

ESG Governance in Operations: Linking Ethical Procurement with Sustainable Performance from an operations Management Perspective

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Abstract:

Environmental, Social, and Governance (ESG) factors are becoming an increasing part of organizational strategy; but the area of governance on the operational level is under-researched. Procurement is an essential organizational process, and it is one of the main processes according to which ESG governance could be implemented into actual sustainability results. This theoretical article explores the influence of ESG governance systems on ethical procurement practices and its impacts on the environmental, social, and economic performance. This research makes a contribution to the field of operations management by defining ESG governance as operational infrastructure that turns sustainability promises into procurement and supply chain performance outcomes. Specifically, the study emphasizes the ways in which ESG-linked mechanisms of good governance affect the patterns of operational decisions in procurement and supplier management and eventually influence the performance of the production and supply system. By conceptualizing ethical procurement as an operational capability rather than an activity focused on compliance, the framework provides important insights to guide the design and management of sustainable production systems. Moreover, the proposed model offers a basis for future empirical research in the area of operation and production management.

Keywords: ESG Governance, Supply Chain Governance, Operations Management, Procurement Decision-making, Ethical Procurement, Sustainable Operations & Performance.

1. Introduction:-

Organizations have moved beyond viewing sustainability as a secondary or peripheral issue to treating it as part of their overall strategic directions (Eccles, Ioannou, & Serafeim, 2014). As we become increasingly aware of climate change (both its effects and potential impact) as well as social inequities, inhumane working conditions, and unethical corporate conduct, we are placing greater demands on organizations to abide by higher standards from regulators, customers, shareholders, and society overall (Freeman, 1984; Aguilera, et al., 2008). Organizations across various sectors are therefore using ESG frameworks as a guide to good responsible business practice.

ESG has become progressively more important, but the research primarily focuses on social and environmental issues, with governance being treated as supportive (OECD, 2015) & (Adams, Hermalin, & Weisbach, 2010). On the contrary, Governance is

the key integrating function as Governance includes how Sustainability Goals will be integrated into the overall design and operation of an organization. As a result, without effective governance, ESG proposals can have no purpose and no coherence.

Procurement plays a key role in operations as it makes the decisions which will not only influence who will be awarded contracts but also how much is spent, how resources are used, and what the ethical standards will be for those supplying the goods and services, etc (Carter & Rogers, A framework of sustainable supply chain management, 2008) & (Seuring & Müller, 2008). If an organization has an ethical failure in procurement, it can lead to the organization having a bad reputation, being penalized by the government, and causing disruptions to the organization's operations. On the other hand, if an organization practices ethics in its procurement, it can benefit from improved sustainable outcomes, enhanced trust from

stakeholders, and increased resilience in the organization over time.

Ethical procurement is defined as the use of a systematic process to incorporate ethical, social and environmental issues into procurement decisions and is considered a direct application of ESG governance in operations. Even though ethical procurement is linked to the achievement of Sustainable Performance, the connections between ESG governance, ethical procurement and Sustainable Performance are not well theorized. This paper fills this void by providing a conceptual framework for how ESG governance supports Ethical Procurement and how Ethical Procurement supports Sustainable Performance.

There has been limited research on the impact of ESG governance structures on operational sustainability performance outcomes in relation to procurement practices. Current research is often conducted in isolation in relation to governance, procurement, or sustainability performance, rather than their interrelationship. This is an area that has been left open, and this research will fill this gap.

In contrast to previous research that focused on governance, procurement, or sustainability outcomes, this research conceptualizes ESG governance as an operational mechanism that impacts procurement and sustainable performance. By framing procurement as an operational capability, this paper makes a contribution to operations management theory.

From an operational and production research perspective, this study can be considered relevant, given that it, on one hand, seeks to expound on how a particular governance construct translates into operational processes and decision mechanisms, especially within the context of operations and production research, thus providing an impetus for its relevance to IJPR's audience who seek knowledge on production planning, operationalization of sustainability, and supply chain networks, among others, as an internal operational construct rather than being used within an external construct, which might include compliance and reporting mechanisms, such as those within ESG standards.

