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Ethical Sourcing

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Abstract

Ethical sourcing, it is based on trading activities that are ethical and act as a tool for new market opportunities by gaining competitive advantage and ensures sustainable solutions for the products. By sourcing, we mean procuring the raw materials, packaging and accessories related to the product. Earlier, ethical sourcing connoted issues like workers' safety, fair labour practices and such. But with time, the concept has gained much wider relevance from the consumer's perspective. Today if we see, consumers are quite aware about the quotient of ethical manufacturing in a product and therefore, ethical sourcing has expanded considerably from the workers' stand to the product itself.

Keywords: Ethical sourcing, trading activities, new market opportunities

1. Introduction

Ethical sourcing empowers customers to make ethically informed choices and makes corporate and agencies to produce reliable information on corporate behaviour. There are corporations who see ethics not as a mandate forced upon, but a good practice to bring a healthy environment in the market. They wish to be seen as working ethically and improving the ethical standards of their industry.

The consumer demand for ethical trading means that businesses have to look back at their manufacturing process and beyond, i.e. to their suppliers and rethink their relationship with the suppliers. The basic motive of ethical sourcing from the company's end is to use the supplies that incorporate principles of morality during the manufacturing process as well as beyond, and minimise the negative impact on labour and the environment around. The manufacturer keeps in consideration ethical grounds at two levels. One, during the manufacturing process while making a product that the customer gives importance to, while purchasing or consuming it. Second is when the manufacturer chooses the supplier for the raw materials and other intermediate processes. Suppliers conduct their business of operations, production and processing under safe, hygienic and good workplace conditions. Under ethical practice, they follow additional guidelines and requirements in the above mentioned activities.

There are firms who provide ethical trading solutions to the businesses. Such actors collaborate with a range of stakeholders from lowest to the highest level in a business line and have experts who develop projects and/or modify the existing ones as per ethical standards, producing the outputs through ethical sourcing and trading it as ethical trading. Not just the individual business, such firms outreach their work to engage the key suppliers of the businesses as well in driving sustainable practices.

The entire supply chain is now subject to far more vigorous ethical standards and retailers must try to minimise the exploitation of all sources within their supply chains. The challenge that many companies face in this field is justifying the need for suppliers who abide by the ethical sourcing standards. Traditionally and by far, more convenient method in supply chain has been to leverage the suppliers who are low in cost and justifiably effective. With ethical sourcing and trading, the suppliers have higher prices because of non-standard procedures/processes and lack of economies of scale. However, the companies (suppliers) that incorporate ethical and sustainable solutions in their business have long-term sustainability and they can generate savings and a brand image that they can invest and leverage to their buyers and end consumers. A study by Verdict Research in 2007 showed that more than 50 percent of people working in retail sector believe that ethical sources

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increase the production cost by at least 5 percent, and 14 percent expect this cost to exceed 10 percent. This can be seen as a common picture of businesses who are involved or getting involved in the area of ethical sourcing. Other challenges in ethical sourcing can be seen as convincing the stakeholders involved, both internal and external, lack of alignment with the business objectives, and absence of assessment tools for efforts towards ethical sourcing.

With rising competition in the market in every sector and thus to stay competitive, ethical sourcing is becoming a marketing tool for business players. There are some actors in the market whose margins fall under pressure because of high operating costs, rents etc. For such corporates, chalking out a part of their budget on ethical sourcing will not add to the burden but prove crucial to the profitability and survival of such retail businesses. Other way can be to partner the suppliers and try to fuse ethical practice of sourcing and trading in their operations. Beyond that, rewarding and penalizing the suppliers as per their ethical commitment can be an effective tool to bring consistency in their ethical practices.

2. Identified Problem

Supply chains are no longer linear, simple and slow. The use of technology at every stage of supply chain activity has enabled production and consumption in opposite corners of the world. One example for the above quoted statement is Nike, the sports shoes manufacturer which has its plants in forty different countries and sells its sportswear in over eighty two countries.

Consumers, through media are more aware and influenced and hence they want to know whether the goods and services they buy are sourced in a responsible manner. Hence Ethical Outsourcing is gaining much importance these days.

To achieve this, manufacturers take responsibility of the field and factories they source from and try to protect the reputation of their brands by taking proactive measures.

In order to understand what the exact problem is let us look at an example of a UK based retailer Marks and Spencer.

The company imports one third of its merchandise split between direct purchases from overseas businesses and from other UK based suppliers and agents. In order to develop high quality goods, the company has to establish close relationships with these sub suppliers and its direct suppliers. The company has to monitor the facilities of its local suppliers and works on improving its labour practices. The company is associated with twenty suppliers that account for seventy per cent of all its food goods and hence their supplier relationships are very critical. They purchase finished food products manufactured in the UK for which their direct suppliers source raw material from around the world. Their dependence on the suppliers to such an extent poses an unprecedented challenge for the company.

