is the financial flow in other words the flow of cash. In addition to the traditional three flows Cordón et al. (2012, pp. 4–5), emphasize the importance of the additional three flows which are the exchange of risks, the exchange of ideas and innovation, and the exchange of personal relations. Even though the authors discuss the exchange of risks, they outline that many risks are not transferable to the suppliers and usually the responsibility lies at the end with the focal company. Exchanging ideas and innovation refers to companies incorporating their supply chain partners into the process by considering their innovative ideas making them more agile to respond to changing customer needs. Lastly, the authors emphasize the importance of personal relationships with suppliers and customers in evaluating the reliability of the business partner.

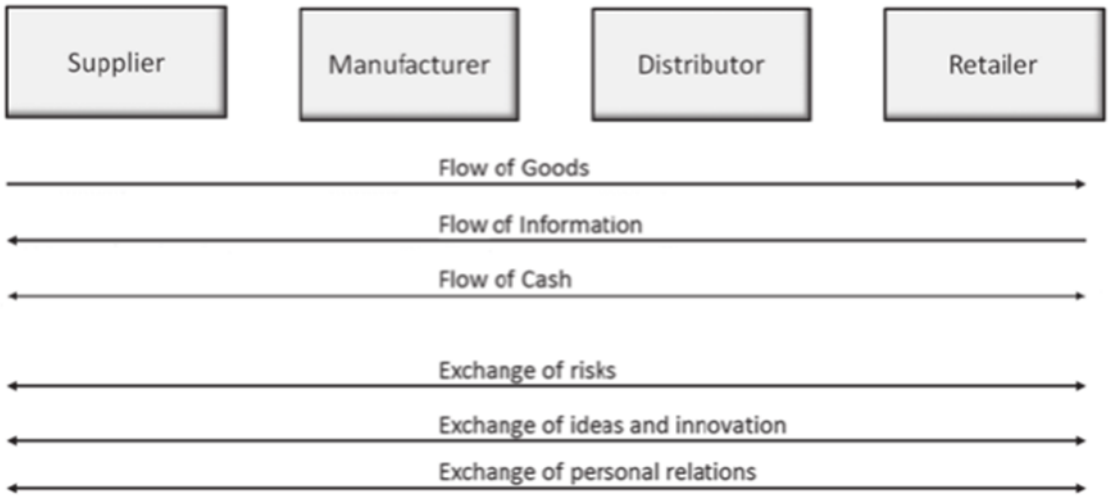

Figure 2 Supply chain flows (Cordón et al., 2012, p. 4)

Krausen et al. (2009, p. 19) emphasize the need for *sustainable* supply chain management to become the norm and find concentrating merely on supply chain

management as “insufficient”. The definition of sustainable supply chain management by Carter & Rogers (2008, p. 368) follows the TBL approach: “… we define SSCM 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.”. The definition demonstrates that sustainability can be extended beyond organization’s boundaries to include its supply chain activities. The focus on sustainability in the corporate context has shifted from the focal company to the whole supply chain and managing the activities from raw materials to finished goods (Mohd et al., 2017, p. 1957).

The complexity of managing supply chains has increased due to globalization (Yadavalli, 2019, p. 1). Most companies are connected to the “global marketplace” and therefore are operating as a part of a global supply chain (Drake, 2011, p. 2). Even companies that operate only within the boundaries of one country, most likely don’t have completely domestic supply chains (Drake, 2011, p. 2). However, in a study by Kim & Davis (2016, p. 1906) focusing on 1262 companies that submitted the conflict minerals report in 2015, 79% of the respondents stated that they were unable to identify where the raw minerals of their products originated from. The complexity and size of the supply chain were recognized as the primary reasons (Kim & Davis, 2016, p. 1906). Since a company is only as sustainable as its supply chain and the suppliers it works with (Deloitte, 2017, p.1; Krause et al., 2009, p. 18; Miemczyk & Luzzini, 2018, p. 240), corporations need to be aware of the supply chains they are connected to and their role in them (Hugos, 2018, p. 2).

2.3 Sustainable sourcing and procurement

Procurement is one of the traditional functions of supply chain management (Drake, 2011, p. 2). Sourcing and procurement as a field of research are quite mature since formal books and articles focusing on purchasing have been published for over 200 years since the 1800s (Krause et al., 2009, p. 19). Traditionally the role of the

procurement function has been described as: “to deliver the right material (or service) in the right amount to the right place at the right time and the right price” (Sollish & Semanik, 2012, p. 1). Moreover, sourcing can be seen as a part of the procurement process and defined as “… the process of fulfilling organizational buying needs by managing supply base through strategic and transactional interactions with suppliers in alignment with corporate goals” (Giunipero, 2019, p. 1). However, the growing importance and interest in SCM has also increased the strategic importance of procurement (Cangurde & Chavan, 2016, p. 1751) and shifted the role of procurement professionals from purchase order handlers to personnel who are responsible for managing the whole sourcing and acquisition process (Sollish & Semanik, 2012, p. 1).

Kraljic’s portfolio model (KPM) is the first widely recognized and utilized model for the procurement and supply management of different items (Cangurde & Chavan, 2016, pp. 1752-1753; Krause et al., 2009, p.19). The model can be seen as a useful tool to support the understanding of purchasing strategies and buyer-supplier relationships and the interaction between the two parties (Cangurde & Chavan, 2016, p. 1753). The model focuses on encouraging to strategic buying behavior by considering the risks and market uncertainties of purchases (Krause et al., 2009, p.19).

According to the approach purchased items are categorized into four groups based on their profits and risks after which a specific sourcing strategy is defined for each group (Cangurde & Chavan, 2016, p. 1752; Krause et al., 2009, p.19). The four categories are strategic, bottleneck, leverage, and noncritical or normal items (Cangurde & Chavan, 2016, p. 1752; Krause et al., 2009, p. 19). The development of different categories lies in the notion that different products and different situations call for different types of purchasing strategies (Cangurde & Chavan, 2016, p. 1752). In the case of *leverage* items, the cost of one part is high, but there are many suppliers available increasing the purchasing power of the buyer (Cangurde & Chavan, 2016, p. 1753). Due to the high competition between suppliers, the competitive auction is the suggested strategy (Cangurde & Chavan, 2016, p. 1753). With *strategic* items or there are usually less

suppliers available, and Cangurde & Chavan (2016, p. 1753) suggest developing a long-term relationship with key suppliers. For *bottleneck* items, the authors suggest securing the supply while screening for other possible suppliers, and for *non-critical* items reducing the number of suppliers used and exploring competitive purchasing practices.

To build a more comprehensive understanding of the sustainable sourcing and procurement topic the following chapters focus on related challenges and opportunities (see chapter 2.3.1), the relevant stakeholders (see chapter 2.3.2) and finally the sustainable procurement process (see chapter 2.3.3).

2.3.1 Challenges and opportunities

The traditional way of procurement is built only around the economic sustainability dimension (Villena 2018, p. 1163). However, the increasing number of scandals among suppliers and lower-tier suppliers has shifted the emphasis more on environmental and social sustainability and indicated the importance of incorporating suppliers into sustainable procurement strategies (Villena 2018, p. 1163). Cordón et al. (2012, p. 7) define supplier-related risks such as lack of supply and quality problems as “the most important risks for companies”. Therefore, sustainable procurement creates new demands for supplier management (Wilhelm & Villena, 2021, p. 4201). From total supply chain costs, suppliers can represent more than 50% (Cordón et al., 2012, p. 4), which creates a critical position for suppliers in improving overall company sustainability (Mohd et al., 2017, p. 1972). Doing business with suppliers that have better sustainability performance can increase the costs of the buying company due to higher costs on the supplier’s end (Krause et al., 2009, p. 21). However, incorporating sustainability will lower costs in the long run (Krause et al., 2009, pp. 22–23).

Developing a sustainable procurement strategy, incorporating and prioritizing the social, environmental, and economic goals of the whole supply network is needed (Villena, 2018, p.1164). Even though the purchasing decisions have a direct impact on organizations’ ESG footprint (Cherel-Bonnemaison et al., 2021), the procurement

function is often not included in the discussion of companies' sustainability requirements (Villena, 2018, p. 1150). The importance of procurement is understood, but still, most companies haven't been able to create a clear vision or sustainability strategy for the unit (Cherel-Bonnemaison et al., 2021). Sollish & Semanik (2012, p. 137) recognize that sustainability is a common effort and requires commitment from the management and employees. Consequently, Carter & Rogers (2008, p. 361) emphasize the critical role of supply chain professionals in influencing the company's sustainability operations. However, ensuring supplier sustainability is not procurements responsibility alone (Villena, 2018, pp. 1165–1166), even though the function has a central role in the company's sustainability efforts (Krause et al., 2009, p. 18). Villena (2018, pp. 1165–1166) underlines the importance of cross-functional collaboration between engineering and sustainability functions.

Krause et al. (2009, p. 20) also suggest including sustainability as a competitive priority for purchasing function in addition to more traditional priorities: quality, cost, delivery, flexibility, and innovation. However, according to a survey by Cherel-Bonnemaison et al., (2021), only 20 percent of the respondents stated that sustainability was a primary sourcing criterion and only 10% indicated that sustainability was integrated into category strategies. According to Krause et al. (2009, p. 20), the earlier introduced Kraljic's portfolio model (KPM) aims to "exploit company's full buying and bargaining power" by utilizing low costs, low risk, and sufficient availability of purchasing inputs (Krause et al., 2009, p. 20). This fundamental objective of the model conflicts with achieving sustainability-focused purchasing (Krause et al., 2009, p. 20). However, to utilize the model in sustainable procurement Krause et al. (2009, p. 21) suggest including sustainability as a "key performance criterion" for all four purchase categories in addition to the traditional criteria (i.e., quality, cost, delivery, flexibility, and innovation).

Krause et al. (2009, p. 21) suggest different actions to integrate sustainability into each of the categories. Firstly, with *leverage* items, the focus should be on prioritizing material reductions, the use of recyclable materials, and tracking down the raw materials. For the

buying company, this could mean sharing best practices with their supply network. Secondly, for *strategic* items, the authors emphasize focusing on innovation to contribute to the development of new more sustainable products in collaboration with their suppliers. The third is *bottleneck* items. Incorporating sustainability into this group of items is found challenging due to the buyer's low bargaining power. Therefore, the authors suggest focusing on developing industry-wide standards, which is nevertheless in conflict with Kraljic's focus on minimizing costs and risks. Lastly, for *non-critical* items, the authors suggest focusing on supplier selection and selecting sustainable suppliers.

2.3.2 Value chain stakeholders

In some companies, sustainability is the core value of the business that the management is committed to, or the company has recognized integrating responsibility into corporate strategies as a source of increased revenues and reduced costs (Epstein et al., 2014, p. 24). However, increasingly often the need for incorporating sustainability stems from external pressure such as regulation, changing market demands, actions of competitors, or nongovernmental organizations (NGOs) (Epstein et al., 2014, p. 24). Moreover, the sensitivity toward social, environmental, and economic issues and concerns from the stakeholders has increased (Epstein et al., 2014, p. 27).

Carroll et al. (2017, p. 72) define stakeholders as "any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization". Companies have several stakeholders (Carroll et al., 2017, p. 73), and the most recognized are shareholders, customers, suppliers & distributors, employees, and local communities (Friedman & Miles, 2006, p. 13). Carroll et al. (2017, pp. 75–76) categorize stakeholders as primary stakeholders and secondary stakeholders. The authors recognize shareholders & investors, employees & managers, customers, local communities and suppliers & other business partners as primary stakeholders. These stakeholders have "a direct stake in the organization" and are therefore received as the most influential stakeholder group. Government & regulators, civil institutions, activist groups, media, trade bodies, and competitors are categorized as secondary stakeholders. This group is

perceived to have an “indirect or derived” stake in the organization and the organization’s responsibility towards them can be less. The secondary stakeholders are also received as a highly influential and powerful group since they can affect the company's reputation.

To operate sustainably, Savitz (2013, p. 3) emphasizes the need to recognize stakeholders that the company is accountable and develop open relationships with them that aim for mutual benefits. Savitz (2013, pp. 200-201) recognizes stakeholder mapping and target analysis as relevant tools for identifying and prioritizing company stakeholders or stakeholders of a specific function. According to the author, this can be done by dividing stakeholders into three categories (see figure 3): *internal* stakeholders within the company (e.g., employees, investors, and partners), *value chain* stakeholders meaning the stakeholders the company conducts business with (e.g., suppliers, distributors, and customers) and *external* stakeholders outside the company (e.g., communities, regulatory agencies, and the media).

