An Alternative Paradigm of Managing Sustainability in the Global Supply Chain

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ABSTRACT

Based five year field work (2006-2011) in China, the author interviewed 30 Chinese executives from 20 different foreign multinational enterprises. Only two companies chose to practice more communication with their suppliers despite interests in operational efficiency. Exemplifying an alternative paradigm of managing sustainability based on thorough understandings through change of their organizational culture and relationships with their selected Chinese suppliers. Their commitment to sustainability in the global supply chain is due to the moral consciousness of their leaders and the persistence, compassion, and humbleness of their dedicated corporate social responsibility officers. There are five major barriers for managing sustainability in the global supply chain in China: seeking low cost and production efficiency; lacking internal alignments between commercial and responsible supply chain objectives; lacking incentives to practice procedural justice or develop trusting relationships with their suppliers in China in which there is weak legal enforcement system and civil society; easily bypassing many social and environmental responsibilities in China; and evasive compliance-oriented mechanism (i.e., monitoring, evaluating, reporting and sanctioning) over Chinese suppliers. Pursuing sustainability under the existing low-cost operational efficiency paradigm cannot overcome these five barriers. Managing sustainability in the global supply chain must be driven by the spirit of caring people and environment.

Keywords: China, Corporate Social Responsibility, Empathy, Global Supply Chain, Multinational Enterprises, Sustainability, Operational Efficiency

INTRODUCTION

Many companies from developed countries increasingly outsource or offshore their activities to developing countries for cheaper operational cost (Ellram et al., 2008; Tate et al., 2009). Through the global supply chain management, companies are capable of coping with increasingly smaller and more diversified customers’ orders at a faster rate and lower cost. The approach of managing the global supply chain, “the network of organizations that cooperate to transform raw materials into finished goods and services for consumers,” is essential to the competiveness of firms and well-beings of multi-generations (Bernstein & Greenwald, 2009; OECD, 2010). Many foreign multinational enterprises, which design prod-
ucts or services, have strong customers’ brand loyalty, or have strong power in the global supply chain, are required to be responsible for socially and environmentally performances of their suppliers in developing countries (Electronic Industry Code of Conduct, International Labor Organizations, The OECD (Organization for Economic-Cooperation and Development) guidelines for multinational enterprise, United Nations Global Compact). Thus, managing the supply chain “is becoming an essential vector/motor/initiator for realizing sustainability and corporate social responsibility” (Philipp, 2009, p. 114). Sustainability in the global supply chain is defined as “the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the life cycle of goods and services” (United Nations Global Compact, 2010). Managing sustainability in the supply chain will become a core business strategy when many suppliers’ performance are monitored and transparent to the public (Kenrick, 2011).

Will the well-adopted low-cost operational efficiency paradigm be an oxymoron to sustainability in the global supply chain? Under this low-cost operational efficiency paradigm, many companies from developed countries can easily pass their cost of managing sustainability to their weaker and less visible suppliers in developing countries while they still fulfill many international codes of conduct (Stiglitz, 2006; Lam, 2010a, 2010b). The complexity of the global supply chain is intensified when it is embedded in various economic, social and political systems. It is great challenge for companies to trace the social and environmental performance of 2nd tier or 3rd tier suppliers. The social and environmental implications of the global supply chain can be extremely evasive and non-transparent to many international non-government organizations. Many foreign companies’ suppliers are found to use their corporate social responsibility or international codes of conduct to mask their labor and environmental abusive programs in China (Abdul-Gafaru, 2009; Harney, 2008; Murdoch & Gould, 2004; Lam, 2007, 2009a; Lund-Thomsen, 2008; SACOM, 2011; Sum & Ngai, 2005; Yu, 2006). Many buyers have already known the non-full compliance of their suppliers in developing countries and do not share the cost with their suppliers (Gugler & Shi, 2008). Companies can easily be tempted to dictate to the suppliers to comply with many international codes of conduct without giving any support and training to their suppliers when they just seek for lower price from the suppliers. Will some companies choose to practice more communication with their suppliers and spend more time and effort to cultivate trusting relationships with their suppliers despite their interests in operational efficiency? What is an acceptable alternative paradigm that is compatible with the idea of sustainability in the global supply chain?

China is the world’s manufacturer. Managing supply chain risks (e.g., sweatshops, food safety) and carbon dioxide disclosure in China are addressed in the recent Organization for Economic-Cooperation and Development (OECD) forums (BSR, 2010a, 2010b; Chang, 2010). With the increasing power of the Chinese government and expectations of the Chinese government on global companies’ behavior in China toward sustainable development—approach economic growth, social progress, and environmental protection in a “holistic and integrated manner” (National Development and Reform Commission of China, 2009; Synato, 2010), will foreign multinational enterprises in China be motivated to invest in their suppliers in China to develop sustainability in the global supply chain? Will some best practices of foreign multinational enterprises’ corporate social responsibility programs show an acceptable alternative paradigm of managing the global supply chain? This paper will discuss how the existing low-cost operational efficiency paradigm relating to the barriers for the sustainable supply chain management in China. It will describe two companies that know how to manage sustainability as part of their organizational culture and leadership. They exemplify an acceptable alternative paradigm.
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