Belgeo

Revue belge de géographie

1 | 2009

**Recent developments in economic geography –
Miscellaneous**

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*Tissage de réseaux contre risques des acteurs : une étude de cas sur les PME dans
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Electronic version

URL: <http://journals.openedition.org/belgeo/7805>

DOI: 10.4000/belgeo.7805

ISSN: 2294-9135

Publisher:

National Committee of Geography of Belgium, Société Royale Belge de Géographie

Printed version

Date of publication: 31 March 2009

Number of pages: 27-42

ISSN: 1377-2368

Electronic reference

Christian Dietsche, « Networking against stakeholder risks: A case study on SMEs in international shrimp trade », *Belgeo* [Online], 1 | 2009, Online since 19 May 2013, connection on 25 June 2020. URL : <http://journals.openedition.org/belgeo/7805> ; DOI : <https://doi.org/10.4000/belgeo.7805>

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Networking against stakeholder risks: A case study on SMEs in international shrimp trade

Tissage de réseaux contre risques des acteurs : une étude de cas sur les PME dans le commerce international de la crevette

Christian Dietsche

Introduction

- 1 Small and medium-sized enterprises (SMEs)¹ are sourcing to an increasing extent from developing countries. While some companies, especially in the manufacturing sector, are shifting production to low-wage countries in order to gain cost advantages, others react to consumer preferences by importing agricultural products from tropical countries. Yet the producers in those countries are often not able to guarantee compliance with environmental production standards and a sound product quality. The adverse environmental effects of production in developing countries are often raised by non-governmental organisations (NGOs) and the media as a public issue. To prevent the risk of negative publicity and its financial consequences, large brand name manufacturers react by cooperating with stakeholders and introducing *Corporate Social Responsibility* (CSR) within their supply chain in order to meet stakeholder demands.
- 2 This paper will examine to what extent small firms that are sourcing from Developing Countries are affected by stakeholder demands and how they respond to these demands. The focus will be on the question whether SMEs use network relations to pool their resources for cooperating with societal stakeholders and responding to their demands.
- 3 In addressing the above questions, the paper will first introduce the stakeholder approach and the concept of CSR; secondly, a network view on stakeholder relations

will be presented; and finally, the conceptual framework will be applied to a case study of shrimp trade between Bangladesh and Germany².

Social demands on business: the stakeholder approach

- 4 Within economic geography, growing emphasis is placed on the social nature of economic processes and the various relations between culture and economy (see e.g. Hess, 2004; Jackson, 2002; Thrift & Olds, 1996; Yeung, 1998). The societal framework, such as language, work organization or institutional arrangements, shapes every kind of economic activity and proves to be of crucial importance for companies to be successful. This proves to be especially important in the context of international economic relations, as these are clearly influenced by the “cultural distance” between different corporate actors (see Schamp, 2000, p. 48f).
- 5 To understand the influence of culture and societal conditions on economy at the company-level, it is helpful to draw on the *stakeholder approach*, which has been developed in the field of business ethics. The stakeholder view on enterprises assumes that business performance depends crucially on how companies are influenced by and interact with market and non-market actors. A stakeholder can be defined as “any group or individual who can affect or is affected by the achievement of the organisation’s objectives” (Freeman, 1984, p. 46).
- 6 Stakeholders can be classified in various ways. Dyllick (1989) distinguishes stakeholders according to their function and identifies market stakeholders (e.g. suppliers, buyers, shareholders, competitors), political stakeholders (e.g. the state, supranational organizations), and public stakeholders (e.g. trade unions, NGOs).
- 7 Other authors categorize stakeholders according to their relationship to the firm. According to Grunig and Hunt (1984), the input-output relations in the market sphere are described as *functional linkages* that are essential to the functioning of the organisation. *Enabling linkages* are mostly regulatory actors that are imposing rules on the company. The media, NGOs, and other special groups make up the so called *diffused linkages*. For the company the diffused linkages are difficult to identify, as they only get in contact with the company in case of a crisis. While these three categories correspond to a large degree with the differentiation of market, political, and public stakeholders, Grunig and Hunt add *normative linkages* as a forth group of stakeholders. These include groups with which the company shares common interests and similar goals or problems (e.g. competitors, business associations).
- 8 Finally, the relevance of stakeholders can serve as a means of classification. Mitchell *et al.* (1997) developed a comprehensive model of stakeholder salience in which they introduce three factors that determine the relevance of stakeholders – power, urgency, and legitimacy. Combining the concept of stakeholder salience with Grunig and Hunt’s linkages model, it can be stated that due to their power and legitimacy the enabling and functional linkages have the highest relevance for the business. Yet, diffused stakeholders can turn out to be the most problematic. Even if they have only limited power over the firm, they are important because they have urgent claims that call for immediate action. According to Mitchell *et al.*’s categorization, they can be categorized

as *demanding* stakeholders. Due to their lack of power these demanding stakeholders try to exert influence via the company's enabling or functional linkages (Rawlins, 2006).

