

# Ethical issues in Supply Chain Management at Different Level of Business in this Competitive Era

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## ABSTRACT

*Ethical issues in supply chain management mainly related to three inter related fields- the ethical decision making which are directed attached which moral psychology, secondly corporate social responsibility which related to organizational behavior and third is operations in supply chain management.*

*Starting of the supply chain, the dilemma of individual farmers, minors or production workers is frequently examined in terms of working conditions or fair wages. Recently, the ethics of shifting production from one country to another has also been questioned. Moving further down the supply chain, middlemen like export- and import companies or wholesalers are commonly scrutinized for what should be their “fair share” in the value creation process. In spite of all technological advancement, supply chains are mainly based on the people inter-personal behavior and wherever people interact, a changing scene of ethical issues emerges.*

*On the other hand, consumer demands and wants also led to an increased awareness of unethical conduct in the supply chain process, where as other violating forces such as pressures for low cost products and the ease by which consumers are purchasing non-reliable and forgery products i.e. non-deceptive counterfeits should also not be ignored.*

*Many manufacturers, retailers, suppliers are now focusing ethical issues by taking care of the production methods and working conditions concerning to the goods they offer. In this paper, we take a closer look at some important ethical issues associated with the supply chain process.*

**KEYWORDS:** *Supply Chains; Retailers; Manufactures; Ethics; Suppliers; Ethical issues*

## 1. Introduction

As we know Supply chain management is defined as the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across business within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as whole.

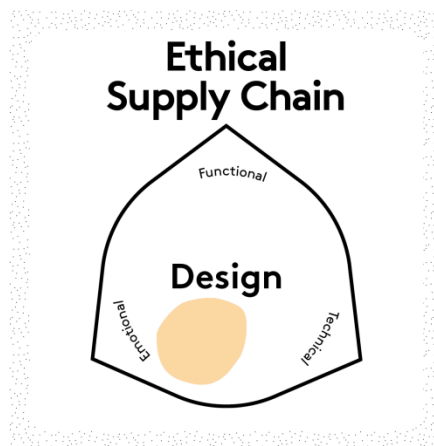
Starting at the origins of the supply chain, the difficulty of individual farmers, minors or production workers is frequently examined in terms of working conditions or fair wages. The field of supply management, and in particular procurement, is quite vulnerable to ethical considerations, since procurement personnel are entrusted to spend significant financial resources in many organizations. Other concerns pertain to the production itself. Issues like ecological soundness and infringement of intellectual property rights are frequently debated. Recently, the ethics of shifting production from one country to another has also been questioned. Moving further down the supply chain, middlemen like export- and import companies or wholesalers are commonly scrutinized for what should be their “fair share” in the value creation process.

In spite of all technological advances, global supply chains are always based on the interaction of people and their interpersonal behavior, wherever people interact at different levels, a changing scene of ethical issues emerges. Critical debate has also focused on their discriminatory sales and purchase practices. Retailers, in turn, have been in the Centre of the ethical debate for issues like truthful packaging or inept use of cause-related marketing. Finally, it appears that consumers are no angels either: for do they not quickly abandon any ethically motivated hesitations and willingly buy counterfeits whenever the price is low enough?

From Business point of view, specifically two financial issues of supply chain management make it more significant i.e. first a negative influence on the operation of the supply chain approach. Stock options are major element in the remuneration of employees of businesses, as it indirectly affected the success but directly affects the performance of the company. Secondly, supply chains is the campaign for every shareholder’s attention and values. Sometimes, it is a matter of great concern for these investors, as by nature they are also considering the damage they may be doing.

However, there is not only gloom and doom when it comes to ethics in international supply chains. Media attention focusing on the plight of Third World production workers is beginning to show results. Of course, many problems remain, but unsafe and unhealthy working conditions and ecological excesses are more difficult to hide. The Fair Trade movement, trying to ensure that Third World farmers are getting a better deal and curtailing the power of middlemen, has also gained momentum. Similarly, many retailers are now

embracing ethical issues by emphasizing, for example, that they take care of the production methods and working conditions pertaining to the goods they offer. In a similar vein, cause related marketing is used by some retailers to position them as particularly socially responsible. Finally, among consumers, “ethical shopping” is in vogue. Making an ethical stance with your supermarket trolley appears to be the order of the day.



