

ETHICAL CONSIDERATIONS FOR COMMON GLOBAL SOURCING PRACTICES

Robert L. Bregman, University of Houston, C.T. Bauer College of Business, 334 Melcher Hall,
Houston, TX 77204-6021, RBregman@uh.edu, 713-743-4722

ABSTRACT

Global sourcing has led to lower cost and more effective supply chains for many companies. However, when the cost-driven practices of many suppliers in these chains come to light there is often considerable debate over the ethics of these practices. This article proposes a metric for positioning ethical decisions, notes 10 common global sourcing practices that represent particularly troubling ethical decisions, highlights the ethical dilemmas associated with those decisions, and reviews common strategies firms use to manage criticisms of their sourcing practices. The article ends with some general observations about global sourcing and examines hazards related to these practices that have potential for damaging repercussions for firms in the future.

Keywords: ethics, global sourcing, supply chains

INTRODUCTION

As corporations have become larger and more global in scope they have become better positioned to take advantage of temporary imbalances in wealth and political institutions to create advantageous global economic models. These imbalances are further enhanced by competition among governments using currency devaluations, free-trade and enterprise zones, and other incentives to attract employers. At the epicenter of these new economic models are cost-driven global sourcing practices designed to use the leverage of these large corporations to reduce the prices charged by potential suppliers for materials and components. The resultant “race to the bottom” among suppliers locked into this cutthroat reverse auction often leads to underdeveloped economies offering little or no institutional regulation and impoverished workers willing to accept substandard wages. While the exploitation of imbalances is central to the idea of economic globalization, there is a growing uneasiness among consumers as to the degree of exploitation.

Consumers actually have a dual role in the development and design of global supply chains. Consumer preferences for products with better value motivates the development of global supply chains and the ethics of consumers as it translates to their purchase preferences serves as a key moderating influence in the design of those supply chains. Although ethical consumption (Newholm and Shaw, 2007) currently represents a relatively small segment of the overall consumer market, it is growing and has the potential to be quite large owing in part to the use of internet-based viral video and social media technologies. Consider a situation where a major corporation chooses to reduce their supply chain costs by contracting with suppliers located in underdeveloped economies. Although the suppliers pay their workers higher wages than could be obtained in those economically depressed areas, the daily wages of these workers constitute less than one hour’s work at the minimum allowable wage in the United States and results in

these workers living far below poverty conditions. Then suppose a major media outlet brings this scenario to the attention of the consuming public and a large segment of consumers view this action as unethical. Although the major corporation will likely attempt to distance themselves from the actions of these suppliers, consumer groups might logically link the unethical action to the major corporation and initiate a protest movement against the corporation. As events in northern Africa and the Middle East have shown, small protests can quickly explode into historic movements. A similar result triggered by a global sourcing practice would represent a nightmare scenario for a major corporation.

THE ETHICAL DOMAIN

Ethics and corporate social responsibility (CSR) are defined numerous ways in the literature depending on the viewpoints of the authors or the focus of their research. Brunk (2010) provides an overview of definitions of CSR that range from economic (Friedman, 1962); to a mix of economic, legal, ethical, and philanthropic (Carroll, 1979, 1991); to purely voluntary motivations (Manne and Wallich, 1972). Depending on the definition used, ethics may be a subset of CSR or CSR may be a subset of ethics. For the purposes of this article economic considerations (maximizing profit) are viewed as the over-riding goal of every company and that objective is limited by a continuum of responsibilities, as shown in Figure 1. The continuum ranges from well-defined legal responsibilities, to the ethical domain, and finally to the Manne and Wallich view of CSR as a purely voluntary action taken without regard to economic return. In simple terms, moving from left-to-right the continuum addresses the following issues: What must be done (laws and statutes). What should be done (ethics). What can be done (CSR).

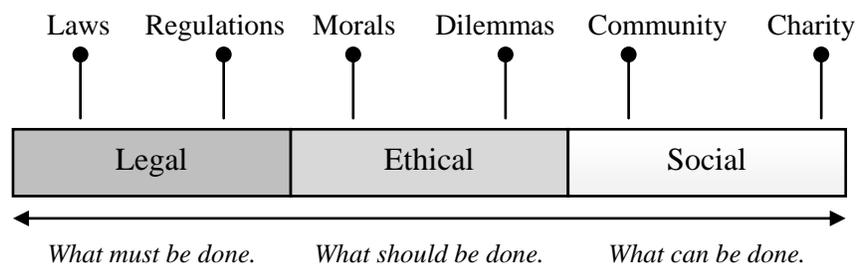


Figure 1: A continuum of corporate responsibilities

By this metric, bribery of foreign officials is a violation of the Foreign Corrupt Practices Act of 1977 and as such does not fall within the ethical domain. Supporting or sponsoring community organizations and charities would also not be part of the ethical domain. Although there is an expectation that successful companies would use a portion of their wealth to help those less fortunate, choosing not to do so would be characterized as uncharitable rather than unethical. Similarly, establishing extensive green policies (such as recycling, solar and wind power, and sustainability practices) is not within the ethical domain. These policies fall into the realm of public relations within CSR. Between the legal and CSR tails is a continuum that is defined in this article as the ethical domain. At the beginning of the continuum (bounded on the left by legal responsibilities), are well-defined (right versus wrong) ethical considerations that are governed by overarching moral principles. For example, it is unethical to lie and misrepresent

facts. At the end of the continuum is the gray area of ethics where there is less of a consensus as to what is right and wrong. The focus of this article is on global sourcing practices within this gray area of the ethical domain and the ethical dilemmas firms face in using these practices.

