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BEST PRACTICES OF RESPONSIBLE SOURCING PROGRAMS IN CONSUMER
PRODUCT COMPANIES

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ABSTRACT

Increased demand from stakeholders for corporate social responsibility has placed an added pressure on large consumer product companies. Much of the obligation to ensure responsible practices falls on the supply chain and procurement areas of business, as they are tasked with managing and purchasing from vast supply networks. Many corporations are now in the process of developing responsible sourcing programs in order to ensure that their supplier codes of conduct are being implemented in their suppliers' workplaces. Seven consumer product companies were interviewed about their responsible sourcing programs. The companies shared their process for initial risk assessment, assessing and commissioning a social audit, and escalation procedures if non-compliance behavior is found. The seven case studies present an array of approaches and best practices which can be used as a starting point in the development of responsible sourcing programs for other companies.

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Chapter 1

Introduction

Businesses are being confronted with a growing demand for social accountability from stakeholders and are finding it challenging to ensure responsibility not only for their own company, but for their suppliers as well. Much of this responsibility lies on the supply chain and procurement departments, as these are responsible for delivering high quality goods while keeping costs as low as possible (Saini, 2010). This remains a challenge as procurement managers work with suppliers who may be inclined to cut corners in order to deliver low cost options, and as a result, violate labor standards, risk the safety of their workers, endanger the environment, and adopt unethical business practices. Additionally, in large corporations, supply networks tend to extend wide and long and include international suppliers, typically from developing countries. This creates an interesting challenge for the purchasing company, as stakeholders pressure firms to accept indefinite responsibility not only for the actions of their own company, but also for the actions of their suppliers.

Increased pressure from consumers, industry, media and government to increase corporate social responsibility (CSR) has made it necessary for companies to develop ways to monitor their supply networks and ensure that their suppliers are meeting labor, health and safety, environmental, and ethical standards. The need for such is evident as neglecting to do so can be tremendously damaging to a company's reputation and brand image (Roberts, 2003). We have seen this in recent years when major companies including Nike, Apple, Dole Food, and GM, to name a few examples, were scrutinized by the public when their suppliers' unfair labor conditions and unethical behaviors were discovered and reported by the media (Mueller, et al. 2009; Roberts, 2003; Amaeshi et al., 2008). Although these conditions were the supplier's doing and

not the direct result of the purchasing corporation, it was the corporation that was held accountable and forced to pay the price. Because of incidents such as these, many companies have chosen to be proactive and have recently begun developing formal responsible sourcing programs.

While an abundance of literature exists detailing the importance of the supply chain in ensuring CSR and the significance of sourcing in a responsible manner, research is lacking in explaining how a corporation should actually go about doing this. This research examines best practices of responsible sourcing programs. Seven large consumer product companies were selected based on a convenience sample and interviewed in order to understand their responsible sourcing practices. Because this is a fairly new area of interest, many of the companies were still in the development phase of their responsible sourcing programs. The aim of this research is to identify best practices across the industry and suggest how to successfully develop and grow practices so as to aid corporations in developing their own programs.

There are many interpretations outlining what it means to source responsibly and the extent to which CSR should be considered in purchasing (Saini, 2010; Mueller et al., 2009). For the sake of this research, “responsible sourcing” is defined as the process of purchasing goods and services without causing unnecessary harm to, or exploiting, humans or the natural environment. This definition encompasses four primary areas including: labor standards, health and safety, environment, and business ethics.

Chapter 2

Background and Terminology

Corporate Social Responsibility

Corporate social responsibility (CSR) has been a topic of interest since the nineteenth century but only recently gained attention as a valuable research field (Mueller, 2009; Smith, 2003; Cetindamar and Jusoy, 2007; Garriga and Mele, 2004). Many definitions for CSR currently exist. At a basic level, CSR can be considered a business entity's "consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm" (Salam, 2008). By this definition, CSR includes the areas of human resources management, environmental protection and worker safety (Mueller et al., 2009; Branco and Rodrigues, 2006). The term has grown to suggest that businesses should not only be held responsible for these factors within their own companies, but that CSR should also extend throughout their supply network and include accountability of suppliers (Mueller et al., 2009).

The growing emphasis on CSR is likely due to the increased international and outsource-driven nature of many businesses today. Mohammad Salam suggests that globalization, regulation, and sustainable development have driven the expansion of CSR (Salam 2008, Panapanaan et al., 2003). However these same factors that have compelled the growth of this field are also the issues that are presenting the most challenges. Companies are finding it difficult to ensure CSR as it becomes common to outsource a part of the supply chain (Mueller et al., 2009).

However, CSR does appear to be valuable for a company and might even have positive effects for the bottom-line (Carter, 2004). Research suggests that it has the ability to increase sales revenue and market share by improving customers' perception of a company and increasing

customer loyalty (Salam, 2008; Pelosa, 2006; Carter, 2004). Because of this demand from corporate stakeholders, it does appear that a necessary understanding and control of social and environmental issues is important in building and maintaining a respectable reputation (Roberts, 2003). In the last few decades, many large, profitable corporations have launched marketing campaigns to advertise their CSR efforts in the hope of enhancing their reputation.

On the other hand, neglecting to effectively manage these issues has negatively affected corporations and their bottom lines in the past, as well as seriously harmed their reputation as responsible businesses (Carter, 2004). What is more, the size and status of a company affect the pressure exerted to ensure CSR. “The higher the profile of a brand, the greater the scrutiny of its activities to become a target for pressure group action” (Roberts, 2004; Maloni and Brown 2006; Elliot and Freeman, 2000). Additionally, the size of a company often correlates to the perceived amount of power that is held. Since the company and its brands are well known by the public, typically has sizable financial means, and has the end choice of deciding which supplier will ultimately receive the order, it is the purchasing company that is normally expected to hold their suppliers to a socially acceptable standard of CSR (Saini, 2010).

