

Strategic Services Marketing
Prof. Kalpak Kulkarni

Department of Management Studies,
Indian Institute of Technology, Roorkee

Week – 10

Lecture - 49

Ethical sourcing and responsible supply chain management

Hello everyone. In this session, let's comprehend the ethical sourcing and responsible supply chain management practices in services. First, let's start with understanding what is sourcing. Sourcing involves the identification, evaluation and selection of suppliers to provide raw materials and services marking one of the initial stages in supply chain management, which is nothing but a process encompassing the entire production flow of goods or services. Often used interchangeably with procurement, sourcing represent a distinct supply chain function within the larger procurement department. Given their interconnected nature, sourcing and procurement strategies typically pursue similar objectives and metrics, including ethical considerations.

So what is ethical sourcing then? Ethical sourcing means procuring goods and services in a manner that respects social, environmental and ethical considerations. Ethical sourcing serves as a cornerstone of CSR, that is corporate social responsibility, wherein business operate based on principles and policies aimed at generating positive impacts on society and the environment. It hold particular significance for organizations embracing the triple bottom line framework, which advocates for measuring business success not solely by financial metrics but also by considering the welfare of people and the planet. So what are the objectives of ethical sourcing? The first objective here is to ensure fair labor practices and working conditions.

Ethical sourcing aims to ensure that workers involved in the production process are treated fairly and provided with safe and human working conditions. This includes adhering to labor laws, paying fair wages and prohibiting practices such as child labor and forced labor. Second objective here is to protect human rights and promote social justice. Ethical sourcing seeks to uphold fundamental human rights and promote social justice throughout the supply chain. This involves respecting the dignity and rights of workers, including

their freedom of association and right to collective bargaining as well as safeguarding their rights of vulnerable populations such as indigenous communities and marginalized groups.

Third objective behind ethical sourcing is to minimize environmental impact and promote sustainability. Ethical sourcing endeavors to minimize the environmental impact of sourcing activities and promote sustainability. This includes sourcing materials and resources from suppliers who demonstrate environmentally responsible practices such as minimizing waste, reducing carbon emissions, conserving natural resources and protecting biodiversity. Next objective is to uphold ethical business conduct and corporate responsibility. Ethical sourcing is aligned with principles of ethical business conduct and corporate responsibility.

It involves conducting business with integrity, honesty and transparency and adhering to ethical standards and codes of conduct. This includes maintaining ethical relationships with suppliers, avoiding corruption and bribery and promoting ethical behavior throughout the supply chain. Another objective of ethical sourcing is to build trust and enhance reputation. Ethical sourcing aims to build trust with stakeholders, including customers, investors, employees and communities. By demonstrating a commitment to ethical sourcing practices, service providers and organizations can enhance their reputation as responsible corporate citizens and build stronger relationships with stakeholders based on trust, credibility and integrity.

Another objective here is to mitigate risk and ensure business continuity. Ethical sourcing helps mitigate risk associated with non-compliance with ethical standards such as reputational damage, legal liabilities and supply chain disruptions. By practically addressing ethical risk in the supply chain, organizations can enhance business resilience and ensure continuity of operations. So with this kind of all those objectives, what are the strategies that are there for ethical sourcing in a services context? The first strategy here is having supplier audits and assessments. Conducting regular supplier audits and assessment is a fundamental strategy for ensuring ethical sourcing in services.

These audits involve evaluating suppliers' compliance with ethical standards, including labor practices, environmental regulations and social responsibility commitments. By assessing suppliers' adherence to ethical criteria, organizations can identify areas for improvement and mitigate risk associated with non-compliance. The second strategy here is supplier code of conduct. Implementing supplier code of conduct is another effective strategy. These codes articulate the organization's expectations and requirements regarding ethical behavior, providing clear guidelines for suppliers to follow.

