



Ethical Supply Chain Decisions

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The Context: Heightened Supply Chain Risk



Traditional manufacturing

In-house production

Internal processes and controls

Local production in Western markets

Developed compliance regime

Short distance to final market

Little international trade



Virtual supply chains

Unbundled and out-sourced

Limited control over processes

Remote production

Nascent compliance regime

Distance to market

International trade regulations and quotas

Environmental Practices

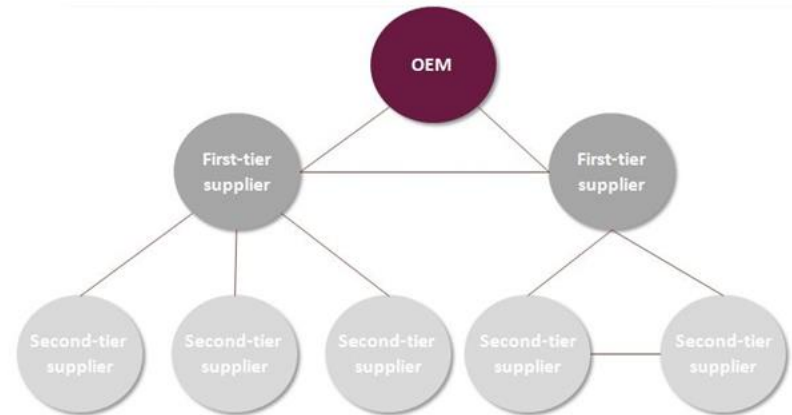
Employee conditions

The Context: Downstream issues

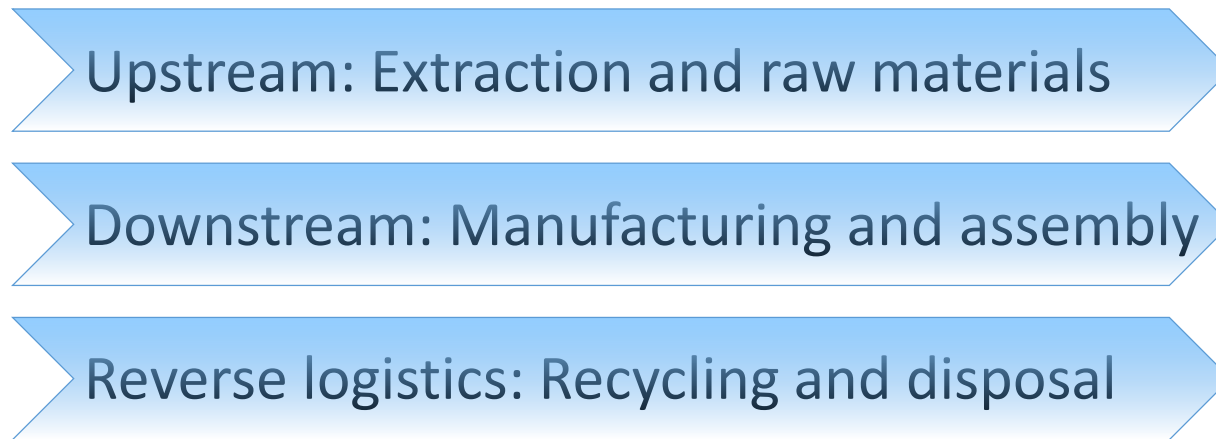
Lack of visibility creates problems

Some companies may audit the behaviour of Tier 1 suppliers but have no idea of who their Tier 2-5 suppliers are.

This has implications for all forms of supply chain risk



Visibility of supplier practices reduces the further upstream



Transport



Mining (e.g for consumer electronics)

Particularly problematic in Africa, Asia and Latin America

- Child/forced labour
- Conflict minerals
- Environmental impact (deforestation etc)
- Chemicals used in process
- Impact of migrants upon indigenous communities



Textiles and clothing

- Use of water in textile washing, dyeing
- Waste water containing organic solvents, heavy metals, acids and alkalines
- Air pollution and soil contamination

Textile washing, dyeing and finishing use large amounts of water, energy and chemicals in the manufacturing process.