Because consumer goods companies are typically both large and have many major brands, they are at high risk of receiving negative attention and scrutiny for their actions (Carter, 2004). For this reason, it is important that companies fitting this profile do not neglect the importance of CSR and take preventive measures, especially within their supply chains. At the very least, it is part of prudent risk management.

CSR in the Supply Chain and Purchasing Social Responsibility

Due to the nature of CSR, much of the responsibility falls on the supply chain and procurement areas of businesses. In response to stakeholders’ increased demand for CSR, many

pressure groups often target companies' supply chains because they find it difficult to directly reach the global brand. Pressure groups "rely on indirect tactics such as targeting the sourcing activities of these brands and their seeming exploitation of cheap labor" or environmentally damaging conditions in developing countries (Amaeshi et al., 2008). Consumer product companies especially have had their reputations damaged by negative publicity concerning problems in their supply chains. Among these scandals, luxury jewelers have been accused of supporting wars in Africa through their sourcing of conflict diamonds, technology and apparel brands have been scrutinized for using suppliers who subject their workers to sweatshop and prison-like conditions, and chocolate companies have been targeted for "ignoring the use of slave labor in the production of the cocoa they source for their products" (Roberts, 2003).

Specifically, procurement is often a main focus of this targeting because of the complexity and difficulty of purchasing from so many foreign suppliers who may not conduct business in the same way as the home country with respect to labor standards, business ethics, and the environment. Roberts explains that as the outsourcing of key business activities to suppliers and subcontractors has sharply increased over the last decade, it makes certain suppliers more crucial, and extends liability throughout the lifecycle. "The result is a significant shift of corporate environmental, health and safety risks and opportunities off site... and as a consequence, some of those business risks and opportunities may become Procurement's responsibilities" (Roberts, 2003).

Carter and Jennings define purchasing social responsibility, or PSR, as "the involvement of the purchasing function in CSR" (2002). This includes "purchasing activities that meet the ethical and discretionary responsibilities expected by society" (Salam, 2008). Carter and Jennings explain that some of the key drivers and facilitators of PSR include a people-oriented organizational culture, top management leadership, employee initiatives, and customer pressures (Salam, 2008; Carter and Jennings, 2002).

Like CSR, the benefits of PSR seem evident. Carter and Jennings suggest that buyer-supplier relationships in the upstream supply chain are enhanced through PSR. Specifically, “increased involvement by purchasing managers in socially responsible activities leads to improved trust in and commitment to suppliers and to increased supplier performance”. They also found that PSR might put suppliers in a better competitive position because of an “increased commitment by their customers and improved performance as measured by lead times, quality and efficiency” (Carter and Jennings, 2002).

Responsible Sourcing

There are many factors that can fall under the umbrella of responsible sourcing; however, this research will focus on a definition that is centered on labor and environmental issues. Responsible sourcing is defined as the process of purchasing goods and services without causing unnecessary harm to, or exploiting, humans or the natural environment. This definition concentrates on four primary areas including: labor standards, health and safety, environment, and business ethics. This definition was derived after examining literature on the issue and after communicating with companies that are developing responsible sourcing initiatives based primarily on these four factors. This section will address each of the four factors that make up responsible sourcing.

Labor standards

It is important that suppliers are held to proper labor standards, whether they are the laws and regulations of the suppliers’ foreign home country, state, or province; laws and regulations of the purchasing company’s country; or terms and conditions outlined in a supplier code of conduct. This includes issues such as proper compensation, “long work weeks, unsafe working

conditions, child labor, forced labor, low levels of worker participation, ignoring of labor complaints, harassment, discrimination, and other violations of human rights” (Krueger, 2008).

In some cases, this also involves addressing an employee’s living conditions and the well being of their family. Park-Poaps suggests that it is important to acknowledge suppliers’ workers and their families as stakeholders (Park-Poaps and Rees, 2010; Arnold and Hartman, 2005). “In today’s norm, suppliers’ workers and their families are considered stakeholders of the corporation, and therefore, need to be properly managed” (Park-Poaps and Rees 2010; Donaldson, 2001; Warhurst, 2005).

Health and safety

Health and safety go hand in hand with labor standards but is important in its own right and must be addressed separately. It is imperative that companies ensure that suppliers’ manufacturing facilities are up to code and are safe working environments for the employees. This includes issues such as the number of workers in an area, number of bathrooms in the facility, access to emergency exits, and practicing evacuation procedures.

It is important to understand the type of supplier so that proper health and safety issues can be evaluated. For instance, a supplier that works with hazardous chemicals or waste should be expected to have more advanced safety procedures in place than a facility of a less dangerous nature.

Environment

It is clear that environmental factors have become increasingly important to stakeholders. Companies should monitor the effects that their suppliers are having on the environment. This can be difficult, as companies in developing countries are usually not held to as high of a standard when it comes to environmental regulation. Therefore, the purchasing corporation must decide to

what extent they will monitor this factor. This includes evaluating a suppliers' waste, water management, carbon footprint, and their future plans for monitoring environmental issues.

Like the health and safety aspect of responsible sourcing, it is also important to understand the nature of the supplier so as to properly evaluate this area.

Business ethics

Ethical business practices of a supplier are probably the most difficult to assess and even more difficult to ensure. Cultural and business norms may vary between the purchasing company and supplier and this can create misunderstandings. For example, in some countries corporate "bribery" and gift giving are seen as standard customs. In other ways, unethical business practices can be obvious if, for example, an auditor realizes that he or she has been given a false set of books.

There can sometimes be a fine line in interpreting what is acceptable from suppliers insofar as business ethics, but it is clear that this is something that stakeholders care about. As Krueger suggests, "The moral expectation of many citizens of western nations is that corporations ought to be held accountable to the same types of ethical standards in LDC host countries as in developed countries" (2008).

