

## Ten tips and principles for ethical sourcing in supplier management

Ethical sourcing focuses on conducting sourcing activities at the highest possible standards of responsible, sustainable and socially aware business practice. Companies across industries include ethical sourcing policies in their operational standards and principles. While the primary goal is to ensure that products/goods and services are produced and delivered ethically, responsibility extends beyond the act of sourcing goods and services. It also includes the processes of evaluating and engaging with a supply market through to managing relationships with suppliers.

Not only has ethical sourcing become a mantra for mitigation of operational risk and protection of brand reputation, it also represents a means to gaining competitive advantage. If you are deploying best practice, your competitors' failure to source ethically can result in your competitive gain.

While the garment industry has provided the most recent reminder of the tragic consequences of poor sourcing practice, with the tragic death of more than 1,100 people at the Rana Plaza complex in Bangladesh in April, the issue cuts across all sectors. Only in June, Australian airline Qantas launched an investigation after allegations that one of its suppliers of in-flight headphones had subcontracted to another supplier that used poorly treated inmates at a Chinese prison. (Qantas has suspended the supplier in question pending the outcome of an investigation.)

Some companies have traditionally shied away from engaging with ethical issues that pose political, economic and social challenges. However, the recent Bangladesh Fire and Safety Accord, which aims to improve safety conditions in factories and includes regulations on safety inspections and financial commitments from retailers, has now been signed by high-profile fashion brands including H&M, Zara, M&S and Puma. This represents the positive attitude of collaborative investment in best business practice. It's better to fix problems than to withdraw, potentially leaving lasting and irreparable damage.

With these considerations in mind, the following are 10 tips to factor into your sourcing practices:

1. **Employ best practice** and learn from industry case studies in applying proactive, dynamic supplier vetting and auditing of your suppliers and your suppliers' vendors (i.e. sub-tiers). The oil and gas and automotive industries have been particularly successful at sharing best practice in this area.
2. **Leverage readily available commercial business information** as a first pass risk assessment of your supply chain. This includes checking for company directors who are politically exposed persons (posing a higher risk for involvement in bribery or corruption), any company sanctions etc. This data is available from business information and risk management companies such as Dun & Bradstreet and Bureau van Dijk.

3. **Go beyond formal scheduled, clipboard-based site visits.** Instil an acceptance from your key suppliers that you may audit their business (physically or remotely) unannounced. Consider also employing social media to communicate directly with staff employed by your tier one and sub-tier suppliers. For example, Adidas is encouraging workers at certain Asian suppliers to anonymously share possible grievances directly with Adidas via text.
4. **Mandate**, if possible, (or at least encourage) best ethical sourcing practice among your tier one suppliers' own management of their vendors. This can be included as part of the contract, but will also require ongoing attention as part of the supplier relationship management process.
5. **Embrace community-based methods** of supplier auditing – i.e. through a collaborative, industry-wide approach – while ensuring that a community-based standard applies 100 per cent to your own specific operational, legal and regulatory requirements.
6. **Recognise and communicate internally** that ethical sourcing risks do not apply only to third parties in the garment, retail and manufacturing industries. Consider the case of fraudulent sourcing at Lloyds, where the bank's former head of online security Jessica Harper was jailed for five years in 2012 after defrauding the company of almost £2.5m by submitting false supplier invoices.
7. **Incorporate internal sourcing practice** into overall ethical sourcing principles. This could involve a code of practice for both external sourcing and internal corporate sourcing.
8. **Leverage technology** to consolidate, audit and analyse supplier capabilities and business practice. For example, technology that supports the identification and analysis of sub-tier suppliers is at an emerging and exciting stage of development.
9. **Balance best auditing practice with relationship management.** In other words, don't turn valuable business relationships into a 'tick box/compliance' exercise to the detriment of continued value for both your business and your suppliers.
10. **Embrace the opportunity** to leverage ethical sourcing initiatives to not only mitigate risk but also to create additional value for your business. The B2B and B2C markets are increasingly motivated by transparency, with business success being heavily influenced by best practice ethical sourcing.

Given the continued global pursuit of low-cost sources of supply, ethical sourcing responsibility will remain paramount on the agendas of all companies involved in managing supply chains, not just multinational corporations. In all walks of life, improvements are often expedited on the back of disasters – let the garment industry tragedies of recent years at least serve as a catalyst for a more aware, sustainable economy resulting in improved welfare for staff across global supply chains in all sectors.

- Declan Kearney is founder of **360° Supplier View**, an independent supplier management advisory and consulting firm. [www.360supplerview.com](http://www.360supplerview.com). His **2013 Supplier Management white paper** defines the typical challenges associated with managing suppliers, includes various industry case studies and market trends and analyses the supplier management market (technology and services) across each of the PESTLE factors, i.e. political, economic, social, technological and legal/environmental/regulatory.

For a complimentary copy visit [http://www.cips.org/Documents/Knowledge/360\\_Supplier\\_View.pdf](http://www.cips.org/Documents/Knowledge/360_Supplier_View.pdf).