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Lecture – 39 Suppliers as Stakeholders: Ethics in Supply Chain

Hello. We are together for this lecture which is our module 8 and lecture 39 the last, but one lecture and today we are going to talk about the Suppliers as the Stakeholders and what are the Ethical issues in Supply Chain.

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Our agenda will be like this that we will first introduce what is the supply chain in case you do not know about it and then what is the need for management in supply chain or what is supply chain management or SCM. And, then we will talk about global supply chain and why ethics is needed in the supply chain management. So, this is on our plate for today.

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First question is what is this supply chain? Now, a business runs specifically to cater to the needs of the customers; catering to the needs of the customers would mean either through some product or some service, but it has to be delivered to the point where the customer can access it. So, supply chain is this chain of network, chain of multiple entities, chain of all these elements which take the product and tries to deliver it to the end user, if it is a service then the delivery of the service to the end user.

And, I said it is a network of multiple entities where the entities are not just people. Yes, there are people all around, people who are actually engaged in the operations, but then such as the people would be say the suppliers themselves who bring and who procure and provide the raw materials for the product, but then there may be many other services that are required in order to procure the product and to process it many other supporting services could be required. So, there are people involved.

On top of that there is this distribution channel. Once the product is made it has to go through a distribution channel to reach the customer; there are retailers, there are distribution centers. When we talk about reaching you can easily understand that there is a role that logistics and transport plays. You know it could be shipped out as cargo by flight; it could be shipped out by train, by truck as you see on the highways. So, there is a lot of other things involved here.

And, then what we call facilities as in storing facilities the product is made, but then you have made it into a bulk, where do you keep them? The company has to keep it somewhere. So, you need some hubs, storage places and you need an inventory, what is the quantity of this product in each of these hubs and so on.

So, I just mentioned few of the elements in this supply chain, but you can understand it is a very complicated network of all that participate in the cell production and delivery of a particular product or a service that is what we meant by mean by supply chain.

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Obvious, it should be obvious to everybody that in the supply chain because it is a complex network that there is big need for management. There has to be a team to actually manage this whole network, so that it runs smoothly somebody has to plan for example, the operations, the sequence, somebody has to control and monitor that it is indeed following the prescribed method or the sequence.

And, then finally, people have to coordinate with the suppliers to see that they are keeping the promise from their end and then controlling the day to day operations, so that you know you look go through the chain up down and up and down, collecting various feedback, immediately rectifying in case something is missing it requires management managerial skill to keep this chain going. This is what we call supply chain management.

Now, it is value is clearly high. If you just take a look into a the value of supply chain management from the cost point of view, what does it cost to the company, then we have to say that it is tremendously important, tremendously valuable because good supply chain managers can save cost, the overall cost by actually controlling and optimizing the supply chain. For example, they might keep an eye on the inventory and take a look into the quantity and if you need only 5 warehouses you know instead of 10, then clearly the company can save the cost for either hiring 5 more warehouses or building 5 more warehouses. So, good SCM actually is very beneficial for the company.

But, there is also strategic value here that if supply chain is not managed well the consequences you can understand would not be very good for the company because that would mean disruption in the supply chain and the product is not going to be delivered to the customer on time or as per their specification or to the customer satisfaction and; that means, bad business; that means, something very very negative for the business. So, this is not a desirable position at all. So, I hope that is clear that there is big need for supply chain management.

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So far so good, but next is that this supply chain is not necessarily only located in one country. These days most of the major companies they have a global presence as you know very well you think about any big company of your choice whether it is IBM or Coca Cola or Google any company that you can think about you will see that it has a

global presence. And, that global presence is possible because they have a supply chain across several countries. So, not only they have offices all over, but also they have the supply chain happening all over the world that is how businesses work these days. Sometimes it could be you know 300 - 400 suppliers from more than 20 countries around.

If supply chain management is difficult then global supply chain management is even more difficult. The supply chain in case of global supply chain it extends off-shore. It leaves the country where the headquarter is and it goes to various other countries and when you step out of the country of your own country's boundary things change, what we are talking about are different kind of workplaces in the global environment.

So, the outsourced units and the suppliers there may follow very different time zones, very different kind of climate, very different kind of work ethics or work culture, the laws would be very different and the nature of the workforce also would be very different. So, you, but you have to work with the local suppliers.

Managing this you know you can almost see the serpentine character of this global supply chain managing this is a really a tough job then first of all the numbers the number of the contractors, the suppliers in that chain as nodes and their suppliers so, we can call them sub-contractors or sub-vendors, the number is huge and because they are all over the world.

So, you can understand that the complexity in this network actually magnifies to olds almost to a astounding level and therefore, their impact also is amazingly in large, significant. So, if you can think about supply chain what it can do in terms of living impact in the society, then we can think how the global supply chain can affect various countries in one stroke.