Purpose of Evaluating Responsible Sourcing Programs

As stakeholder demand for CSR and PSR grow, there is "increased interest in tools that can help companies manage the environmental and social performance of their supply networks" (Roberts, 2003). Maloni and Brown explain:

"Beyond ethical considerations, consumer criticism of perceived CSR deficiencies can be extremely detrimental to corporate profitability and market share, and the infusion of

supply chain accountability into CSR only increases the complexity of corporate CSR management. Companies may therefore find it more prudent to anticipate future CSR issues in their supply chains and integrate supply chain CSR standards into daily operation” (2006).

Some of the CSR standards that companies utilize are supplier codes of conduct and existing government regulations. While both address many issues from a legal standpoint, many times it is not enough to rely on only these (Carter and Carter, 1998).

Carter and Carter suggest that businesses should not focus the majority of their CSR attention on working with government agencies in developing new regulations and standards. Instead, they suggest that corporations should “direct more attention towards downstream members of the supply chain” (1998).

Many companies choose ethical sourcing codes of conduct as one of the only means to monitor responsible sourcing. However, the literature (in addition to recent sourcing scandals) suggests that it is not enough to rely on only these codes. Amaeshi asserts that most codes of conduct have not “properly addressed the issue of defining the limit of corporate responsibility for the activities of another corporation” (2008). The success of ethical sourcing codes of conduct is mixed and varies a great deal by industry sectors (Roberts, 2003).

Location also plays a role. Krueger found that while Chinese suppliers may formally agree to these supplier codes of conduct as “a condition for continued business, this may not insure compliance” (2008). He found that foreign firms might have little interest in actually complying because of the financial cost, difficulty in implementing such a thing from a culture perspective, or the presence of a weak compliance and auditing system. With foreign suppliers, it is extremely difficult to ensure that the code of conduct is being followed because of the lack of visibility that comes with distance.

It appears that other initiatives are necessary. In many cases, the answer might be a formal responsible sourcing program, and many corporations have begun to develop these. Amaeshi proposes instituting a process that requests for “periodic submission of ethical audit reports from the suppliers as part of the engagement.” He suggests that any supplier “found guilty either by the auditors and, or by the public, would be named and shamed, which might even lead to the severance of relationship.” Moreover, corporations can arrange rewards for suppliers that continually meet standards (2008).

It is important that whatever method is chosen, companies try their best to ensure compliance and responsible sourcing from their suppliers. If corporations have initiatives in place but they are not properly enforced or audited, they run the risk of even higher levels of public criticism and can be condemned as being hypocritical or accused of “hiding unethical practices behind a shroud of disingenuous public relations white-washing” (Roberts, 2003).

A great deal of literature exists on CSR and, to a lesser extent, on PSR and the involvement of the supply chain in ensuring responsible practices. It is agreed that it is beneficial for corporations to observe and practice CSR and that procurement is an integral part in doing so effectively. However, there exists a gap in the literature in explaining how this should actually happen. Research shows that codes of conduct and government regulations are a good place to start, however, it is not enough to simply rely on these. Since consumer product companies are at such a high risk of undergoing scrutiny for their practices because of their size and number of brands, and because their supply networks are so vast, it is imperative that preventative initiatives are in place, and it is critical that we understand the best practices of these programs.

Chapter 3

Methodology

This research is focused on large, multinational consumer product corporations and is qualitative in nature. Purchasing managers from fifteen companies were contacted based on a convenience sample to be interviewed about their responsible sourcing programs. The intention was to have as many case studies as possible. Of the fifteen companies contacted, seven responded and were interviewed. The interview guide included questions regarding the formality of the program, the departments involved, process of reaching out to the supplier, auditing, challenges associated with the program, and company perception (APPENDIX A).

The seven companies interviewed are large multinational consumer product companies. Four of the companies are part of the Fortune 500 and the other three are privately owned (but are so large that they would also be in the Fortune 500 if public). The revenue for the group of companies ranged from \$6 billion to \$80 billion with a combined average revenue of \$26.16 billion. The total number of employees for the seven companies ranged from 14,000 to 126,000 with a combined average of 51,600 employees. For confidentiality reasons, the names of these companies are not disclosed.

The first firm interviewed is a domestic grocery chain with revenues exceeding \$6 billion. The second company is an American food processing company with revenues of about \$13 billion. The third firm that was interviewed is a multinational consumer products company that focuses on personal care and has revenues exceeding \$17 billion. The fourth company is a global food processing company with over \$30 billion in annual sales. The fifth firm that was interviewed is a public food processing company with revenues of about \$6 billion. The next company is a multinational consumer goods company with over \$80 billion in annual sales. The last company is a regional supermarket with sales exceeding \$5 billion.

The interview answers were consolidated, analyzed, and compared to find trends in the data and similarities within the cases. Despite the inherent differences in the companies that were interviewed and the fact that many were at different stages of development of their responsible sourcing programs, many similarities were found in respect to their initiatives. From this, best practices were identified.

Chapter 4

Discussion of Findings

Responsible sourcing programs are becoming increasingly popular, especially in the consumer products industry. The primary goal of this type of program is to ensure that suppliers are adhering to their supplier code of conduct and that they are acting responsibly in the eye of the purchasing organization. These programs involve the selection of high-risk suppliers followed by an assessment process, usually consisting of an audit, to ensure that the supplier is complying with all necessary standards.

For large purchasing organizations, it can be difficult to determine how to go about selecting suppliers and evaluating them. With so many suppliers, the initial challenge is developing a process to select those to assess. In the past, companies have also found it difficult to decide how many suppliers to evaluate, how to encourage supplier receptiveness, and what to do if they encounter a situation where there is a severe non-compliance.

It is important to note that there is no “one size fits all” program to ensure responsible sourcing. Many factors, including a firm’s industry and the nature of their suppliers’ business, will determine which issues need to be monitored and assessed most closely. The size of a purchasing company and the size of its suppliers will cause differences as well.

