The Socially Responsible Supply Chain:

By Andreas Wieland and Robert Handfield

Andreas Wieland, Dr. rer. oec., heads the Kühne Foundation Center for International Logistics Networks, Technische Universität Berlin. He can be reached at andreas.wieland@tu-berlin.de. Robert Handfield, Ph.D., is the Bank of America University distinguished professor of supply chain management and co-director of the Supply Chain Resource Cooperative at the Poole College of Management, North Carolina State University. He can be reached at rbhandfi@ncsu.edu.

On April 24, 2013, the deadliest garment factory incident in history occurred when the Rana Plaza manufacturing plant collapsed in Savar, Bangladesh, near the capital city of Dhaka, killing more than 1,120 people. This incident occurred just five months after another fire at a garment plant in Dhaka killed more than 100 people. That facility was operated by Tazreen Fashions Ltd. and produced sweater jackets for C&A, shorts for Walmart, and lingerie for Sears.

Had these incidents not occurred (See Table 1), these enterprises would be considered textbook cases for highly efficient global supply chains. In today’s market, supply chains compete against supply chains, global brands concentrate on their core competency (marketing activities) and suppliers in Bangladesh offer high flexibility and cheap labor costs. This has allowed global brands to create extremely responsive supply chains and bring lower priced apparel to store shelves. Further, the time to design and delivery of new garments to the market has been reduced from more than one year to just a few weeks.

More efficient processes, cheaper products, and happier consumers appear to be a winning combination. Yet something is wrong with this picture. As these cases demonstrate, best practice supply chain thinking seems to have overlooked the social aspects of running a global supply chain. Disasters such as these put companies at risk of damaging their reputations and tarnishing their brands. The recent incidents, for instance, led to rallies and protests against Walmart, Gap, Loblaw, and other retailers that are purchasing from these sources.

What measures can retailers take to address the issue of unsafe working conditions and other social concerns in their supply chain?

There are no simple answers to this question. However, the loss of life in apparel factories in Bangladesh has highlighted the need...
Recent press reports about unsafe work conditions and the loss of life in apparel factories in Bangladesh have highlighted the need for greater oversight over sourcing in low cost countries. That is especially so for companies with a commitment to corporate social responsibility, or CSR. However, many Western enterprises are unsure how to manage a socially responsible supply chain and provide an umbrella for their brands in regions where regulatory standards are lax and monitoring suppliers is difficult.

An Imperative for Global Corporations
Responsibility

for greater oversight over sourcing in low cost countries. That is especially so for companies with a commitment to corporate social responsibility, or CSR.

The most obvious way to create social responsibility might be to simply avoid sourcing markets with low social standards. For example, garment manufacturer Trigema promises “100% Made in Germany.” Its goods are manufactured in a high-tech country with high labor costs and social standards that are much higher than in many countries traditionally used by apparel retailers as sourcing markets. Trigema’s strategy seems to pay out: Its owner is praised in Germany as the classic example of a socially responsible entrepreneur.

However, cutting off imports could hinder the improvement of living standards in developing countries. Some studies have shown that wages and working conditions in sweatshops are superior to the workers’ prior employment wages. Moreover, as any buying agent with experience in developing countries knows, the unsafe working conditions and problems with capacity and subcontracting present in Bangladesh also prevail in other parts of Asia, including Myanmar, Pakistan, China, Indonesia, or India. Sanjiv Pandita, executive director of the Asia Monitor Resource Center, has called it “the ugliest race to the bottom, because the financial crisis in the United States and Europe means that people are scared of buying expensive things.”

A New Approach to Supply Chain Thinking
Clearly, a more balanced approach to supply chain thinking is required. This is an approach that considers not only labor cost, but a concept known as CSR, which encompasses “the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” Supply chain executives often shy away from this definition of CSR, feeling it is too “squishy” and difficult to measure—putting it squarely in the realm of being unimportant in their minds. But as we’ve seen, executives can no longer afford to relegate CSR to the realm of happy smiling faces and pictures of green forests on their corporate website. Instead, a socially responsible supply chain strategy needs to be established by any organization doing business in these areas of the world. This requires new targets and a different view on governance.