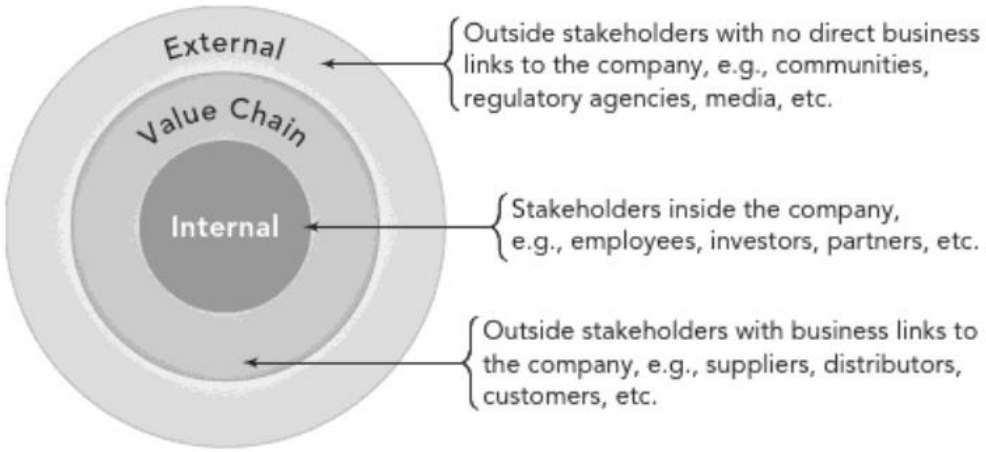

Figure 3 Target analysis: stakeholder categories (Savitz, 2013, p. 200)

To describe the buying company’s relation to its partners in a supply chain, the relevant value chain stakeholders to discuss our suppliers and customers (Drake, 2011, p. 3). When considering the supply chain from the buying company’s perspective suppliers are

"upstream entities", whereas customers are referred as "downstream entities" (see figure 4) (Drake, 2011, p. 3). Both groups can be further categorized based on their *distance* from the buying company (Drake, 2011, p. 3). First-tier (i.e., tier 1) suppliers are the intermediate suppliers of the buying firm, and second tier (i.e., tier 2) suppliers are the suppliers of the first-tier suppliers, and so on. The same logic applies to customers (Drake, 2011, p. 3). According to Drake (2011, p. 3), supply chain management is described as the coordination of operations from "supplier's supplier to customer's customer" and finally to the end customer.

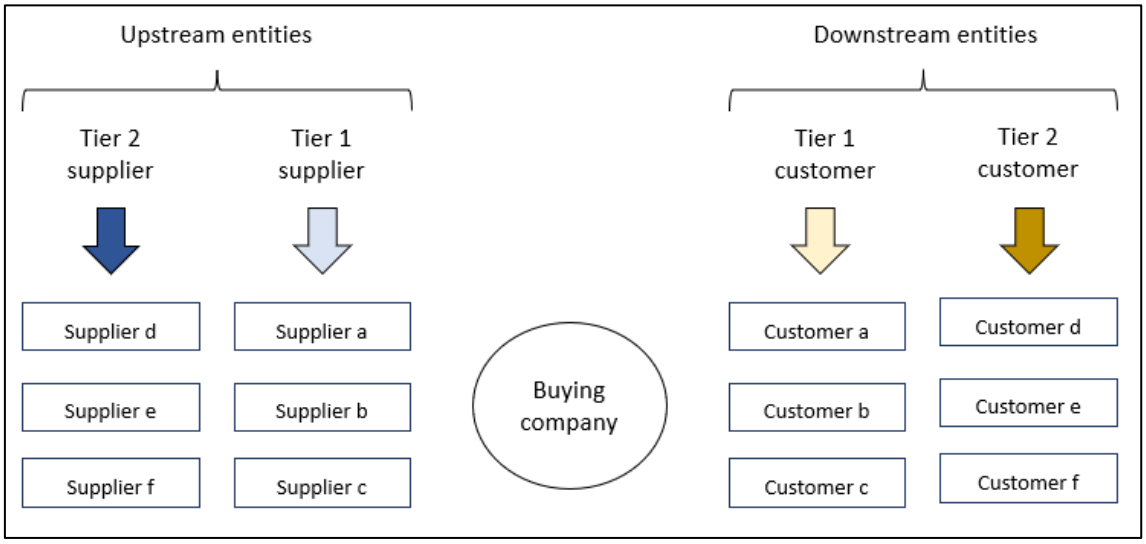

Figure 4 Buying company's relevant stakeholders

2.3.2.1 Customers

According to Crane & Matten (2016, p. 339), all organizations that need to purchase something from another organization can be referred to as customers. Customers are essential stakeholders, without whom many companies would not be able to continue doing their business (Crane & Matten, 2016, p. 339). Similarly, Gücdemir & Selim (2017, p. 100) describe the important role of customers by stating that "customers are the main reason for company's existence". Consequently, according to Carroll et al. (2017, p. 73) the management recognizes customers as one of the more "legitimate" stakeholders from the business perspective due to their direct interest or claim.

A manufacturer is a buyer to its suppliers but also a supplier to its customers (Yadavalli et al., 2019, p. 1). Business customers have become demanding and value on time delivery, short lead times, high quality of products, and low prices (Gücdemir & Selim, 2017, p. 100). It has become a necessity for manufacturing companies to consider customer's sustainability expectations while selecting their suppliers (Yadavalli et al., 2019, p. 1).

The relationship between the company and its customers is based on mutual expectations that focus on trust and fair dealing (Ferrell, 2004, p. 126) and companies should aim to treat their customers well (Crane & Matten, 2016, p. 340). Ferrell (2004, p. 126) states that the key to a successful company is to offer customers high quality products that meet their needs and wants. According to Crane & Matten (2016, p. 340) successful companies focus on continuously satisfying their customers' needs and performing better than their competitors. If customer expectations are not met, the customer can be lost to competitors, resulting in a loss of sales or even profitability (Crane & Matten, 2016, p. 340). Gücdemir & Selim (2017, p. 104) suggest that companies would start by analyzing their customers to understand what the customers are expecting. The authors continue by stating that after that the expectations should be integrated into the production process. Yadavalli et al. (2019, p. 1) connect customer satisfaction with the environmental and social impacts of the final products. The authors continue by stating that therefore companies need to integrate sustainability as a part of their purchasing behaviour.

2.3.2.2 Suppliers

Crane & Matten (2016, p. 389) recognize mutual dependency between companies and their suppliers. According to the authors, suppliers rely on the continuity of their business in the hands of their customers and the orders they make, whereas simultaneously the buyer relies on the supplier in delivering the needed products or services to continue their operations. However, the authors add that this interdependent

relationship doesn't mean that both parties have the same interests. While the buyer might focus on minimizing the costs, the supplier most likely wants to focus on maximizing its revenue. According to Crane & Matten (2016, p. 393), a traditional buyer-supplier relationship can be characterized as a short-term, adversarial relationship that focuses on transactional arrangements and the use of many suppliers. However, according to the authors, companies have been moving increasingly towards partnership-based supplier relationships, which rely on collaboration and trust between the buying company and fewer, core, long-term suppliers.

Suppliers and their performance are in a key position when it comes to satisfying the needs of the customers, however global supply chains increase the complexity of supplier management (Drake, 2011, p. 41). Krause et al. (2009, p. 20) recognize challenges related to detecting and ensuring sustainability among suppliers. Drake (2011, pp. 55-56) highlights the importance of managing the supplier relationship by monitoring and evaluating suppliers' performance. The author recognizes that this is often organized in form of regular meetings with the strategic suppliers. The meetings can be utilized to discuss past performance and ways to improve performance in the future. The author further states that the meetings can also be a good way to bring forward possible problems and address possible conflicts.

Wilhelm & Villena (2021, p. 4199) highlights the importance of first-tier suppliers in implementing sustainability requirements throughout the supply chain. If the first-tier suppliers succeed in selecting and monitoring their suppliers according to sustainability criteria that means that the second-tier suppliers should meet those requirements as well (Wilhelm & Villena, 2021, p. 4199). However, the authors also recognize the challenge related to engaging even the first-tier suppliers. The challenge can be even higher with suppliers located in emerging countries where the local legislation is nearly nonexistent in supply chain accountability (Wilhelm & Villena, 2021, p. 4199).

Villena (2018, p. 1156; 1163) recognizes inefficient information flow in the first-tier suppliers' end as one of the reasons why the sustainability requirements of the buying company are not implemented among lower-tier suppliers. According to the author supplier's procurement unit and procurement, managers are often not included in the internal discussions of the buying company's sustainability requirements. Therefore, they cannot communicate those requirements forward to their suppliers (the focal company's second-tier suppliers) and manage compliance with those requirements by rewarding or punishing the suppliers. Additionally, MNCs are not in straight contact with the suppliers' procurement team, which is seen as problematic (Villena, 2018, p. 1158). A study focusing on Chinese suppliers by Wilhelm & Villena (2021, p. 4199) indicates that suppliers with integrated management systems for quality, health & safety and environment have better baseline tools for implementing the buying company's sustainability requirements.

2.3.3 Sustainable procurement process

Villena (2018, p. 1163; 1167) argues that to develop a sustainable procurement strategy, manage supplier sustainability, conduct sustainable procurement, and create sustainable supply networks it is crucial to focus on three processes: assessing, training, and incentivizing (see figure 5). MNCs that implement all of these processes are more likely to succeed in putting them into practice within their supply networks (Villena, 2018, p. 1160). Where assessing and training requires collaboration between the company and industry associations, incentives are perceived as more company specific (Villena, 2018, p. 1150).

However, the three processes are often unbalanced. Companies have a tendency to perform better at assessing sustainability than implementing it and lack sustainability-related training and incentives for procurement personnel (Villena, 2018, p. 1161). Additionally, Villena (2018, p. 1160) discloses a link between the three elements and incorporating sustainability as purchasing value. According to the author, if relevant training and incentives are not offered to the procurement personnel, it is unlikely that

the available assessment tools would be used or that sustainability would be included as a procurement criterion along with the traditional aspects (e.g., cost, quality, and delivery time). This highlights the strong link between the three aspects and the need to focus equally on all of them to create sustainable procurement practices.

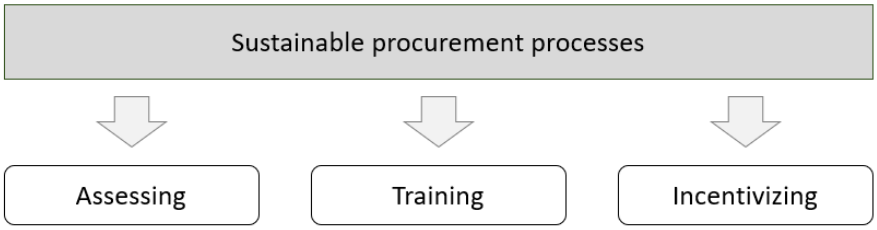

Figure 5 Three key interlinked sustainable procurement processes (modified from Villena, 2018)

Assessing

The study by Villena (2018, p. 1150) indicated that the only assessment methods used by the MNCs, tier-one, and lower-tier suppliers were supplier audits and self-assessments. However, in the case of an MNC with a global supply chain and global suppliers the challenge with supplier audits is that not all suppliers can be audited (Boruchowitch & Fritz, 2022, p. 10). Therefore, instead of focusing on ensuring the sustainability of procurement through supplier audits, Boruchowitch & Fritz (2022, p. 10) perceive the earlier stages of supplier management such as supplier selection and contracting as important success factors for sustainable procurement. Similarly, Yadavalli et al. (2019, p. 2) recognize supplier evaluation and selection processes as key drivers for efficient supply chain performance. Consequently, Drake (2011, p. 54) emphasizes the role of supplier selection as one of the most important sourcing activities. According to the author generally, the supplier selection process consists of five steps: specifying the product or service produced, creating evaluation criteria for suppliers, identifying suppliers that meet the criteria, evaluating potential supplier candidates that meet at least the minimum criteria, and finally selecting the supplier. According to Koplin et al. (2007, p. 1054), sourcing and procurement functions should be utilized in determining the appropriate criteria for suppliers. Traditional supplier selection elements (e.g., costs,

quality, lead time, and delivery time) are considered to be a part of the economic dimension, leaving out the other two important elements of sustainability, social and environmental (Mohd et al., 2017, p. 1972).

Training

Wilson (2015, p. 441) emphasizes the importance of general sustainability-related training for all employees. By training employees, they can be included in developing related policies and practices and can feel overall more confident in communicating their knowledge to the customers (Wilson, 2015, p. 441). Villena (2018, p. 1165) highlights that the development of sustainability training requires collaborating with different experts on human resources, labor rights, and the environment. The author emphasizes that MNCs need to also consider differences between the countries where the training is offered since the issues might vary depending on the location. However, according to Villena (2018, p. 1159; 1161) companies generally lack sustainability-related training for procurement personnel (both in the buying company and on the suppliers' side) or offer it limitedly. The author further explains that most of the MNCs' procurement personnel studied had not received training on sustainability. Moreover, Cherel-Bonnemaison et al. (2021) identify the lack of relevant tools, skills, and data among procurement managers as one of the reasons behind the inadequate implementation of sustainability factors. According to a survey conducted by the authors, procurement managers found it difficult to define what ESG targets should be set and what actions are needed to reach those targets. Carter & Rogers (2008, p. 377) also noticed that supply chain managers have different understandings of what sustainability is.

Incentivizing

Villena (2018, p. 1165) emphasizes that to create more sustainable supply networks, a company should have sustainability-related incentives in place for their procurement personnel. However, the author recognizes the lack of the use of incentives as a common issue among MNCs and their suppliers and describes procurement personnel as "passive users of sustainability standards". According to the author (2018, p. 1166) procurement

managers don't recognize supplier sustainability as their responsibility. The managers often focus more on traditional procurement priorities such as cost, quality, and delivery instead of sustainability and even continue buying from suppliers that are unable to comply with the company's sustainability requirements. One reason for this can be that MNCs' incentives are based mostly on traditional procurement targets such as reducing costs and improving quality (Villena, 2018, p. 1160). In the MNCs studied by Villena (2018, p. 1160) sustainability was not part of the annual performance review and didn't affect the received bonus. Similarly, Epstein et al. (2014, p. 28) note that the performance of managers is usually rewarded based on profits even though they are responsible for sustainability (social, environmental, and economic) performance as well.

2.4 Theoretical framework for the study

To contribute to the research gaps recognized in chapter 1.2 and the formed research question and sub question the theoretical framework for this study was built. The framework was created based on the most relevant concepts and theories recognized through the extensive literature review built around articles, books and reports on relevant fields. The theoretical framework is illustrated in figure 6.