Company Involvement

Most responsible sourcing programs are led by the procurement department of a company. However, because of the breadth of the issues involved, it is common to have many other departments involved in the development and execution of the program. The seven

purchasing managers that were interviewed reported a number of other departments involved in responsible sourcing including:

1. Sustainability
2. Corporate Affairs
3. Corporate Communications
4. Risk Management
5. Legal
6. Quality
7. Sales
8. Environmental Occupational Health and Safety
9. Human Resources

While the names and functions of these departments may vary by company, an evident trend is that functional groups with experience in labor and employee relations, risk management, and quality are involved in the responsible sourcing programs.

The size and number of employees involved in the oversight of the program seem to vary. Several of the companies interviewed shared that only one person was responsible for the leadership of the program, although many more helped in the assessment phase and in working directly with suppliers. Those with the largest programs shared that they have between seven and ten full time employees leading the program. It is important to note that the companies with larger employee involvement are also the companies with the largest and most mature programs.

Initial Risk Assessment and Supplier Selection

There does not seem to be any single industry-accepted process of selecting which suppliers to evaluate. Of the companies interviewed, most have different processes in selecting

the suppliers to assess. There were, however, common themes in their initial risk assessment and selection. Most companies have a formal method of gauging a supplier's risk, which ultimately leads to the selection of that supplier in the assessment process. The various methods include scorecards, decision trees, rating systems, and third-party risk assessment advisors.

In all cases, supplier spend, or the amount of business that a purchasing company does with a supplier, was an important factor considered in the selection process. However, the importance placed on supplier spend varied. For example, several companies utilize spend as the entire basis for selecting suppliers and only target the suppliers with whom they do the most business. This way the companies are able to ensure that the most financially crucial suppliers are adhering to desired standards.

Others reported that spend is only one factor of the initial risk assessment. Several companies shared that they consider spend along with other variables including geographic location, previous instances of non-compliance, and strategic significance to the brand. Some purchasing managers explained that they target suppliers who are located in geographic regions that are considered "high-risk" areas. These include regions (often in developing areas such as Asia and South America) where there have been historical cases of non-compliance and where there is a lack of government regulation concerning labor standards, health and safety, environment, and business ethics. Several purchasing managers noted that they utilize a third party database called Maplecroft, a global risk advisory business, to score, rank and assess the ethical, social and environmental risks associated with what they buy and where they buy it. This helps determine which suppliers in certain areas are the highest risk.

Previous instances of a supplier's non-compliance are also important to consider. If a supplier previously violated a purchaser's code of conduct or was found to have high-risk behavior, many purchasing managers agree it is important to assess the supplier. A supplier's previous non-compliance and at-risk behaviors can be found by using risk databases and news

sources (one company utilizes the Dow Jones Risk and Compliance database), collaborating with industry peers who share the supplier, and viewing past audits of the supplier in question (whether that audit was commissioned by the purchasing company or another firm).

One company also considers the supplier's closeness, or strategic significance, with their brand. For instance, a supplier that prints packaging and labels that contain the name of this company's brand receives a higher risk score in this area. While the need for this criterion may not be overwhelmingly obvious, it is logical considering that one of the primary benefits from responsible sourcing is ensuring brand reputation.

Research shows that for initial risk assessment and supplier selection, most companies consider spend, geographic location, previous instances of non-compliance, and even closeness to brand, as important factors. The weight on each factor seems to vary by each purchasing organization based on which criterion is the most important for that company.

Communicating With the Supplier

Once the purchasing company has selected the suppliers that will be assessed, they must be contacted and informed of next steps. Of the companies surveyed, it was unanimous that the buyer, or the purchasing company employee who manages the relationship with the supplier, should be the one to reach out. The logic is that the supplier is already familiar with, and possibly already has a relationship with, the buyer, so the supplier will not be answering to a faceless program. This increases the likelihood of responsiveness. Because of this, it is important that the buyers have a clear understanding of the responsible sourcing program.

In large organizations with vast supply networks, the individual buyers may be removed from the corporate headquarters where many of these initiatives are born. It is especially important that the leaders of the program make the goals, intentions, and process steps of the

program clear to the buyers. This way, the buyers can easily remedy any supplier confusion regarding the program, and avoid supplier hesitation.

Assessment and Audits

Once high-risk suppliers have been selected and contacted, the assessment phase begins. There are various ways that a company can assess a supplier to ensure that they are adhering to the code of conduct. Research found that the most common ways include internal audits, supplier self-assessments, and third party audits.

All of the purchasing managers interviewed agreed that it is standard protocol for an employee visiting a supplier site to immediately report any dangerous or high-risk behavior they may find. In many cases, this is the buyer's responsibility since he or she is the most likely to be in the supplier's facilities. Two of the managers interviewed shared that this sort of internal audit (performed by either a buyer, quality team, or other internal employee) is their sole method of assessing the supplier. This method may be useful in spotting major, obvious non-compliance issues, but might not be the most successful method in spotting less obvious, but equally severe, issues.

Three purchasing managers shared that they utilize supplier self-assessment questionnaires in evaluating their suppliers. Once a supplier is deemed to be high-risk, the purchasing company issues the supplier a self-assessment questionnaire that must be completed. Two of these companies use the Supplier Ethical Data Exchange (SEDEX), a secure database where suppliers can record their ability to manage ethical, social and environmental risks. This database allows a purchasing company to create a profile and then develop a self-assessment questionnaire that caters to their responsible sourcing concerns. They can then invite the supplier to join SEDEX as well for a small fee. Once the purchasing company and supplier are linked up

on the database, the purchasing company can securely distribute the questionnaire to the supplier, who can then fill out and submit the questionnaire via SEDEX.

