

Ethical Supply Chains – ‘The New Black’?



Society has developed a social conscience like never before seen in history. Today there is pressure to donate, volunteer, buy green, buy Australian, buy organic, recycle, reduce carbon emissions (and all other forms of pollution), eat healthily, exercise regularly and generally incorporate more ethical and sustainable decision making practices into our everyday lives. The way in which we, as consumers, respond to such societal pressures varies from individual to individual. For some the pressure is eased by donating to a chosen charity or riding a bicycle to work occasionally. For most of us, the direction of our ethical compass can be measured by far less grand (and more routine) gestures such as the products we buy and from whom we buy them.

Consumers today are not only concerned with product quality but also the integrity of supply chain inputs when differentiating between products. As consumers look beyond the tangible product on the shelf and deeper into supply chain inputs, there is significant pressure for greater supply chain transparency. Accordingly, this paper examines *ethical supply chains* as one of the most significant trends affecting the Australian Logistics industry.

Discussion

A decade ago consumers were beginning to take an overt interest in environmentally sustainable materials, such as recycled materials, being integrated into the production process. This interest has now peaked into an expectation. Not surprisingly, in a global economy where the difference between competitors' unit price is often minimal, some of the less tangible factors such as supply chain inputs¹ and whether or not these are deemed to be

¹ Aspects such as a company's reputation, whether or not the products it uses in its production processes are Australian made, whether or not production takes place on Australian soil or is outsourced overseas and even employee working conditions (such as ensuring employees receive award wage or higher, that the employer complies with national health and safety guidelines and values its employees etc) are becoming pivotal factors in the decision making process that consumers enter into when deciding to buy one product over another.

‘ethical’ in the eyes of the consumer are now coming to the fore and (in many instances) driving the decision making process of consumers.

To date the willingness of companies to respond to consumers demands for ethical products (and supply chains) has been mixed. Success stories include McDonalds (environmental programs and coffee), Gloria Jeans (coffee), Cadbury UK (chocolate) and The Body Shop (body products):

- **McDonalds.** Not only does McDonalds Australia attempt to buy Australian where possible with a reported \$760 million dollars spent on goods and services from more than 100 Australian suppliers reported in 2004², it also partners with the community and government in an array of environmental programs – each contributing to McDonalds’ status as a responsible corporate citizen³:
 - National Packaging Covenant
 - Greenhouse Challenge Plus
 - Buy recycled Business Alliance
 - Clean Up Australia Day
 - Every Drop Counts
- **Gloria Jeans.** Gloria Jeans (and McDonalds) sells coffee from growers certified by the Rainforest Alliance, a global non-profit organisation based in New York. The Rainforest Alliance Certified seal guarantees that coffee harvested for McDonalds and Gloria Jeans (among others) is ‘grown on farms where forests are protected, rivers, soils and wildlife conserved; workers are treated with respect, paid decent wages, properly equipped and given access to education and medical care’⁴.
- **Cadbury.** In March 2009, Cadbury announced that its ‘Dairy Milk Chocolate and cocoa drink would be Fairtrade certified in the British and Irish Markets by mid 2009’⁵. The Fairtrade certification ensures cocoa farmers are paid a fair price for their crops and that these crops are farmed under humane and sustainable conditions. In effect the Fairtrade movement has helped to stamp out the unethical farming of cocoa

² <http://www.mcdonalds.com.au/test.asp>

³ <http://www.mcdonalds.com.au/test.asp>

⁴ <http://www.rainforest-alliance.org/>

⁵ <http://www.worldvision.com.au/Act/ShopEthically/DemandEthicalChocolate.aspx>

which has historically, in some regions, involved children working under extremely poor, forced-labour conditions⁶.

- **The Body Shop.** The Body Shop's community trade program which involves approximately 15,000 producers in 20 countries is committed to forming long term trading relationships aimed at strengthening families and local communities⁷. The purpose of the program is simply to promote a fair price and fair working conditions in exchange for locally made products. In return communities benefit by receiving money for schools and other community based facilities.

Conversely, other companies including two U.S.A based clothing and footwear giants, which have been criticised in the past for allegedly using overseas 'sweat shops' to produce their products, have to a certain extent fallen on their sword by failing to take seriously consumers' demands for ethical supply chains. Admittedly, these companies have managed to recover financially, most likely due to their multinational status and dominance in the U.S.A. market. However, many argue that their reputations remain marred by the alleged 'sweat shop' scandals. While large multi-nationals may seemingly be able to run the gauntlet (for the time being at least) other companies working within smaller profit margins and/or niche markets may not be so lucky to rid themselves of their tarnished 'sweat shop' reputations so quickly particularly in the eyes of today's increasingly morally and ethically-astute consumers. The lessons learnt by these companies and others indicate that the message being sent by consumers appears to be loud and strong – ethics matters.

In many ways, ethical supply chains have become 'the new black', a trendy way of connecting with the consciousness of consumers (particularly generation Y) and achieving differentiation from those companies/products not willing or able to 'keep up' with their morally and socially conscious competitors. However, more than just a marketing gimmick ethics has become big business. As outlined in the McDonalds and Gloria Jeans examples, it is difficult to buy even a cup of coffee without the issue of ethics weighing in.