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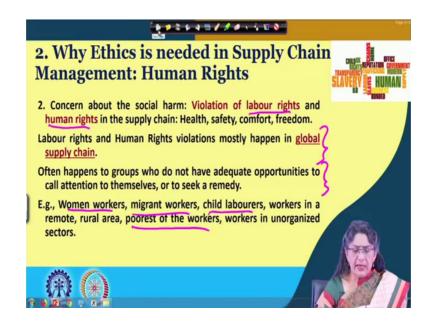


That brings us to the topic of why we need ethics in supply chain management. There are about I will mention about three reasons; three important reasons why ethics is required in global supply chain management. The very first one is environmental concern the concern about avoiding environmental harm in through the supply chain. For example, you might see that raw material sourcing can cause enormous environmental damage. Whole deforestation that we see in the rainforests of the world is because of raw material sourcing for companies. So, this is a major supply chain problem.

Or depletion of natural resources you know they are taking for somewhere if you are thinking about fossil fuel for example, or loss of biodiversity because of this sort of procurement of raw material. The outcome of product processing also leaves general environmental impact we are talked about. It would be pollution, it could be dumping of the toxic waste and so on and through the supply chain it can happen to multiple countries; maybe the countries are not even connected, but it can happen still in more than one country simultaneously.

Clearly, the transport though we do not discuss this too much, but cargo transport whether it is the air airplane or it is the train or it could be the trucks that we are talking about you know their vehicular emission it is a very big source of carbon emission and greenhouse gas emission, moreover there is also the concern about the kind of energy that they use. So, environmental reason is one of the reasons why there has to be ethics because there somebody has to monitor that, somebody has to control that and somebody has to try to mitigate that environmental harm.

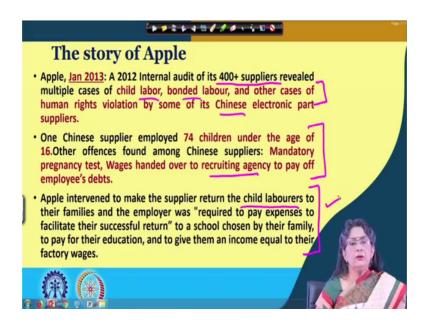
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The second one is the second reason for having ethics is the concern about social harm. If the first one was about environmental harm the second point is about social harm which can manifest itself through violation of labor rights; you know if it is a supply chain there will be workers and sometimes there is gross violation of labour rights even violation of human rights in the supply chain. What we are talking about is right to health, right to safety, right to freedom for example. So, we see this a lot in the global supply chain of various companies.

And, often these violations happened to those groups of workers who do not have much of a representation who do not know how to call attention to themselves. They are either very desperate or they are ignorant about their rights or they are too marginalized to make a claim of their privileges of their entitlements or they are too powerless to seek some sort of a remedial measure. Who are we talking about? Say for example, the child laborers who have no other way, the migrant workers who are desperate to look for jobs.

It often happens to women workers, workers in remote rural areas where the law does not keep it is eye fixed for example, it happens to the poorest of the poor workers, workers in the unorganized sectors. (Refer Slide Time: 14:06)



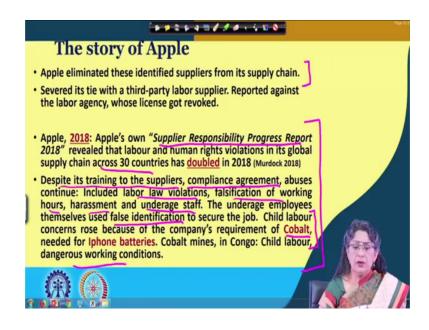
I will give you some example here; so that the point becomes clear and I will give the example of a very big company namely Apple. We are talking about though I have called it the story, but it is not really a story it is a real life situation. In 2013, the news came out that a 2012 internal audit of Apple of its own global supply chain where there were you see 400 plus suppliers all over the world and the company is doing internal audit of those global supply chain.

And, the company came to note that there are multiple cases of serious labour and human rights violations. We are talking about child labour, bonded labour and so on, where? In China, where the company was getting some of the electronic parts made. So, we are talking about the Chinese suppliers of Apple and Apple found out that one of the suppliers employed 74 underage laborers under the age of 16 which is not a working age.

There were many other serious offenses. For example, mandatory pregnancy test imposed on the women, or the wages who were not given to the employees, but they were directly handed over to the recruited recruiting agency who brought the workers in to pay off the employees debt. So, it is practically this situation is equivalent to bonded labour; the money is not going into the hand of the worker yet they have to work.

Now, Apple when it came to know try to be the civil corporation, the ethical corporation and it intervened. It intervened to persuade the supplier to return the child labourers back to their families and the employer was asked to pay for the educational cost of this children and to facilitate their successful return to their families. So, the company did what they thought was the right action and we applaud them for that they at least did not stand by, but decided to intervene.