The purchasing managers said that the questionnaire results help to evaluate whether an audit is needed. These companies had predetermined “critical” and other imperative questions that, when answered incorrectly or left blank by a supplier, raised “red flags” that resulted in the commissioning of an audit. An obvious challenge associated with self-assessments is that, hypothetically, it would be quite simple for a supplier to lie or not answer the questionnaire truthfully. Despite this concern, the companies that utilize self-assessments said that they have received many questionnaire answers that were not up to par and caused concern, resulting in the commissioning of an audit.

In many cases, companies hire a third-party, professional auditing firm because of their expertise and additional resources. Over half of the companies interviewed reported that once they deem a supplier to be high-risk, they commission a third-party audit. The buyers inform the supplier that they are commissioning an audit and then provide the supplier with a list of approved auditors as well as a deadline in which the audit must be completed. In all cases, the purchasing managers said that the suppliers are required to pay for the audit themselves. This can be beneficial to the supplier, however. This way, the results of the audit can be shared in the future with other companies, not just the purchasing company that commissioned the audit. This would not be the case had the purchasing company paid for the audit.

These independent third-party auditors then visit the suppliers and evaluate working conditions and other ethical, social and environmental issues. The auditors are not only trained and accredited but also have experience and knowledge of the local culture. This way they can more accurately gauge if the code of conduct is being followed and check for further legal or high-risk issues.

A purchasing company can choose to rely on a single third-party auditor for all of their audits or choose auditing companies based on location. In one case, a company had interviewed and selected auditing companies for each region, based on that auditing company's experience and manpower in the area. In other cases, a company utilized a single primary auditing firm, (and in turn received price discounts) but also utilized secondary auditors in regions where their primary auditor was not able to fulfill the company's needs.

Additionally, four of the seven companies reported that they were members of a group called AIM-PROGRESS (APPENDIX B). According to AIM-PROGRESS's website, it is a "forum of consumer goods manufacturers and suppliers assembled to enable and promote responsible sourcing practices and sustainable production systems. It is a global initiative supported and sponsored by AIM in Europe and GMA in North America." In this forum, peers and competitors alike meet twice a year to discuss the status of their responsible sourcing programs. In this non-competitive arena, companies are able to learn from one another and leverage industry power. Perhaps one of the most important initiatives that AIM-PROGRESS has is a concept called "mutual recognition," meaning that an "audit for one is an audit for all." This means if a supplier has been previously audited by one AIM-PROGRESS company, another company will accept and respect that audit.

Therefore, if a company deems a supplier to be high-risk and wishes to commission an audit but there is a recent audit in existence that was ordered by a different AIM-PROGRESS member, the company will find this previous audit and review it instead of going ahead with their own third-party audit.

Corrective Action Plans and Escalation Procedures

If non-compliance behavior is found through a self-assessment, internal audit, or third-party audit, many responsible sourcing programs have outlined escalation procedures and next steps to follow. These actions are usually dictated by the severity of the non-compliance or issue at hand.

Depending on the level of severity of the non-compliance, purchasing managers reported that they often have the buyer deal with the issue directly. Two of the companies interviewed have detailed scorecard systems that define how to address each violation and correct problems in a given amount of time. The maximum time allowed by companies averaged out to two months. Three other companies utilize corrective action plans. They either work with the supplier to develop a corrective action plan or require that the company develop one themselves within sixty days, detailing how the supplier intends to remedy the problem. To ensure systemic change and confirm that the supplier has fixed the issue, the companies require proof from the supplier. In some instances this is a simple submission of a document, but other times it requires a follow-up visit from the buyer or the auditing company.

In instances of severe non-compliance, such as discovering child or forced labor, it is necessary for leadership to get involved. Purchasing managers reported that in some cases, they have had to either threaten to or actually stop doing business with the supplier altogether. Two of the companies reported that they have determined specific non-compliances that they consider intolerable and, if discovered, they will either temporarily suspend or completely cease to do business with the supplier. This can put the purchasing company in a challenging position if the supplier is critical to business. For instance, a supplier would be critical if it is the only one that supplies a certain material, or only supplier that can handle the purchasing company's necessary

capacity. For this reason, several companies said that they have qualified alternative suppliers that they can utilize in the case of a severed relationship with their current supplier.

One purchasing manager explained that they track their suppliers' continuous improvement. Even if the supplier appears to be in compliance and up to desired standards, the company demands that the supplier improves their sustainability practices over time. This encourages suppliers to continuously think about how to improve initiatives regarding the environment and safety of their workers.

Supplier Receptiveness

When asked whether or not suppliers have been receptive to their responsible sourcing programs, six of the seven companies interviewed said yes, the seventh answered that it was too early in the development process to tell. One purchasing manager shared that the receptiveness of the program has been very geography-driven because of cultural differences and language barriers. Another company shared that, in some cases, suppliers with whom they did a small amount of business with were apprehensive to cooperate. If the cost and perceived burden of the assessment and corrective action plan outweighs the financial cost of doing business with the company, it is likely that a supplier may refuse to cooperate. In most cases, however, this did not appear to be an issue because the suppliers that were initially selected to be involved in the program were those who the purchasing company did a large amount of business with (selection based on spend).

Additionally, several managers reported delays in various phases of the program because of supplier hesitation, which they believed was caused by lack of understanding. In some cases, the suppliers do not recognize the purpose of the program. This is especially true of foreign

suppliers, particularly if it is the first time a supplier is being asked to do something like this. As these programs become more common across the industry, however, it is likely that suppliers will be more willing and ready to cooperate.

Supply Chain and Company Perception

Leadership and employee buy-in are crucial to the success of any program. All of the companies interviewed reported that their responsible sourcing programs are perceived as an important part of the overall supply chain. About half of the companies interviewed have or are planning within the next year to have program goals linked directly into procurement personnel performance development plans (PDP).