The theoretical framework is built around the concept of sustainable development and corporate sustainability as a combination of social, environmental, and economic sustainability (TBL) as defined in chapter 2.1. To respond to the first research question and contribute to the second research gap recognized, the concept of supply chain flows (Cordón et al., 2012) is utilized. The theoretical framework focuses on one traditional supply chain flow (flow of information), which was recognized as the most relevant regarding the research questions. As the key is to understand how an MNC responds to second-tier customer sustainability expectations through its sourcing and procurement it is inevitable to research the information flow. The flow of information in this research can be divided to three parts. First part focuses on the flow of information from second-tier customer to manufacturer (the case company). The second part focuses on information flow within the company and thirdly on how sustainability is communicated

to first-tier suppliers. Moreover, to contribute to the first research question and second research gap the customer requirements and expectations are evaluated in light of the collected literature.

To respond to the sub-research question and contribute to the first research gap recognized a few theoretical models are utilized. To understand the sourcing and procurement process, related strategies and the relationship to different suppliers Kraljic's portfolio model is utilized. Additionally, to create an understanding of the level of sustainability of the sourcing and procurement function, the three building blocks of sustainable procurement process: assessment, training and incentivizing (Villena, 2018) are applied.

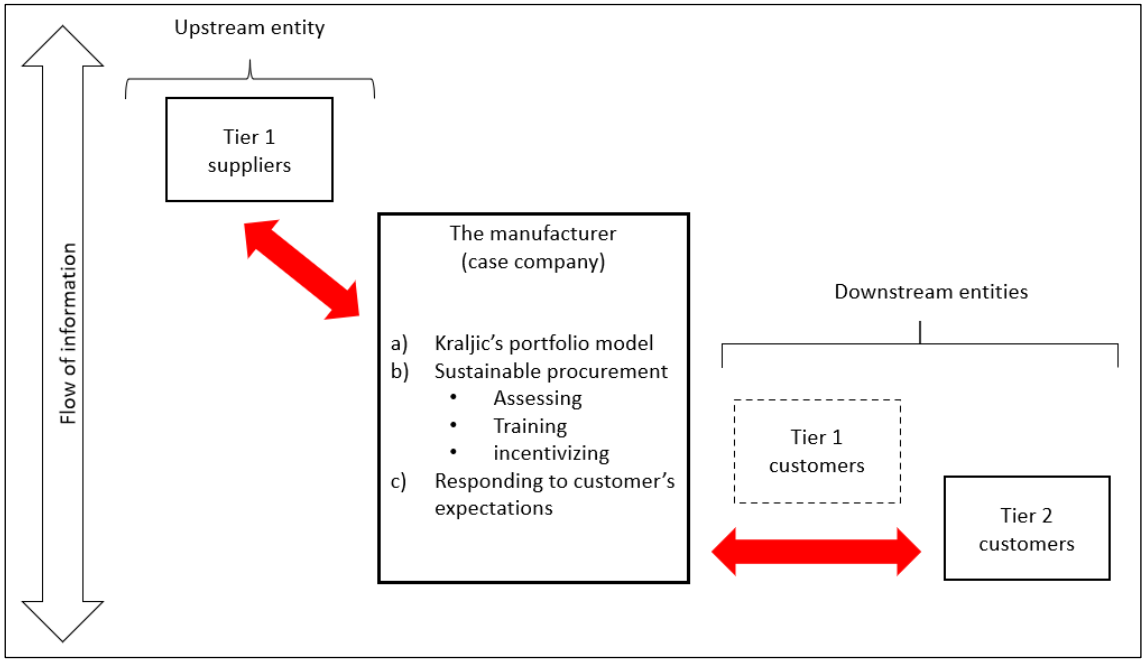

Figure 6 Illustration of the theoretical framework of the study

3 Methodology

This section provides a description of methods used to conduct this study. The structure and content of this section is built around the "research onion" concept (see figure 7) introduced by Saunders (2007, p. 102). The first sub-section focuses on defining the two first outer layers of the onion by focusing on research philosophies and approaches. The next two sub-sections concentrate on the next two layers: strategies and methodological choices. The third part focuses on data collection and the fourth section on data analysis, which are considered as the core of the onion. Additionally, the rigorousness of this study is analyzed.

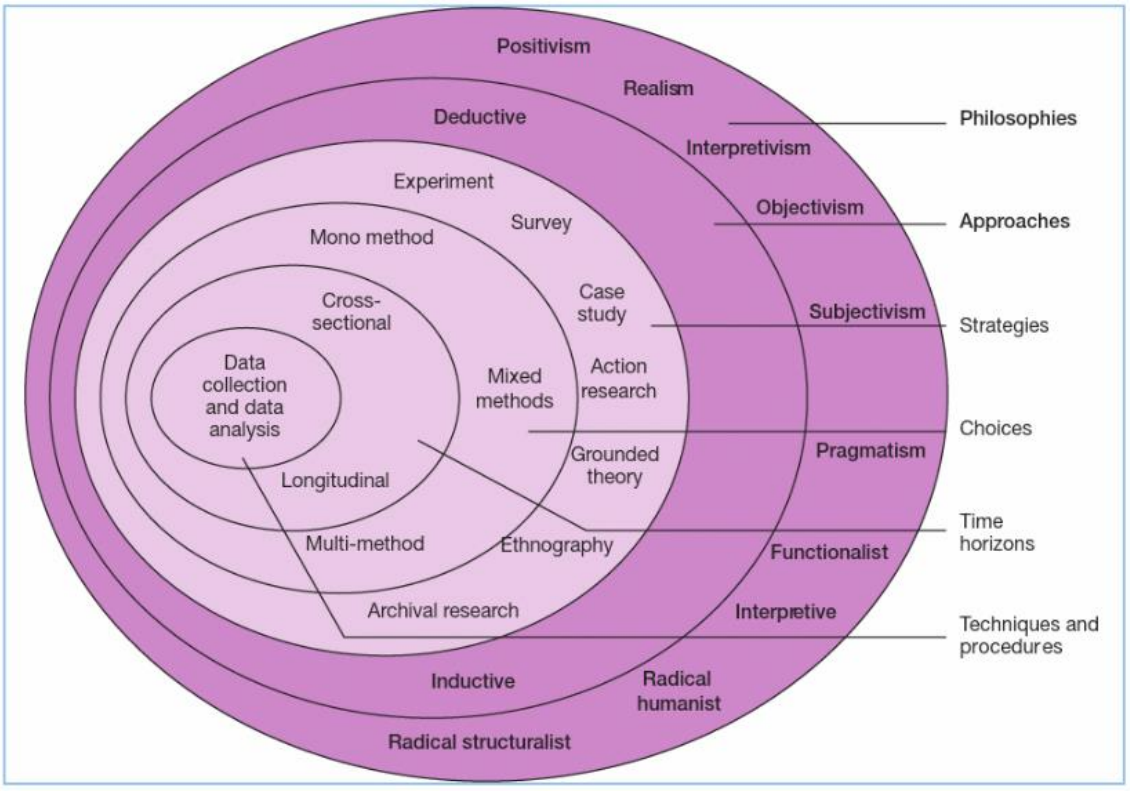

Figure 7 Research onion (Saunders, 2007, p. 102)

3.1 Research philosophy and approach

The first outer layer of the research onion focuses on research philosophy that refers to "the development of knowledge and the nature of that knowledge" (Saunders, 2007, p.

101). Saunders (2007) recognizes all together ten different research philosophies. The choice of research philosophy depends on the research questions and should be selected based on what questions the research tries to answer (Saunders, 2007, p. 116). As this study analyzes the MNC's ability to respond to second-tier customers' sustainability expectations through sourcing and procurement from the employees' perspective, it is logical to utilize the interpretivist research philosophy. The interpretivist research philosophy emphasizes the differences in conducting a study on people instead of objects (Saunders, 2007, p. 106). According to Eriksson & Kovalainen (2008), the research philosophy is "interested in how people, as individuals or as a group, interpret and understand social events and settings". Therefore, it is important for the researcher to follow an emphatic approach and try to understand the world from the research subjects' perspective (Saunders, 2007, p. 107).

Additionally, interpretivism is perceived as highly appropriate when conducting business and management research in the fields of organizational behavior, human resource management, or marketing (Saunders, 2007, p. 107), which supports the choice of the research philosophy for this study. The study is conducted in the field of business and management and focuses on researching organizational behavior in the form of sustainable sourcing and procurement practices, processes, and the flow of information regarding second-tier customer sustainability expectations. The majority of the studies in the field implement a positivistic approach and therefore this study contributes to the field by studying the phenomena through an interpretivist lens, enabling to interpret of how the key actors perceive reality. Moreover, due to the complexity, rapidly changing circumstances, and uniqueness of business situations, interpretivism doesn't see generalizability as a crucially important factor (Saunders, 2007, p. 107), but assumes that the same data can be interpreted in different ways that can all be potentially meaningful (Eriksson & Kovalainen, 2008).

The second outer layer of the research onion focuses on the research approach. Saunders (2007, p. 117) defines two different research approaches. The deductive

research approach focuses on testing existing theories by establishing hypotheses and building a research strategy to test those hypotheses, while the inductive approach develops new theories by collecting and analyzing data (Saunders, 2007, 117). In the deductive approach, the theory is perceived to be the first source of knowledge while in the inductive approach the theory is created as an outcome of the empirical research (Eriksson & Kovalainen, 2008). This study is a combination of these two approaches. Established theories on sustainability, sustainable supply chain management, and sustainable sourcing and procurement are already available and therefore this part of the study utilizes the deductive approach. However, what comes to MNCs' second-tier customers and their sustainability expectations, the extensive literature review indicated that prior research is scarce. Therefore, this part of the study focuses more on creating theory through an inductive approach.

3.2 Research method

There are two main types of research methods that are quantitative and qualitative approach (Krishnaswami & Satyaprasad, 2010, p. 5), which can be best understood through comparison. Qualitative research usually focuses on interpreting and understanding the issues that are being studied (Eriksson & Kovalainen, 2008) by assessing behavior, opinions, and attitudes (Krishnaswami & Satyaprasad, 2010, p. 7). Qualitative data is non-standardized requiring further classification into categories (Saunders, 2007, p. 472), and collecting and analyzing the data is perceived to be more context-sensitive (Eriksson & Kovalainen, 2008). Quantitative research concentrates on testing hypotheses and statistical analyses and is often perceived to be more structured and standardized (Eriksson & Kovalainen, 2008). Quantitative data is standardized and in a numerical form (Saunders, 2007, p. 472).

According to Eriksson & Kovalainen (2008), the research method should be selected based on what is the most relevant what comes to the research question. Since the study focuses on understanding how an MNC responds to second-tier customer sustainability expectations through sourcing and procurement in the field of label manufacturing, the

qualitative research method was chosen. More specifically this study can be defined as qualitative business research. Eriksson & Kovalainen (2008) emphasize that qualitative business research gives the possibility to focus on “business-related phenomena in their context”. The authors continue that by using qualitative business research it is possible to gain knowledge of how things work in practice and why they work the way they work, in a business context.

Additionally, Graebner et al. (2012, pp. 278-279) identify, that qualitative research can be used to test existing theories and build new theories when studying strategic organizations. Thus, this research methodology is highly suitable for this study since it is a combination of testing existing theories for sustainable sourcing and procurement and building new theories on second-tier customers' sustainability expectations in a global manufacturing business. Moreover, Graebner et al. (2012, pp. 278) justify the use of qualitative data by stating that it allows the researcher to “capture individuals’ own subjective experiences and interpretations”. Even though the study focuses on the operations of the business function in specific fields, the research is conducted from the employee’s perspective, which allows for the exploration of how different individuals perceive the topic.

3.3 Research strategy

Saunders (2007, p. 135) recognizes seven research strategies: experiment, survey, case study, action research, grounded theory, ethnography, and archival research. According to the author, the research strategy can also be a combination of these such as a case study that utilizes surveys. The research strategy should be chosen based on what strategy enables to provide answers to the research questions and allows to meet the objectives of the study (Saunders, 2007, p. 135). Additionally, the extent of existing research and available time and other resources affect the chosen strategy (Saunders, 2007, p. 135). For this thesis, the single case study strategy was identified as the most appropriate strategy. According to Piekkari & Welch (2006, p. 571) case studies as a research strategy enable to develop and test managerially and theoretically relevant

models and concepts. Thus, this research strategy supports the ability to respond to the defined research questions. Case studies can be further categorized into single and multiple case studies (Saunders, 2007, p. 139). This study was conducted as a single case study since it can be the chosen strategy in various situations. Single case study can be utilized if the case is critical or unique or even very typical (Saunders, 2007, p. 140). Additionally, Saunders (2007, p. 140) considers that the case strategy provides a possibility to study and analyze phenomena that haven't been recognized before.

Moreover, it is important to define the *case* of the case study and for students that work during their studies, the case is usually the organization that employs them (Saunders, 2007, p. 140). Additionally, companies usually appreciate the new insights that the case study offers through the research findings for the organizations that participate in the study (Piekkari & Welch, 2006, pp. 571–572). Similarly, for this study, the case is the company where the author was working at the time of the research. When the research project started the author had been working with the company for six months as a trainee within the field of supplier quality and sustainability working mainly with supplier audits. Due to this short employment period and limited scope of the role, the author was not fully familiar with all the processes and practices within the company nor had an extensive existing internal network of professionals working within the areas the study was focusing on. This made it easier for the author to create distance between the case company and the interviewees and take more of an outsider view and through that increase the quality of the study. The topic area for the study was decided together with the case company. The company representatives who participated in the formation of the topic were the head of supplier quality and sustainability, the social responsibility director, and the responsible sourcing manager. The communication with the company representatives was conducted face-to-face, via email and through online Teams-meetings throughout the research process.