In this paper, we studied a critical and significant phase on ethical issues related with the supply chains process. In business financial necessities also have been prioritized certain corporate social responsibility and personal ethical behavior. In spite of advances in technology, supply chain even at a global level is based on the interaction between people which gives rise to ethical issues at several stages of the process. The reason for such ambiguity in prioritizing values is due to the fact that corporations are focused on containing cost. Cost has been the single driving force behind the unethical behavior of certain corporations.

## 2. Emergence of Ethical Issues

With different parties involved in the supply chain process there is always a question of who is being fair and otherwise. Tensions arise in supply chain mainly due to the perceived understanding of ‘fair play’ between various parties. Tensions in international supply chains frequently arise because something is perceived to be unfair by the actors involved. Indeed, to agree on what is fair appears to be extremely difficult. Bolton et al. (2003) have defined “fairness” as “a judgment of whether an outcome and / or the process to reach an outcome are reasonable, acceptable or just.” And while there are many definitions of fairness, the root cause of many disagreements lies in the operationalization of fairness. And of course,

morality is the core issue in all religions, too.

In the business ethics literature, a number of scholars also discussed the fairness construct and some identified and developed subcategories, such as price fairness (Kahneman et al., 1986a; Kahneman et al., 1986b; Maxwell, 1995; Campbell, 1999; Bolton et al., 2003; Xia et al., 2004) or service fairness (Seiders and Berry, 1998; Carr, 2007). A general approach was presented by Ferrell et al. (2008), who argue that fairness is “the quality of being just, equitable and impartial”. According to Ferrell et al. (2008) the construct fairness is made up of three elements: equality (i.e. how wealth is distributed), reciprocity (i.e. the equal interchange of small favours) and optimization (i.e. the compromise between equality and maximum productivity).

However, none of these constructs and their operationalization provides a convincing and coherent approach to resolving disputes about fairness. It is, and will always be, a big issue. What may seem as a legitimate course of carrying out the business may be perceived as an unfair trade practice by the other.

### **3. Ethical Issues faced by Manufacturers**

There are numerous ethical issues that a producer could possibly face in a supply chain process. Working conditions, labour rates, child labour, environment unfriendly practices (including production of goods and disposal of wastes), utilization of natural resources are some of the factors in which an organization can deviate from its fair business practices. Ethical issues concerning producers, particularly in developing countries, are currently at the forefront of debate. Arguably, child labour is the issue where most agreement exists. However, despite the unethical, unjustifiable and degrading nature of child labour, it is still a problem in many developing countries. The problem is exacerbated when sub-contractors are involved. Nike, for instance, has been criticized in the media countless times as a purveyor of child labour. Instead of controlling local contract factories and ensuring that they do not employ children, the corporation defended itself with the lame excuse that children can easily fake the evidence of age (Boggan, 2001). Responding to criticism of child labour, Third World countries frequently point out that developed nations should not forget their own past. During the Industrial Revolution, children working in the textiles industry and in mining were very common indeed (Cruickshank, 1981; Nardinelli, 1990).

Another ethical concern of both companies and employees are healthy and safe *working conditions*. Nowadays, most industrialized countries have introduced regulations on health, safety and environmental (HSE) conditions. Yet the main problem in Western countries is not a lack of regulations and laws, but a reluctance to implement these laws and regulations. This is where the issue becomes an ethical problem, namely when companies fail to enforce regulations, such as wearing a safety helmet or passively permit workers to ignore appropriate safety regulations (Crane and Matten, 2007). In developing countries, concern shifts to the length of the working day and the working week. Many workers employed in sweat shops are reported to work more than 12hours a day, six days a week. They have to fulfill quotas and work over-time if they do not want to be fired (Adams, 2002). But not only long working hours are problematic.

People in the Third World often have no better alternative. It seems ironic but a study on sweatshops and Third World living standards presents results indicating that workers are better off if they work in sweatshops, since they can improve their living standards with their salary. Apart from that, the alternatives to working in sweatshops are even worse. Admittedly, sweatshops have poor working conditions and abhorrently low wages compared to Western standards.

