

Leeds University Business School – Research and Innovation Podcast

Episode 25: How acting ethically within a supply chain can positively affect a company's bottom-line and resilience

Speakers: Matthew Davis, Mark Sumner and Fergus Dowling

Matthew: Hello and welcome to Leeds University Business School's Research and Innovation Podcast. I'm Dr Matthew Davis, I'm an Associate Professor in the Business School, and I'm joined today by two colleagues.

Mark: Hello, my name is Mark Sumner, I'm a lecturer in the School of Design.

Fergus: Hi, I'm Fergus Dowling, and I'm a research assistant.

Matthew: And today we're going to be reflecting on some of the key findings that have come through from our latest project, looking at the impact of COVID-19 on the management to eradicate modern slavery from global supply chains, and, in particular, thinking about the work we've been doing funded by the Arts Humanities Research Council, looking at Indian fashion supply chains in particular and UK fashion brands and other stakeholders. So, I guess, the first place to start off, maybe, is just, given some of the discussion we've had in the past in this series, is thinking about the nature of supply chains themselves and how that plays into this issue of risk and modern slavery. Mark, I know you've got some thoughts on what we've seen from our interviews and other data around complexity in particular. What are you seeing here?

Mark: Thanks for that, Matt. It's been interesting exploring the impact of COVID on the supply chain because what we started to get an understanding of is the scale, the scope and the complexity of a textile or clothing supply chain. I think there's a perception that supply chains for clothing are essentially a garment making factory and the brand or retailer that are placing the order. But actually what we're seeing when we're trying to investigate and understand how COVID has impacted those supply chains is really starting to get under the skin of the complexity of those supply chains.

So, we're talking about supply chains that are very global in nature, where products and materials crossed many different national borders. So, raw materials maybe coming in from Africa, going into places like Pakistan, or going into China, and then

coming out of China and going into Sri Lanka, and then ultimately coming into the UK as finished product. So, not only have we got that trans-boundary complexity, but it's a complexity of relationships and the state of flux that goes on with those supply chains and how rapidly things are changing.

So, when we're trying to understand the impact of COVID on those supply chains, it becomes really challenging to navigate and actually identify who and where those supply chains are to then understand what the impact of COVID has been. And then, also, on top of that is this idea that, you know, COVID is just another factor amongst all the other factors that are driving this massive supply chain and the rate of change that's going on there. So, I think in the work that we've been doing, and I think Fergus will be talking a little bit more about some of the findings that we've had, it's been really interesting in covering this idea that actually textile and clothing supply chains could be some of the most complex supply chains that actually operate in modern industry.

Fergus:

Yes, because some of the findings that I'm coming across through interviews with many different stakeholders, particularly with brands and retailers, it's quite clear that those who have put a large amount of effort into building strong relationships with their supply chain and have a better understanding over the suppliers and other factories that are within their supply chain have been able to deal and respond with the impact of the pandemic far greater, mainly because they've got those communication channels open, they are able to understand what the impacts are, what challenges their supply base are facing, and they are able to give support and help deal with these impacts much better.

But the other thing that we're seeing from the supplier side is because they don't only just deal with a single brand or retailer, they deal with a lot of different brands, they've all acted differently throughout the pandemic, and that complexity has added another dimension to it as well, and they have really struggled without having a uniform front coming from their buyers. And other advice that we're seeing from stakeholders such as the British Retail Consortium, or the Ethical Trade Institute, they have been recommending for a while that brands and retailers have stronger relationships and a better understanding of their supply chains and I think we're really starting to see evidence now that it really is a benefit for brands and retailers to have that.

Matthew: I was going to say, Fergus, that's really interesting. I wonder, when you talk about the suppliers finding they are having different, maybe, requests or responses from the brands they are selling to, what does that look like practice? What have people been saying the brands have been doing differently? What is maybe better or worse practice that has come through?