- 9 Corporate risks occur when stakeholders take up sensitive issues and put pressure on the company. For geographical research, corporate risks that are related to environmental issues are of especially high relevance. As Bennett puts it: "Two core areas of human geography, the human impact on the environment and the internationalization of economic activity, are brought together in studies of the regulation of corporate environmental risk." (Bennett, 1999, p. 189). While Bennett claims that companies are generally utility-maximizing and therefore tend to externalize environmental cost, others emphasize the growing importance of private regulation (see e. g. Hughes *et al.*, 2007). A shift from public to private regulation can be observed especially in the context of international trade relations. As production networks extend beyond the reach of national regulation, the coordination and control of production processes becomes the responsibility of large corporations. To prevent corporate risks many companies decide to exercise control on their suppliers – even if there is no legal obligation to do so.
- 10 A widespread way to ensure a sound production process and reduce adverse environmental or social impacts is the implementation of *Corporate Social Responsibility* (CSR), which means that companies consider societal demands and implement measures that go beyond regulatory requirements. CSR is often regarded as the result of an ethical-normative view on stakeholder relations. Yet, empirical evidence shows that beyond ethical motives the management of stakeholder demands can be seen as a strategic issue. Various studies show that stakeholder management is connected with the economic performance of the firm (e.g. Kommission der Europäischen Gemeinschaften, 2002; Wagner *et al.*, 2002; Berman *et al.*, 1999; Stanwick & Stanwick, 2003). The question whether companies can "do well while doing good" (Neville *et al.*, 2005, p. 1185) is discussed in a large body of literature. Most studies conclude that there is a positive correlation between CSR and a firm's financial performance (e.g. Griffin & Mahon, 1997; Waddock & Graves, 1997; Orlitzky *et al.*, 2003; overview in Promberger & Spiess, 2006). Likewise it can be stated that ignoring stakeholder demands can entail corporate risks (compare e.g. Frooman, 1999; Calton, 2001).

SMEs and stakeholder management

- 11 The relevance of stakeholder management and CSR for large transnational companies is widely recognized and has been analyzed in numerous studies in the fields of geography (e.g. Hughes, 2001; Hughes *et al.*, 2007; Freidberg, 2003), business ethics and management studies (e.g. Handfield *et al.*, 2005; Roberts, 2003; Bowen *et al.*, 2001; Fichter & Sydow, 2002). However, there is little academic focus on how SMEs are affected by these demands and how they react to the related risks. Especially, there is a lack of studies that take into account the international supplying activities of SMEs (on the issue of sustainable supply chain management of SMEs in global value chains see Jorgensen & Knudsen, 2006).
- 12 The findings of studies on large branded companies cannot be applied to SMEs sourcing in developing countries as there are considerable differences in the way small firms are affected in contrast to larger companies. This relates (a) to the exposure of SMEs to stakeholder pressure as well as (b) to the firm's ability to respond to pressure:

- 13 (a) Examples from sectors such as garment or footwear show that mainly large, well-known brand name companies are targeted by societal stakeholder demands and have committed themselves to ethical sourcing codes. “The higher the profile of a brand, the greater the scrutiny of its activities and the higher the potential for it to become a target for pressure group action” (Roberts, 2003, p.164). While SMEs are rarely targeted by direct stakeholder pressure, they can be affected indirectly by their functional linkages. Many SMEs depend on large buyers that are targeted by stakeholders and in turn force their suppliers to adopt standards. SMEs that don’t depend on a lead firm can also come under pressure. On the one hand, they are directly targeted by political stakeholders that have legislative demands concerning product quality (e.g. contamination thresholds). On the other hand, although demands from societal stakeholders, e.g. regarding the environmental impact of production, do not focus on individual SMEs but on the product in general and thus pose a collective risk for the whole sector, they indirectly affect individual SMEs, too.
- 14 (b) Another distinguishing characteristic of SMEs is their limited capacity to respond to stakeholder demands individually. As SMEs usually lack personal, financial and time resources, they concentrate on their core business tasks; so CSR activities are adopted only in case of a favourable business situation (see Kommission der Europäischen Gemeinschaften, 2002). In the context of international value chains these restraints are even more salient as small firms have limited possibilities to control their suppliers in an adequate way. SMEs that are sourcing in transnational supply chains are frequently confronted with demands that are related to the production process. Yet, CSR rarely covers the whole production process: upstream activities, which are often connected with severe environmental and social impacts, are usually left out of these initiatives (Robins & Humphrey, 2000). This is particularly true for small companies, which have less financial and personal capacity to control their supply chain.
- 15 In short, SMEs are not automatically less affected by stakeholder pressure than large companies; rather they are affected in an indirect way. Yet, due to their lack of resources and the indirect nature of stakeholder-firm interactions, it is difficult for small enterprises to identify relevant stakeholder demands and to respond to stakeholder claims in an adequate way. To overcome the problem of limited resources, it may be a feasible strategy for SMEs to cooperate with other stakeholders and form normative linkages based on common interests. It is often stated that for smaller firms personal relations and close individual contacts are vitally important. To a greater extent than large companies, SMEs offer possibilities for personal contacts to their suppliers, customers and even competitors. In this way they are able to develop trusting business partnerships in a way that is not feasible for larger enterprises (see Spence, 1999).