Integrating CSR into a supply chain strategy is not easy. Because of the singular emphasis on cost efficiency and supply assurance as the basis for supply chain strategy, other targets focusing on social aspects have often been ignored. This is made even more challenging by the apparent fact that most customers shop based on price and are unwilling to pay more for products produced in a socially responsible manner. Using this rubric, sourcing from regions with the lowest possible labor costs—often amounting to less than 50 dollars a month for workers—has been the most important criterion for Western retailers when selecting suppliers. Social responsibility not only competes with cost efficiency, but also with other targets such as customer requirements and flexibility. Introducing CSR into this decision-making framework is going to require a new mindset and a commitment to change.

Still, social responsibility must become a fundamental part of a company’s vision, rather than just a concept or an aspiration. This has a number of implications.
• First, social responsibility has to become a daily practice and reflect the company’s values, voices, standards, and functional strategies.
• Second, it must be communicated externally, with defined targets to measure current progress.
• Third, CSR can be integrated into incentive systems, including bonuses, salary, and stock options.
• Fourth, as part of the “plan” element of the SCOR framework, companies can seek to make social responsibility a core part of supply chain strategy. This enables them to drive social responsibility as an integrated business strategy across multiple tiers in the supply chain.

Three core principles are essential for successfully managing the extended global supply chain and ensuring socially responsible business practices, according to executives that have dealt with these issues: 1) a foundation of reliable and unbiased supplier/product audits; 2) visibility into supply chain events supported by mobile technology; and 3) collaboration with the community, companies in the same industry, and local universities to drive education and change in the ecosystem.

<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>Place</th>
<th>Cause</th>
<th>Casualties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911</td>
<td>Triangle Shirtwaist Company</td>
<td>New York City, U.S.</td>
<td>fire</td>
<td>146</td>
</tr>
<tr>
<td>2012</td>
<td>Ali Enterprises</td>
<td>Karachi, Pakistan</td>
<td>fire</td>
<td>289</td>
</tr>
<tr>
<td>2012</td>
<td>Tazreen Fashions</td>
<td>Dhaka, Bangladesh</td>
<td>fire</td>
<td>112</td>
</tr>
<tr>
<td>2013</td>
<td>Rana Plaza</td>
<td>Savar, Bangladesh</td>
<td>collapse</td>
<td>1,129</td>
</tr>
</tbody>
</table>
discuss them in detail below.

1. Audit Suppliers Across Multiple Tiers

A program to audit suppliers and products across multiple tiers of the supply chain is an important first step. That process begins with a supplier code of conduct, which provides a baseline for evaluating a supplier’s basic labor and human rights policies. It should cover the majority of the eight core International Labor Organization conditions. Based on a supplier code of conduct policy, audits should target tier one suppliers to ensure compliance with the code shown here; using a scorecard can help to quantify supplier performance on social impacts. Metrics about safety standards, discrimination, labor conditions, child labor, and wages can be made a part of every assessment of every supplier, as well as every business case; countermeasures to react to unacceptable values of these metrics can also be implemented.

A supplier assessment should, of course, not be a unique event. Rather, suppliers should be evaluated on a regular basis and be required to report values for the metrics on a daily, monthly, or yearly basis—depending on their relevance to the supply chain. Standards like SA8000 and ISO 26000 can help to find a common understanding between buyers and suppliers regarding acceptable behavior and policy, and suppliers should be required to adopt these standards. These may vary considerably from what are considered “industry standards” in the context of that industry, but if suppliers are unwilling to do so they should simply not be selected as business partners.

Suppliers can also be supported to qualify at some point in the future, for example, by providing a handbook to enable suppliers to improve their human resource policies and guidelines. It has to be made clear to suppliers that they can only benefit if they comply with the rules set by the company. Those suppliers who are willing to comply would then benefit from increased order volumes; it should be made clear to these suppliers that additional orders were placed only because they complied with the rules. That is, auditing of tier one suppliers can be ensured by contractual mechanisms with incentives to comply with aligned values. However, contracts should not be misused to shift the blame on suppliers.