2. Review of Literature:-

2.1 Sustainability Performance Measurement and Management Systems:-

To achieve a sustainable strategy, the sustainability performance of an organisation should also be managed effectively. This can be accomplished through the implementation of performance measurement and assessment systems for sustainability performance (as well as through management of sustainability performance). Measuring economic, environmental, and social performance helps organizations identify improvement opportunities (Beske-Janssen, 2015) & (Farchi, 2021)

2.2 Conceptual Perspectives and Dimensions of Sustainability:-

Sustainability is considered to be a complex concept that has multiple dimensions, including environmental, social, and economic responsibilities (Bappy, 2019).

2.3 Evolution of Sustainability in Organisational Contexts:-

Sustainability has transformed into a more social issue into strategic business agenda, which affect organizational and supply chain decisions (Bappy, 2019)

2.4 Triple Bottom Line Approach to Sustainability:-

The triple bottom line model incorporates environmental, social, and economic performance to the decision making of the organization (Elkington, 1997).

2.5 Multidimensional Nature of Sustainability:-

Sustainability views explore the theme of balancing between economic success and environmental protection and social responsibility (Dyllick & Hockerts, 2002).

2.6 Key Elements of Sustainability: People, Planet, and Economic Interests:-

Sustainability is always positioned through literature in terms of people, planet, and the long-run economic interests (Asif, 2011) & (Seuring S. G., 2019)

2.7 Sustainability and Long-Term Organisational Value:-

Companies that incorporate the aspects of sustainability in their operations are likely to create a greater long-term value than companies that concentrate on short-term financial performance (Bappy, 2019) & (Eccles R. G., 2014)& (Porter & Kramer, 2011).

While sustainability performance and supply chain sustainability are emphasized in the existing literature, there is a lack of research that combines governance mechanisms with procurement decisions to explain operational sustainability performance. This paper fills this research gap by conceptualizing ESG governance as an operational enabler of ethical procurement and sustainable performance.

2.8 Positioning of this study relative to existing literature:

Prior research, along with other reviews, has explored ESG, ethical sourcing, and sustainable supply chain performance, which have been considered relatively separate or loosely connected various domains. Most reviews have found research on sustainability, governance, and sourcing, which have been considered in isolation without clarifying the process by which governance impacts are actually embedded in the decision-making process. This study differs by integrating ESG, ethical sourcing, and sustainable performance into an operational framework. By developing the role of procurement as an operational mediating factor, this paper proposes an operational process by which sustainability, driven by governance, impacts production and the performance of the supply systems.

3. Conceptual Foundations of ESG Governance

3.1 ESG Governance in Organizations

ESG governance can be referred to as the organizational framework that guarantees responsible, transparent and accountable decisions on sustainability (OECD, 2015) & (Aguilera, 2008). These governance systems entail commitment and support of ethics by the leadership, systems risk

management, internal control and stakeholder engagement systems.

The governance of ESG is the backbone that aligns environmental and social initiatives with operational execution and corporate strategy.

At the operational level, ESG governance shapes the ways in which decisions are framed, overseen, and appraised at each operational step within procurement and supply chain systems. It explicitly concerns the decision rights, performance measures, risk controls, and accountability mechanisms to decide on sourcing, selection of suppliers, and contract management. Through these mechanisms, governance becomes embedded in routine operational processes rather than remaining at a symbolic or policy level.

The manner in which the endeavors of sustainability are institutionalized in procurement and supplier management is regulated by ESG governance. Of these operational areas, procurement management is especially critical, as the governance structures have a direct impact on the integration of ethical considerations in sourcing decisions. This connection establishes a direct relationship between the regular operational decision-making process and sustainability as a corporate priority. Top management is given the opportunity to completely integrate sustainability into the company's continual business continuity plan by building strong ties with and exercising influence over daily operations.

3.2 Theoretical Perspectives on ESG Governance

This study incorporates three different theoretical frameworks.

Stakeholder Theory determines that the governance should take into account the supplier and stakeholder expectations in the supply chains (Freeman R. E., 1984). In other words, ethical procurement includes the way an organization's governance should consider the needs of these people (stakeholders) and all entities involved in the supply chain and further from the organization.