3.4 Data collection

The core of the research onion focuses on data collection and analysis (Saunders, 2007). When a case study is chosen as a research strategy, the data collection methods can be interviews, observations, documentation analysis, and questionnaires (Saunders, 2007, p. 139). Also, a combination of these methods can be utilized (Saunders, 2007, p. 139). For this study, interviews were selected as the data collection method. In addition to collecting the data through interviews, secondary data was gathered from the company (UPM) and business unit (UPM Raflatac) websites to support understanding of the case company and the research topic and in the preparation of interview questions. The secondary data collected was created and published by the company and is publicly available consisting of the company's latest available annual report (from 2021) and articles published between 2021-2022 on the company website.

An interview can be formal, structured, and standardized or more informal and unstructured conversations (Saunders, 2007, p. 311). Saunders (2007, pp. 311–312) recognizes four main interview categories, where the level of structure and formality vary. The categories are structured, semi-structured, unstructured, or in-depth interviews. Moreover, the author explains that categorization can be made between standardized and non-standardized interview methods. Non-standardized interview methods such as semi-structured interviews are often utilized for qualitative data analysis (Saunders, 2007, p. 313). Thus, the data for this study was collected via seven semi-structured non-standardized interviews. Semi-structured interviews are created by establishing themes and questions that will be covered in the interview (Saunders, 2007, p. 312). However, the themes and questions can vary between the interviews and the flow of the conversation can be considered by modifying the order of questions (Saunders, 2007, p. 312). Since following the discussion is needed in the interview situation, audio-recording the conversation is recommended (Saunders, 2007, p. 312).

In this study, the semi-structured interviews were utilized in the following way. The process started by identifying, who would be the relevant people to interview within the

case company - UPM Raflatac, regarding the topic of the study and motivation to participate in the interview. The identification process was done together with an existing contact from UPM Raflatac - a Responsible Sourcing Manager. Total of six people were first identified who were then contacted by the author via email. However, two of the selected interviewees did not want to participate to the study, since they felt that their expertise would not bringing additional value to study. The interviewees that did not agree to participate in the study suggested substitutive interviewees that they considered would better serve the purpose of the study. As a result, additional three interviewees were approached via email. These interviewees agreed to participate and after that the final group of interviewees (total of seven interviewees) working within UPM Raflatac was formed. After that, one-to-one interviews were booked with each interviewee and all the interviewees were informed about interview practicalities time, place and the nature of the interview. Except for one interviewee (interviewee 5, see table 1), the interviewee and interviewer were not familiar with each other prior to the study, which enabled to take an outsider view in the interviews.

Two different interview structures were created, and the interview themes and questions were then created based on the recognized research gaps, created research questions, and the theoretical framework. Both interview structures had the same first two themes that focused on the sustainability of the whole company (UPM) and UPM Raflatac business. The questionnaire A (see appendix 1) had additional four themes that focused on different aspects the sourcing and procurement processes and the questionnaire B (see appendix 2) had one additional theme that focused more in-depth to the brand owner's perspective. The brand owner perspective was also included in questionnaire A, as a last (sixth) theme, but in a shorter form. The themes and questions were sent to the seven respondents latest one week before the interviews by email. This was done to encourage the interviewees to contribute to the interview by thinking about relevant examples or making supporting notes before the interview. Additional sub-questions were formed to guide the interview situation if necessary. Depending on the interview and the flow of the questions, the wording of the questions varied. After each

interview, the structure and the order of the questions was also modified if needed. All the interviews were organized in December 2022 and were held face-to-face (five interviews) or online via Teams (two interviews), depending on what was the most suitable option for the interviewee and interviewer. All the interviewees agreed that the interviews can be recorded for data analysis purposes. The interview details are demonstrated in the below table (see table 1).

Since the study was conducted in an MNC, with personnel working within different countries and with different languages, the language of the interviews had to be considered. Piekkari & Welch (2006, p. 570) recognize language-related challenges when conducting interviews in the field of international business. The authors state that, even though international business is English dominant field of research, it can still be a language that either the interviewer or the interviewee is not comfortable with. Even when conducting research for an international organization, where English is the main working language, it doesn't automatically mean that the data collected in that language is trustworthy (Piekkari & Welch, 2006, p. 570). All the interviewees agreed to conduct the interview in English, as it is the main working language. The decision on the interview language was made together with the interviewer and interviewee. The interviewer made sure that all interviewees were comfortable with conducting the interview in English. Moreover, Piekkari & Welch (2006, p. 570) state that if English is used as an interview language, it is better if both the interviewer and interviewee are non-native English speakers to avoid the native speaker taking control of the interview situation. In all the interviews conducted for this study both the interviewer and interviewee were non-native English speakers.

Table 1 Interview details

Interviewee	Interviewee's position or function	Interview type	Questionnaire	Duration
1	Business Development	Online via Teams	B	53 minutes
2	Sustainability and Stakeholder Relations Manager	F2F	B	63 minutes
3	Business Development	F2F	B	73 minutes
4	Sourcing Category Director	F2F	A	66 minutes
5	Responsible Sourcing Manager	F2F	A	61 minutes
6	Sourcing Category Manager	F2F	A	68 minutes
7	Business Development	Online via Teams	B	57 minutes

3.5 Data analysis

Demonstrating that the data has been analyzed precisely and consistently is inevitable in creating trustworthy research (Nowell et al., 2017, p. 1). However, when it comes to analyzing qualitative data there is no standardized approach (Saunders, 2007, p. 478). In this study, the data analysis process began by transcribing the interview data after the interviews, meaning transforming the audio to written text. As recommended by Saunders (2007, p. 476) the transcribing process started immediately after the interviews and each transcription was saved in a separate file. Since the length of the interviews varied, also the length of the transcriptions varied. The shortest transcription was eight pages, the longest 13 pages, and the average length was 11 pages. After creating the first word-for-word version of the transcriptions, the transcribed data was cleaned up by removing expletive and repetitive words, since the study focuses on the content of the interviews and not on the specific language. The transcriptions were further structured by adding the initials of the interviewer and interviewee to the transcriptions to identify the speaker and by separating headings, questions, and answers with different font styles as suggested by Saunders (2007, pp. 476-478).

The data analysis of this study follows the four data analysis procedures recognized by Saunders (2007, p. 479), which are categorization, organizing the data into categories, recognizing relationships, and developing and testing the theories. A preliminary analysis of the transcriptions was conducted already after cleaning up the transcripts, by highlighting words, sentences, and sections that were found to be relevant to the research questions. Also, comments were added to the transcriptions. The categorization can be derived from the data or done based on the theoretical framework and should complement the purpose of the research (Saunders, 2007, pp. 479-480). In this study, the main categories were established based on the theoretical framework created for the study and were perception of sustainability, second-tier customers' sustainability expectations, sustainable sourcing and procurement process, and flow of information. After the main categories were established, each interview transcript was processed again and relevant data regarding each category was identified and color-coded. After that, the data was further categorized into sub-categories by utilizing labels to group the collected data (Saunders, 2007, p. 480). The labels were simplified expressions of the statements that occurred in the interviews. Sub-categories were formed for each main category based on the simplified expressions, theoretical framework, and what was found to be relevant regarding the research questions. The data analysis process, with examples from the data, is illustrated in the below table (see table 2). As the final step of the data analysis process (Saunders, 2007) the gathered data was used to test the existing theories in the field of sustainable sourcing and procurement and develop theories in the field of second-tier customer sustainability expectations which is discussed in section 5.

Table 2 Categorization of findings

Original statement	Simplified expression	Main category	Subcategory
"UPM doesn't have a separate sustainability strategy. The sustainability is very seamlessly integrated into the Biofore strategy […]"	Sustainability is integrated to company strategy	Perceptions of corporate sustainability	Integration of corporate sustainability
"Switching or changing to renewable materials from fossil-based ones. […] we get quite frequent requests on what is the share of biobased material for example on specific product."	Brand owners are interested on renewable and biobased materials	Second-tier customer sustainability expectations	Current expectations

3.6 Rigorousness of the study

Researchers who choose to adopt interpretive approach, face challenges related to determining whether the interpretation can be considered credible and truthful and whether another interpretation could be considered better than another (Schawandt et al., 2007, p. 11). According to Schawandt et al. (2007, p. 12) approach the rigorousness of a study through the following criteria for trustworthiness: credibility, transferability, dependability, and neutrality.

The credibility of the research findings can be increased by focusing on reliability; transferability and validity; confirmability (Rolfe, 2006, p. 305). Reliability refers to the consistency of the findings (Saunders, 2007, p. 149). In the context of qualitative research, reliability refers to questioning whether other authors conducting the same study would have received the same results (Saunders, 2007, p. 318). However, it must be noted that in non-standardized research the replicability of the research might not be realistic due to the complexity of the circumstances (Saunders, 2007, p. 319). Saunders (2007, p. 150) defines validity by stating that "Validity is concerned with whether the findings are really about what they appear to be about.". To increase the credibility of the study the triangulation of data (Schawandt et al., 2007, p. 18) was conducted by utilizing secondary data in addition to the primary data collected via interviews. Additionally, a careful and systematic process was conducted to analyze the interview data.

Additionally, Walker et al. (2012, p. 202), have recognized specific methodological challenges that are common in studies focusing on the fields of sustainability and corporate social responsibility. According to the authors, the respondents feel pressured to give a positive impression of their own and the represented company's activities. This is called the social responsibility bias which is explained by the authors as: "respondents feel a pressure to be perceived in a socially acceptable way with regard to sustainability". This can create more positive results than what they really are. Consequently, to minimize the social responsibility bias, it was decided that the interviewees will be anonymous.

3.7 Case company description

UPM Kymmene is a multinational stock-listed company with 17 000 employees in 46 countries, 11 400 customers, and 200 million end users globally (UPM Kymmene Oyj, 2021, p. 8). The 6 different business areas offer a wide range of products that are based on renewable materials offering a sustainable alternative to products made from fossil-based materials. In 2021, UPM sales were a total of EUR 9,814 million with 1,307 million in profits (UPM Kymmene Oyj, 2021, p. 123). The company has a strong market within Europe, where over half of the sales (63%) were generated in 2021 (UPM Kymmene Oyj, 2021, p. 14).

The company positions itself as a sustainability frontrunner and responsibility can be considered one of the building blocks of the Biofore strategy that has guided the performance of the company for over a decade. The company has a strong interest in creating more sustainable solutions. UPM is committed to UN's 1.5 Celsius climate target and being net zero by 2040 (UPM Kymmene Oyj, 2021, p. 12). The company reports its sustainability performance according to Global Reporting Initiative (GRI) and the reporting is assured by an independent third party (UPM Kymmene Oyj, 2021, p. 116). In 2021 the company joined the Climate Pledge as the first forest industry company (UPM, 2021a).

The company has also gained recognition for its sustainability practices. Since 2016 UPM has been a Global Compact LEAD participant, member, and industry leader for the forest and paper industry (since November 2021) of Down Jones Sustainability Index, AAA rated in MSCI ESG rating and platinum level responsibility assessment in EcoVadis in 2022 (UPM, 2022c). to mention a few. The company has established responsibility targets and performance indicators for 2030 that follow the TBL approach by defining targets for social, environmental, and economic performance (UPM Kymmene Oyj, 2021, p. 32). The targets contribute to a total of six UN Sustainable Development Goals (SDGs): clean water and sanitation (6), affordable and clean energy (7), decent work and economic growth (8), responsible consumption and production (12), climate action (13) and life on land (15).

UPM operates with 20 000 global material and service suppliers (UPM Kymmene Oyj, 2021, p. 83) and the supplier requirements consist of UPM Supplier and Third-Party Code (The Code) and general and category-specific requirements (UPM, 2022a). The aim of the Code is to "define the minimum level of performance that is required from suppliers and third-party intermediaries" such as agents, consultants, and local distributors acting on behalf of the company (UPM, 2022b). Additionally, UPM has defined the following responsibility targets and performance indicators for responsible sourcing for 2030: 80% of UPM spend and 100% of UPM raw material should be covered by UPM Supplier and Third-Party Code (1), supplier auditing is performed based on systematic risk assessment practices (2) and 30% reduction of CO2 emissions from materials and logistics compared to 2018 levels (3) (UPM Kymmene Oyj, p. 31). The company further states that Ecovadis supplier assessments, audits, and joint development plans are used to evaluate suppliers (UPM Kymmene Oyj, 2021, p. 137). In 2021 the company conducted 340 EcoVadis assessments and 124 supplier audits (UPM Kymmene Oyj, 2021, p. 137).

This study was conducted for one of the business areas of UPM, UPM Raflatac, which offers safe and sustainable self-adhesive label materials for different purposes (e.g.,

branding, promotion, information, and functional labeling) within multiple industries such as in food, beverage, personal care and logistics (UPM Kymmene Oyj, 2021, p. 8). In 2021 the business employed over 3000 people and generated EUR 1,671 million in sales while operating in 41 countries (UPM Kymmene Oyj, 2021, p. 47). UPM Raflatac approaches sustainability through a 360° life-cycle approach, which covers everything the company does from sourcing and manufacturing to innovative services, design, and partnerships (UPM, 2023d).

The UPM Raflatac business was selected as a case company due to the high level of sustainability integration and an interesting position with the second-tier customer. In this study, the focus was on UPM Raflatac's operations within Europe. Throughout the study, with the word company, the author refers to UPM and with the word business to UPM Raflatac.