75% of consumer electronics production is out-sourced.

Consumer electronics companies under fire for the working conditions in their suppliers' factories.

Supply chain management at the heart of many of the problems. Short product life cycles need low inventory levels and Just in Time delivery schedules – need for super-flexible work forces

Low pay augmented by overtime

- During periods of high demand, workers can be expected to put in 60-100 hours overtime and work through the night if necessary.

Heavy use of temporary labour.

- Around 60% of all employees are contracted on a temporary basis and in Mexico some companies utilize up to 90%.

Apple in particular has come under intense criticism for the environmental behaviour of its suppliers:

- Pegatron (iPad mini) accused of improper disposal of waste
- Foxconn (iPhones and iPads) and UniMicron (PCBs) also said to have dumped heavy-metal waste water
- Catcher (iPads) accused of dumping hazardous waste unsafely

“We do not tolerate environmental violations of any kind and regularly audit our suppliers to make sure they are in compliance,” said a spokeswoman for Apple.



Case Study: The Rana Plaza disaster



The Rana Plaza disaster occurred in 2013 when over 1,300 fashion and textile workers died in a factory collapse in Dhaka, Bangladesh.

The facility was used by a host of well-known global retailing brands as part of their global sourcing strategies.

It later transpired that the owners of the factory had ignored planning laws and built a structurally unsound building with deadly consequences to the work force.



Case Study: Scenario



- You are the Supply Chain Director of a UK fashion retailer with suppliers based in Bangladesh, Morocco, Sri Lanka and China.
- Following the Rana Plaza disaster, where part of your production was based, the Board of your company has urgently called a meeting to look at the impact to its business, not least in terms of reputation.
- Media have already been in touch asking for a statement on the company's supply chain practices and plans.
- **Foremost to the discussion will be the question, 'Should the company continue to source goods from Bangladesh – or should it move the majority of its production to China?'**
- The Bangladesh supplier says it can meet your orders by using other facilities in the country. But you have no visibility of the conditions or working practices of these factories.
- Your suppliers in other countries apart from China lack the logistics 'eco-system' and production capacity to be a reliable option.
- The situation is even more critical as it is approaching peak-season and you need to start shipping in the next two months.

Case Study: Factors to consider

- Labour Costs in China are much higher than in Bangladesh placing pressure on your company's wafer thin margins.
- Labour supply in China is getting tight – there are questions over whether its supplier could cope with Fast Fashion short turn arounds without an impact on employee practices.
- Transport from Morocco is much quicker, but labour costs are much higher. Capacity is much smaller.
- The region in China where the supplier has been based has faced a wave of industrial disputes over working conditions and a Western media organization has investigated several textile suppliers for dumping toxic waste products illegally.
- Could other suppliers cope with a ramp up in orders at such short notice?
- How are you going to balance risk to your company's brand with bottom line costs?

- Many retailers recognized the need for change following the disaster.
- A multi-stakeholder Accord on Fire and Building Safety was developed in conjunction with retailers, unions and the United Nations
- Although Tesco did not source goods from Rana Plaza it went further:
 - Increased pay for suppliers' workers by 19%
 - Reduced working hours by 16%
- This had the positive results of:
 - Decreased staff turnover by 45% and absenteeism by 25%
 - Increased efficiency by 20%
- The company says that it hopes to roll out this programme to 100 factories, positively affecting over 250,000 fashion and textile workers.
- Tesco presently employs 54 people in Dhaka whose roles involve improving the standards at its 100 suppliers' factories.
- In order to address the issue of temporary contracts, which has proved so problematic in terms of taking on and laying off staff, it offers the suppliers which meet its standards a two year permanent contract.
- It has also published a list of its suppliers in order to improve visibility.

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