Institutional Theory identifies the external forces (regulations, industry standards/codes, and societal expectations) that drive how an organization behaves (DiMaggio & Powell, 1983). Therefore,

ethical procurement was developed in response to institutional pressures arising from, for example, sustainability reporting requirements, labour standards, and ESG rating standards.

According to Agency Theory, managers are the ones who should be and actually are held accountable for their actions leading to a behaviour that is in line with the objectives of the organization (Jensen & Meckling, 1976). Hence, the incorporation of ethics in procurement is through governance mechanisms that include audits, control systems, and accountability frameworks, which, on the one hand, reduce the risk of opportunism and, on the other hand, increase the likelihood of ethical compliance.

These mechanisms have a direct impact on the workings of the operations in terms of how the procurement professional seeks to evaluate the suppliers. Governance theories, in this regard, offer a foundation for understanding ethical procurement as an operational activity that directly influences production and supply performance.

4. Ethical Sourcing in Operations

4.1 Concept and Scope of Ethical Procurement

In operations management, ethical procurement is the implementation of a systematic approach to procurement management that incorporates ESG governance principles in supplier selection, sourcing, and purchasing.

Ethical procurement incorporates analytical dimensions into the process of procurement/supplier management, i.e., utilising ethical/social/environmental components. Traditional procurement models have focused on the cost, quality and delivery of goods/services (i.e., price, amount, and schedule of shipment). Ethical procurement employs this same focus of evaluating suppliers but broadens the assessment to also take the social/environmental impact of sourcing decisions into account (Carter & Jennings, The role of purchasing in corporate social responsibility, 2004) & (Yusuf, 2014)

Increasingly, Ethical Procurement is regarded as part of a company's strategic capability versus simply something that they are required to comply with. Using ethical procurement practices enables

organizations to change supplier actions/behaviours, manage potential risks associated with sustainable business practices, and support the alignment of their operations in accordance with their ESG (Environment, Social, Governance) objectives (Carter & Jennings, The role of purchasing in corporate social responsibility, 2004) & (Yusuf, 2014).

4.2 Dimensions of Ethical Procurement

Various ethical-procurement factors, which are interconnected, are involved in ethical-procurement practices, including a code of conduct for the supplier, the practice of responsible sourcing, and the practice of (Seuring & Müller, 2008) & (Klassen & Vereecke, 2012):

- Supplier Codes of Conducts: Formal declaration that outline the basic requirements for labor rights.
- Responsible Supplier Sourcing: When selecting suppliers, criteria of ESG are taken into account and contractually agreed upon.
- Supplier Monitoring and Auditing: Continuous verification of the supplier's fulfilment of predefined standards based on audit, certification and self-reporting.
- The possibility of tracking the complete supply chain is through the economic, social and environmental perspectives.
- To achieve true long-term improvements in sustainable performance, a corporation must build collaborative relationships with its suppliers, not merely meet a pre-established set of requirements for compliance.

From the point of view of operations management, these dimensions relate to the effectiveness of cost efficiency, assurance of delivery, risk exposure, and supply chain resilience. In fact, ethical and ESG considerations within the processes of supplier selection and monitoring are this far-reaching in their impact: reducing operational disruptions while enhancing transparency across production systems and long-term sourcing stability.

5. Sustainable Performance in an ESG Context

Sustainable performance is a process of integration between environmental, social, and economic performance in order to guarantee long term

sustainability as an organisation (Carter & Rogers, A framework of sustainable supply chain management, 2008) & (Schaltegger & Wagner, 2017). Environmental performance relates to cuts in emissions, waste and resource usage. Social performance includes issues like the provision of proper working conditions, the just treatment of the workforce, and the contentment of stakeholders. Economic performance is all about the company's regular making of profit, sustainability of operations, and adjusted returns concerning risk. Operations management-based sustainable performance is the company's capacity to practically and economically offer value while eliminating adverse externalities and aiding the community.