4 Empirical findings

This part of the study focuses on the empirical findings of the study. The section is divided into four main parts that are based on the emerged key four categories from the data collection: perceptions of corporate sustainability, second-tier customers' sustainability expectations, sustainable sourcing and procurement process and flow of information. In the following chapters the different dimensions of sustainability expectations of second-tier customers and sustainable sourcing and procurement processes and practices are discussed in depth.

4.1 Perceptions of corporate sustainability

4.1.1 Integration of corporate sustainability

In order to address the sustainability requirements of the second-tier customers it was perceived as important to find out what is the general perception of sustainability within UPM Raflatac and among its employees and how it is approached. The interview data indicates that UPM has a strong aim to create a future beyond fossils through its business operations and that sustainability is a key driver of its operations. Sustainability is integrated to the core business of UPM Raflatac through UPM values, strategy, and targets and by offering more sustainable products to the market. More specifically, all the interviewees emphasized the strong integration of sustainability with different statements.

> *"Sustainability is really driving everything that we do nowadays." (Interviewee 3)*

> *"The very purpose or the mission statement of UPM is that we create the future beyond fossils. Through that, sustainability is integrated into everything that UPM does." (Interviewee 5)*

> *"It's [sustainability] very clear, visible everywhere and it's also in our DNA: how we do things, what we do." (Interviewee 1)*

UPM's positioning as an industry leader and front-runner within sustainability is emphasized by most of the interviewees. Sustainability is considered an important differentiator between the company and its competitors. The strong commitment and level of sustainability integration are emphasized by all interviewees for example by stating that the company doesn't have a separate sustainability strategy, but sustainability is integrated as a part of the company's "Biofore" business strategy. The company believes that sustainability can't be considered a separate aspect from business operations.

However, the interviewees also disclose that compared to other UPM business areas, UPM Raflatac has some business-specific differences, that can affect their sustainability work and reaching their sustainability targets. Few interviewees state that UPM Raflatac, for example, utilizes more fossil-based raw materials, such as plastics than other UPM businesses, which creates a more challenging environment regarding reaching sustainability goals. Additionally, within UPM Raflatac's business, the end use of the product must always be considered, since the label is only one part of the whole packaging. This can have an effect also on the sustainable product offering of the business. Moreover, the interviewees emphasize the strong connection that UPM Raflatac has to the market and its needs. Even though the business would have more sustainable solutions available if the market need is not yet established, it is found to be challenging to sell those solutions. However, despite the business-specific challenges, the level and commitment to sustainability are perceived as high and UPM Raflatac has a strong ambition to create more sustainable products and reach its sustainability targets. The interview data also identifies a need to be more specific with sustainability-related efforts.

> *"We are now moving past the point where we talk about sustainability as sustainability that's a very high-level umbrella. And in many cases, it might be even a little bit vague to say that, for example, a specific product is sustainable or more sustainable than the others. […] You need to have substantiated claims nowadays." (Interviewee 2)*

UPM Raflatac's work towards sustainability is well-structured and diverse. The interview data indicate that UPM Raflatac has a 360-degree approach to sustainability and is focused on the so-called 4Rs: reduce, recycle, renew and reuse. The interviewees give concrete examples of the actions that UPM Raflatac is conducting to create more sustainable operations and business as a whole. The business has for example a goal to increase product sustainability by increasingly substituting virgin fossil materials with recycled and biobased content. Additionally, UPM has an emission reduction target to reduce scope 3 emissions by 30% by 2030, which also applies to UPM Raflatac.

> *"We're very much focused on the 360 approach to sustainability, so starting from responsible sourcing, responsible raw materials, responsible operations, responsible product offering, treating our employees responsibly." (Interviewee 5)*

According to the findings, UPM Raflatac also recognizes the three pillars of sustainability: environmental, social, and economic (TBL). The interview data indicated that within UPM and within UPM Raflatac's business and products the more visible emphasis is on environmental sustainability. Few interviewees explain this through the strong connection to nature by being a company working strongly in the forest industry. However, this does not mean that the other aspects of corporate sustainability would not be considered, and the interview data indicates that also social and economic sustainability are emphasized. The interviewees provide examples of social sustainability actions such as focusing on human rights and employee satisfaction and working together with local communities.

Moreover, the interview data strongly indicates that corporate sustainability and working towards the goal of a future beyond fossils is considered a common goal within UPM Raflatac. Emphasizing sustainability in different business decisions doesn't have to be justified, but it is rather a common understanding and agreement within different functions and roles that sustainability should be the key consideration. All interviewees agree that sustainability is not only the responsibility of the sustainability team but more a collective responsibility of the employees working within different UPM Raflatac functions.

“I think there are very few people who wouldn't say that sustainability is already a part of their everyday work” (Interviewee 5)

“Eventually, everybody should perceive it like that it's important for me in my job.” (Interviewee 6)

Based on the interview data, it is evident that UPM Raflatac employees are proud to be a part of the company and part of the journey of creating a more sustainable future. For the sustainability team of UPM Raflatac, it is considered important to connect with people from different parts of the organization and include people from different functions to sustainability related projects. The aim is also that everyone would consider sustainability as a part of their role to some extent. This aim is complimented by the findings, since also the employees who are not working directly as a part of the sustainability team emphasize that sustainability is a considerable part of their roles.

4.1.2 Incentives and pressure

The collected data indicates that sustainability is considered a journey, where more development is still needed. The interviewees recognize various incentives and different sources of pressure to operate in a more sustainable manner. The data indicates three main areas of pressure, which are developing legislation, business continuity, and the requirements of the second-tier customers. Firstly, when it comes to developing legislation, the interview data indicates that there is notable pressure coming from that direction. According to the data, this can mean additional requirements for due diligence, traceability, or specific requirements for certain materials or share of certain recycled materials of the whole content. The legislation is considered partly as a challenging pressure point due to the uncertainty of the exact scope and extent of future legislation. However, the interview data also indicates that legislation is considered as an important aspect since it can create limitations for the business.

“We have to run behind or even anticipate what are the legislation, requirements and these are becoming tighter and tighter, so we have to upgrade our portfolio to the new legal requirement” (Interviewee 7)

> *"In terms of license to operate and business continuity, we have to be in compliance with that legislation. It's not optional, we don't really have a choice if we want to continue doing business […]" (Interviewee 5)*

However, the developing legislation is also perceived as a positive incentive for successful corporate sustainability actions. If there is a regulatory pressure to operate in a sustainable manner it increases the likelihood that something will be done.

Secondly, the interview data further indicates that operating in a sustainable manner can be seen as a crucial element to business continuity and competitive advantage. The data indicates that sustainability is also perceived even as a license to operate and that if it is not considered it could be crucial to the continuity of the business. The interviewees emphasize that the actions the company does need to be considered also from the financial point of view and the values of their shareholders. Sustainability efforts are also seen as a way to differentiate from competitors and that way gain a competitive advantage. Therefore, pressure comes also from keeping the sustainability promises the company has made and communicated publicly.

Lastly, the interview data indicates that also the requirements of the second-tier customers create incentives and pressure to operate in a sustainable manner. As defined earlier, in UPM Raflatac's case, the second-tier customers are different brands that sell various consumer goods. Through UPM Raflatac's downstream supply chain, they receive pressure from the market to increase their sustainability in different fields. The interviewees emphasize that in addition to the market needs, the brand owners have their own promises they have made regarding sustainability. Since UPM Raflatac, as a label manufacturer, is part of their supply chain efforts are needed also from them to help the brand owners to meet their sustainability targets.

> *"The incentive is that this [sustainability] is required by the market also. So, our customers and their customers they are requesting that." (Interviewee 1)*

> *"A lot of pressure is given by them [brand owners] and we want to help them to achieve their targets that they have committed to." (Interviewee 6)*

The more specific second-tier customer sustainability expectations are addressed in the next chapter 4.2.

4.2 Second-tier customers' sustainability expectations

4.2.1 UPM Raflatac's relationship with customers

The findings of the study offer a good overview of the relationship between UPM Raflatac and its customers (see figure 8). As mentioned, in UPM Raflatac's case the second-tier customers are brands that are manufacturing different types of consumer goods. Those can be everything from for example wines or other beverages to personal care items. In this study, the different brands are referred to as *brands* or *brand owners.* The first-tier customers are small-and medium-sized printers. UPM Raflatac sells their labels to the printers, who then sell them forward to their customers, the brands.

The relationship with the first-and second-tier customer was found partly challenging when it comes to sustainability expectations. The interview data indicates that the sustainability expectations come primarily from the second-tier customers. Additionally, the approach to sustainability varies largely between the first-tier customers and some might be more interested and focused on sustainability efforts than others. This means that in some cases it is possible that there is this less sustainability-oriented first-tier customer in between. Therefore, the interviewees consider that there is a strong need for direct communication with the brands, which is discussed more in detail in section 4.4.

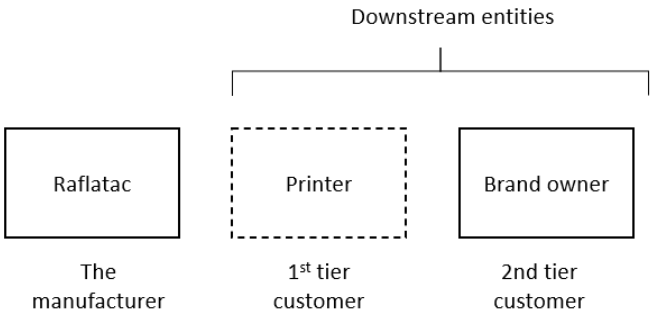

Figure 8 UPM Raflatac's relationship with its customers

4.2.2 Current sustainability expectations

The findings indicate that the second-tier customers' sustainability expectations vary depending on the brand itself, the product category, and the sustainability targets of the brand. Different brands might want to highlight different things what comes to their sustainability performance. Additionally, the brands have certain reputation they want to maintain and expectations from their stakeholders such as investors and consumers regarding sustainability that they want to meet. Moreover, the size of the brand is recognized as an aspect that can affect the level of commitment from the brand owners' side.

> *"Now these big brand owners they have already done everything easy, what comes to sustainability, now they want to take the extra mile." (Interviewee 3)*

The interview data also indicates that the challenges in recent years such as the pandemic, the war in Ukraine, and challenges in product availability are considered factors that have affected how some of the brands perceive sustainability. For companies, where there is uncertainty related to business continuity, sustainability isn't the top priority. This indicates that the sustainability expectations can be strongly connected to the changing circumstances of the environment and can affect different brands in different ways. However, it is also emphasized that after the pandemic there has been a general increase in the requests for more sustainable products, and sustainability is perceived as important element of the product as the functionality or aesthetics.

When it comes to more specific sustainability requests or expectations, the interview data indicates that the brands are interested in the use of recycled materials in UPM Raflatac products and the recyclability of the products. The interviewees emphasize that the brands are interested in for instance the use of renewable materials such as biobased plastics instead of fossil-based materials and the share of biobased materials of specific products. Even though some brand owners might think that the label is only a small part of the packaging, the interview data shows that they still perceive it as an important element. If a brand wants to state that they have 100% recyclable packages, then also the labels need to be recyclable.

> *"Many are interested to have high share of recycled content in the actual package that they use for their products, and often want to match the packaging claim for the labels. So, if you have 100% recycled package, you want to have a 100% recycled label, so you can have one story for the full package as well." (Interviewee 2)*

Another sustainability-related expectation is the traceability of materials and the availability and extent of high-quality data. Brands are for instance interested in the origin of the materials and want to ensure that materials are not originating from for example conflict areas. Additionally, if there are special geographic regions that should be avoided due to human rights challenges, such as most recently Russia, the brands want to know that their supply chain is not connected to those areas. When it comes to the availability of high-quality data, the brands can have requests for detailed life cycle assessment (LCA) information, even prior to establishing a business relationship. The interview data indicate that generally the importance of having data and proof about the sustainability of your products and operations is needed.

> *"[…] maybe four or five years ago there was more emphasis on triple bottom line or planet, profit, people kind of approaches, but now we're going into the more specific detail, and we all know that things get more complicated the more in detail." (Interviewee 2)*

Additionally, the findings in this area indicate that the brand owners are focusing on bringing down their scope 3 emissions, and since UPM Raflatac is in their scope 3, it has

an effect on them as well. In this study, the focus was on the brands in general and not on a specific end-use category. Since the interviewees work with different end-use categories, some category-specific requirements were also able to identify. The data indicated for instance that with fast-moving consumer goods the brands might value more the aims to reduce the use of plastics since that is the material that is often utilized in the packages. On the contrary, brands that are selling wine often utilize glass bottles and therefore have other things to consider than reducing plastics.

4.2.3 Ability to respond to the expectations

Generally, the interviewees consider that UPM Raflatac is able to respond well to the sustainability expectations of the brands. As identified in section 4.1.1 within UPM Raflatac, the focus is perceived to be more visible when it comes to the environmental aspects of corporate sustainability and that matches mostly second-tier customers' sustainability expectations towards UPM Raflatac. As presented in chapter 4.2.2 the use of recycled materials in Raflatac products and the recyclability of the products were identified as the most requested sustainability-related topics from the brand owners' side, which can be considered as a part of environmental sustainability dimension.

However, the interviewees also recognize ways to improve UPM Raflatac's ability to respond to the sustainability expectations of the brands. The practices emphasize the need for improvement within UPM Raflatac operations, but mostly outside the business. The findings indicate that obtaining high quality data that supports the sustainability-related claims and sustainability portfolio of the products' supply chain is a key development area. However, this is recognized as a joint effort between UPM Raflatac, and its suppliers and customers and the interview data emphasize that to be able to develop in this area, more detailed information is needed from the suppliers' side. The interviewees also highlight that they could be communicating and educating both sides of their supply chain, the suppliers and the customers, more in order to create more high-quality data.