When asked how the rest of the supply chain perceives the program, all of the procurement managers shared that it is viewed positively. One manager stated that the supply chain sees the program as a value added service and a critical part of sourcing. Another procurement manager stated that as the program's goals are being embedded into the overall strategy of the company as well as employee's PDPs, it is perceived as increasingly critical.

Feedback from several managers, however, suggested that the program is not as widely known throughout the company as they would like. One manager shared that about half of the company knows about the program but only about ten percent actually understand what they are trying to accomplish. In order to more successfully get the word out, leaders of this program have begun to meet with other departments including sales, marketing, quality, and legal to better explain the program. In a greater effort to brand the program, this company has begun to, in essence, "advertise" the program on the internal website and in printed pamphlets. These are two materials that can be easily referenced and explain the goals and initiatives of the program. Additionally, this purchasing manager shared that later in the year they will begin doing "road

shows” so as to better drive home the importance of the program to the buyers located in the field.

Challenges

As with the implementation of any program, there are challenges that must be faced head on. Research identified four major challenges that leaders of responsible sourcing programs are encountering:

1. Importance of supplier trust
2. Necessity of supplier education
3. Ensuring meaningful data collection
4. The need for peer group alignment.

The first major challenge that procurement managers reported was the importance of supplier trust. One purchasing manager shared that often times it is difficult to know whether or not a supplier is truly ignorant or if they are “playing a game” and using their distance and cultural differences as ways to not comply with standards in order to cut costs. Distance ultimately leads to lack of visibility for foreign suppliers. For the programs that rely on self-assessments, suppliers can easily cheat if they know the “right” answers. At the end of the day, there needs to be a certain level of trust between a supplier and purchasing organization in order to fuel the success of the program and ensure, at its most basic level, supplier cooperation in the assessment phase and, if necessary, the corrective action phase. Ideally this trust was established in the beginning of the relationship when first agreeing to do business with the supplier.

A second challenge is the difficulty associated with educating suppliers. As previously mentioned, it is crucial that the buyers, or whoever will be working directly with the supplier in regards to this program, are competent and knowledgeable about the responsible sourcing

program. This way they will be able to answer any questions and calm any hesitations a supplier might have. Supplier confusion only leads to delays and lack of cooperation. For many suppliers in developing countries, their own governments do not monitor issues regarding labor standards, health and safety, environmental protection and business ethics. So when a customer begins requesting change, which in many cases may cost the supplier money, it is difficult for them to see the value and understand that it will help them build capacity, reduce worker injury and turnover, and improve customer/supplier relationships. However, as responsible sourcing programs become more common, it is likely that suppliers will have a better understanding of what is expected of them and what cooperation means.

Supplier education will not only lead to better cooperation with the program, but also might lead to the adoption of responsible practices in the long run. Several purchasing managers reported that supplier education is one of the most crucial parts of their program. This way, the program will truly drive systemic change and hopefully lead to their suppliers adopting more responsible behaviors. Many managers shared that their ultimate hope is that they can not only have their suppliers in compliance and up to standard, but also that the supplier will become cognizant and responsible for their own suppliers.

A third challenge is ensuring value from data collection. Several purchasing managers reported the need to guarantee that once data is collected, something will come from it. For instance, one manager feared that the many hours of data collection from their suppliers would eventually turn into a mega database that could potentially become unmanageable. Once a supplier is assessed, it is important to address any non-compliances that may have been found through an audit or self-assessment. It is not enough to simply store the information; the purchasing company must take action and, perhaps most importantly, follow up with the supplier to ensure that the corrective action plan has been implemented. If this does not happen, there is an even greater risk of liability. For example, if a supplier shares that their safety measures are not

up to standard but the purchasing company does not take action, the company could be held liable for any accidents that occur in the future. For many managers, the hope is that in the future the data gathered from the program will allow for trends to be spotted and potential issues to be warded off in advance.

Finally, a fourth challenge is the need for peer group alignment. As more companies develop programs of their own, there is a greater chance that suppliers will have heard of responsible sourcing initiatives and will be willing to cooperate and comply. AIM-PROGRESS is a good start for the consumer goods industry. Four of the seven companies included in this research are members. As previously mentioned, “an audit for one is an audit for all” for this group. This peer group alignment benefits the supplier since they will likely not have to pay for multiple audits. If a non-compliance is found, the supplier can take corrective action and then be in compliance and up to standard for most of the consumer product goods industry. Peer group alignment also helps to drive the importance of responsible sourcing. If multiple customers demand responsible behavior from a supplier, there is a greater chance that a supplier will be willing to cooperate and change.

Chapter 5

Conclusions

The growing demand for increased CSR and PSR is clear, and many supply chain organizations are finding themselves being held increasingly accountable. Recent events within the last decade have demonstrated that a company's reputation can be damaged when their suppliers have been discovered to be acting unethically or to be guilty of unfair labor or environmental practices (Mueller, et al. 2009; Roberts, 2003; Amaeshi et al., 2008). Because of this, it is important to take proactive measures and work directly with suppliers to ensure responsible sourcing.

Responsible sourcing is defined as the process of purchasing goods and services without causing unnecessary harm to, or exploiting, humans or the natural environment. This definition concentrates on four primary areas including: labor standards, health and safety, environment, and business ethics. Many companies have chosen to implement supplier codes of conduct that legally bind their suppliers to labor and environmental standards. However, as is the case with many foreign suppliers, distance leads to lack of visibility and, in turn, lack of compliance. Because of this, many large consumer goods companies have begun to develop responsible sourcing programs. These consist of assessing suppliers to ensure that they are complying with all standards outlined in the code of conduct and behaving responsibly. Research found that these programs entail an initial risk assessment and supplier selection phase, an assessment phase, and a corrective action and escalation phase.