A network view of stakeholder relations

- 16 A growing body of geographical literature stresses the significance of networks in international business relations (see e.g. Dicken *et al.*, 2001; Yeung, 2003; Bathelt & Glückler, 2003). Yeung (2003) argues that the focus of research has to go beyond economic and locational factors and also consider the way firms are entangled in actor networks: “As such, these economic institutions are not conceptualized merely as economic machines responding to external market and cost conditions. Equally

important, they are also seen as organizational constellations of social relations among individual actors 'whose action is both facilitated and constrained by the structure and resources available in the social networks in which they are embedded' (Granovetter, 1991: 78)". (Yeung, 2003, p. 444)

- 17 An important contribution to geographical network theory has been made by Henderson *et al.* (2001), who have identified *global production networks*. They suggest that international production and distribution processes should be regarded as complex network structures. In accordance with Yeung, they argue that economy is not exclusively organized by efficiency-driven market transactions. Instead, companies are decisively influenced by the specific social, cultural, and institutional context and embedded in a complex network of actors. Only by creating and maintaining trust within these networks, companies are able to build successful and stable relationships to other agents. Unlike other theories of international production systems, e. g. the concepts of *global commodity chains* or *global value chains* (Gereffi, 1994; Gereffi *et al.*, 2005), the global production networks approach does not exclusively focus on inter-firm relations, but also stresses the importance of non-market actors. Among the actors and institutions that are able to exert influence on international business networks are supranational organisations, government agencies, trade unions, NGOs or consumer groups. Thus, an analysis of network relations in the international economy should consider the interaction between firms as well as the role of societal actors within these networks (see e.g. Dicken *et al.*, 2001).

Interaction with social and political stakeholders

- 18 The relationships with those stakeholders that are raising environment-related claims include the enterprise's enabling linkages, e.g. direct governmental responses such as regulations or import embargoes as well as its diffused linkages that can cause a loss of reputation and customer confidence through negative media reports or NGO campaigns.
- 19 One way of assessing the ability of stakeholders to influence the enterprise and the capacity of the enterprise to respond to stakeholder demands is to point out the demographic attributes of the firm and its stakeholders, such as size or location. Beyond these characteristics, stakeholder analysis has to consider the relational ties between the enterprise and its stakeholders. The classical view of stakeholder relations focuses on the dyadic ties between the firm and individual stakeholders. However, stakeholders do not exclusively interact with the company, but also with each other. For this reason, Rowley (1997) states that stakeholder analysis should go beyond the dyadic perspective and take into consideration the whole network of stakeholders. This network perspective has been adopted by numerous studies on stakeholder relations (overview in Vandekerckhove & Dentchev, 2005). It takes into account the relational setting of the actors that can be defined by relational attributes such as centrality, level of dependence or degree of information asymmetry. Based on such a perspective, a number of studies have conducted a structural analysis of network relations, assuming that network characteristics give information about the salience of stakeholders and the ability of a firm to respond to stakeholder demands (e.g. Froomean, 1999; Rowley, 1997; Rowley & Berman, 2000).