Include Tier Two Suppliers in the Audit Process

What happens if tier one suppliers decide to subcontract their work to other factories that are not on retailers’ radars? Our discussions with executives in the apparel industry reveal that tier one suppliers are often unlikely to audit their subcontract suppliers unless forced to do so by the buyer as part of the original agreement. Assessments of the April 2013 catastrophe in Bangladesh suggest that some Western retailers did not even know that their suppliers had subcontracted to the collapsed factory. In contrast, retailers are often the final node in a nebulous and complicated network of relationships.

An appropriate framework for taking on social responsibility implies that the entire global supply chain, from end-to-end, is beholden to a single global code of conduct. This standard also applies to business ethics, and is increasingly being adopted as a “one standard” view of the world by many global FMCG and retail companies. By definition, adopting this standard directly implies that buying companies must go beyond direct relationships with tier one suppliers and establish governance mechanisms to ensure auditing of tier two, tier three, and even tier four suppliers further upstream in the supply chain. This is challenging, as the sphere of influence for many conventional outsourcing contracts with tier one suppliers often do not extend beyond their walls.

The most obvious mechanism is to require tier one suppliers to audit their suppliers and to provide data about the auditing process. However, hopes that auditing of the supplier’s suppliers will be fulfilled in a forthright manner are wishful thinking, especially in countries where such standards are viewed with skepticism. Another strategy is to avoid any subcontracting. We discovered that it is typical in the apparel industry for buyers to place massive orders on short notice with suppliers without ever having visited that facility. The buyers have no idea of their suppliers’ capacity limitations. In such circumstances, subcontracting is often the only viable option left to a major supplier that wishes to keep a customer happy.

To address this, better capacity management metrics are needed to understand supplier volume capacity.
Responsibility

The most obvious way to create social responsibility might be to simply avoid sourcing markets with low social standards. However, cutting off imports could hinder the improvement of living standards in developing countries.

thresholds and seasonal limitations that may exist. Buyers can also help suppliers manage their capacity fluctuations through collaborative planning and leveling production schedules. Suppliers should provide a monthly forecast of their capacity limitations to buyers to assist in planning. This may eliminate the need to subcontract altogether.

Audit your Products
Auditing suppliers is an important step. However, our research suggests that an entire organization may not be the appropriate unit of analysis for audits. Rather, product-level analyses are also important—depending on the materials, subcontractors, and fabrics used. Rather than auditing specific facilities, value streams for product lines can be audited that may cross multiple supplier facilities. For that reason, the conventional approach to audit suppliers by drafting a company supplier standard and then auditing for compliance using that document is rejected by Ramon Arratia, sustainability director at Interface, the world’s largest designer and maker of carpet tile and a winner of the International Green Awards 2012. “Positive and usually well-intentioned, the impact is inherently limited by the narrow scope of the dialogue and the teacher–student nature of the relationship,” Arratia says. He would argue that questions like: “Does your organization have a social responsibility policy in place?” are too bureaucratic: “This takes lots of time from both parts and adds little transformative value to the real impacts of the products,” he says. Instead, the ideal question for suppliers would be: “Send me the social/environmental product declaration of your product and your plan to radically improve it.” Consequently, companies need to move from corporate social responsibility to product social responsibility and this includes the supply chain of the product.

2. Create a Visible Supply Chain
We all know that visibility is important when it comes to tracking the progress of orders and the location of shipments. Supply chain visibility, within the enterprise and extended to suppliers and consumers, is also central to social responsibility.

One reason is that plants in areas like Bangladesh are typically not under the direct control of Western retailers. As a result, ensuring compliance through audits will not work if that is the only mechanism to ensure social responsibility. Another important facet is to enable direct visibility into your suppliers, particularly for those categories of supply that cannot be directly controlled. After the recent disasters in Bangladesh, several of the affected retailers confessed that they had no idea whether their products were produced in the affected plants. Based on this logic, they claimed that they could not possibly be held responsible. Given the existence of technologies that drive greater visibility into the supply chain, this is a condition that should no longer be used as an excuse.