Seven large consumer goods companies were interviewed so as to better gauge responsible sourcing programs within the industry. Since CSR, PSR and responsible sourcing are relatively new fields, many of these companies were still in the development phase of their

responsible sourcing programs. By evaluating these companies' programs, we can better learn the different ways industry leaders are monitoring responsible sourcing and also derive the best practices that have reaped the most success.

Research indicates that the procurement department usually leads and oversees the responsible sourcing program. However, there are many other departments and teams involved in the development and execution of the program, specifically including members that have experience with labor and employee relations, risk management, and quality issues. The size of the team managing the program was found to vary greatly, ranging from one person to a team of ten people.

The initial risk assessment and supplier selection phase is very focused on supplier spend. The more business that is done with a supplier, the more crucial that supplier is to business, therefore the more critical it is to ensure that the supplier is adhering to the code of conduct and legal standards. In addition to supplier spend, research found that the geographic location of a supplier is an important factor to consider and can be a good indicator of whether or not a supplier might be complying. Several companies assessed risk by using third party databases, such as Maplecroft, that help to score the potential threat of a supplier based on its location. Other factors that companies considered in the initial supplier selection included previous instances of non-compliance, and closeness of the supplier to their brand.

Once suppliers are selected for the program, there are various methods to go about the assessment phase. The most common method found was third-party audits. Several companies, however, first distributed self-assessment questionnaires to the high-risk suppliers, and used the answers to determine whether or not a supplier would be audited. The obvious risk associated with self-assessments is that suppliers have the opportunity to be untruthful and answer inaccurately. However, the companies that utilize self-assessments shared that they have found

severe non-compliance through this method, and note that the benefit is that it is much less costly for a supplier than to pay for an audit.

Next comes the corrective action and escalation phase. If a non-compliance is found, the majority of the companies work directly with the supplier to develop a corrective action plan. The corrective action plan outlines how the supplier intends to fix the non-compliance so that it falls within standards, and how long they have to do so. Purchasing managers stressed the importance of following-up with a supplier once this document is submitted to ensure that the problem has been fixed.

Sometimes, however, the non-compliance is so severe that additional action must be taken. Research found that it is important for companies to outline critical issues before assessing a supplier. These are issues that will not be tolerated by the purchasing company, and are often already outlined in the supplier code of conduct. For example, if an issue like child labor or forced labor is discovered, it is important that there is a process in place to alert company leaders and possibly temporarily suspend or even sever the relationship with the supplier. Because of this risk, several companies have pre-approved alternative suppliers that can be utilized in the case of a severed relationship with the existing supplier.

Research shows that the majority of suppliers have been receptive to responsible sourcing programs. It is imperative that the buyers, or whoever will make the initial contact with the supplier to initiate the assessment, are fully educated on the goals, intentions, and steps of the program. This will reduce supplier hesitation and encourage cooperation. Many times foreign suppliers are not accustomed to these kinds of requests since their governments might not monitor labor or environmental behavior. These cultural differences can cause delays and so it is imperative that the purchasing company's goals and expectations are made clear initially.

The overall perception of these programs by both the supply chain organization and company as a whole seems to be overwhelmingly positive. Research found that the programs are

perceived as critical and as an important value-added company initiative. Half of the companies either have or were in the process of linking the responsible sourcing program's goals directly to the PDPs of buyers and the other employees involved. Companies who were still in the process of developing their responsible sourcing program were doing their best to brand and advertise the program internally within their company.

Research exposed four critical challenges associated with responsible sourcing programs. The first is supplier trust. There does need to be a certain degree of trust between a company and its supplier because of lack of visibility (for foreign suppliers). The second is the importance of educating suppliers. This is crucial in ensuring systemic change from the program, and ensuring cooperation. Meaningful data collection has also been a challenge for several companies. They are doing their best to make sure that corrective action plans are followed through, and trying to develop processes that will allow trend spotting in the future. A final challenge is the need for peer group alignment. As industry groups like AIM-Progress continue to grow, the chance of driving true change increases. Suppliers will become more familiar with responsible sourcing initiatives, and will be more willing to cooperate and comply with audits and other requests.

Chapter 6

Limitations and Topics for Further Research

This research was based on a case study methodology and data was gathered via phone interviews with procurement managers from seven large consumer product companies. One limitation of this research is the sample size of companies interviewed. In the future, it would be useful to talk to a larger number and greater range of companies in order to extend the results of this research. Additionally, these companies were selected based on a convenience sample, so are not representative of what the majority of companies in the consumer products industry might be doing in regards to responsible sourcing. The companies interviewed were also large multinational corporations, and so it might be useful to understand what mid-sized and smaller consumer product companies are doing in regards to responsible sourcing.

Moreover, many of the companies that were interviewed were still in the process of developing their responsible sourcing programs. Because of this, best practices were difficult to identify because, in many cases, the companies were unsure of whether or not their approach would be successful in the long run. Future research should replicate this study in several years to determine how the responsible sourcing programs have changed and whether or not they have been successful in ensuring responsible behavior. Future research should investigate the success of the programs over time and determine if they truly instill systemic change in suppliers' behaviors and if they actually benefit the purchasing company as a whole.

Furthermore, it would be useful to have empirical research to evaluate responsible sourcing programs. For instance, the cost (both to the purchasing organization and the supplier) of having and cooperating with a functioning responsible sourcing program would be helpful information. It would also be useful to know how many suppliers were found to have severe non-compliances, and whether or not a purchasing company was able to truly alter their behavior.