> *"[…] we also need to push our suppliers to develop. […]. Suppliers needs to reveal more of the data and material information. […]. This is something that is needed along the whole value chain more and more and there is still improvement needed and that needs to be also pushed to the suppliers more. And that's not an easy job." (Interviewee 1)*

However, most of the interviewees emphasize that development is needed also outside the company boundaries. Firstly, on some level, there is also a mismatch recognized between what the market wants and what UPM Raflatac has to offer. The respondents give examples where they emphasize that UPM Raflatac could have more sustainable alternatives available in their product portfolio, but the pull from the market for those products is not yet established. However, it is also emphasized that sometimes it might be necessary to offer products to the market, which don't yet have a strong demand to keep the sustainability front-runner position.

> *"We want to be the sustainability front runner and position ourselves as the sustainability leader, which sometimes means offering things even when there is not necessarily yet big demand and also hopefully building the market through that offering." (Interviewee 5)*

Secondly, the interview data indicates that brands have faced challenges with the recyclability of the products in areas where there is no infrastructure in place for the recycling of the packaging materials. This means that even though a product would be 100% recyclable, it is not possible to fully utilize the recyclability of the products. Thirdly, the interview data indicate that the undefined extent of some sustainability-related regulations also makes it difficult to know what kind of standards should be met in the future regarding for instance the percentage of recyclable content in the packaging.

However, it is not only about how well UPM Raflatac can respond to the sustainability expectations that the brands have but also about working through educating the brands. The interview data indicate that since UPM is an acknowledged front-runner in sustainability, one part of the second-tier customer engagement is also about educating the brand and the market regarding sustainability. This can mean simply discussing with them about sustainability and sharing with them the different possibilities that could be

utilized to increase the sustainability of the products. The findings also indicate that it is a business decision from UPM Raflatac's side to determine which are the key requirements from the brands that should be considered. It is possible that prioritizing of the requirements is needed and not maybe all the requests can be delivered to the extent that the brands are desiring. It is also about reflecting how the current product offering responds to the expectations. Are there already products in the product portfolio that can support the needs of the brands or is there a need for innovating something new.

4.3 Sustainable sourcing and procurement process

4.3.1 Purchasing strategies and buyer-supplier relationships

The findings indicate that the sourcing and procurement process within UPM Raflatac has been divided to four parts focusing on different areas of the process. The four parts consider everything from planning to sourcing relevant suppliers, contracting, conducting the actual procurement activities, and paying the invoices. The categorization of the purchased items can vary depending on the sourcing category. However, the interviewees working within sourcing and procurement state that different sourcing strategies are established for different items. The raw materials purchased are categorized into groups based on the style and volume of the raw material. The profits and risks of the items or materials is considered by utilizing Kraljic's matrix by categorizing the products into strategic, leverage, bottleneck, and non-critical suppliers. Even though sustainability is considered one part of the strategies with increasing importance, the interview data indicates that sustainability is not part of this categorization as such. However, it is still considered as a metric that would be quite simple to add to the equation.

According to the interview data, supplier relationships within UPM Raflatac are a combination of transactional and collaborative relationships depending on the significance of the material. With strategic suppliers and suppliers that are considered

more important suppliers, the focus is more on collaboration and development activities. One simple reason for focusing on collaborative relationships is that qualifying a new raw material is considered a time-consuming process that takes resources from both sides.

> *"Partnership with as many suppliers as we have time and possibilities to do that and where it makes sense. Quite often it's more beneficial for Raflatac as well to partnership with the important suppliers than work in a transactional way with them." (Interviewee 6)*

However, the interview data also indicates that to some suppliers UPM Raflatac is only a small and insignificant customer and they are therefore not interested in developing the relationship further.

> *"Of course, it depends also on the supplier. To some suppliers were a very tiny and insignificant customer and they may not have any interest at all in engaging in collaboration and development activities with us either." (Interviewee 5)*

Additionally, the business can't rely too much on only a few suppliers in case that supplier is suddenly unable to deliver. However, the interviewees emphasize that generally, the aim within UPM Raflatac is to work towards long-lasting and collaborative supplier relationships with a manageable number of suppliers.

Based on the interview data the sustainability of the sourcing and procurement function is built around two main elements, which are supported by the professionals working in the area. Firstly, the key is ensuring that UPM Raflatac suppliers operate in a responsible way, and secondly, creating and maintaining a sustainable product offering. The sustainability of the supplier is assessed by using different methods, which are described more in detail in the next chapter 4.3.2. The interviewees state that sustainable product offering is created by focusing on sourcing sustainable, certified, and traceable raw materials. Additionally, the interview data indicates that sustainability is considered to be well integrated into sourcing and procurement and valued by the employees working within the function.

> *"[…] it's a very fundamental core consideration in the whole sourcing team. My role is about the sustainable sourcing, but everyone in our sourcing team at least has the sustainability consideration in the back of the head at all times at pretty much every supplier interaction." (Interviewee 5)*

However, the findings indicate that the exact approach to sustainability differs between different sourcing categories and category managers. It is described that some categories have a more active approach to promoting sustainable solutions from the value chain in UPM Raflatac operations and among their suppliers while others have a more reactive approach.

The findings emphasize the importance of sustainability as an equal sourcing criterion compared to the traditional sourcing criteria including aspects such as price, quality, and availability. Nonetheless, the importance of sustainability as a key consideration among traditional sourcing criteria such as price, availability and quality is still developing. However, with all suppliers, some level of sustainability is required. If there is a demand for recycled content, then the sustainability of the supplier and the materials they are providing is valued even more and most likely the supplier with more sustainable alternative will be chosen. However, if no special sustainability features are required from the raw material and materials need to be purchased in high volumes then the price is an important aspect.

According to the findings, there are different variables that justify the current approach and level of integration. Basically, different elements of the criteria are emphasized depending on the raw material, item, and market needs. Considering sustainability as a sourcing criterion in addition to the traditional criteria is considered challenging due to the uncertainties in the market. The findings indicate that there is still limited demand for sustainable raw materials. This creates challenges for sourcing, as suppliers may require commitment to large order quantities and UPM Raflatac might not be able to commit to big enough volumes with its suppliers. The price of sustainable materials is also considered to be a part of the problematic equation. More sustainable materials,

such as recycled or renewable materials are also considered more expensive, which can cause some challenges still on the customer's side.

> *"Very often it is so that the recycled or renewably based raw materials are more expensive than the standard ones, and then there is a cost. Which means that the whole thing should be understood as an investment for the future." (Interviewee 4)*

There can also be situations where the supply is limited. The interview data indicate that UPM Raflatac can also face a situation with specific materials where there is only one supplier available globally. In this type of situation, if there is demand for the material, the focus is then on negotiating the best terms possible without focusing really on sustainability.

4.3.2 Assessing suppliers' sustainability

UPM Raflatac has established practices and tools in place to assess their suppliers, prior and during the established buyer-supplier relationship. The processes and tools are centralized and used in all the UPM businesses and are a combination of internal tools and third-party assessments and methods to increase the reliability of the data. The findings emphasize the importance of assessing especially new suppliers and conducting adequate background research prior the engagement.

> *"We apply multiple approaches to try and address the inevitable gaps that each approach has, so many overlapping approaches trying to cover all the gaps." (Interviewee 5)*

First, to become a supplier for UPM Raflatac, the interviewees indicate that suppliers must approve the UPM Supplier and Third-Party Code, which describes the minimum level of performance which is required from the suppliers. Secondly, all the interviewees mention the EcoVadis system as a way to assess the suppliers' sustainability performance. Thirdly, the findings indicate that UPM Raflatac also conducts supplier audits following the UPM audit format, by collaborating with external auditing organizations or by utilizing the audit format of the Together for Sustainability (TfS) initiative. The company has also specific audit formats customized for specific needs such as different raw

materials. If findings are made in the audit the shortcomings are discussed together with the supplier and addressed accordingly.

Additionally, the interviewees emphasize other risk assessment tools and processes that support UPM Raflatac in creating a sustainable supplier base. The interviewees mention tools and processes such as counterparty risk management and the “know your supplier” process, which give additional information on the performance of the supplier. Moreover, the business utilizes continuous risk assessment screening which is based on risks related to financials, business continuity, but also specifically environmental and social sustainability risks. An additional tool to assess the suppliers is certificates that are required from the suppliers. Such certificates in the UPM Raflatac context can include for instance ISCC+, FSC, and PEFC. The interview data indicate that the certificates are considered highly relevant when deciding which suppliers are accepted as UPM Raflatac suppliers.

> *“If we want to have a certain type of sustainable plastics, having a content of renewably resourced materials or recycled materials. Then the supplier must have a certification like the ISCC. It's a must so that it's already gives limits to the supplier, because we don't buy it if we don't get the ISCC.” (Interviewee 4)*

Based on the interview data, in addition to the above-mentioned tools, periodic supplier risk assessments are conducted with managers of different sourcing categories. In these risk assessments, each supplier is considered in terms of a diverse risk portfolio. The risk assessment covers topics such as intellectual property, supply chain complexity, and social and environmental sustainability. The interview data indicates that this type of risk assessment is focused heavily on the insights of the category manager, who usually has a good understanding of the supplier’s operations. Usually, the category manager or someone from the team has visited the supplier and therefore knows what is happing on that end. In that sense, it can be stated that it is not only about the metrics, but also about knowing the supplier operations at other levels.

> *"When you really are partners with suppliers you know their persons, companies, sustainability teams and if they are really committed [to sustainability] or not." (Interviewee 6)*

The risk management activities discussed above are predominantly applied to the first-tier suppliers, but in case there are risks in the supply chain the activities can be applied even further. An interviewee gives an example where even an audit was conducted beyond the first-tier supplier because that was where the biggest risks were identified. However, it is also stated that UPM Raflatac has less leverage with operators who are not direct suppliers, which can complicate the processes. Usually, the second-tier suppliers are contacted through the first-tier suppliers. However, UPM Raflatac is obtaining chain of custody certification with the aim to ensure the sustainability of the whole chain, all the way to the sustainable origin. Therefore, some kind of information related to the lower tiers is still available even though direct discussions or risk management activities with the tiers are not actively conducted.

4.3.3 Training sourcing and procurement personnel

According to the interview data, UPM Raflatac has different types of sustainability training available for its sourcing and procurement employees. The UPM Code of Conduct training is considered basic sustainability-related training that is mandatory for all UPM Raflatac employees. Additionally, the sourcing and procurement personnel is required to conduct Supplier and Third-Party Code related training. Currently, UPM Raflatac has also additional training related specifically to UPM's -30by30 program that focuses on reducing the scope 3 emissions. The interview data indicate that also training related to sustainability certifications that are relevant for sourcing is offered. Additionally, there is product-specific sustainability training available, that is mainly targeted at people working within sales. However, the trainings have also been utilized by sourcing managers who have a special interest in the sustainability of certain products. The trainings are conducted mainly via an online platform, where the person can conduct the training when it is most convenient for them. The interview data also emphasizes

other training channels such as simply discussing with colleagues or suppliers or attending external trainings.

> *"Another way is to follow different webinars, seminars, whatever organized by different organizations or suppliers. And very much you can learn by discussing with the colleagues and the suppliers." (Interviewee 4)*

4.3.4 Incentivizing among sourcing and procurement personnel

According to the interview data, sustainability is not integrated as a standard element in financial awarding criteria. The interviewees state that in principle there are no specific sustainability-related incentives, and it is found rather rare that the bonuses would be tied to sustainability efforts, even though due to the individualized nature of the system it could be possible. Same applies to annual performance reviews.

The interviewees agree that the sustainability-related incentivizing and integration of sustainability into the bonus system could be further developed. The interviewees state that for example integration of -30by30 program-related goals to reward systems of managers could be added. However, the ability to also reach these goals is also discussed. The interview data indicates that in addition to the efforts from the individuals, there needs to support from the business to better incentivize sustainable sourcing and procurement. The market is also perceived as an important enabler. In order to meet the targets the incentives encourage to reach, support from the market towards more sustainable products is needed to increase the pull of those products.

4.4 Supply chain flows – the flow of information

4.4.1 From 2nd tier customer to manufacturer

To understand how the sustainability expectations of the brands reach UPM Raflatac, a brief outlook on the communication process between these two parties is conducted in this chapter. The findings indicate that UPM Raflatac (the manufacturer) has nominated people within the organization, who are responsible for establishing relationships and

communicating with the brands. Even though the brands are second-tier customers of UPM Raflatac, according to the interview data, when suitable connections are found from the brand's side, the communication between these two is mostly direct. With big brands that UPM Raflatac has been working with already in the past, they have established contacts whom they communicate with regarding the labels.

> *"With these big brand owners, we have been doing this type of work for many years, so we have established connections there […]. It is always about trying to find the important/relevant contacts with whom you can talk about the labels and the sustainability of the labels." (Interviewee 3)*

With new brand connections it is about finding the relevant connections with whom to discuss about the labels and different sustainability aspects. Additionally, the conversations UPM Raflatac has with the first-and second-tier customers are found to be different, since with the second-tier customers the price of the products is not discussed. All interviewees emphasize that direct communication is needed and preferred way of working for UPM Raflatac, but also for the brands.