Fergus: So, when the pandemic initially hit in March of last year, we were probably seeing reports that lots of brands and retailers decided to cancel lots of their orders. There are practical reasons for that, many being they weren't able to sell stock, so if you have too much stock that you can't sell, there's not really much point in having it, and they operate in sometimes over a year in advance in placing orders. However, because they all didn't act in the same way, some brands kept those on, other brands cancelled everything up to orders that were actually being shipped over from the supplier countries. It meant that their cashflow was completely destroyed, and then there are lots of brands who have gone back on that and they've tried to place orders and rectify the damage that has been done. But damage was already put in place, so it's caused a kind of shockwave throughout the supply chain, and it's kind of thrown it into turmoil that has been spending over a year to try and rectify.

Mark: And I think what we can add to that is that for suppliers, one of the biggest challenges that we're seeing coming from suppliers, the commentary, is it's often about the management of cashflow, it's that continuity of supply that's really important. Of course, what we're seeing with the pandemic is a complete global, almost, shutdown of orders coming through, particularly at the very start of lockdown when there was a great level of uncertainty about what was going on. What we're also seeing is local issues with things like forced migration being driven by government policies and trying to get the coherence between orders starting to increase from the demand side, and then trying to match that from the supply side as we deal with these different aspects of lockdown, has created another level of complexity, as Fergus mentioned.

So, the level of certainty has been really difficult for suppliers, and also for brands as well, to manage cashflow. And as Fergus says, the open channels that are created by having a strong existing structure, or a strong existing relationship between the brand and their suppliers, has really helped that process of

realigning that supply and demand post-COVID lockdown. So, I guess it's similar to the analogies that we've talked about in other aspects of society and the impact that COVID has had, where there are cracks in a structure, COVID has been absolutely extraordinary in the way that it has exposed those cracks and driven those divisions wider. And I think we're starting to see that where brands and suppliers as well don't have a good structure for managing the rights of workers, and they don't have good practices in place for decent work, for example, COVID has really blown that wide open.

And it's not to say that where brands are compliant with the Modern Slavery Act and where they follow the ETI base codes for example that things haven't been affected, yes, they have, but I think what we're starting to see is that divergence between those brands that have got good structures and have been able to repair what COVID has done far quicker than those brands that have had poor structures or no structure.

Matthew:

That's interesting Mark, though, isn't it? So, what we're seeing here is, and I think going back to before the pandemic as well in terms of thinking about what we found in previous research, so the good practice around knowing your suppliers, knowing the supply chain, that kind of very proactive and collaborative approach to working with suppliers around creating decent work and good working conditions for staff and others in the supply chain, that that actually seems to be linked to more resilience for those companies... I guess the non-human rights and the non-welfare side, and benefits, back for brands who are investing in that. And I guess we were seeing this in previous years as being, you know... it was good business because it was doing the right thing by suppliers and by workers, and it was ethical business, but we didn't see that linked to resilience in the same way. And I guess one of the positives, then, maybe, coming out of COVID-19 and actually the shock that we've seen and the fallout of that, is actually showing how those kind of investments in good business practice, as you were saying, actually has those other effects and benefits for the business as whole.

So, it's not just a moral and ethical thing in this regard, but it's actually just good business and resilient business as well. So, maybe that's a positive that comes through and, as you were saying, thinking about decent work and what does that mean, and why is that important beyond just the worker? And it just makes me think as well, one of the things we've seen come through from the interviews that we conducted both here in the

UK and also in the Indian supply chains that we've been working with, this idea of empathy being really important, and actually COVID-19, because of the global nature of it, and shared experience that people have had, so everybody knows somebody who has been affected by COVID-19, they've seen the impact locally on the economy and so on, a lot of our interviewees, whether they've been in India or in the UK, have said how that has changed their outlook and the empathy they have for what their suppliers or their buyers might be going through, and that shared understanding.

And I think as a psychologist, that's really interesting because it seems to challenge some of the things we've seen in the past when we look at modern slavery in particular, where it's been seen as an issue or problem that happens somewhere else to somebody else and it couldn't possibly be anything that I'm involved in or would have any knowledge of or understanding of, you know? It's a technical risk, maybe, to be managed. This feels quite different. It will be interesting to see what that means going forward as well, whether some of that empathy and understanding sticks.