- 20 The likelihood of stakeholders influencing a company increases when the network organization among stakeholders allows for indirect influencing strategies. A stakeholder who is not directly connected with a firm or lacks the power to influence it can pressure another stakeholder that is more powerful or is in a better position within the network to target an enterprise (see Froomean, 1999). The influence of such second-order stakeholders is particularly important in complex supply chains (see e.g. Starmanns & Braun, 2004): NGOs in developing countries are not able to directly target Western companies that are responsible for harmful local effects of production. However, by cooperating with powerful Western NGOs, their claims can be transferred indirectly to the company.
- 21 Not only do the influencing capacities of stakeholders depend on network characteristics, but also the ability of the firm to respond to stakeholder demands. Hart and Sharma (2004) identify “entrepreneurial opportunities” by building new relationships that lead to an increasing density of the network (see also Vanderkerckhove, 2005). The higher the density of the network, the more flows of information are favoured and the more the company is capable of responding to stakeholder pressure. This is particularly true for firms which seize the opportunity to increase their centrality in the network by establishing relationships with indirect stakeholders and thus strengthen their power in the network. Yet, as SMEs generally lack the capacities to build up relationships with indirect stakeholders, it is difficult for them to increase their centrality and thus enhance their responsiveness to stakeholder demands. To respond to the demands of critical socio-political stakeholders, SMEs can try to pool their resources and build up relationships within the own sector.

Coordinating the supply chain

- 22 As stated above, many stakeholder demands are not directly related to SMEs’ activities, but to the production in their supply chain. To respond to these demands it is therefore inevitable to coordinate the upstream production processes. Thus, in addition to the network relations with stakeholders, the company’s functional linkages, i.e. the inter-organizational coordination within the supply chain, have to be considered.
- 23 SMEs are usually not able to coordinate their supply chain properly. This is particularly the case if the supply chain is highly fragmented, so that the firm cannot reach the whole upstream production process. As Rowley and Berman state, the likelihood that stakeholders target a particular firm increases when the source of negative impacts of production can be easily determined (Rowley & Berman, 2000; see also Hendry, 2003). Due to the lack of coordination there is no traceability within the value chain, so that adverse production conditions cannot be connected to the firm and it becomes difficult for stakeholders to make the firm accountable for its suppliers’ activities.
- 24 Thus, for SMEs a comprehensive coordination of the supply chain is hard to achieve and can even cause adverse effects. On the other hand, however, close supplier relationships can turn out to be helpful if the network structures are used by SMEs to promote sustainable production, e.g. by implementing standards within the supply chain. Fichter and Sydow (2002) argue that network forms of organisation provide especially good chances for organizing social responsibility along the supply chain. This is due to the fact that inter-organizational networks support the development of shared views and norms and, in contrast to market ties, enforce resource relationships

(Fichter & Sydow, 2002). First of all, it is the structure of the networks that decides whether they are effective in promoting corporate responsibility. Favourable conditions include a limited number of network firms, thus reducing complexity; tightly coupled rather than loosely coupled ties; and the existence of “strategic networks”, led by one or more hub firms. Yet, arguing from a structuration perspective, Fichter and Sydow observe that network structures alone do not guarantee socially responsible management; the network structures need to actually be used by agents such as managers and other stakeholders (Fichter & Sydow, 2002).

- 25 However, when it comes to SMEs it is questionable if they are able to tap the full potential of network organisation. Jorgensen and Knudsen study the role of SMEs as “change agents” for sustainable production in value chains (Jorgensen & Knudsen, 2006). They conclude that SMEs are the weak link in international value chains, as they lack the resources to pass on social and environmental requirements to sub-suppliers in low-wage countries.

Cooperating within the sector

- 26 As discussed above, firm-related demands, such as national product standards, can be managed by organizing the value chain. However, given their small size and lack of brand visibility, SMEs are rarely confronted with individual demands by societal stakeholders such as NGOs and the media. Rather they have to react to collective claims that are facing the whole sector or at least a specific group of companies. Responding to collective demands can not always be done individually. Thus, for a firm it can be necessary to respond collectively, i.e. to use its normative linkages by cooperating with competitors.
- 27 By sharing information and pooling their resources, SMEs are able to increase their capacity to interact with relevant stakeholder groups. Such sectoral cooperation is generally organized via business associations. In contrast to its individual members, an association has the capacity to conduct public relations, e.g. through press releases or stakeholder dialogues. In addition to an improved stakeholder communication, coordinated efforts can help tackle the sources of stakeholder demands. A feasible strategy would be to implement common sector-wide standards, e.g. to launch an eco-label that can be marketed jointly.
- 28 As with all forms of collective coordination, sectoral networks can be hampered by free-rider behaviour. Even if collective action would produce the best overall result, for the single company this may not be the optimal choice. If collective action is taken, the firm that chooses not to participate can receive the benefits without having own costs.