One big ethical issue for producers in many developing countries is the recognition of intellectual property rights such as patents, trademarks and copyrights. Manufacturing and selling counterfeit goods is regarded as unethical, since a manufacturer tries to capitalize on the goodwill of another company that has spent large sums of money and time on branding its product and creating an added value for its consumers (Laczniak and Murphy, 1993). Counterfeit goods have become a severe concern to global industry, as they account for a substantial proportion of worldtrade.

The ethics of shifting of production sites from one country to another has also been questioned. However, it appears to be debatable whether shifting production locations is, in fact, an ethical issue at all. We would argue that it is the treatment of the employees to be made redundant that has an ethical dimension but not the shift of the production facility perse.

In the context of ethical issues concerning producers, the Fair Trade movement is gaining in importance. The movement aims to fight poverty by supporting disadvantaged producers living in developing countries. In the last decades, Fair Trade sales have grown by more

than 20% each year and Fair Trade products are moving into mainstream distribution channels, since more and more people want to support poor farmers and be sure that the products they are consuming are produced under fair conditions (Krier, 2005). On the other hand, Fair Trade's co-operation with large, well-know companies, like Nescafé, and the distribution of Fair Trade products in supermarkets, might tarnish Fair Trade's image among its core constituency (Low and Davenport, 2006). The two main criticisms are that Fair Trade works too much within the system (Jacquiau, 2006) and that Fair Trade stops short of actively advocating more important trade policy changes (Boris, 2005).

Some organizations with the backing of the government in their homeland resort to exploitation of the available resources either by exploiting the political instability or by feeding the corrupt law makers of the host nation. These actions create a sense of dissatisfaction among the workforce in the longer run which may result in disruption in the production process. Also environmental degradation cannot be ruled out if the organization is totally unmindful of the way their wastes are disposed. Unfair trade practices always stems with disregard for intellectual property rights. A producer is deemed to be unethical if the product whose technology or idea has been duplicated from another producer that has spent millions to create a value for their end users.

#### **4. Ethical Issues Pertaining to Suppliers**

Suppliers are an integral part of the production process of an organization. Not all producers procure all raw materials directly from a source. Suppliers perform an integral job of procuring raw materials of high quality and maintaining high standards of inventory and a sound distribution network. Ethical issues concerning suppliers are up for discussion, too. Questions of fair purchasing agreements, fair sales prices, fair share on wealth creation and fair treatment / relationship to producers continue to be debated.

But some suppliers maintain lower standards in managing inventory or the quality of materials procured will be of a cheaper quality, reasons which are attributed towards saving cost and increasing profit margin. Signing a mandatory code of conduct with the organization has been the need of the hour mainly because of the lack of trust. This lack of trust has stemmed from the fact that standards and quality may have not been maintained according to the expectations of the producer which has led to signing of agreements between parties. Also certain suppliers form a cartel which leads to manipulating the market. For example, farmers from whom the agricultural products are procured, will be

under the mercy of these cartels that resort to rogue pricing. These raw materials are sold at a higher price to the manufacturer so that there is a higher profit margin for the suppliers. Exploitation of the resources happens not only with organizations that procure materials directly but also by suppliers that act as middlemen between the original source and the manufacturer.

### **5. Ethical Issues Pertaining to Retailers**

Similar instances of unethical practices have been recorded with retailers when it comes to packaging or labeling the products. Retailers resort to practices such as tampering with the packages or partially filled packages which amounts to cheating as the customers who buy the product are led to the belief that the content of the package is equal to the weight disclosed on the cover (For example, a potato wafers packet may consist of only 25-30 grams whereas the disclosed weight on the product would be 35 grams). Retailers are subject to an entire spectrum of ethical concerns, some of which are not too dissimilar from those found at producers or middlemen. In this context, ecological concerns continue to receive a lot of attention, since packaging causes about 40% of the world's waste (Schlegelmilch, 1998). Another ethical problem is untruthful packaging, including issues such as tampering with packages or slack fill, which cheats on the customers as packages are only partially full (Smith and Quelch, 1993). Similarly, misleading or unclear *labelling* continues to be a concern. If consumers are not able to understand the information presented to them correctly, they may make poor choices that are beneficial to the retailer.