> *"There is a high interest from the brand owners to speak to us. From our side it is the same. We have started to communicate more with them because we want, first to understand better the market needs that we can ensure that we will have the right products in place and then also to ensure that they already understand from our side what is already possible and available." (Interviewee 1)*

According to the findings, there are different reasons why direct communication with the brand is preferred. One of the recognized reasons is the earlier mentioned different approaches to sustainability between the first-tier customers. As indicated by the interviewees the first-tier customers are generally interested in sustainability but have different approaches to it. The interview data indicates that in some cases the first-tier customers don't necessarily have a high level of sustainability knowledge and resources, which makes them unable to have sustainability-related conversations with the brands. Therefore, direct communication is perceived to support the information flow regarding sustainability topics from UPM Raflatac to second-tier customers.

Based on the interview data, UPM Raflatac uses different methods to discuss with the brands and to find out how the market is changing and what is needed to serve the expectations of the customers and the market in a better way. Most interviewees emphasize that the direct communication also allows to recognize opportunities and competition in the industry. However, communication is also about making UPM Raflatac and its products visible to the brands. The findings indicate that UPM Raflatac communicates with the brands through different channels such as direct meetings and conversations. According to the interview data there are specific functions involved in the communications from the brands' side. All interviewees disclose that the sourcing and procurement department is part of the conversations regarding UPM Raflatac's products and solutions. Most interviewees also mention the involvement of the sustainability team, product development and people responsible for packaging, such as packaging managers from the brands' side. The findings indicate that depending on the product category, there might be also marketing department and designers involved in the communications from the brands' side.

Moreover, UPM Raflatac collects data about the brands by visiting events and exhibitions, utilizing third-party data such as research data and market analyses, or simply by doing research from the company website. With new second-tier customers, the interviewees emphasize the Ellen MacArthur Foundation as a good baseline for the sustainability efforts of the brand and they often check whether the brand is part of the foundation. However, with for example consumer goods the brands usually communicate their goals towards sustainable packaging, which usually means the primary packaging. Therefore, further discussions are usually needed to define what are the needs and requirements for the sustainability of the labels. This also increases the need for direct communication with the brand representatives regarding specific goals for the labels.

> *"The communication towards brands is not as easy as if they were our first customers in the line, but of course […] we want to match their messaging […] and meet their sustainability targets as well" (Interviewee 2)*

4.4.2 Within manufacturer

To understand how the sustainability expectations of second-tier customers reach the sourcing and procurement department the information flow within UPM Raflatac was studied. The findings emphasize that sourcing and procurement professionals within UPM Raflatac are not typically in direct contact with the brands, which means that communication within different functions in UPM Raflatac is needed to understand the sustainability expectations of the brands and take them forward in the supply chain.

> *"I'm talking with the suppliers and maybe the suppliers of the suppliers. But I'm not talking with the customers and the brand owners." (Interviewee 4)*

According to the findings, UPM Raflatac has different ways to communicate the brands' sustainability expectations to the sourcing and procurement. All interviewees emphasize that the usually the sustainability expectations received from the brands are communicated frequently by talking directly with colleagues via cross-functional meetings, emails, and daily conversations. The interview data indicates that the people working with the brands and the sourcing and procurement professionals are familiar with each other and have established contacts within UPM Raflatac, which eases the communication process. However, some interviewees recognize that there could be room for improvement with internal communication and a more systematic approach to it.

Additionally, it is stated that part of the sustainability team's job is to connect with people from different parts of the organization. The team uses sustainability ambassadors that are located in different functions to communicate about sustainability. The same holistic approach is utilized with bigger topics where establishing a specific project is needed.

> *"Maybe I can take the [a UPM Raflatac-wide sustainability project] as one example. When leading that project, I have gathered a task force that includes people from different parts of the organization and those people serve as contact points to their own organizations. So, for example, one of the members of the task force is a connection point to the sourcing organization." (Interviewee 2)*

4.4.3 From manufacturer to 1st tier supplier

The findings indicate that the communication between UPM Raflatac and its first-tier suppliers is direct. The interviewees working within sourcing and procurement state that they work directly with first-tier suppliers. According to the interviewees the people who are involved from the supplier's side vary depending on the topic they are discussing. The key contact persons for UPM Raflatac sourcing from the supplier's side are the salespeople. However, first-tier suppliers' product development is also in active contact with UPM Raflatac's product development and sourcing function. With first-tier suppliers with whom the relationships are not purely transactional, usually, someone who is responsible for the sustainability operations of the supplier is also involved in the discussions. The sourcing and procurement function of the first-tier supplier is very seldom participating in the communication process. The interviewees state that the communication with the first-tier supplier is conducted by calling, exchanging emails, or by meeting over teams or face-to-face. In addition to generic topics, sustainability is considered an important topic and is discussed with the suppliers in practice every time that communication is taking place.

4.5 Summary of findings

According to the findings, UPM and UPM Raflatac are strongly committed to sustainability, and it is well integrated to the operations of the company and the products it offers (see table 3). Even though UPM Raflatac has a designated sustainability team, sustainability is generally considered to be a collective responsibility among the different functions and employees working within those functions. When the pressure and incentives related to operating in a sustainable manner was addressed, the interviewees recognized three main sources of pressure that were developing legislation, business continuity and competitive advantage as well as the ability to meet the expectations of the second-tier customers.

Perception of corporate sustainability	• Strong commitment to sustainability within the business
	• Sustainability = collective responsibility
	• Pressure from
	  • Legislation
	  • Business continuity & competitive advantage
	  • Ability to meet second-tier customers' expectations

Table 3 Summary of findings: Perception of corporate sustainability

The second part of the empirical findings addressed second-tier customers and their sustainability expectations (see table 4). The findings indicated that the expectations can vary depending on the product category, the brand itself and their sustainability targets. Also, the brand's size, reputation and image regarding sustainability was considered as variables. The expectations or requests that UPM Raflatac receives from the brands focus mainly on the use of recycled materials in Raflatac products and recyclability and traceability of the products and materials and availability of high-quality data. Additionally, the ability to respond to the expectations was evaluated by the interviewees. The interviewees agreed that generally UPM Raflatac is able to respond to the sustainability expectations of their second-tier customers' well, however internal and external development areas were recognized. Internally, development was recognized in the area of obtaining and sharing high-quality data, which was considered as a collaborative action with the suppliers. The key challenges that are considered to come outside UPM Raflatac's direct control were the lack of pull for more sustainable products and need for more developed infrastructure to support the recyclability of the products.

Second-tier customers' sustainability expectations	**Sustainability expectations**
	• Vary depending on the
	  • Product category
	  • Second-tier customer i.e., the brand itself and the defined sustainability targets
	  • Brand's reputation and image
	  • Size of the brand
	• Main focus areas
	  • Use of recycled materials
	  • Recyclability
	  • Traceability
	  • Availability of high-quality data
	Ability to respond to the expectations
	• Areas of development (internal & external)
	  • High-quality data from suppliers
	  • More pull for sustainable products needed
	  • Infrastructure that supports recyclability

Table 4 Summary of findings: Second-tier customers' sustainability expectations

The third part of the findings focused on the sustainable sourcing and procurement process within UPM Raflatac (see table 5). The interview data indicated that items are categorized in UPM Raflatac based on the style, volume, profits and risks. Sustainability is approached in sourcing by working with responsible suppliers and creating and maintaining a sustainable product offering. The raw material and market needs affect how much sustainability is emphasized in the purchasing decisions. Additionally, the findings indicated that the supplier relationships are a combination of transactional and collaborative relationships. The suppliers are assessed through sustainability assessments and audits and by utilizing risk management tools and processes. The employees working within sourcing and procurement are trained regarding sustainability, however approach to common sustainability-related incentives could be further developed.

Sustainable sourcing and procurement process	**Purchasing strategies & buyer-supplier relationship**
	• Categorization based on style, volume, profits and risks
	• Sustainability is considered through
	  • Working with responsible suppliers
	  • Creating & maintaining sustainable product offering
	• Sustainability is approach differently depending on the raw material & market needs
	• Supplier relationships: combination of transactional and collaborative relationships
	Sustainable sourcing and procurement process
	• Assessment through sustainability assessments & audits and risk management tools and processes
	• Training offered
	• Sustainability not a standard element in financial awarding

Table 5 Summary of findings: Sustainable sourcing and procurement process

The final part of the empirical findings focused on the flow of information from second-tier customer to first-tier supplier (see table 6). The communication between the second-tier customer and the manufacturers is mostly direct. The main function that is involved in the communications from the second-tier customer's side is their sourcing and procurement function. Additionally, representatives from sustainability and product development functions such are involved in the discussions from the second-tier customer's side. Within the manufacturer the information is shared via daily direct discussions, cross-functional meetings and emails. The interview data indicates that UPM Raflatac communicates directly also with its first-tier suppliers. The main functions that are recognized to be involved from the suppliers' side are sales and product development.

Flow of information	**From 2nd tier customer to manufacturer** • Mostly direct communication with 2nd tier customer • Functions involved from the customer's side: sourcing and procurement, sustainability, product development and packaging managers **Within manufacturer** • Information sharing by talking directly with colleagues, via cross-functional meetings, emails, and daily conversations **From manufacturer to 1st tier supplier** • Direct communication • Functions involved from the supplier's side: sales and product development

Table 6 Summary of findings: Flow of information

5 Discussions and conclusions

This study focused on the cooperation aspect among multiple stakeholders and, exploring further how an MNC operating in the manufacturing industry responds to its second-tier customers' sustainability expectations through sustainable sourcing and procurement. The study was conducted as a single case study in UPM Raflatac, a manufacturer of safe and sustainable self-adhesive label materials. As the study utilized the interpretivist approach it allowed to recognize how the area of the research is perceived by the employees working within the field of the research. The research was a combination of deductive and inductive approach, focusing on exploring the application of existing theories on sustainable sourcing and procurement and creating new insights regarding MNC's ability to respond to second-tier customers sustainability expectations.

This section of the study focuses on answering the research questions and discussing them in the light of the theoretical background established for the study. The section consists of theoretical and managerial contributions and limitations and suggestions for further study.

5.1 Theoretical contributions

5.1.1 Second-tier customer's sustainability expectations

The main research question for the study was defined as: *"How does an MNC perceive and respond to the sustainability expectations of second-tier customer through sourcing and procurement?".* In the following paragraphs an answer to this research question is provided.

To answer the research question and address the second research gap, the sustainability expectations of the second-tier customers were studied. This part of the study contributed to the understanding of manufacturing company's second-tier customers'

sustainability expectations. The findings indicated that there are different variables that affect the sustainability expectations of the second-tier customers. It was recognized that the second-tier customers' expectations differ depending on the product they are selling, the brand that they are representing, the defined sustainability targets, the brands' reputation and image regarding sustainability, and the size of the brand. Based on the interview data, the sustainability expectations of the second-tier customers focused on four main areas which were use of recycled materials in UPM Raflatac products, recyclability of the products, traceability of the raw materials used in the production and overall, the availability of high-quality data. The information flow (Cordón et al., 2012) regarding the expectations is supported by the mostly direct communication between UPM Raflatac and the second-tier customers.

The study recognized that there are differences in the relationships that UPM Raflatac has with its first-tier and second-tier customers. Gücdemir & Selim (2017, p. 100) emphasize that business customers have become demanding and value on time delivery, short lead times, high quality of products, and low prices. However, the findings indicate that this doesn't apply to the relationship with the manufacturer and their second-tier customer. As mentioned by the interviewees, with the second-tier customers the price is not discussed, but the focus is on the qualities of the products and their sustainability features such as recyclability of the labels. Additionally, as emphasized by Crane & Matten (2016, p. 340) successful companies focus satisfying their customers' needs and performing better than their competitors. However, the findings indicate that in UPM Raflatac's case, the relationship with the second-tier customers seems to be more about collaborating or even educating the second-tier customers than purely trying to satisfy their needs. Nonetheless, creating competitive advantage through sustainable operations and sustainable product offering is perceived as important. This contributes to fill the recognized research gab by acknowledging that the relationship between a manufacturing company and its first- and second-tier customers differ and therefore it is important to study them as different stakeholders to some extent.

Generally, the interviewees perceived that UPM Raflatac is able to respond effectively to the current sustainability expectations and requests that they receive from the brands. The literature indicates that the level of sustainability integration can vary between companies (Epstein et al., 2014). There can be companies who haven't developed a systematic way of thinking or managing their sustainability, but also companies have recognized the effects of their actions in all the sustainability areas (social, environmental, economic) and have developed policies and systems to handle related issues (Epstein et al., 2014, p. 25). Sustainability is also recognized as a common effort and requires commitment from the management and employees (Sollish & Semanik, 2012, p. 137). UPM Raflatac's ability to respond to the expectations of the second-tier customers is strongly supported by how seamlessly sustainability is integrated to the company and its operation. In addition to the more specific sustainability targets, the *future beyond fossils* is perceived as a common target and effort that the employees are proud to work towards to. The findings indicate that the internal flow of information (Cordón et al., 2012) regarding the sustainability expectations utilizes different methods such as discussions, emails or cross-functional meetings. Even though there was no systematic way to share the information most interviewees didn't share criticism regarding the ways of working.

However, the findings also recognized areas of development for responding better to second-tier customers' sustainability expectations. The findings indicated that improvements are needed in the ability to offer high-quality data of the sustainability of UPM Raflatac's supply chain. This development area was considered to be a shared effort between UPM Raflatac and its suppliers, which connects the ability to respond to the expectations strongly to sourcing and procurement. However, ensuring supplier sustainability should not be procurements responsibility alone (Villena, 2018, pp. 1165–1166), even though the function has a central role in the company's sustainability efforts (Krause et al., 2009, p. 18). Villena (2018, pp. 1165–1166) underlines the importance of cross-functional collaboration between engineering and sustainability functions. As the findings indicated, in UPM Raflatac sustainability is considered as a collective effort and

responsibility among the different functions and employees working within those functions. This can be considered as an important observation and contribution to existing theory, which has primarily focused on one-level relationships.