Networking to reduce stakeholder risks in international shrimp trade

- 29 Companies that are trading with environmentally sensitive products can easily evoke societal demands and are therefore especially likely to be confronted with business risks: Critical press reports on environmental consequences, boycott campaigns launched by NGOs and consumers’ increasing environmental awareness can affect the economic goals of an enterprise. The following case study seeks to illustrate the

opportunities and risks of network arrangements for SMEs involved in the seafood sector, more precisely the trade in tropical shrimps between Bangladesh and Germany. This sector has to deal with negative environmental consequences of production as well as the contamination of imported products.

- 30 The case study is based on 38 guided interviews that were carried out in Bangladesh, Germany and the Netherlands. The interviews were conducted with owners and managers of SMEs (with less than 250 employees) and larger companies (with at least 250 employees) at different stages of the value chain. The survey covers 21 out of a total of 48 Bangladeshi exporting companies and eight of approximately 20 main importers in Germany.
- 31 SME representatives were questioned about their perception of business risks as well as about their relations to other firms and to socio-political stakeholders. With regard to the latter question, a standardized survey of network relations was conducted to reveal ego-centred networks, i.e. the relations between a focal company and its relevant business partners. The identified business partners were then again questioned about their network relations, so that links within the whole value chain could be identified. In addition to inter-firm networks, the survey also covered the relations between companies and societal stakeholders. For this purpose, interviews with representatives of public authorities, business associations, and NGOs were conducted. To gain a detailed insight into the firm's network, the interviews explored the functional characteristics (e.g. information sharing, operational support) of those different relationships.

Shrimp trade between Bangladesh and Germany

- 32 Compared to other large EU countries, the German market for shrimps developed relatively late. Nevertheless, in recent times Germany has become a booming market for tropical shrimps, too. Having experienced a continuously strong increase since the mid-1980s, total shrimps imports to Germany in 2005 were valued at 268 million Euros (FAO 2007 : FishStat Plus).
- 33 Until the 1980s, tropical shrimps were predominantly marketed as an exclusive delicacy to be consumed in up-market restaurants. Yet, today the distribution of shrimps to the consumer relies mainly on retail sales. Supermarkets, and since the mid-1990s also an increasing number of discounter stores, are offering a variety of mostly pre-cooked or frozen shrimp products. The enormous growth of the German market for shrimps is mainly driven by sales of convenience-products, i.e. meals that are produced ready-to-serve.
- 34 The majority of imported shrimps are directly sourced from the tropical countries in which they are produced, mainly from South and Southeast Asia. Bangladesh is one of the most important sourcing countries, providing up to 20 percent of German tropical shrimps imports during the past years.
- 35 The German shrimp business is a relatively small sector, consisting of about 20 main players. The shrimp importers are almost exclusively SMEs that are selling their products to wholesalers or directly to large retailers or catering companies (see fig. 1). Some companies buy directly from producers in Bangladesh, others purchase from buying agents.

Figure 1. Shrimp trade between Bangladesh and Germany.

- 36 The production chain of shrimps in Bangladesh is highly fragmented, with several actors at various stages of the value chain participating in the production process. First, shrimp larvae are collected by local residents or bred in professional hatcheries and nurseries. Then, the shrimps are farmed in aquaculture, processed at shrimp factories, and finally exported, mainly to Europe, the US, and Japan. A particular characteristic of shrimp production in Bangladesh is the prevalence of agents, which serve as intermediaries between most production stages. The agents serve as credit grantors that are necessary to compensate the lack of capital at small-scale production units (i.e. hatcheries, nurseries, farms, and processing plants) (Khatun 2004 ; Ito, 2002).

Product- and process-related risks

- 37 As shrimps are a highly standardized product, transaction costs can be reduced by organizing trade via market relations. However, a need for coordination of the supply chain arises as deficits in the production process can cause severe product- and process-related risks for importing SMEs.
- 38 Product-related risks can arise if food safety standards are not met, e.g. due to contamination with antibiotics or other harmful substances. Shrimps are very sensitive products that have to be treated carefully to guarantee an adequate product quality. In the EU, threshold values for antibiotics or microbiological contaminants are very strict. Imported containers are controlled at the port of entry to the EU and, in case of contamination, are sent back to the country of origin. In 2006, 112 shipments exceeding the limitations on antibiotics and other harmful substances were detected, among them 28 from Bangladesh. The most outstanding example for regulatory activity took place

in 1997, as the European Union imposed an embargo on shrimp imports from Bangladesh. Moreover, contamination with antibiotics caused several food scandals in Germany and other European countries that were also picked up by mass media.