Appendix A

Company Interview Questionnaire

PENNSSTATE



Responsible Sourcing Questionnaire

1. What sort of program do you have in place to monitor responsible sourcing efforts within your supply chain?
 - Is this program formal or informal?
 - Which departments are involved?
 - How many people (or full-time employee equivalents) contribute to this program?
2. What issues do you monitor in relation to responsible sourcing (employee health and safety, child labor, environmental impact, business ethics, etc.)?
3. Do you have a supplier code of conduct or other agreements that hold your suppliers accountable?
 - What elements are in this code of conduct (or other binding document) that hold the supplier accountable for responsible sourcing practices?
 - Are the suppliers held accountable to your company protocols, US laws/regulations, native national or provincial laws/regulations, etc.?
4. How do you decide which suppliers to evaluate?
 - Do you focus on certain regions/locations, spend, importance to brand, random, etc.?
5. How do you first contact your suppliers about this program?
 - Who is the first to reach out to the supplier?
 - Is there a formal procedure or initial documents that the supplier must fill out?
6. Do you independently evaluate/audit your suppliers or do you use third party auditors?
 - If you use third party auditors, how/why did you select this company?
 - How do you “grade” your suppliers?
7. What is your escalation procedure or next steps if you find that a supplier is in violation of your standards?
 - Have you had any incidents in the past where a supplier was in violation?
8. Have you found suppliers to be receptive to your program?
 - Are suppliers apprehensive to cooperate?
 - Does it appear that most suppliers seem to be “sourcing responsibly,” according to your definition?

9. Have you noticed any improvements within the supply chain because of this program?
10. What are the greatest challenges associated with this program?
11. Is this program viewed as an important part of your supply chain?
 - How does the supply chain perceive this program?
 - How does the company as a whole perceive this program?

Appendix B

AIM-PROGRESS

The following information is directly from AIM-PROGRESS's website and is relevant in understanding membership in AIM-PROGRESS and the concept of mutual recognition:

“About

AIM-PROGRESS is a forum of consumer goods manufacturers and suppliers assembled to enable and promote responsible sourcing practices and sustainable production systems. It is a global initiative supported and sponsored by AIM in Europe and GMA in North America.

Its key objectives include:

- The provision of a forum to exchange views and share learnings regarding responsible sourcing practices
- Leverage synergies and support the effective collaboration and potential convergence with other global initiatives having similar aims or interests.
- Develop and promote the use of common evaluation methods to determine CSR performance within the supply chain
- Drive efficiencies for all companies by collecting, assessing and sharing non-competitive information on supply chain social compliance performance.
- Help develop, assess and promote responsible sourcing practices within the supply chain.
- Reduce audit fatigue for suppliers by encouraging them to share their audit reports with many customers to avoid duplicate audits. "An audit for one is an audit for all".

AIM-PROGRESS is open to any manufacturer or supplier who meets the membership criteria with the exception of companies from the arms and tobacco sectors.

Governance

AIM-PROGRESS is established under the umbrella of AIM – The European Brands Association– but has a global remit.

AIM-PROGRESS is chaired by David Lawrence, Compliance & Ethics Programme Director, DIAGEO. The vice-chairman is Stuart Kyle, Director for workplace accountability Global Workplace Rights; THE COCA-COLA COMPANY.

The initiative is steered by a Leadership team and receives guidance from an Advisory Board.

AIM-PROGRESS works under a Charter which establishes its scope, objectives and tasks.

Membership

AIM-PROGRESS is open to any manufacturer that meets the following criteria:

- We are focused on the FMCG sector
- We are open to all AIM and GMA members
- Being inclusive, we are open to any manufacturer and suppliers integral to the FMCG manufacturer's supply chain that meets the 'expectations of the members', with the exception of companies from the arms or tobacco industries.
- Expectations of members
 - Support the Mission of AIM-PROGRESS
 - Attend at least one full meeting per year
 - Actively participate in at least one work stream
 - Agree to participate in MR, at least in not too distant future
 - Share current code or audit protocol details for benchmarking
 - Contribute to shared audited supplier list, where audits exist
 - Have overlap of suppliers within the supply chain
 - Hold themselves to at least the same standards as they require of their suppliers

- Be current on Taskforce fees:
 - 5000 Euro for AIM or GMA members
 - 7500 Euro for others

Ways of Working

The work of AIM-PROGRESS is organized in work streams in which members are active. Each work stream has a Sponsor from the Leadership Team, who supports the Leader of the work stream.

Work streams and sponsors/leads:

- Supplier Capability Building – Mars / Kraft Foods
- Mutual Recognition – The Coca-Cola Company
- Systems - General Mills / MWV
- Business Integrity – Diageo
- Agriculture / Extractives – PepsiCo / Kraft Foods
- Agents / Traders – Nestlé
- Human Rights - Unilever / Procter & Gamble

Mutual Recognition

What is it about?

To reduce audit fatigue and align on key issues of responsible sourcing, several brand manufacturers agree to mutual recognition of social compliance assessments of their suppliers.

Why do it?

AIM-PROGRESS seeks to promote responsible sourcing while reducing the duplication of supplier assessments. Members companies all have responsible sourcing programs which may include the request for on-site assessments (audits) of suppliers. To reduce audit duplication,

costs and fatigue companies - through the Mutual Recognition mechanism - recognize supplier audits completed on behalf of another company.

How to do it?

Step 1: Mutual recognition starts with agreeing to the general principle of accepting other companies' audits. Members do this by signing on to the joint Mutual Recognition statement.

Step 2: The second step is to benchmark company audit protocols. If the majority of elements are common to a joint set of criteria companies can participate in the Mutual Recognition initiative.

The protocol benchmarking is supported by the ITC (International Trade Center).

Step 3: Companies share their list of audited suppliers over the last three years via the AIM-PROGRESS Secretariat who assembles the lists into one common document, which is sent back to participants in sufficiently aggregated and anonymous format to avoid anti-trust concerns.

Step 4: Companies check the list for suppliers they use and who they haven't yet audited. If they find any, they request these suppliers to share the assessment/audit reports directly with them or, if they are a member of a data sharing platform, such as SEDEX, upload them via the platform, which provides a secure online data exchange between suppliers and customers. In this way a new audit can be avoided.”

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