6. Linking ESG Governance and Ethical Procurement

6.1 Governance as a Facilitating Factor of Ethical Procurement

Good governance of ESG is a major element that can facilitate the building of the necessary institutional framework which will be inevitably needed for the effective execution of ethical procurement practices. Board governance ensures that leadership is committed to the ethical sourcing at its core, thus conveying the strategic planning and importance of ethical procurement (Aguilera, 2008) & (Adams, Hermalin, & Weisbach, 2010).

Governance structures such as risk management and performance mechanisms make it possible to implement ethical procurement in operations. These mechanisms help embed ethical procurement in daily operations. These governance practices are implemented mainly via procurement management systems, where policies, audits, and accountability frameworks influence ethical supplier practices. Without adequate governing support in place, ethical procurement efforts could well remain isolated, passive or, at best, symbolic rather than being thoroughly integrated into the company's overall operations on a daily basis.

6.2 Ethical Procurement as a Driver of Sustainable Performance

The use of ethical procurement as a means towards achieving good overall performance, is accomplished through considering social, ethical,

and environmental factors, while making procurement decisions. As a result, through making ethical decisions related to sourcing, we can achieve improved overall performance. This reduces the likelihood of human rights violations occurring, environmentally harmful operations and reputation damaging products resulting from unethical suppliers will result in increased efficiency and innovation through better use of and reduced waste from supplies and products. Furthermore, through the use of responsible sourcing principles, ethical suppliers increase supply chain effectiveness via greater levels of transparency, accountability and cooperation resulting in greater resilience within their respective supply chains. Furthermore, through ethical procurement, social value is created by supporting fair labor practices and providing improved working environments. In addition, ethical procurement increases the level of trust developed by businesses with their stakeholders, namely, suppliers, employees and local communities. Finally, businesses engaging in ethical procurement have long term stable finances as there is less chance for supply chain disruption and other business risks and they improve competitive positioning within markets. It also allows companies to become more resilient against external risks and attract ESG-sensitive investment. As a result, ethical procurement provides a potent working mechanism with the help of which sustainability-oriented governance efforts are converted into better environmental, social, and economic performance outputs (Yusuf et al., 2014; Carter and Rogers, 2008; Porter and Kramer, 2011).

7. Conceptual Framework

The conceptual model presented in Figure 1 here lays out the relationship between ESG governance in operations and sustainable performance via the intervention of ethical procurement (Whetten, 1989)

At the first level, ESG governance mechanisms such as board supervision, top management's commitment, corporate ethical policies, the risk management system, and structures for accountability are ways to create an institutional environment that influences procurement decision-making. These mechanisms are the basis for priorities and behaviors in the organization, hence,

procurement professionals are guided in the integration of sustainability into their sourcing activities.

At the application level, ethical procurement serves as governance, induced practice allowing the implementation of ESG principles within the supply chains. Ethical procurement involves the responsible selection of suppliers, codes of conduct for suppliers, systems of monitoring and auditing, mechanisms of transparency, and initiatives of collaborative supplier development. As such, it is a mediating mechanism that translates the governance ideas into operational activities.

At the final level, sustainable performance is recognized as a multidimensional construct made up of environmental, social, and economic performance. Ethical procurement plays a role in the environmental dimension by advocating for sustainable sourcing and efficient use of resources; in the social dimension by raising labor standards and ethical norms; in the economic dimension by facilitating risk management, operational resilience, and creating long-term value.

Moreover, the framework embraces the idea of feedback through which the sustainable performance improvements lead to the reinforcement of ESG governance via increased stakeholder trust, organizational legitimacy, and continuous investment in ethical procurement.

The framework also recognizes ESG governance as a dynamic process evolving with organizational learning. The more they become familiar with handling ethical companies, monitoring their sustainability, etc., the more their purchasing decisions become embedded in organizational routines.

This rationalization of the conduct of procurement processes leads to a more consistent and reasoned implementation of ESG processes within the supply chain, which in turn internalises a lower likelihood of symbolic adoption and greenwash.

Thus, not only is ethical procurement used as a medium of acquisition of knowledge, it also represents a process of development aimed at advancing the level of good governance structures and sustainability to a higher level of understanding and agreement.

