



Creating a Socially Responsible Supply Chain



By Karan Girotra, INSEAD Assistant Professor of Technology and Operations Management and Elena Belavina, Assistant Professor of Operations Management, Booth School, University of Chicago

Implementing a socially responsible supply network is fundamental to any CSR policy. The key is getting the structure right.

Firms around the world, particularly those in the garment, food and electrical sectors, have come to realise that their supply chains' policy and processes say a lot about the kind of company they are and the values they hold. The PR backlash against well-known high street brands in the wake of 2013 Rana Plaza garment factory collapse in Bangladesh is just one example of the risk that firms face when their suppliers don't meet acceptable standards of socially responsible behaviour.

In a time of increased outsourcing and supplier dependency, it's crucial that companies find the right supply chain configuration enabling them to create a network that is sustainable and effective in meeting customer expectations

without sacrificing too much on profits.

Long-term commitments

Under pressure from heightened media scrutiny, sourcing policies are evolving from a focus on getting the lowest-cost component meeting clearly defined specifications, to finding socially responsible suppliers who meet the standards of a more engaged and socially aware customer base.

Large corporations like Apple, Philips, H&M and Wal-Mart have all made social responsibility a key goal of their sourcing efforts while a pioneering group of established firms, including Patagonia, Amy's Kitchen and Whole Foods Market Grocery stores - as well as innovative start-ups like Everlane, Honest By and Zady Apparel - are going further using socially conscious sourcing as their key competitive advantage.

To be effective at living up to these promises of socially responsible sourcing, firms in the apparel, electronics and food industries must ensure that their suppliers also share their commitment to socially responsible behaviour.

Evidence suggests auditing and policing behaviour is not necessarily the best way to ensure that standards are maintained. Successful firms are those that work collaboratively with vendors, building longstanding relationships and contracts committing suppliers to certain standards of practice and making it less likely they will be tempted by short-cuts.

Toyota's industry-rattling rise in the 1970s was due in part to their use of these long-term sourcing practices - known as relational sourcing - as a means of radically improving quality. The same approach can be used to encourage suppliers to meet higher standards of social responsibility. More recent examples include Nike, which employed relational sourcing to tackle nagging concerns about the use of child labour in their production facilities after strategies such as competition, monitoring and audits proved ineffective; and Patagonia, an industry leader in environmentally friendly sourcing, which has a policy to form long-term relationships and "work with contracted factories in the spirit of continuous improvement".

Re-organising the network

Most successful shifts to long-term sourcing have been accompanied by a re-organisation of the business's supply network. This usually involves changing

the scope of work performed by individual suppliers, giving them either fewer or more components or products to supply.

H&M recently decided to change the structure of its supply network in response to criticism of working conditions in its South Asian production facilities. The fashion retailer is now sourcing from fewer suppliers, each with a wider scope of activities. In contrast, the Fortune 500 company, International Flavors & Fragrances, has moved to relational sourcing using a more specialised approach, signing contracts with more vendors for a very narrow scope of activities.

Finding the right structure

In the past, it's been thought the fewer suppliers the easier it is for companies to manage an efficient, socially conscious network. New research however, suggests this is not necessarily the case.

Our recent paper, [Supply Networks for Relational Sourcing](#), studies the use of relational sourcing in “general” supply chain networks.

Looking at different supply chain structures, it considers the scope of work assigned to exclusive suppliers under long-term contracts and the impact the amount of work has on the feasibility and effectiveness in meeting accepted CSR standards.

While there is no one-size-fits-all approach to supply chain re-organisation according to sectors, the study found that high degree supply networks (those with a large number of specialised suppliers in the portfolio) worked better for firms with higher margins, a greater sensitivity to brand damage and more likelihood of being detected when they failed to meet customer approved standards.

On the flip-side, organisations with lower detection probability and brand damage costs are better served by low degree networks (fewer suppliers expected to contribute a greater number of activities or products). The “zone of indifference” - where the gains and costs are more or less balanced - shrinks with increasing margins but expands with increasing compliance costs.

This is the first analysis that relates the supply network's structure to the efficacy of relational sourcing in ensuring socially responsible behaviour across the network.

It's not enough to want to be seen as socially responsible, today. Companies have to live up to this promise by ensuring that each of their many distributed suppliers also lives up to customers' expectations in social responsibility. With a little forethought, this can be done without compromising too much on profits.



Karan Girotra is an Assistant Professor of Technology and Operations Management at INSEAD and author of the “[Risk Driven Business Model: Four Questions that will Define your Company](#)”. He teaches the **Identifying New Business Models** module, part of INSEAD’s MBA programme and the EMBA module called **Key Management Challenges** where classes engage in experimental workshops combining approaches to entrepreneurship and innovation.

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