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Apple also eliminated some of the offending suppliers and its severe ties with a third party labor supplier. In fact, they reported against the labor agency for this kind of heinous practices and recruiting agencies license was revoked. So, this was 2013, 2012 and Apple we should say did a remarkable job of you know taking ownership of what is happening in some of the outsourced units in china by its contractors and sub-contractors.

Now, that story does not end there. In 2018, Apple again did a survey, an audit of its supply chain. Note that this is a report; the company has generated its own reports supplier responsibility progress report, note the name and that revealed that in it is global supply chain across 30 countries the labor and human rights violations have just doubled in 2018. You saw that the company is proactive and the company is not at all afraid to intervene.

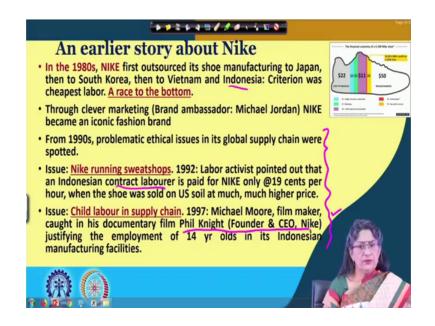
In fact, Apple has its training to the suppliers where they lay down the guidelines and there is also compliance agreement that the suppliers have to sign in order to become a supply for apple, but abuses continued. What kind of abuses? labor law violations, falsification of working hours. So, this is not right at all harassment and of course, again

underage staff, underage labor. So, child labour is still big a problem and apparently the underage employees themselves they use the false identification to secure the job.

This is desperate workers who are trying to hide their age and apparently the supplier may know or may not know, but they are there and the issue here was some of you may know because iPhone Apple is known for it is iPhone and the iPhone batteries use this element cobalt and this cobalt is obtained from Congo and in those Congo mines child labour is rampant. Even the working conditions are very dangerous.

So, this is what came out now this is a company ethical corporation who is trying its level best, but the global supply chain has this enormous scope of violations and imposing social harm. So, that point stays with this story.

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I can tell you also what happened with the Nike, you know the shoe company now they are diversified into apparel and other things. But, Nike originally in the 80s when it came up it was a predominantly a shoe company and when Nike came up in the United States it out sourced it shoe manufacturing first to Japan, then to South Korea and then to Vietnam and then Indonesia.

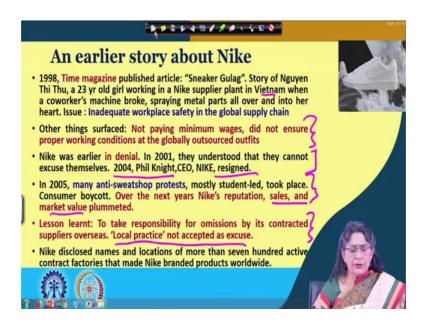
Why? As I have explained earlier it was a race to the bottom. The company was looking for where the profit margin would be the highest and the labor cost would be the

cheapest, even the laws would be lacks, so that the company can do many things that they cannot do in the mainland of United States.

So, the company was really rising high and in those times Nike actually was trying, capturing a lot of market share in United States, but slowly very problematic issues started to emerge. For example, in 1992 it was brought to everybody is notice that the Indonesian contract labourer was paid a paltry tiniest of tiny fraction of what actually the shoe costs in the United States market. So, there is this pay disparity.

The company is making this much money, but its Indonesian labour who is producing the show is getting insignificant amount of share from that profit. Also there was child labour and in the supply chain there was child labour. In fact, there was an interview famous interview in which Phil Knight, who was the then founder and CEO of Nike defended child labour in that broadcast.

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The problem did not stop there. In 1998, the story became so big that Time magazine in fact, carried this story about Nike and what they called almost a concentration camp like situation in its outsourced unique unit in Vietnam where a girl working for Nike was injured and died because of unsafe work conditions.

Slowly other issues also were brought to the attention namely, not paying minimum wages or not having proper working conditions. What we are talking about are

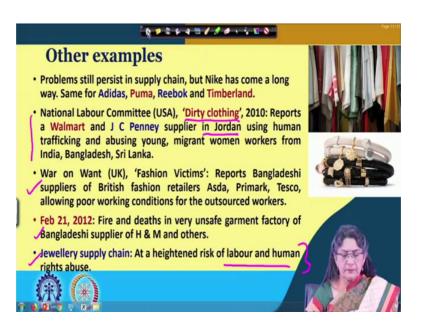
workplaces, off-shore workplaces, outsourced workplaces, but they are the outsourced workplaces of this very famous company Nike. Nike, its reaction was not very good. Nike was mostly in denial until they understood that they can no longer excuse themselves; by then it was little bit too late.