The proposed framework is particularly suited to empirical testing in the context of research into Production and Operations. Future studies may operationalize the constructs using survey-based measures, longitudinal case studies, or multi-tier supply chain data and test how mechanisms of governance influence procurement practices and sustainable performance over time.

Based on the theoretical integration and operational arguments discussed above, the following propositions are proposed:

Proposition (P1)- The role of ESG Governance promotes Ethical Procurement in Procurement Management.

Proposition (P2)- The positive impact of Ethical Procurement practices on Sustainable Performance in Environmental, Social and Economic dimensions.

Proposition (P3)- Ethical Procurement practice mediates the relationship between ESG Governance Mechanisms and Performance of Sustainable Operations.

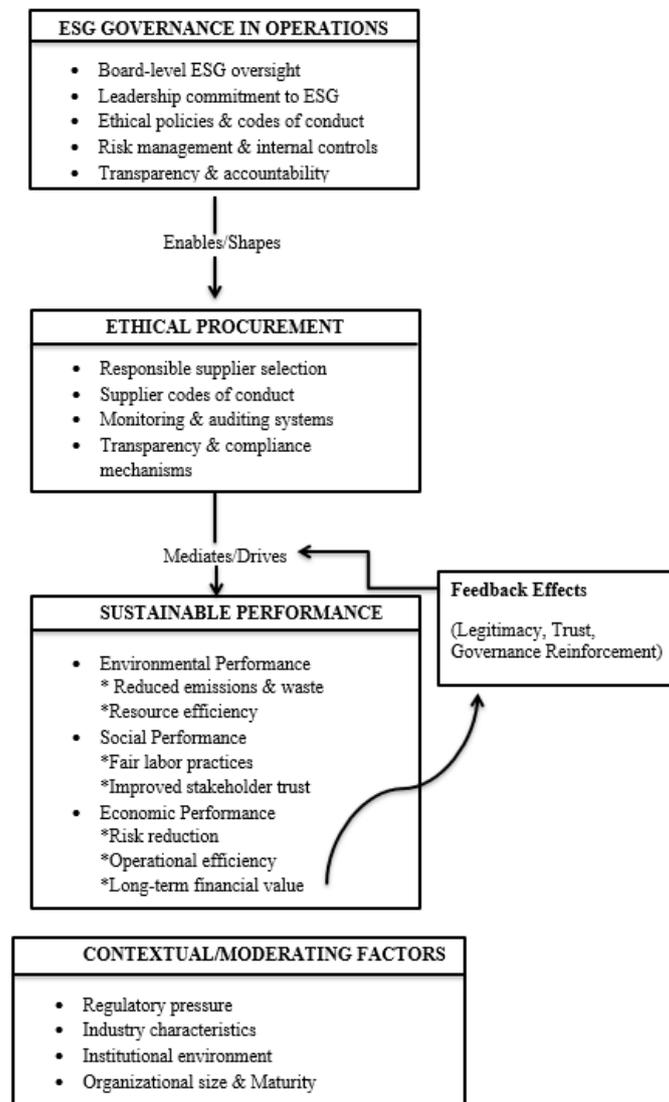


Figure 1. Conceptual framework linking ESG governance, ethical procurement, and sustainable performance

Based on this rationale, the framework explains how decisions related to corporate governance translate into sustainability practices across supply networks through procurement functions.

8. Discussion

The research discusses the operationalization of ESG governance through procurement decisions, placing governance in the operational driver seat rather than the compliance seat. Through the emphasis of ethical procurement as a bridge between the strategic commitments to ESG, and the daily operations of the organization, ethical procurement is highlighted as a critical pathway to help

organizations achieve meaningful and measurable sustainability outcomes.

8.1 Implications for Production and Operations Research:

With respect to production and operations research, this research underlines the significance of perceiving ESG governance not as an external constraint but rather an internal system-level mechanism invariably affecting operational behavior. This framework prompts researchers to analyze the role of governance structures in production planning, supplier coordination, and operational risk management, thus taking

sustainability analysis to the core of operations management theories.

