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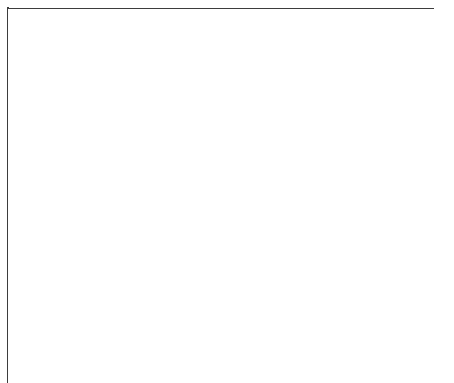
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Building Sustainable and Ethical Supply Chains

In the business world, fiscal imperatives often prevail over values—even the values of social responsibility and ethical behavior—as corporations strive to mitigate costs and reduce uncertainty. Nowhere is that drive for certainty and cost containment more compelling than in the corporate supply chain.

The global marketplace demands that supply chains be nimble and diffuse. Their broad distribution has elevated their significance beyond the functionality of manufacturing and transport, and they are transformative in the way they remake a corporation and the effect they have on local economies. An efficient supply chain is responsive to changing priorities by keeping costs in line, schedules on time and, more importantly, giving companies the room to scale for growth.

In the 1980s and 1990s, U.S. companies set aside much of their supply chains for outsourcing. Globalization, technology and the desire for profit made it possible to manufacture parts in one nation, put them together in another and sell them in a third. While controversial in some quarters, outsourcing proved to be expedient and profitable.



This revolution in the supply chain did not diminish the need for corporate citizenship, however. In fact, it demands citizenship that is even more robust, capable of encompassing both the parent company and its many contractors, even if they are on distant shores. The supply chain cannot be divorced from corporate social responsibility ([CSR](#)) concerns about the environment, health and safety.

Envisioning a seamless world of corporate citizenship that extends beyond U.S. borders is far easier than achieving it. Outsourcing brought with it a host of new challenges, not the least of which was entirely different sets of standards with regard to health and safety and environmental regulation. U.S. corporations that might have been described as CSR supermen in the United States have found it more difficult to capture the accolades in their overseas manufacturing operations.

CSR advocates have always argued that U.S. companies have an ethical responsibility that isn't constrained by geographic and political borders, or even cultural traditions. It has been a sobering enterprise to put that notion into effect in countries that do not share the United States' affinity for regulation and compliance, although it must be argued that many U.S. companies shifted operations overseas to avoid the heavy hand of U.S. regulation and the costs that came with it.

The experience of Nike in the 1990s illustrates this quandary acutely. Like many U.S. corporations that outsource manufacturing, Nike was driven by a desire to assemble products at a fraction of the cost of producing them in the United States—indeed Nike was one of the great innovators in overseas manufacturing. What made Nike

particularly remarkable is that it was one of the first U.S. companies to sever the connection between the independent contractor manufacturing a product and the company that contracts the work. Nike insisted that labor conditions in its contractors' factories were not its responsibility. "Nike's company line on the issue was clear and stubborn: without an in-house manufacturing facility, the company simply could not be held responsible for the actions of independent contractors," wrote Debora L. Spar in "Hitting the Wall: Nike and [International Labor Practices](#)" in the *Harvard Business Review* in 2002.

Confident in its position, Nike was still sensitive to the potential public relations nightmare an unrestrained local manufacturer could wreck on its good name, and it drafted a code of conduct for its contractors. This code outlined best practices in the areas of safety standards, environmental regulation and worker insurance, and suppliers were required to certify that they were following the code and local regulations.

There was no effort, of course, to determine if contractors complied with the code, and, eventually, Nike's factories came under attack for their workplace practices, including the use of child laborers. Watching its reputation sullied by stories of abuse, facing a backlash on college campuses from irate students, Nike began to see its profits dip. In fiscal year 1998, beset by the Asian currency crisis, oversupply and weak demand, Nike saw its earnings fall 69 percent and was forced to lay off workers.

"Nike's fiscal woes did what hundreds of harsh articles had failed to do: they took some of the bravado out of [Phil Knight](#)," wrote Spar, of Nike's chief executive officer and founder. "In a May 1998

speech to the National Press Club, a humbled Knight admitted that, ‘the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse.’”

Faced with significant earnings losses, Knight moved to turn around Nike’s policies on contractors and encouraged monitoring of local factories. In recent years, Knight has gone beyond monitoring to embrace a more collaborative approach to reforms, sharing workplace and human resource best practices.

As Richard M. Locke, Fei Qin and Alberto Brause noted in “Does Monitoring Improve Labor Standards? Lessons from Nike” in 2007 in the *Industrial & Labor Relations Review*, monitoring alone is not able to accomplish the tasks necessary to ensure a safe and healthy workplace. They wrote that, “global brands and labor rights NGOs would do well to complement their current emphasis on monitoring by providing suppliers technical and organizational assistance to tackle some of the root causes of their poor working conditions. Perhaps not all suppliers would be willing to collaborate with global brands and NGOs on these efforts, but refusals to collaborate could provide global brands with a justification to shift orders and consolidate production in more efficient, cooperative, and perhaps even ‘ethical’ suppliers.”

The lessons learned from the Nike experience have a particular appeal in 2012. After all, the world has shrunk considerably in the last decade, and the workplace abuses on the far side of the globe can come back home with a swift and uncompromising speed. Additionally CSR and corporate citizenship has taken hold, not only in the imaginations of academics but also in the real world inhabited by consumers.

Today another corporate behemoth—the charmed [Apple](#)—finds itself facing a tsunami of criticism for the practices of yet another overseas supplier with a less than savory reputation for workplace safety and fair wages. Apple has been buffeted by attacks in the United States for much of the last year for the workplace conditions and wage rates of its Chinese manufacturer, Foxconn, which makes the incredibly popular iPhone.

In February Apple became a participating company in the Fair Labor Association (FLA) and, in doing so, it agreed to abide by the FLA’s Workplace Code of Conduct throughout its supply chain. The FLA quickly launched a series of independent investigations of Foxconn’s factories in Shenzhen and Chengdu, China. A report detailing the FLA’s findings at Foxconn facilities and recommendations for a broader strategy to address workplace rights issues is due in March.

Launched in 1999 by a coalition of industry, labor and nonprofit advocacy groups, including Nike, the FLA assesses working conditions and monitors attempts to remedy violations in factories, farms and facilities used by its affiliated companies. Independent assessors schedule random visits, although critics complain that they do give warnings of their imminent arrival, to facilities supplying participating companies.

“We believe every worker has the right to a fair and safe work environment free of discrimination, where they earn competitive wages and can voice their concerns freely,” Apple CEO Tim Cook said in February. “Apple’s suppliers must live up to this to do business with Apple.”

Apple has taken its newfound responsibility to heart. Cook says the company will refuse to let any of its

suppliers cut corners in the future and will soon reveal new workplace standards for its entire supply chain. He said the company would continue its efforts to make any number of benefits available to individuals working within its supply chain, including English language lessons.

Apple is an exceptionally able company to walk the minefield of workplace standards at this moment in time. Arguably one of the most agile and intellectually authoritative corporations operating today, Apple has the creativity, reputation and scope to find solutions to workplace standards and compliance for contractors that have eluded many other companies.

By exhibiting a genuine commitment to social responsibility and ethical business practices, corporations like Apple have the power to not only transform their organizations but also their supply chains. A robust corporate citizenship isn't limited by the vision of its shareholders and customers, and its reach certainly doesn't end with its company headquarters.

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