Labor condition violations are most likely to happen in market regions that have poor infrastructure and are limited in their ability to invest in appropriate technology and systems that enable visibility. However, as part of the investment in their supply chains, retailers can help suppliers establish IT systems that render supply chain processes more transparent.

Although a conventional IT network may not be in place in emerging regions, mobile technologies are already prevalent in these markets. Those familiar devices can be coupled with software that is able to cope with “big data” combined with multiple data feed devices. Together, they can create tracking capability of products from raw materials to the final consumers. The development of these technologies is already underway, even as executives complain of the complexity of apparel supply chains. It is true that more parties are involved (including logistics services providers and subcontracting manufacturers in highly fragmented markets) and with more retail channels to be served (often at the same time). So an important step may be to drive more direct supply chain structures through integrated global network design. This might even lead to make rather than buy decisions. The good news: Companies will benefit from more visibility, as this helps to control processes and to avoid reputational risks related to social problems.

Make the Supply Chain Visible to Consumers
It is a widespread opinion that supply chains should be aligned to the needs of the final consumers. Yet, this rule
is often ignored: Even if they know their supply chains well, many apparel companies avoid disclosing the origin of their products to consumers—too often this is to avoid being associated with the poor social conditions found in these regions. This makes it difficult for consumers to make responsible buying decisions if the country of origin is not plainly stated. Fortunately, socially advanced companies are eager to reveal what they are doing. Not so fortunately, some firms are reporting compliance to social standards for marketing purposes only. And it should also be noted that there are many companies that have implemented social standards on a strategic level quite well, but do not care to establish transparency when it comes to actual compliance levels to these standards. This makes it even more difficult for consumers to distinguish between companies that are transparent (but have a poor record), versus those that appear to be socially responsible, but veil their actual performance through lack of transparency. Such companies, however, are the exception and not the rule.

This can be eliminated if companies make a decision to be as transparent as possible, and do so in a proactive manner before an incident happens. This may entail using product codes associated with specific supplier locations. This can also help raise awareness of the issue, and provide an incentive to suppliers that know that consumers will react negatively if the product is associated with a supplier that has a poor record.

Reactive reporting is not sufficient, but can be observed when companies rush to announce that their products were not made in the plant that just burned down or collapsed. What they do not tell is that they continue to source products from plants with equally poor conditions. Such announcements do not necessarily have any real value for final consumers. More helpful are labels. For instance, the well-known Fairtrade Mark, which is available on thousands of products worldwide, can help consumers to recognize that social standards were met. However, the nearly infinite number of labels can reduce visibility.

Use Smart Technologies to Encourage Visibility

Some companies have decided to disclose the locations of the supply chains of their products to consumers. However, there is little space for this information on traditional labels, especially if they are sewn on garments like t-shirts and if they need to be washable. They may then bear the logo of the certifying organization or highly condensed information about the social standards (e.g., using “traffic lights”), which might not easily be understood by consumers.

As the Bangladesh fires demonstrate, best practice supply chain thinking seems to have overlooked the social aspects of running a global supply chain. Disasters such as these put companies at risk of damaging their reputations and tarnishing their brands.

It is certainly impossible to put all important information about the product’s supply chain on such a label. (You could print the supplier network onto the t-shirt, at the risk of detracting from aesthetic appeal.) Companies could provide supply chain information on their website, but this requires customers to know about the service on the website. Online services like Rank a Brand make it easy for consumers to compare information about sustainability credentials of global companies.

An interesting solution was adopted by the Swiss clothing manufacturer Switcher. Each garment bears its individual Respect Code, a number sewn near the washing instructions into each product along with the Respect Code web address. This code can be used by the customer to find online information about the product’s supply chain, including social and ecological information of each plant. Using the code, consumers will learn that production of a certain jacket took place in Portugal, that the plant is ISO 14001 certified, and that the CO2 footprint is 7.6 kilograms. Consumers can also see when the plant was last audited.