In order to produce high quality goods and provide socially responsible employment that complies with international standards, the company has to make sure that the following factors are worked upon:

- Substandard facilities
- Uneducated workers
- Lack of management capabilities
- Inefficient government enforcement of local labour and environmental legislation

3. Dimensions of Ethical Sourcing and its effect (Review of the problem)

There are various dimensions involved in the identified problem of ethical sourcing. Some of them are cited below:

- **Child Labour-** It is treated as one form of slavery where organizations involve children of different age groups in order to make their products. Child labour is banned in various countries but it is yet to be implemented in many of them. Below a certain minimum age level, an employee is not permitted to hire a child, like in India the minimum age is 14 and this law is well supported by Right to Education Act. So as far as ethics are concerned, it is unethical if an individual knowingly buys such goods and products made with the help of child labour.
- **Environment-** Consideration towards environment is one of the major dimensions towards Ethical sourcing. Whenever an organization considers a new product, they look at several environmental related aspects such as what environmental impact of the material and various processes involved in making the product such as sources of energy and their consumption, release of any toxic substances in the environment etc.
- **Sweatshops-** This is a broad concept which includes various aspects of poor working conditions like working in old buildings, unhealthy, crowded working conditions, low wages for long hours of work, safety precautions, workers' benefit scheme. They violate the human rights of work so every attempt is made to eliminate them and the organizations make sure that their suppliers do not follow such practices.
- **Racial Discrimination**—this is the most common form of discrimination and takes place when some employees are treated differently based on their race. There are many countries where discrimination on the basis of race and sex is quite prominent. When such countries where this discrimination is being done, are criticized badly, then how can any organization earn a goodwill by practicing the same.

How do these factors affect Ethical Sourcing

- **Child Labour:** Forbes magazine quoted once, “Every time you buy an imported handmade carpet, an embroidered pair of jeans, a beaded purse, a decorated box or a soccer ball, there's a good chance you're acquiring something fashioned by a child.” Most people believe that child labour in the offshore countries is definitely higher than the western countries want to believe. Most of the multi-national companies outsource their production or manufacturing to less developed countries in search for less costs. In these countries, poverty forms a major concern and hence small children indulge in working even in hazardous situations. Many a times, it's a conscious or unconscious step from the part of these multi-national enterprises to indulge in such activities. But sometimes even after steps taken by companies to curb such activities, fake ID proofs, need for a job for a child and other such reasons come in the way of curbing these activities.

- **Environment**

Following Environmental factors are generally considered-

- If toxics are released in the atmosphere,
- if the energy efficiency is being considered,

- if the produced products meet the quality standards,
- if plastic is being used,
- The kind of plastic used.

Many such factors are usually considered by the companies to decide the suppliers that provide them with the supplies. Environmental factors sometimes increase the cost one has to pay. Even government has stringent norms and rules that have been kept in place to avoid unethical sourcing that affect the environment.

• **Sweatshops**

Sweatshops are against the human rights of the workers by keeping them in poor working conditions. It harms the lives of the people working in these conditions and also effect the good will and reputation of the company. Products made at these sweatshops are made by people who are subjected to utter atrocities and sufferings. It therefore becomes a moral obligation for the companies to address this issue. However low it costs may lead to, but morally it's one of the requirements to stop human exploitation.

4. Managerial Suggestions (Our recommendations for companies, in order to practice ethical sourcing

A) For ethical sourcing to address the issue of environment, the company must make sure that its vendor or suppliers comply with the following:

1. The company should have a published policy, vision statement or charter committing them to protect the environment
2. The company should demonstrate environmental leadership and responsibility
3. The company should have staff positions responsible for overseeing environmental issues
4. The company should use "design for the environment" principles when developing new products or constructing new facilities
5. The company should have a program for recycling materials used at their facility
6. The company should have a policy against using wood and paper products derived from the harvesting of old-growth forests
7. The company should measure and attempt to reduce resource consumption

B) For ethical sourcing to address the corporate social responsibility, the company must make sure that its vendor or suppliers comply with the following:

1. The company should have a social accountability statement, policy or code of ethics
2. The company should monitor corporate social responsibility (CSR) performance
3. The company should have a staff position responsible for overseeing social responsibility issues
4. The company should have a system in place for supply chain social accountability
5. The company should model socially responsible employer practices
6. The company should ensure conditions of employment are fair and just

C) The supplier company should set its policy in writing, for the following issues

1. Employment of appropriate workers
2. Workplace safety

3. Pay and hours
4. Respect for individuals
5. Environmental standards
6. Ethical standards
7. Trade unions
8. Inspection requirements

D) The company should have an ethical programme to check for compliance:

1. The company should require its suppliers' factories to be audited annually. Audits should be conducted by approved independent third-party auditors, designed to provide a true and comprehensive assessment of working conditions and labour standards.
2. All audits should be reviewed and graded against the factory standards grading system.
3. Only factories that have reached the relevant grade should be permitted - this is enforced through a fully integrated purchase order and approvals system in the key purchasing areas of the company.
4. In addition to the third party factory audits, the company can also conduct their own factory visits in partnership with expert consultants, to get a first-hand view of standards within these factories and to check the effectiveness of the core compliance programme.

E) Working together with the suppliers and their factories etc.

One of the business areas should be piloting in-depth 'capacity building' projects with the supplier factories, looking at working processes and ways of increasing efficiencies whilst reducing long working hours. Participating factories are very enthusiastic about the recommendations being made, realising that they will increase profit through more efficient working practices. Benefits for workers can include better pay for reasonable hours.

F) Raising awareness amongst the staff:

The companies should run regular Ethical Trading workshops covering the company's strategy, programme and requirements. The workshops can be made compulsory for anyone involved in buying, specifying, or approving products or services.

G) Living wages payment:

The company should make sure that atleast so much wages should be paid, which are atleast enough to meet the basic needs and also to provide some discretionary income.

H) Working hours

The company should also make sure that working hours must comply with the national legal stipulations.

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