9. Implications

9.1 *Theoretical Implications*

The present study makes a contribution to the literature on ESG and Operations Management through a clear conceptualisation of Governance as an Operational Enabler for Sustainability, i.e. Governance Theory integrated with Ethical Procurement Theory and Sustained Corporate Performance producing a Process-Based View moving from viewing the outcomes of an ESG initiative to understanding the process that creates the outcome of that ESG initiative.

9.2 *Managerial Implications*

Instead of viewing Ethical Procurement as a cost burden on their organisations, Managers need to recognise Ethical Procurement as a strategic governance Capability embedded in a governance system. The inclusion of Ethical Procurement into a governance system allows for better Risk Management, increased Innovation and improved long-term performance. Managers must invest in the proper Evaluation and Training of Suppliers based on ESG and Digital Transparency Tools. The procurement managers, especially, are relevant in operationalizing the ESG governance in that they can incorporate the issue of ethics in purchasing decisions, supplier contracts and continued assessment of supplier performance.

In practice, companies can integrate ESG governance into procurement processes by adding it to the supplier assessment ratings, adding to contracts and sourcing clauses, and enforcing supplier development programs that stimulate ethically responsible and green sourcing across value chains.

9.3 *Policy and Regulatory Implications*

Legislation and regulations main themes should be governance and sustainability. There is an increasing responsibility on regulators, and those setting standards, to keep the procurement standards and supplier transparency as core elements, even when they face challenges. Procurement policies in the public sector are quite instrumental in

inculcating the environment, social, and governance (ESG) aspects across the sectors.

9.4 *Implications for Future Research Design*

There have been additional research studies conducted involving mediation effects, contextual moderation, and changes to variables over time due to this framework. ESG governance in operations can be deeply understood and its mechanisms revealed through comparative and cross, industry research.

Potential time series data, such as cross-industry surveys, suppliers' performance databases or longitudinal cases are advised to empirically test the proposed framework to understand how ESG governance impacts SC sustainability outcomes over different periods.

10. Conclusion

This study conceptualizes ESG governance as operational infrastructure that enables ethical procurement and sustainable performance, illustrating that sustainability results are achieved through governance-driven operational practices.

Rather than being treated as a mere compliance, or risk, control activity, ethical procurement is elevated to a strategic governance tool. The paper argues that sustainable performance does not result from the ESG adoption per se, but rather through the governance, facilitated operational practices which bring the organizational values and supply chain behaviors into alignment.

It argues that ESG governance is a vibrant, evolving, and integrating mechanism that goes far beyond the mere compliance to the policies and includes leadership commitment, accountability, and supplier engagement. Through what it is actually doing at the practical level, that is, responsible sourcing, ethical procurement not only is a big contributor to the firm's level of performance but also plays a part in the realization of the societal and environmental objectives at the global level. Regarding the role of procurement management, the study indicates that ethical procurement is an operational capability that is facilitated by governance systems and not a compliance requirement.

The research provides an evidence base for broader compliance and performance labels, and continues to question the impact of governance-led purchasing systems that embed sustainability into everyday procurements rather than just rely on voluntary supplier programs.

Furthermore, from the perspective of the operation, the article further emphasizes that it is not the adoption of ESG that leads to better sustainability performance, but rather how ESG is integrated into the overall procurement and relevant decision processes towards the achievement of sustainability. The article, therefore, provides further insights into the operational process towards the achievement of sustainability performance objectives.

In conclusion, the study, through its argument of ESG governance as a comprehensive integrative mechanism, provides a solid conceptual groundwork for the future research. It is very important to figure out the governance mechanisms that bring about real sustainability outcomes as the ESG requirements change. Hence, this paper is a significant contribution both to the literature and practitioners in that it has developed a governance, focused lens of ethical procurement in operations.

Declaration:-

The authors declare that artificial intelligence tools were used for language editing and clarity enhancement. The intellectual content, conceptual framework, analysis, interpretations, and conclusions of the manuscript are entirely the authors' own. The use of AI tools did not influence the originality, academic integrity, or scholarly contribution of the work.

All authors declare that they have no conflicts of interest.

Data Availability Statement:-

Data sharing is not applicable to this article as no datasets were generated or analysed during the current study.

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The authors declare that they have no known competing financial or personal interests that could have appeared to influence the work reported in this paper.

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