Supplier codes of conduct typically cover areas such as labor practices, human rights, environmental stewardship and business integrity. By communicating expectations upfront to suppliers, organizations can foster a culture of ethical conduct throughout the supply chain. The third strategy is going for collaboration with certified suppliers and socially responsible organizations. Collaborating with certified suppliers and socially responsible organizations is a proactive strategy for promoting ethical sourcing. Certified suppliers, such as those with certifications like Fair Trade, Organic or ISO14001, which talks about environmental management practices, these type of certifications have been independently verified to meet specific ethical and sustainability standards.

Similarly, partnering with socially responsible organizations, such as non-profits or industry associations focused on ethical sourcing, can provide valuable insights and resources for implementing ethical sourcing practices. Next strategy here is transparency and traceability initiatives. Embracing transparency and traceability initiatives is essential for promoting accountability and monitoring supply chain activities. Transparency initiatives. Transparency initiatives involve openly sharing information about suppliers, sourcing practices and supply chain operations with key stakeholders including customers, employees and investors.

Whereas, coming to traceability initiatives, on the other hand, this involves tracking and documenting the movement of goods and materials throughout the supply chain to ensure their origin and ethical compliance. By implementing transparency and traceability measures, organizations can enhance visibility into their supply chains and hold suppliers accountable for ethical behavior. Now, let's move on to the next concept, that is responsible supply chain management. This means managing the end-to-end supply chain in a manner that balances economic, social and environmental considerations. What are the objectives of going for responsible supply chain management practices in services? The first objective here is to ensure that supply chain transparency and visibility.

One of the primary objectives of responsible supply chain management is to achieve transparency and visibility across all stages of the supply chain. This involves gaining insights into supplier practices, production processes and distribution channels to ensure accountability and traceability. The second objective is managing risk and vulnerabilities effectively. Responsible supply chain management aims to identify, assess and mitigate risk and vulnerabilities that may impact supply chain operations. This includes risk related to geopolitical instability, natural disasters, labor issues, environmental regulations and disruptions in the flow of goods and services.

Third objective is drive innovation and continuous improvement. Another key objective of responsible supply chain management is to drive innovation and continuous improvement throughout the supply chain. This involves fostering a culture of innovation, collaboration and learning among supply chain partners to identify opportunities for optimization and enhancement. Another objective is to build trust and collaborate with stakeholders. Responsible supply chain management seeks to build trust and collaboration with stakeholders including suppliers, customers, employees, investors and even communities.

This involves establishing open and transparent communication channels, engaging in a dialogue with stakeholders and addressing their concerns and expectations. Now let's discuss the strategies for adopting this responsible supply chain management. The first strategy here is supplier diversity programs to promote inclusion and support local communities. Second strategy is to go for supply chain mapping and risk assessments to identify vulnerabilities and opportunities for improvement. Third strategy here is to go for collaborations with suppliers to implement sustainable practices and initiatives.

And final strategy is adoption of technology solutions for supply chain visibility, traceability and performance monitoring like blockchain. Now let's understand this ethical sourcing and responsible supply chain management with some examples. The first example here is of Starbucks Corporation. Starbucks is renowned for its commitment to ethical sourcing of coffee beans and responsible supply chain management practices. The company established its Coffee and Farmer Equity which is acronym as CAFE.

These practices program which sets standards for ethical sourcing including fair labor practices, environmental sustainability and quality. So as you can see in this figure the principles of CAFE practices is sustaining farmers and strengthening communities. So through this program what Starbucks is doing, they are offering education for children living on farms at the same time creating a safe working environment for the labors. Let's have a look at this particular video that talks more about this particular sustainable and responsible supply chain practices at Starbucks. Our biggest threat as humans is thinking that we and the planet are invincible.

That kind of denial has put our world at risk. But we humans also have the power to learn and to make a difference. Conservation International believes that people need nature, that it's our responsibility to protect it. For 15 years Conservation International has been on an

amazing journey with Starbucks to ethically source their coffee around the world. Together they've created a new way to buy that coffee.