- 39 Process-related risks can be generated by negative environmental impacts from production. The environmental effects of shrimp production in Bangladesh are widely discussed (see Karim 2006). Many local NGOs criticize the destruction of mangrove forests and the conversion of rice fields to shrimp farms, both causing an increase of the soils' salt content and thus limiting the lands' suitability for agricultural purposes. Other criticism relates to the collection of shrimp larvae, which causes large amounts of by-catch and thus poses an immense threat to the populations of numerous fish species. These environmental issues are tackled by several European NGOs (e.g. Environmental Justice Foundation, Greenpeace, FIAN). In addition, environmental effects of shrimp farming in Bangladesh play an increasing role in press reports. Another example of the growing awareness for the local consequences of Western consumer preferences offers the German test magazine "Stiftung Warentest". In 2006, the magazine conducted a test of German shrimp brands that not only took into account the product quality but also assessed the firm's social and environmental responsibility in producing countries (Stiftung Warentest 04/2006). In order to examine to what extent the risks described above actually affect companies, the risk perception of German SMEs will be studied in the following section.

Risk perception of German SMEs

- 40 German importers perceive risks from different types of stakeholders. Firstly, all shrimp importing companies are highlighting the importance of their enabling linkages, i.e. the rule setting on the European and national level. Particularly, the unpredictable implementation of European directives into German law is perceived as a fundamental risk ; many SMEs complain about discrimination in comparison to other countries. Moreover, the SMEs feel uncertain about the actual requirements at the federal level, as even within Germany there are big differences regarding the implementation of monitoring.
- 41 In addition to political actors, societal stakeholders are also perceived as a critical influencing factor. NGOs as well as media reports that are targeting product quality and environmental impacts from production are perceived as a risk for the company's business success. Several firms complain that consumers are misinformed by sensationalist media reports. This causes severe financial risks : For some SMEs, the public food scandals of the past years lead to temporary sales losses of up to 50 per cent.
- 42 In reacting to these stakeholder risks SMEs can choose different strategies. Some firms rely on individual measures that can be implemented without cooperating with other actors. Others avoid adverse effects by abandoning risk-sensitive business relations. A further group of companies left Bangladesh and concentrated on suppliers in countries that are not in the main focus of criticism and that are able to deliver more reliable products. Another common strategy is risk-spreading, which means that the company is purchasing from several suppliers within one country and, in addition, spreading its activity to different countries.

- 43 However, risks can only partly be limited by individual action. The collective, sector-related risk of food scandals and negative reputation of the product cannot be tackled by single firms. Therefore, the network-related strategies of the SMEs will be analyzed in more detail.

Interaction with social and political stakeholders

- 44 Network relations to non-market stakeholders were observed only to a small extent. Only a few larger firms cooperate with NGOs, e.g. jointly developing ecological production standards. However, most of the SMEs perceive NGOs as hostile actors making exaggerated and unachievable claims. While some SMEs argue that they are too small and too weak to respond to the demands, others refuse to cooperate with NGOs because these exaggerate or falsify the facts. In this case, normative objections prevent potential strategic cooperation. This corresponds with the view of Welcomer (2002), who states that the relationship between a firm and its stakeholders is not only based on purely strategic considerations, but rather on instrumental *and* normative factors.
- 45 When it comes to media reports, the same disapproving and passive attitude is prevalent. Even if most SMEs complain about the misleading media coverage, they don't see themselves capable of countering the situation, e.g. by developing own public relation strategies. Similar observations hold for questions regarding the regulatory influence by political actors. Even though many laws are regarded as inadequate, SMEs state that they have to accept them. They do not feel themselves capable of interacting with their enabling linkages to spread their views and strengthen their position.
- 46 Given the perceived lack of resources that allow direct interaction with stakeholders, there are two possible strategies : First, SMEs could try to meet stakeholder demands, i.e. to ensure environmentally sound production practices and an acceptable product quality by coordinating their supply chain. Secondly, SMEs may overcome their lack of power by cooperating with competitors.

Coordinating the supply chain

- 47 Environmental as well as health-related quality problems can arise at different stages of the production process. Thus, for the company it is essential to cooperate with the whole supply chain. Most SMEs confirm that reliable product quality and a sound production process would be a necessary condition for sustainable business success.
- 48 As shrimps are a highly standardized product, buyer-supplier relations are mainly market-based. Nevertheless, many SMEs try to develop close relationships with their suppliers. Looking at the specific functions of these relationships, certain characteristics become apparent. Empirical findings show that some inter-organizational relations are strengthened by close personal ties. In the course of a long-term business relationship the affective dimension of the relationship often gains importance. Some importers highlight that these relations facilitate their daily business activities and minimize the risk of poor product quality. However, other managers maintain that they try to keep personal relations out of the business, as these imply the risk of causing interdependencies. While the former generally show understanding for the Bangladeshi culture, the latter mostly have an overall negative

attitude about Bangladesh and are suspicious of the business practices of their suppliers.