In 2004, that Phil Knight, the CEO, founder of Nike had to resign, the objection and the protests went to that point. The students of United State took it to took up this cause and many protest marches, many protest demonstration actually took place. As a result there was consumer boycott of Nike products. So, the company lost reputation, the company lost customers, the company lost the image that they have built over the years. So, and it also hit their sense and the market value the shares the share value plummeted.

So, lesson learned here is that you know supply chain especially global supply chain, if not managed well it finally, hits the company and it finally, hits the company very very badly. So, one cannot hide behind the excuse to say that these are happening in another country, in the workplace where we are not the we are not running the workplace, but our contractors are. These excuses were not found to be valid even then.

So, now even it has become even stronger. In fact, Nike did the best thing after that to actually cooperate with the investigators by sharing the names and locations of all its outsourced workplace units. There were some 700 active factories where Nike work was going on for any kind of inspection and the company simply said that we also are with you in stopping this kind of malpractices.

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The problems in those times in global supply chain was quite high and almost every big company that you can think about in terms of the shoe manufacturing Adidas, Puma, Reebok you know they also learned this lesson very hardly.

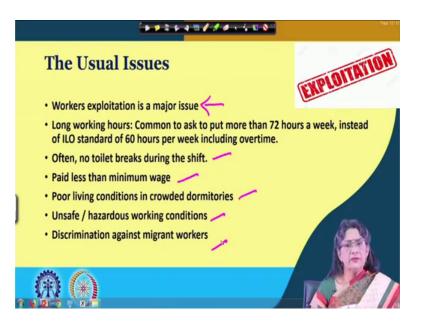
Nowadays, specifically people are not only just aware, but they also have various ways to follow through the supply chain of any kind of a product. This is particularly true about the apparel industry or the fashion industry. Clothes that are sold in the market of affluent countries as you may know are often manufactured, stitched, made, designed in the more in the less developed countries.

So, an apparently lot of violation still go on, lot of social harm caused by this supply chain still go on. For example, as you see this is a 2010 case, where reports came that the supplier of very big, two very big American companies actually there was in Jordan and they were using human trafficking and abuse of young migrant workers from India, Bangladesh and Sri Lanka and that is how the apparel was getting made and the name of this investigation was Dirty clothing.

So, you can see that the product is this, but then the trail was found out like this you. There are many such incidents, even 2012 a very big fire incident in Bangladesh also revealed the same thing that it was a completely a factory without any exit, but that is where apparels were being made for big companies of Europe.

Jewellery supply chain is also known to have serious labour and human rights issues. Jewellery is sold specially diamonds are sold at an enormous profit to the companies. We are talking about De Beers and others. And, but the supply chain of that the people who actually polish or cut the diamonds in their work conditions, the risks involved, the kind of condition in which they have to work all these raised serious labour and human rights issues.

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So, the second point was that human the harm, social harm. The issues I have shown you to a great examples, but other usual issues are also maybe needs to be pointed out, you know it is a majorly exploitation issue. For example, long very long working hours that actually exceed all norms set by the labour laws. Or sometimes we hear that no toilet breaks are even allowed during the shift and that is really a putting somebody at real utter discomfort.

Payment less than minimum wage you know we have just talked about this and poor living conditions in overcrowded dormitories for the workers. So, whole day you work and then you go back and live in a unhygienic and overcrowded living space, sharing space with so many other equally desperate and equally helpless employees; unsafe working conditions and severe discrimination against the migrant workers. So, these are the usual issues that are there. (Refer Slide Time: 28:33)



The third and the last reason for why should we should have a ethics is the consent for product safety and naturally of consumer safety. You see these days supply chain exists not just for you know phone smart phones, but nowadays we see that there is also global supply chain for food, for pharma products, for medical devices, healthcare products and so on. So, in that case if the global supply chain is not managed ethically and contentiously product quality and product safety may be compromised to such a degree that finally, it would mean a grave harm to the consumers.

So, in case of medical devices if anything is not right with the devices ultimately it is the patients who is a going to suffer and the company also will suffer because ultimately it will result in recalling the product which is always an expensive proposition. It might also lead to revocation of the license of the company in case regulatory bodies catch you, financial penalty or certainly reputational damage. So, there are lot of risks in that.

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Here are some examples of product safety issues. You know in 2008 a very big case came up by regarding infant milk powder coming from China, where it was found to be adulterated with melamine powder, not edible, not safe for human health. 2014, Heinz is the American company it had to recall four batches of cereal made again for infants because toxic heavy metals of exceeding level were found in that. A medical device industry regularly faces quality issues because of the supply chain carelessness, negligence or some other issues. So, we need to have some ethics in supply chain management.

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So, with that I will end the lecture here today. What we established today is why ethics is required in supply chain management. So, I am going to end the lecture here today. We will come back with more in the next lecture.

Thank you.