Mark:

Absolutely, Matt, and I think it's really interesting when we think about developments on the environmental side of sustainability, that there is now a growing business value of being environmentally aware and doing things in a more environmentally conscious way. And that actually is impacting on the bottom line. For example, we're seeing cost savings as a result of reducing your carbon footprint, cost savings as a result of reducing your packaging. When we flip that onto the ethical aspect of sustainability, it's less tangible in terms of trying to get that pounds and pence value of what that investment actually is. And I think you're absolutely right, what we're now starting to see is that there is a risk map that says, by having an ethical structure is no longer just about, you know, a moral imperative, this is about saying, "I've got a business that actually has got that integrity and redundancy and resilience built into it." And it's also really interesting as well to then be thinking, as you say, about that empathy.

I think what we're starting to see now is greater engagement from both parties, both sides of this, sort of, brand retailer and supply chain side, and also going back to that complexity, it's not just suppliers, it's the suppliers of the suppliers and the suppliers of those suppliers. So, we've got this long chain of relationships, and those relationships, I think, can only work really effectively if

you have that empathy, you know? You have that understanding that there is another organisation, another group of people, another individual, that has a set of demands and requirements and constraints to work around.

And I think, ultimately, it makes really good business sense if you're aware of that, that you can actually start working with your partners in that supply chain. I guess that the one challenge for the fashion industry in particular, associated with that complexity of supply chain, is that very often, very rapid churn that we can see in terms of engagement and disengagement with suppliers, place some orders with that supplier then move on, and place orders with another supplier. And I think what the pandemic is suggesting here is that even down to the skillset within a factory, where that could vary quite rapidly, what we need to be looking at is how we can build... or what the industry could be looking at now is how we build a resilient supply chain that is based on an empathetic approach, but also addresses one of those challenges that the fashion industry has in particular, that really rapid churn that can happen in some parts of the supply chain.

And I think, Fergus, you know, we've talked to brands and retailers, where actually they've got a really good management of their supply base in terms of... they have long term relationships, and I think what we've seen from that, that has been positive within the current COVID situation.

Fergus:

Yes, definitely. As I said earlier, the ones who have already been putting work into this to understand the supply chain and have strong relationships have definitely benefitted, and actually speaking to brands to understand how they have been dealing with the pandemic, one thing that has come across from all different types of brands is that they are planning on consolidating their supply chain. They want to have fewer suppliers, but have stronger relationships, more meaningful relationships, a working relationship, they are saying they are seeing their suppliers as business partners and they are both involved in this working relationship.

And there are also lots of comments of, you know, "We've been through this together, it's a shared experience," and going back to what you were saying about the empathy, the pandemic has affected everybody, it's been different to past crises such as Rana Plaza, which was a factory disaster back in 2013. Although it did affect the industry, but because it was over in Bangladesh, it was seen as being over there, it didn't affect the west as much.

Whereas here, now, we're working from home, you know, it's much more visceral, it's much more real for us, so it's easier for empathy to come through in that sense. So, it will be interesting to go forward, to see whether these kinds of feelings stick around, and people remember, or whether the industry goes back to business as usual. But I like to think that there has been a big enough change, and from speaking to all the different types of brands, they seem quite keen to do the right thing moving forward.

Matthew: Well, I think that's a nice place, I think, to finish up on, because that sets us up for the next podcast, we're going to share which will be looking very much at what does this mean going forward, and actually these ideas of resilience, collaboration, maybe reconfiguring supply chains and so on. We'll come back to it and think, what do our findings really mean in practice for brands and maybe for policy too? Because I think that notion of decent work and actually the business benefit from making that a reality in the supply chains is really important. So, with that I'll say thank you very much from myself and Mark and Fergus.

Mark: Thank you.

Fergus: Thanks for having me.

Matthew: If you'd like to find out more, you can visit our project web page, the link is in our show notes. And we'd love to share our findings or hear your views on what we've been working on.



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