- 49 It is generally stated that the flow of information between the enterprise and its suppliers plays a major role in minimizing risks. According to this, importers provide comprehensive information about required standards to the supplier. Yet, when it comes to operational support, the picture looks quite different as concrete help to implement standards is provided only in isolated cases. Generally, firms hesitate to build up capital intensive relationships to suppliers and rather prefer loose ties, as these offer the possibility to change suppliers in case of a crisis.
- 50 Close inter-organizational relationships may facilitate the production of high-quality products. However, the risk of contaminated products cannot be entirely eliminated, as the extremely fragmented value chain of shrimps makes it impossible to control the whole production process. And even if the own products prove to be free from residues, the occurrence of contaminated products anywhere in Bangladesh could cause a new import ban from the European Union. Therefore, a cooperative implementation of production standards is rarely realized and, if so, only in “safer” countries where a contamination of products is less likely (esp. in Southern America). Adverse effects may also be caused by the socio-political conditions in the production country. In Bangladesh, the ubiquitous corruption often prevents adequate monitoring of production processes and puts investments at risk.

Cooperating within the sector

- 51 It was shown that even if firm-specific risks can be minimized, the overall problem cannot be solved by individual SMEs. Only a sectoral strategy could help overcome collective risks that are not related to a single firm but to the product in general.
- 52 The need for a sector-wide cooperation is widely recognised by SMEs. Most firms state that they are exchanging information with competitors, e.g. regarding product standards or the possibilities of organic shrimp farming. However, beyond the sharing of information there is little concrete cooperation within the sector. The only locus of institutionalized cooperation is the business association of German shrimp importers. It was founded in reaction to the food scandals that resulted in European import embargoes.
- 53 The association is capable of exchanging information with political decision-makers. These flows of information offer the chance to become aware of political decisions in advance, e.g. about the definition of new threshold values. To a small degree, firms can also promote their views in the decision making process. Yet, only a minority of German importers are members of the association. Especially the larger companies are not willing to join the association and doubt its effectiveness.
- 54 Besides the association there are also informal relationships between importers. SMEs exchange their views on current problems and discuss e.g. the possibilities of ecological shrimp farming. Here again, the larger competitors are not involved and are usually not willing to share their knowledge. But even for the smaller enterprises, apart from pure exchange of information, the degree of cooperation is quite limited. Again, capital intensive forms of cooperation, such as joint monitoring programmes or labelling initiatives, are avoided. This implies that SMEs cannot rely on mutual assistance. When

a single SME faces acute problems (e.g. due to the detection of contaminated shrimps), it has to deal with the issue on its own.

- 55 The striking contradiction between the perceived need of cooperation and the low level of realized cooperation can be explained by the general problems of collective behaviour. In case of collective action all SMEs could benefit from the sector's growing capacities to interact with political and societal stakeholders and the potential to improve the image of the sector. However, from an individual firm's perspective a non-cooperative strategy seems to be the better choice. This tendency is enforced by a prevailing business mentality among smaller owner-managed companies. Typically, these family-led firms look back on a long tradition and rely on personal experiences. Socio-political developments that have influence over the firm, e.g. the growing importance of NGOs, the prevailing public environment discourse, or new EU legislation, are generally regarded with suspicion.

Conclusion : Benefits and limitations of networks

- 56 The case study has shown that societal stakeholders are able to influence the company's global sourcing strategies. To overcome stakeholder-related risks, it is of vital importance for enterprises to develop adequate strategies to deal with market as well as with non-market actors. Yet, given the perceived relevance of stakeholder demands, the intensity of network relations with political and social stakeholders and along the supply chain is surprisingly low. SMEs often lack the capacity or are not willing to intensify cooperation. Moreover, the case study reveals the ambiguity of networks, as adverse effects are often exceeding benefits. Table 1 summarizes the benefits and limitations of using networks for risk reduction.

Table 1. Benefits and limitations of using networks to risk-reduction.