A German service called barcoo is based on a smart phone application (www.barcoo.com/). Using this app and a smart phone camera, consumers are able to scan the bar codes of products already in a shop. The app will then download available product information and users are able to contribute own ratings.

3. Collaborate Across the Industry

Very few companies can successfully manage a socially responsible supply chain in low cost regions on their own. For that reason, collaboration is an important final
component. This can take a variety of forms, including collaboration with industry players, trading partners, and universities.

One way to collaborate with other companies from the same industry is to commit to joint standards. One such standard relates to fair trade. For example, the Fair Wear Foundation, a European non-profit organization aims at improving labor conditions and provides rules to be applied by its member companies. The foundation ensures that improvements are made by these companies. Members benefit from more than just a Fair Wear logo on their products, as the foundation aims at “sharing expertise, social dialogue, and strengthening industrial relations.” As we all know, the majority of all garments do not come from so-called “fair” companies, but rather from “traditional” producers. But even here, companies can collaborate with each other and labor organizations to develop joint standards. The Rana Plaza collapse led to a huge move, especially for European retailers. Since this incident, a large number of international garment companies have signed the Accord on Fire and Building Safety in Bangladesh, although some experts have warned that such agreements are just a drop in the ocean. Nevertheless, the signatories “agree to establish a fire and building safety program in Bangladesh for a period of five years.” An important component of this initiative is the mandate to pay for safety measures of their suppliers. Major European retailers, but only a very small number of U.S. retailers, have signed this agreement. Gap and Walmart, for example, have decided to adopt their own global standards instead and several other agreements already existed before the disaster.

Collaborate with Local Partners
The apparel industry can learn from best practices of other industries. One interesting example is Symrise, the world’s fourth largest supplier of flavorings, fragrances, and other ingredients, and the winner of the 2012 German Sustainability Award in the “Germany’s Most Sustainable Initiatives” category.

Symrise closely collaborates with more than 1,000 vanilla farmers in Madagascar. All processes along the supply chain take place locally, including cultivation, harvest, fermentation, and beans extraction. Most importantly, Symrise partners with NGOs, development organizations, and farmers’ associations to ensure that projects will be supported related to enhancing environmental protection, reducing income diversification, as well as improving nutrition, health, and education. For instance, Symrise covers a portion of the salaries of teachers and tuition fees at several primary schools. As Symrise CEO Heinz-Jürgen Bertram remarks: “For us, sustainability and business success go hand in hand. This kind of approach can only succeed if one thinks and plans for the long term. That is why our commitment in Madagascar will continue to grow.”

Not only does this approach ensure social responsibility, it is also a best practice example for supply chain management, as added value is created beyond corporate boundaries: Symrise has direct access to best quality raw materials. Apparel companies should also adopt a community-based approach, involving collaboration with NGOs, local industrial or labor organizations, and local partners. This will lead to an increase in social standards, improved supplier relationships, and will raise the playing field for the entire community, not just a single facility.

Collaborate with Universities
As a rule, supply chain managers are not experts in CSR. For the most part, the subject is not one of the topics taught in supply chain management courses. Instead, these courses are regularly concerned with fast fashion case examples and outsourcing. Such knowledge has certainly improved economic success, but now it is time to improve social success as well.

One solution: Companies should collaborate with universities to discuss social problems occurring in their supply chains and to develop solutions with the students. Students will benefit from real-life problems at the intersection of SCM and CSR, while companies will benefit from up-to date knowledge from both areas. For instance, the Supply Chain Resource Cooperative

For More Information
Portal for Responsible Supply Chain Management: www.csr-supplychain.org
Bureau Veritas Group: www.bureauveritas.com/wps/wcm/connect/bv_com/Group/Footer/Home
Fair Labor Association: www.fairlabor.org/
SGS: www.us.sgs.com/
Fair Factories Clearinghouse: www.fairfactories.org
Intertek: www.intertek.com
BSR: www.bsr.org
Chartered Institute of Purchasing & Supply: www.cips.org
(http://scm.ncsu.edu) at North Carolina State University offers an MBA class where students evaluate companies’ self-reported information and create a scale to measure the extent to which companies are adopting auditing, visibility, and collaboration within their global supply base. This is just one example of the types of programs being developed by academia to address these issues.