ETHICAL DILEMMAS IN GLOBAL SOURCING

Managers of firms must deal with numerous stakeholders, including but not limited to shareholders, customers, employees, and communities where the firm is located. Each of these stakeholders have different motivations and perceptions which can create ethical dilemmas for those managers. For example, consider the global sourcing situation depicted in Figure 2 where managers must decide between maintaining internal or domestic suppliers, or switching to low-cost suppliers using questionable business practices. Corporate and social responsibilities to employees and communities would suggest maintaining current supply relationships while the managers' fiduciary duty to shareholders would suggest making the switch. Either decision will violate a responsibility to a stakeholder group.

Further complicating these global sourcing decisions are the actions of competitors and market realities. If the firm's products are purchased by price-sensitive consumers and competitors switch to low-cost suppliers, then the firm may be forced to respond in kind even if they would prefer to fulfill their corporate and social responsibilities to employees and communities. In that case, the outcome for current employees and communities would likely be the same for either decision. In that very common situation the success of the firm is driven by their ability to implement the switch to low-cost global suppliers earlier and more effectively than their competitors.

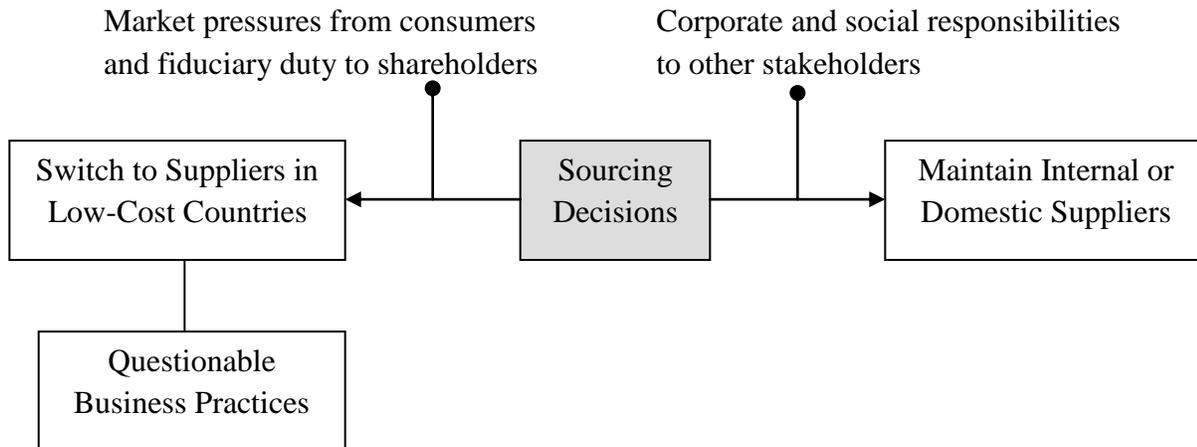


Figure 2: Global sourcing ethical dilemmas

GLOBAL SOURCING PRACTICES

The ten well-documented global sourcing practices listed in Table 1 fall within the ethical domain as defined in this research. All of these practices are legal, provide benefits to various stakeholders, may cause harm to some parties, and are exploitive in nature.

1. Lower hourly wages
2. Fewer employee benefits
3. Task-intensive work design
4. Fewer employee rights
5. Targeted hiring practices
6. Fewer workplace safeguards
7. Lower environmental standards
8. Lower corporate taxes
9. Less supply chain oversight
10. Less long term commitment
Table 1: Common Global Sourcing Practices

CORPORATE RESPONSES TO GLOBAL SOURCING REVELATIONS

Corporate responses to media revelations of global sourcing practices provide some insight into the motivations of the firms and their commitment to particular global sourcing practices. The most common responses can be categorized into the 10 general types listed in Table 2.

1. Plausible deniability
2. Investigation
3. Commitment to abide by laws and regulations
4. Commitment to a corporate code of conduct
5. Stakeholder benefits
6. Social responsibility
7. Competitive necessity
8. Co-optation
9. Diversion
10. Temporary altruism
Table 2: Common Corporate Responses

For detailed descriptions of these global sourcing practices and corporate responses, as well as a discussion of potential hazards; please contact the author for the complete paper.

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