	Network functions	Benefits	Limitations
Socio-political stakeholder network	Development of shared views Flows of information	Tackling stakeholder risks by cooperating with socio-political stakeholders	Limited resources No direct access to stakeholders Critical attitude of SMEs
Supply chain network	Support Personal ties Flows of information	Tackling sources of stakeholder demands by influencing production process	Limited resources Cross-cultural differences Risks of interdependence
Intra-sectoral network	Pooling of resources Flows of information	Overcoming limitations of stakeholder and supply chain networks by cooperating within the sector	Free-rider behaviour Business mentality

- 57 Existing literature on stakeholder management and CSR is focusing on the necessity of stakeholder dialogues and the coordination of the supply chain. However, it was shown that both aspects exceed the capacities of SMEs involved in shrimp trade. Cooperation within the sectoral network proves to be the only way to overcome the weaknesses of small companies. By sharing information and knowledge rather than narrowly focussing on their individual businesses, SMEs could effectively benefit from intra-sectoral cooperation and enhance their chances to respond to stakeholder demands. Only by pooling their resources, SMEs can compensate their limited potential to interact with stakeholders and to coordinate the supply chain.
- 58 The sectoral cooperation enables them to exchange information and views with socio-political stakeholders and thus build relations with the “risk creators”. Doing this, SMEs would eventually be able to increase the density of their stakeholder network and their own centrality within it, and would thus reduce the distance to their relevant stakeholders. SMEs could use these network structures to access relevant stakeholders, particularly political decision makers or demanding NGOs with urgent claims. This would allow small firms to participate in political processes, to realize stakeholder dialogues and to influence the critical societal discourse on shrimp production.
- 59 Moreover, the sectoral network can help tackle some of the constraints of supply chain management. For SMEs, Fichter and Sydow’s (2002) claim that network relations enhance the chances to implement standards within the supply chain is only valid if they act cooperatively. In this case SMEs could develop certification programmes or at least share the business experiences they have with their supplier, which can help the firm overcome the insecurity in dealing with foreign companies. The potential of network relations with suppliers depends on how SME managers deal with cultural differences. Thus, the development of cross-cultural competencies is a necessary precondition for an effective cooperation with suppliers.
- 60 This paper attempted to show that stakeholder analysis and network theory can provide useful instruments to reveal how international business is embedded in a socio-political context. The study of global production networks can be enriched by analyzing the interaction between enterprises and their stakeholders. The stakeholder approach can particularly contribute to the recent geographical research on social demands and corporate responsibility (e.g. Hughes, 2001; Hughes *et al.*, 2007; Freidberg, 2003). While existing geographical literature focuses on large transnational companies and retailers, it is time to complement this line of research by drawing attention to the global sourcing activities of SMEs.

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NOTES

1. The European Union defines SMEs as having fewer employees than 250 and an annual turnover of less than 50 million Euros or an annual balance-sheet of less than 27 million Euros (Official Journal L 107 of 30.04.1996).
2. The empirical data has been collected as part of a current project under the Bavarian research network forttrans.

ABSTRACTS

The increasing internationalisation of business relations causes a multitude of risks for small and medium-sized enterprises. To reduce risks and uncertainties, it is of vital importance for these

companies to build up and maintain network relations. In doing so, close and trust-based cooperation with suppliers, competitors or socio-political stakeholders can be established. However, the network effects are ambiguous: Typical network characteristics, such as mutual dependency, can easily turn out to be disadvantages and cause new risks. Drawing on stakeholder and network theory, this paper will take a closer look at how networks entail particular risks and determine the possibilities of corporate risk management. This will be illustrated with a case study of an environmentally sensitive value chain. The example of trade in shrimps between Bangladesh and Germany shows that shifting environmentally damaging production to developing or emerging countries does not protect European enterprises from environment-related risks.

L'internationalisation croissante des relations commerciales entraîne une multitude de risques pour les PME. Afin de réduire les risques et les incertitudes, il est vital pour ces dernières de mettre en place et d'entretenir des relations en réseau. Ce faisant, elles peuvent établir une coopération étroite et de confiance avec leurs fournisseurs, leurs concurrents ou d'autres acteurs socio-politiques. Cependant, les effets de réseau sont ambigus : les caractéristiques du réseau, comme la dépendance mutuelle, peuvent aisément s'avérer être des inconvénients et engendrer de nouveaux risques. Partant de la théorie de l'acteur-réseau, cet article examine comment les réseaux entraînent des risques particuliers et déterminent les possibilités de gestion des risques des entreprises. Ceci sera illustré à l'aide d'une étude de cas consacrée à une filière environnementale sensible. L'exemple du commerce de la crevette entre le Bangladesh et l'Allemagne montre que le fait de déplacer une production nuisible à l'environnement vers des pays en développement ou émergents ne protège pas les entreprises européennes des risques environnementaux.

INDEX

Mots-clés: réseaux commerciaux, gestion des acteurs, PME, responsabilité sociale de l'entreprise

Keywords: business networks, stakeholder management, small and medium-sized enterprises, Corporate social responsibility

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