5.1.2 Sustainable sourcing and procurement process

In addition to the main research question a sub-question was formed: *"What are known processes and practices that sourcing and procurement function implement to support the sustainable procurement process?".* The following paragraphs provide an answer to this sub-question.

In this area the recognized research gap indicated that there has been active research by many authors regarding sustainable procurement, focusing on different areas such as sustainable procurement practices (Meehan & Bryde, 2011; Walker et al., 2012), the role of procurement function in creating sustainable supply networks (Villena, 2018) as well as specific procurement practices such as supplier selection (Mohd et al., 2017). However, even though prior literature on the topic already exists, the field it is still believed to be in the development phase (Walker et al., 2012, pp. 202–203; Meehan & Bryde, 2011, p. 95) where general theory building and testing was recognized as one of the research gaps (Walker et al., 2012, p. 203). In addition to exploring existing theories this study contributed to the existing literature on sustainable supply chain management by studying the supplier – manufacturer – second-tier customer relationship in the sustainable procurement practices and processes context.

As the findings indicated, the categorization of items can differ depending on the category but is done based on the style, volume, profits and risks of the product. The profits and risks are considered by utilizing the first widely recognized and utilized model for the procurement and supply management of different items, the Kraljic's' matrix (Cangurde & Chavan, 2016; Krause et al., 2009). The findings indicate that it is considered important to address sustainability as an equal sourcing criterion compared to the traditional sourcing criteria including aspects such as price, quality, and availability.

However, the importance of sustainability as a key consideration among traditional sourcing criteria is still developing. Nonetheless, sustainability is considered in the sourcing and procurement process. The findings indicate that the sustainability of the sourcing and procurement function in UPM Raflatac is built around two main elements. Firstly, the key is to ensure that UPM Raflatac suppliers operate in a responsible way, and secondly, to create and maintain a sustainable product offering. UPM Raflatac already uses recycled materials and emphasizes the use of renewable raw materials as recommended by Krause et al. (2009, p. 21). Additionally, the business focuses on their supplier selection process and selecting only suppliers with certain level of sustainability, which are also recognized in the literature (Krause et al., 2009, p. 21) as ways to integrate sustainability into the different sourcing categories. This indicates that sustainability is integrated into UPM Raflatac sourcing and procurement in various different levels.

Traditional buyer-supplier relationship can be characterized as a short-term, adversarial relationship that focuses on transactional arrangements and the use of many suppliers (Crane & Matten, 2016, p. 393). However, companies have been moving increasingly towards partnership-based supplier relationships, which rely on collaboration and trust between the buying company and fewer, core, long-term suppliers (Crane & Matten, 2016, p. 393). As indicated by the interview data, supplier relationships within UPM Raflatac are a combination of transactional and collaborative relationships depending on the significance of the material. The flow of information (Cordón et al., 2012) between the manufacturer and the first-tier supplier is direct. Usually, from the first-tier suppliers' side people from sales and product development are present. Inefficient information flow inside the first-tier suppliers' is considered to have negative effect on how well the sustainability requirements of the buying company's sustainability requirements are implemented within the lower-tier suppliers (Villena, 2018, p. 1156; 1163). Additionally, if the MNC's first-tier supplier's procurement unit and procurement managers are not included in the conversations with the buyer the risk that the requirements are not communicated forward to the second-tier suppliers increases (Villena, 2018). The findings indicated that the sourcing and procurement function of the first-tier supplier is

not usually included in the communication process. However, in the scope of this research it is not possible to editorialize how the information flows inside the first-tier supplier's organization.

Villena (2018, p. 1163; 1167) argued that to develop a sustainable procurement strategy, manage supplier sustainability, conduct sustainable procurement, and create sustainable supply networks it is crucial to focus on three processes: assessing, training, and incentivizing. The theoretical background of this study indicated that only assessment methods used by the MNCs tier-one suppliers were supplier audits and self-assessments (Villena, 2018, p. 1150). However, the interview data indicated in UPM Raflatac's case there are additional tools and processes used. In addition to conducting supplier audits and assessments UPM Raflatac has different risk-management tools that that support the business in creating a sustainable supplier base. The tools and processes were described to be a combination of internal tools and third-party assessments and methods which is considered to increase the reliability of the data. This finding contributes to the current understanding of the sustainable procurement process that is considered as a combination of the three earlier mentioned processes: assessing, training, and incentivizing (Villena, 2018) by including risk-management tools as additional sub-element to the assessment process. This is a relevant contribution since it creates a more versatile impression of the assessment methods that a MNC can use to support the assessing of its suppliers.

However, the risk management activities discussed above are predominantly applied to the first-tier suppliers, if no risks lower in the supply chain are recognized. If high risks are recognized, then for example supplier audits can be conducted beyond the first-tier supplier. However, it is also stated that UPM Raflatac has less leverage with operators who are not direct suppliers, which can complicate the processes. Additionally, UPM Raflatac is obtaining chain of custody certification with the aim to ensure the sustainability of the whole chain, all the way to the sustainable origin. The literature also highlights the importance of earlier stages of supplier management such as supplier

selection (Boruchowitch & Fritz, 2022; Drake, 2011; Yadavalli et al., 2019). It has also become a necessity for manufacturing companies to consider customer's sustainability expectations while selecting their suppliers (Yadavalli et al., 2019, p. 1). The interviewees emphasize that often becoming Rafltac's supplier is a time-consuming process. New suppliers need to approve the UPM Supplier and Third-Party Code, which describes the minimum level of performance which is required from the suppliers. Additionally, different risk-assessments are conducted to the new suppliers.

The importance of general sustainability-related training for all employees is also emphasize (Wilson, 2015, p. 441) as part of sustainable procurement process. However, companies are considered to generally lack sustainability-related training for its procurement personnel or only offer it limitedly (Villena (2018, p. 1159; 1161). Within UPM Raflatac different online trainings regarding sustainability is offered to sourcing and procurement employees. UPM Code of Conduct training is considered basic sustainability-related training that is mandatory for all UPM Raflatac employees. Additionally, the sourcing and procurement personnel is required to conduct Supplier and Third-Party Code related training. Currently, UPM Raflatac has also additional training related specifically to UPM's -30by30 program that focuses on reducing the scope 3 emissions. Additionally, there are trainings related to specific sustainability certifications and product-specific sustainability training available for sourcing and procurement.

The lack of the use of incentives and rewarding managers based on profits instead of their sustainability performance is recognized as a common issue among MNCs (Epstein et al., 2014, p. 28; Villena, 2018, p. 1165). The empirical findings of this study also indicate that within UPM Raflatac sustainability is not integrated as a standard element in financial awarding criteria and that approach to common sustainability-related incentives could be further developed. However, the findings highlight that establishing such incentives or performance indicators can be complex since the ability to reach those targets are not only in the hands of the individuals. There needs to be also support from

the business and need for sustainable solutions from the market. Nonetheless, it is considered that the lack of incentives can cause indifference towards sustainability among procurement managers (Villena, 2018, p. 1165). However, UPM Raflatac has indicated strong commitment to sustainability generally and within sourcing and procurement personnel, which makes it difficult to believe this connection as valid in UPM Raflatac's case.

The three sustainable procurement processes (assessing, training and incentivizing) are often unbalanced, and companies have a tendency to perform better at assessing sustainability than implementing it and lack sustainability-related training and incentives for procurement personnel (Villena, 2018, p. 1161). The findings indicate that within Raflatac operations there is a strong emphasis on assessing new and existing suppliers by utilizing different methods and tools. Additionally, the company offers sustainability-related training. However, sustainability-related incentives are not established. Despite some level of unbalance with adopting the different sustainable procurement processes (Villena, 2018), the business shows high level of commitment towards sustainability. In addition to established assessment methods and offered trainings, UPM Raflatac also has various risk-management tools available that support the sustainable procurement process. This contributes to the existing literature, since it indicates that even though the sustainable procurement processes (Villena, 2018) can be received as unbalanced, it doesn't necessarily mean that the procurement process itself would not be sustainable. This emphasizes the need to address each case separately and take into consideration also the efforts outside these three main elements (assessing, training and incentivizing) that the company conducts, in order to create a sustainable procurement process.

5.2 Managerial contributions

In addition to theoretical implications the study provides managerial contributions. In addition to offering valuable information for the case company, this study offers other companies' valuable knowledge on the relevance of sustainable sourcing and procurement practices in the ability to respond to second-tier customers' sustainability

expectations. This study can be found especially relevant for other MNCs' operating within packaging industry or in other industries with brands as their second-tier customers. As the findings indicated, UPM Raflatac's ability to provide more sustainable solutions to the market is dependent also of the needs of the market. This indicates that more collective effort is needed to increase the pull for more sustainable products. Therefore, this study also creates general awareness of the topic, and the importance of the market needs in defining what products companies offer to the market.

In addition to internal development areas regarding ability to respond to second-tier customers' sustainability expectations, the research recognized external development areas. These were the lack of pull for sustainable products and lack of infrastructure in certain areas that would support the recyclability of the products. A significant managerial contribution of this study is that one company can't create sustainable supply chains and more sustainable future on its own. The study shows that in order to create more sustainable alternatives the support from the market and the society, and therefore other companies in the market, is needed. Additionally, the effect of the market is emphasized generally to great extent, which indicates how strongly the supply chains and the end-customer needs are connected.

5.3 Limitations and future research

This research was conducted from the viewpoint of a manufacturing company, focusing only cursory on the supply chain stakeholders relevant to sustainable supply chain management – suppliers and customers. Therefore, one suggestion for further study is to include also representatives from first-tier suppliers', first-tier customers' and second-tier customers' sides to create a more comprehensive understanding of how sustainability is considered throughout the whole supply chain. This wider perspective would also give the possibility to focus more on the sourcing and procurement side and the effect of the different sustainable sourcing and procurement activities (assessing, training and incentivizing) in different sides of the manufacturing company.

Additionally, the study was conducted as a single case study, which creates limitations. By including more companies to the research, comparison between different companies could be made. This could create valuable knowledge on how supply chains and supply chain management work in different organizations and industries. Moreover, the study was conducted to one manufacturing company and their business that focuses on sustainable labeling solutions. This creates limitations since the company can have different ways of working within different business. By conducting similar studies to different business units, valuable knowledge and practicalities could be identified and best practices utilized in different parts of the organization. Consequently, the geographical scope of the study was limited, since it included only the business operations within Europe. By adopting a global perspective, a comparison of practices in different areas could be made.

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Appendices

Appendix 1. Interview themes and main questions A

Background of the study:

The study focuses on sustainability requirements and expectations of the second-tier customers (i.e. the brand owners) of Raflatac and the practices and processes the sourcing and procurement function has in place to fulfil those requirements and expectations.

In this study, the concept of sustainability is understood through the term corporate sustainability, that is considered as a combination of social, environmental and economic sustainability (the TBL approach) also known as the people, planet and profit (3Ps of sustainability). Generally sustainable development is understood as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987).

Interview themes and main questions:

<u>Sustainability generally in UPM</u>

- How is sustainability approached/perceived in UPM?
- How is sustainability integrated to the company strategy and targets?

<u>Sustainability in Raflatac</u>

- How is sustainability approached/perceived in Raflatac?
- How is sustainability integrated into Raflatac strategy?
- What is the biggest incentive/pressure for working sustainably?

<u>Sustainability in Raflatac sourcing & procurement</u>

- How does your strategy support incorporating sustainability into Raflatac sourcing & procurement?
- How involved sourcing & procurement function is in defining sustainability strategies/requirements/targets for the whole company (UPM)?
- How incorporating sustainability into Raflatac sourcing and procurement shows in practice? (i.e., what tools, policies and processes you have in place)

Sourcing and procurement process

- Can you please describe the general steps of the sourcing and procurement process.
- How you categorize the items you purchase?

Suppliers

- How do you work with your suppliers?
- Do you innovate together with your suppliers to create more sustainable solutions?

Second-tier customers (the brand owners)

- How is the Raflatac working with the second-tier customers (the brand owners)?
- Do you know what sustainability requirements and expectations the brand owners have?
- Do you collaborate with the brand owners by innovating together to create more sustainable products?

Appendix 2. Interview themes and main questions B

Background of the study:

The study focuses on sustainability requirements and expectations of the second-tier customers (i.e. the brand owners) of Raflatac and the practices and processes the sourcing and procurement function has in place to fulfil those requirements and expectations.

In this study, the concept of sustainability is understood through the term corporate sustainability, that is considered as a combination of social, environmental and economic sustainability (the TBL approach) also known as the people, planet and profit (3Ps of sustainability). Generally sustainable development is understood as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987).

Interview themes and main questions:

Sustainability generally in UPM

- How is sustainability approached/perceived in UPM?
- How is sustainability integrated to the company strategy and targets?

Sustainability in Raflatac

- How is sustainability approached/perceived in Raflatac?
- How is sustainability integrated into Raflatac strategy?
- What is the biggest incentive/pressure for working sustainably?

Second-tier customers (the brand owners) sustainability expectations

- How is Raflatac working with the brand owners?
- How you receive information from the brand owners' sustainability expectations? How you communicate it forward internally?
- Can you recognize what are currently the key requirements & expectations of the brand owners?
- How have the requirements and expectations evolved during the years?

- What you think that could be done in order for UPM to better respond to the expectations of second-tier customers through sourcing and procurement?
- Do you collaborate with the brand owners by innovating together to create more sustainable products?