**Time for a Change**

For many years, companies have avoided the hard work of creating socially responsible supply chains. “It can’t be helped,” “we can’t change the world,” and “we have no control over subcontracted suppliers,” are just a few of the excuses used to shrug off the responsibility of sourcing from companies with fair and sustainable working conditions.

In light of the recent spate of incidents, these excuses are no longer palatable. Nor are they passing muster with consumers. We believe it is time that organizations look inwards and begin to become serious about socially responsible supply chain management. By focusing on increasing audits to ILO labor standards, establishing policies on subcontracting, creating greater visibility into high risk areas, raising consumer awareness, and partnering with local communities, companies can indeed begin to make a difference in helping to make the world they source in a better place for the people who work so hard to create the apparel we put on every morning.

We also understand that adopting a socially responsible corporate stance is not easy. The challenges of doing so in emerging countries with poor infrastructure, abject poverty, difficult regulatory environments, and poor education are immense. But by doing so, economic development of these regions will follow. Eventually, these markets will become more prosperous and become consumers, not just producers, of your products.

**Appendix A: Discussion of Evaluation for Code of Conduct Compliance**

Every code of conduct should cover the 8 core items shown in the ILO goals below.

1. No. 138, Minimum Age Convention (1973)
   a. Every member country that has ratified this “undertakes to pursue a national policy designed to ensure the effective abolition of child labor and to raise progressively the minimum age for admission to employment or work to a level consistent with the fullest physical and mental development of young persons.”
   a.b. Education for children below the age of 15 is compulsory.
   a.c. This age limit should be at least 15 years except as specified in (d).
   a.d. Ensure that a minimum age is specified—age limit is 14 (in countries where the education and economy are insufficiently developed).

2. No. 182, Worst Forms of Child Labor Conventions (1999)
   a. Immediate action to secure the prohibition and elimination of the worst forms of child labor.
   a.b. Applies to all persons under the age of 18.
   a.c. Any work that affects the morality, safety or health of children shall be eliminated.

3. No. 29, Forced Labor Convention (1930)
   a. Forced or compulsory labor will be stopped.
   a.b. Forced labor is anything that is exacted from a person under the pretense of penalty because the person has not offered themselves voluntarily.

   a. Do not use forced labor as a means of political coercion.
   a.b. Method of mobilizing labor for purposes of economic development, means of discipline, punishment for participation in strikes.
   a.b. As a means of racial discrimination.

5. No. 87, Freedom of Association and Protection of the Right to Organize Convention (1948)
   a. Workers should be able to establish and join organizations of their own choice without prior authorization.
   a.b. Workers should be allowed to set their own rules for the organization without interference from the outside.

6. No. 98, Right to Organize and Collective Bargaining Convention (1949)
   a. Workers should not be prevented from joining unions—employment should not be conditional to agreement not to join a union.
   a.b. Workers should not be dismissed because of taking part in union work after work hours or during work hours with the permission of the employer.

7. No. 100, Equal Remuneration Convention (1951)
   a. Men and women workers need to be given equal remuneration for work of equal value.
   a.b. Remuneration here includes basic pay and additional emoluments.

8. No. 111, Discrimination (Employment and Occupation) Convention (1958)
   a. No distinction should be made in employment, access to training or promotion in terms of sex, race, religion, political opinion, national extraction, or social origin.
   a.b. Exclusion from a job must be because of inherent requirements of the job and nothing else.

**Appendix B: Selected Supplier Monitoring Organizations**

www.csr-supplychain.org/about
www.bsci-eu.com/index.php?id=2038
www.bureauveritas.com/wps/wcm/connect/bv_com/Group/Footer/Home/
www.fairlabor.org/
www.us.sgs.com/
fairfactories.org/our-community/our-members.html
/www.intertek.com
www.bsr.org/membership/working-groups/index.cfm
www.cips.org