Why has ethics come to the fore? One of the explanations that can be derived from this shift in consumer thinking is that consumers are far more educated than ever before about the

⁶ <http://www.worldvision.com.au/Act/ShopEthically/DemandEthicalChocolate.aspx>

⁷ <http://www.thebodyshop.com>

consequences of buying unethical products and contributing to unethical supply chains. Consumers often feel a sense of intrinsic commitment and emotional attachment to products and purchases that they perceive as having contributed to the 'greater good' of society. There is no more simple or accessible way of doing so than making an informed choice when making a purchase at the local supermarket or department store. Additionally, both print and television media has played a large role in educating first world consumers about the exploitation of third world factory workers and shaming multinationals into ensuring their workers are treated humanely and in accordance with appropriate standards. With all of these contributing factors in play consumers no longer feel the same level of 'comfort' in making choices that do not contribute to the 'greater good', in fact many marketing campaigns indeed target this guilt.

Ethical Supply Chains – Implications for Industry

❖ Transparency of supply chains.

In a society where publicly accessible information is only a key stroke away and a good reputation is priceless, one of the ways a company can achieve competitive advantage is to ensure the integrity of supply chain inputs. This means ensuring that inputs such as raw materials, employees, employee conditions and distribution networks (among others) are set up to withstand public scrutiny and meet (or preferably, exceed) consumer expectations. In order to achieve these lofty ideals companies are expected to internalise values-based decision making and processes into their day to day business.

❖ Product differentiation.

Ethical supply chains are influencing the way in which products are differentiated. Products are no longer differentiated by rudimentary characteristics such as colour and price. Rather, less tangible factors such as the beliefs and values system to which the parent company subscribes, the values of the people the company employs and the way in which it in return values and looks after those employees, as well as the sustainability of inputs and business practices are *all* under the microscope. All of these factors are becoming pivotal in a consumer's decision making process. Those

companies able to meet the expectations of consumers are becoming 'blue chip' investments.

❖ Declaration of interests.

Interestingly, this new global supply chain phenomenon is forcing many companies to look inwards, create performance measures other than the bottom line and declare their interests (or risk becoming 'guilty by association'). In the eyes of consumers it is no longer acceptable for large companies to 'pass the buck' and permit subsidiaries or subcontractors to be unethical and/or do their 'dirty work'. Instead consumers are holding parent companies, Chief Executive Officers and Boards to account for the products and supply chains they are creating. A consequence of this is that many large companies have had to dedicate resources to track and monitor the operations of contractors, subcontractors and subsidiaries in an effort to ensure their own reputation remains untarnished by the actions of those with whom they are associated.

❖ Ethics ahead of profits

Rather than just 'talking the walk', companies are expected to 'walk the talk' with respect to ethical supply chains. Where consumer expectations have not been met, evidence is showing that consumers are more than willing to shop elsewhere and where necessary, pay 'extra' to those companies that are listening and responding to their demands.

Broader Logistics Industry Implications

❖ Increased corporate responsibility = increased community contributions

Some of the broader logistics industry implications resulting from this supply chain phenomenon include increased pressure for companies, particularly multinationals, to play a more active role as a responsible corporate citizen.

❖ Increased pressure to buy locally and buy Australian made products/supply chain inputs

One of the other more obvious supply chain implications is pressure for companies to 'buy local' and support local business. In the Australian context this has been evidenced by a push by consumers to demand local produce and locally made goods bearing the green and gold kangaroo trademark. A microcosm of this can be seen in Maleny, a small community in the Sunshine Coast hinterland, which has begun producing and circulating its own local currency in an effort to ensure regional businesses remain secure and well supported.

The Global Economic Crisis

Has the global economic crisis impacted consumers' willingness to buy 'ethical' products when it often requires us to pay 'extra'? Indeed there is greater financial pressure on households than even before, however, like all economic peaks and troughs this one is likely to pass. While it may be cheaper or convenient to buy 'other' products in the short term it is unlikely that consumers will abandon the trend towards buying ethical products and incorporating ethical decision making into their psyche in the long term. In fact, the pressure to contribute to ethical supply chains if anything is likely to increase in the long term. Just as we have witnessed the 'phasing out' of free plastic shopping bags in supermarkets and department stores so too are we likely to witness unethical products being 'squeezed out' of the market due to public pressure.

Conclusion

For now, ethical supply chains are an emerging phenomenon, - 'the new black' – and an ultra trendy way of connecting with the consciousness of generation Y and means of achieving product differentiation. However, more than a marketing gimmick companies and corporations have begun to realise that ethics is big business. They are no longer in a position to be able to hold consumers at ransom on the basis of price, instead the consumer is starting to play the role of gatekeeper when it comes to ethics by showing they are willing to pay more (if need be) to secure 'ethically superior' products and/or services. Indeed, the buying power of consumers is showing that ethics matters. Those companies unwilling or unable to keep up with the demands of consumers for ethical products, supply chain inputs and supply chains are likely to be shamed and/or squeezed out of the market in the not too distant future.

References

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