One that is sustainable, transparent and good for people and the planet. This journey has covered four continents where they've improved the lives of one million farmers and workers and cared for millions more coffee trees. Conservation International is proud to recognize Starbucks for ethically sourcing 99% of their coffee making them the largest coffee retailer to reach this milestone. But there's always more to do. Starbucks is committed to 100% ethically sourced coffee.

It is that constant pursuit of this last 1% that helps make the world a better place. That's why Starbucks is working with groups like Eastern Congo Initiative which is helping thousands of coffee farmers in the Democratic Republic of Congo to increase their production creating opportunities for local communities. In the end this isn't about coffee. It's about possibilities and commitment. Whether you're a global company like Starbucks or a single human being you can make a difference.

All those differences add up to a world that's changed for the better. Starbucks works directly with coffee farmers to make ensure fair prices, support sustainable farming practices and promote community development in coffee growing regions worldwide. Additionally Starbucks invests in supply chain transparency initiatives such as blockchain technology to trace the journey of its coffee beans from palm to cup. Next example here is Patagonia. Patagonia is a leading outdoor clothing and gear company which is renowned for its commitment to environmental sustainability and ethical sourcing in its supply chain.

The company prioritizes responsible sourcing of materials including organic cotton, recycled polyester and ethically sourced wool and collaborates with suppliers who adhere to strict environmental and labor standards. Patagonia conducts supplier audits and assessments to ensure compliance with ethical sourcing practices and works closely with certified suppliers and socially responsible organizations. Furthermore, Patagonia promotes transparency and traceability initiatives to provide visibility into its supply chain operations and engage customers in its sustainability efforts. Third example that we have here is from IKEA. IKEA, the Swedish furniture retailer is committed to ethical sourcing and responsible supply chain management across its global operations.

The company has implemented strict standards for ethical sourcing of wood, textiles and

other raw materials including requirements for sustainable forestry practices and responsible labor conditions. IKEA collaborates with suppliers to implement sustainability initiatives such as reducing carbon emissions and minimizing waste and conducts regular audits to ensure compliance with these ethical standards. Additionally, IKEA invests in community development programs in supplier countries to support social and environmental initiatives. Have a look at this particular video that talks about how IKEA sources its wood naturally and adheres to the ethical sourcing and responsible supply chain management practices. When we design our products, we are always guided by our vision to create a better everyday life for the many people.

Now, more than ever, we want to enable more people to live sustainable lives within the limits of the planet. As a part of our Scandinavian design heritage, we truly love to work with wood. Today we use wood more than any other material in our products. Wood is an excellent material from a design, quality and environmental perspective, provided that it's responsibly sourced of course.

Our wood is FSC certified or recycled. It's embedded in our DNA to use the resources carefully and efficiently. And after the tree is cut, it's really important that we find our way to use the whole tree to avoid any unnecessary waste. We love to challenge ourselves to develop smart ways of working with wood. To reduce the impact our business has on the environment and create affordable products, we continue to design more products using less material. As an example, 20 years ago an average pine log would have made about 11 Pax wardrobes.

Today, after designing it in the new, lighter way, we can create 14. This is just one example out of many, because we want to create products where beautiful design and improved industries goes hand in hand. We will also increase the amount of recycled wood we use in our products. We have some great suppliers who already use only recycled wood, and we expect to see a lot more in the future. It's the material of our past and of our future.

With our ambition to become 100% circular business by 2030 using only renewable and recycled materials, we are exploring and innovating new ways to use wood in other products, like wood-based textiles or replacing single-use plastic, and a few others that are still secrets. These examples highlight how service firms across different industries prioritize ethical sourcing and responsible supply chain management practices to promote sustainability, transparency, and social responsibility throughout their operations. So, in

this video, we try to comprehend the practices of ethical sourcing and responsible supply chain management practice in the context of services. Thank you.