

SUPPLY CHAIN

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Listen to Your Critics: They Could Be Your Biggest Allies

by Nicole Neghaiwi (/user/136661)

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Onlookers gather at the collapsed Rana Plaza factory in Bangladesh on April 24, 2013 | Image credit: Buet 87 Foundation

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It was every retailer's worst nightmare: Days after the Rana Plaza factory collapsed in one of the worst industrial disasters in recorded history, activists began plastering the Internet with pictures of clothing labels uncovered amongst the rubble of concrete and human remains.

In response to allegations that global businesses should have done more to prevent the tragedy, Mango released a statement on its Facebook page saying that: "It would have been impossible to detect the structural defects of the collapsed building."

But Mango's statement may have contained more truth than the company has been given credit for. At least two factories in the Rana Plaza had recently been audited according to international labor and safety standards, though both times the auditor failed to take into account the building's hazardous structural decay, according to The Star.

To date, Western companies' preferred solution for managing supply chain risks has been to create new policies and codes of conduct backed by questionnaires and sporadic auditing of suppliers. But such solutions tend to ignore the realities on the ground.

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Compounding concerns, labor rights groups such as China Labor Watch have [warned](http://usatoday30.usatoday.com/MONEY/usaedition/2012-04-30-Chinese-factory-audits_ST_U.htm) ([http://usatoday30.usatoday.com/MONEY/usaedition/2012-04-30-Chinese-factory-audits\\_ST\\_U.htm](http://usatoday30.usatoday.com/MONEY/usaedition/2012-04-30-Chinese-factory-audits_ST_U.htm)) that a growing industry of audit-assistance firms are helping suppliers forge records in order to pass increasingly rigorous standards.

Managing an extended supply chain poses significant challenges for Western companies, not least of which is the apparent [lack of transparency](#) ([news\\_and\\_views/supplychain/get-visibility-your-supply-chain-four-reasons-act-now](#)) between geographically dispersed suppliers and centrally managed sustainability teams. Companies such as Swiss-based RepRisk, an ESG business intelligence provider, are therefore developing new approaches for identifying red flags in supply chains based on local, third-party stakeholder input. While traditional approaches have become progressively desensitized to risks in the global supply chain, [local stakeholders](#) ([news\\_and\\_views/supply\\_chain/adidas-implements-new-strategies-lead-supply-chain-transparency](#)) are often quick to identify emerging risks long before they reach headlines. Months before the Chinese government ordered Apple MacBook parts supplier Catcher Technology to suspend operations due to environmental concerns, for example, local environmental groups recorded [complaints by residents](#) (<http://edition.cnn.com/2011/09/30/world/apple-china-pollution>) over severe pollution in the area.

One of the biggest risks associated with monitoring suppliers based on company surveys or questionnaires is the apparent lack of disclosure or bias that can be avoided through the effective monitoring of third-party sources. Prior to the Deepwater Horizon oil spill in 2010, for example, BP was listed on almost all major ethical investment indexes. *Fortune*, in partnership with CSRNetwork and AccountAbility, even awarded BP second place in its 10 [Most Accountable Companies](#) (<http://money.cnn.com/galleries/2007/fortune/0710/gallery.accountability.fortune/>) of 2007.

RepRisk's Reputational Risk Index, on the other hand, had highlighted significant risk exposure due to frequent and severe criticism in the two years prior to the Deepwater Horizon spill, including multiple allegations of occupational health and safety issues as well as environmental pollution, negative impacts on communities and labor issues. In fact, RepRisk had captured more criticism related to occupational health and safety issues at BP than at five of its biggest competitors combined. As with Rana Plaza, critics were able to identify early warning signals long before scandal erupted.

"You cannot assess a company's exposure to environmental, social and governance controversies based on data provided by the company itself and expect an unbiased result," explains RepRisk CEO Philipp Aeby. "There is no evidence that this should be any different when it comes to the supply chain."



To learn more about how companies worldwide are cleaning up their supply chains, check out our [editorial channel](#) ([news\\_and\\_views/supply\\_chain](#)).



As a senior analyst at [RepRisk AG](http://www.reprisk.com) (<http://www.reprisk.com>), I strive to make RepRisk the industry standard in high-quality Environmental, Social and Governance risk monitoring. I am particularly interested in developing tools based on the RepRisk Index to benchmark ESG... [\[Read more about Nicole Neghaiwi\]](#) ([/user/136661](#))

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My thoughts exactly. As well as focussing on the particular 'outlet', they should be doing all they can to review the energy and resources used to grow, create, transport and recycle/dispose of the...

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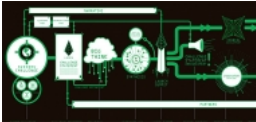


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I have viewed the subject from a number of angles, and disagree with the idea but understand its prevalence. To me, it's akin to saying that all department heads should be fiscally responsible so...

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