A somewhat different angle is represented by the attempts of some retailers to use ethics as a positioning instrument to gain a competitive advantage. Specifically, retailers may attempt to present themselves as more ethical, more ecologically minded or more charitable than their competitors (Schlegelmilch, 1994). This could, for example, be achieved through so called cause-related marketing. Here, the retailer may suggest to their consumers that a certain percentage of the purchase price will be donated to a good cause, such as a children's charity. Of course, such cause-related marketing appeals are also used by manufacturers (e.g. each time you buy this product we pay a certain amount to X) or service companies (American Express run a campaign called charge against hunger). Although attempts to use ethics as a positioning instrument might improve a retailer's image and contribute to its competitive advantage, ethical positioning can also be dangerous and risky. Any type of ethical misconduct or problem will be viewed much more critically when the

affected company attempted to position itself as particularly ethical.

Also retailers may resort to pseudo-marketing techniques to project a good image among the public. For instance a retailer may claim that part of the proceeds in the purchase of the product goes towards a noble cause. Even manufacturers make tall claims about their product being totally environment friendly which may not be the case

## **6. Ethical Issues Pertaining to Consumers**

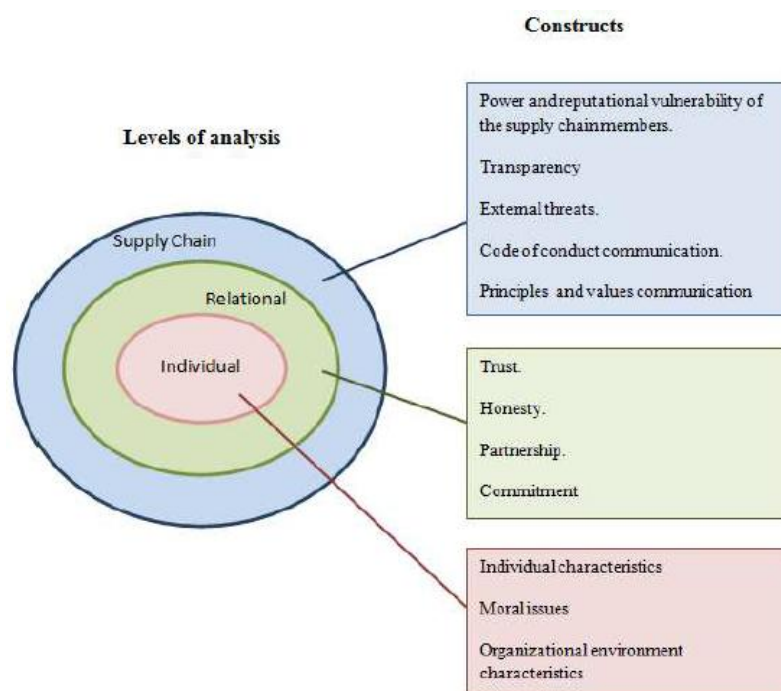
Though consumers are in the receiving end of unethical practices most of the time, not always it could be justified. If companies offer a quality product at a higher price, the willingness to buy has reduced considerably due to availability of alternatives. By alternatives it does not mean availability of substitutes alone. Consumers have started buying counterfeit products which are priced much cheaper. Their only approach towards buying is based on cost and not quality. As a reason, manufacturers are forced to cut down or compromise on the quality of the product they have been offering plainly because of lack of sales which burdens their profit margin. Consumers increasingly want to be informed about the ecological and social context of the products they buy and use their shopping trolley to express social and ethical concern (e.g. De Pelmacker et al., 2005; Datamonitor, 2005). Notwithstanding these encouraging developments, it has to be recognised that consumers are no angels. Consumer theft and fraud cost businesses worldwide billions of dollars. Other consumer misbehavior also inflicts financial costs. Examples are unjustified complaints, psychological and physical abuse of employees or the many subtle forms of cheating, e.g., receiving too much change and not saying anything. And are consumers not too easily swayed to jettison their attitudes towards ethical issues when they buy non-deceptive counterfeits (Schlegelmilch and Stöttinger, 1999)? With few exceptions (Schlegelmilch et al., 2004), these more subtle forms of consumer misdemeanors have largely been overlooked in previous research.

So overall it has become a vicious circle where in a slight increase in the cost of the material supplied by the supplier which is passed onto the manufacturer who increases the cost of the final product leading to consumers preferring alternatives.

## 7. Conclusions and Future Research Directions

This study, through a systematic review of literature, provides insights into the conceptualization and research methodological bases of the multi-disciplinary field of ethics in the supply chain management. Although in an incipient way, a model is proposed to try to understand this complex and multi-disciplinary issue. Here I tried to provide an overview and brief discussions on some of the most prominent ethical issues existing at various levels of the Supply chains. But although the list of identified problems is already long, it is by no means exhaustive. Moreover, some issues, such as fair prices, concern virtually all stages of the supply chain, and associating them with a particular part of the framework is inevitably debatable.

Another limitation of the paper is inherent in its perspective, i.e. we have only addressed the ethical tensions in supply chains on a micro-level. Arguably, macro-level problems are even more severe and have a much greater potential to change the destiny of the citizens in Third World countries. Take the issues of tariffs and protectionism: The World Trade Organisation (WTO) now has over 150 members representing over 90% of world trade. Since 1950, many tariffs have fallen greatly, as for example the average tariffs for manufactured goods that decreased from 40% to below 4%. However, EU tariffs for agricultural products and textiles, which are mainly produced in and exported from poor countries, remain at the 20% and 10% level, respectively (Economist, 2003). Is this fair?



Taking account of Skae and Barclay's (2007) suggestion that one way to reduce poverty is to increase a country's real export growth rate by more than 5 percent per annum; the prevailing tariff system does not appear to be just. Moreover, it has long been criticized that the European Union (EU) subsidizes its agriculture and simultaneously harms producers in developing countries. The practice of dumping surplus agricultural products is destroying domestic markets in poor countries. It is estimated that the European sugar subsidies, for example, have caused a decrease of the world market price by 17%. As a consequence, export chances of developing countries, such as India or Jamaica, are reduced (Godfrey, 2002). A debate on any of the ethical issues should not take place without being aware of such wider issues.

What is regarded as unethical in one society, such as the use of nudity in advertising, is regarded as acceptable in another. Is there room for a middle ground or can such differences in perception be overcome? There is a need for extracting more concrete recommendations from conceptual ethical debates. Whether we ever reach agreement on what constitutes fairness remains doubtful considering the multiple stakeholders and interests involved in issues like shifting production abroad. However, if we were able to edge towards agreements on fair processes and evaluative frameworks, we would already have achieved a lot. There appears to be a need to have a closer look at *consumers as actors* shaping ethics in global supply chains. While consumer demands and concerns have undoubtedly led to an increased awareness of ethical misconduct in the supply chain, contravening forces, such as the relentless pressures for low cost products and the apparent ease by which consumers are willing to ignore ethics when purchasing non-deceptive counterfeits or ignore copyright when downloading films or music from the Internet, should also not be ignored in research.

However, arguably the most urgent need for new research does not relate to any of the micro-level ethical issues discussed above, but to a more informed debate on the welfare implications of macro-economic measures. Particularly the international welfare implications of tariffs, taxes and trade rules appear to deserve more attention. In short, what appears to be needed in research that pertains to global supply chains is a shift from micro-topics to meso- and macro-ethical perspectives.

So the key focus area to improve the supply chain process is public interest. What are the three factors if mismanaged can put the interests of the public at stake? Environment, safety and consumer rights are those critical factors in which disruptions in either of these links

will jolt the entire supply chain process. Companies need to procure, design, manufacture and distribute products that will have minimum life cycle impact on the environment. People are involved inevitably in the process of supply chain and any compromise on their rights or the work environment will lead to serious damage of the supply chain. All products reach the end user and any exploitation will lead to legal issues as well damaging the reputation of the company. Pseudo-marketing techniques such as claims of being an eco-friendly product or contribution towards noble cause (cause-related marketing) through the purchase of a product will eventually hit the image of the company. Focusing on innovations in developing a product, strategizing on cost reductions, adopting best practices and new technology development will only help a company to re-invent itself in a changing business world.

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