Tension in Emerging Markets of Sustainable Practices at the Ethical Level

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Abstract
Talking about ethics and economics is often complex because of the articulated link between them. The same thing happens when it comes to the subject of sustainability. Ethical and sustainable economy should describe, in fact, the theory of the ethical and sustainable preconditions of the economy and of business as well as the theory of the ethical foundations of economic systems. Supporting an ethical supply chain means that companies will incorporate social and human rights and environmental considerations into how they do business across the world. An ethical supply chain focuses on the need for corporate social responsibility, working to produce products and services in a way that treats its workers and the environment ethically.

The work is characterized as a research aimed at the analysis of Asian markets, offering a strategy of implementation of sustainable and correct sustainable particulates for all stakeholders.

This research, in fact, will focus on the wider meaning of ethics and morale, therefore applying those concepts to supply chain issues that manager around the world encounter on their path also through some case studies taken into analysis.

Introduction
Managing the entire supply chain efficiently is necessary to streamline production, minimize waste, be productive and maximize profits.

However, there is a question of ethics and sustainability in this area. So how far can the practices adopted by some firms in supply chains be accepted when they can force the employment of workers?

Recently, ethical behaviour in the supply chain is increasingly becoming important. Firms, in fact, need to know which principles they must follow and how to adhere to them.

As consumers become more and more responsible, they increasingly consider ethical standards as important and, in many cases, seem to be willing to pay even more for a product when a company acts ethically.

In fact, all market signals confirm the growing importance of an ethical approach in the supply chain, with the consequence that firms that can demonstrate virtuousness should be rewarded by the market.

However, the boundary between what is considered acceptable and what is not, is constantly evolving.

Maintaining ethical and sustainable standards is challenging, especially monitoring the activities of international suppliers.

The goal remains to ensure that all parties of supply chains follow ethical guideline

Ethics, sustainability, and profits
Ethics (a term derived from the ancient Greek ἔθος (or ἥθος), ἔθος, "character", "behaviour", "custom", "custom") is a branch of philosophy that studies the rational fundamentals that allow to assign to human behaviour a deontological status, or to distinguish it in good, just, lawful, compared to behaviours considered unjust, illegal, inconvenient or bad according to an ideal behavioural model.

Ethics, therefore, represents both a set of norms and values that regulate man's behaviour in relation to others, and a principle that allows man to judge behaviour, both his own and that of others, with respect to good and evil.

Ethics and morality are often used as synonyms and in many cases it is a correct use, but it is necessary clarify that a difference exists: morality, in fact, corresponds to the totality of norms and values of an individual or a group, while ethics, in addition to sharing this set, also contains speculative reflection on norms and values. If morality considers norms and values as facts, shared by all, ethics tries to give a rational and logical explanation of them.

Ethics can therefore be seen as a "normative institution" and "social" together, because it represents something completely disconnected from the individuals (in fact it exists before and after them) and because
it coordinates a group by performing a social function. Ethics, also, pushes individuals to act and feel positive or negative feelings according to its norms, but it limits the individual's desire to pursue a greater objective, i.e. the "social coordination" that is necessary to allow the majority to maintain a state of well-being and the possibility of self-realization.

In order to better understand the ambivalent, intimate and collective nature of ethics, we can compare it with another normative institution, law. Both institutions regulate relations between individuals so that personal safety and public order are guaranteed, but they rely on different means. While the law is based on the territorial law, valid only on state territory, which must be promulgated so that it is known, that if not respected it will be followed by a punishment, ethics is based on the moral law, universally valid, already known to all in a non-formal way; the first deals with the coexistence among individuals, the second with human conduct more generally.

It is also important to consider how the relationship between ethics and law in the course of human history has been ambiguous. While law, in fact, is the science of coexistence regulated by juridical norms that should be based on ethical principles, ethics represent the ability to designate what is right from what is wrong, two principles that not always coincide or aim at the same goal.

Establishing what is correct and what is not, so whether it is ethical or not becomes the object of investigation and reflection. We can therefore enter the aspect of situational ethics, or rather the particular position of moral ethics according to which the morality of an act is determined by its context. Situational ethics states that what is right and what is wrong is simply determined by the desired result in a situation. Situational ethics is different from moral relativism precisely because moral relativism affirms that there is nothing right or wrong, while situational ethics provides for a code of ethics in which meeting the needs of each situation determines what is right or wrong.

Let us imagine a situation. I own a piece of land in the mountains and I decide to build a hotel. In order to let guests to get to my hotel, a chairlift will have to be built. But building it requires several trees to be cut down.

What is ethical? Promoting the development of the hotel or protecting the environment?

If we understand the point of view, needs and objectives of the hotel owner and get involved in the situation, the answer would be that it is ethical to build the hotel and the chairlift. But if we are careful and respectful of the environment, we may answer that it is unethical and that it would be better to protect the land.

If we then enlarge the stakeholders' audience, we could see that those who could go to work in the tourist facility would be in favour of the construction, while those already owning other hotels in competition would discourage it.

Bringing this analysis into the business world becomes even more complex. Nowadays business ethics and social responsibility are important issues for companies to consider when making decisions.

Business ethics and social responsibility represent, in fact, the concept that businesses have a duty to society and the environment and focuses on doing what is best for the well-being of society as a whole.

The economic theories of the past saw as the main objective, of anyone carrying out an entrepreneurial activity, the achieving of the highest possible profit, i.e. to maximize, through an appropriate combination of material, human and financial, the positive difference between revenues and production costs.

According to this approach, therefore, the key would be profit, i.e. the ability of the company to increase the wealth of those who have provided the company with the necessary capital, i.e. the so-called shareholders.

The theory according to which the company must answer for its actions to a single category of subjects, the shareholders, has its origins in the utilitarian conception of economics, typical of authors such as Smith and Ricardo. According to them, the choices of individual economic operators, guided exclusively by the objective of maximum personal gain and not hindered or constrained by external state intervention, lead to a socially optimal situation, i.e. the maximum use of resources and full employment of the workforce.

The classic approach, therefore, does not deny the social role of companies, i.e. the fact that they have a responsibility not only to the person who provided them with the capital but also of the community, but considers that they automatically fulfill this task when they pursue their own interests; the pursuit of profit, therefore, guaranteeing.

In the second half of the 20th century, Friedman attributed the profit maximization as the unique social responsibility of the companies, since this is the only way to ensure the use of the optimal resources and job creation, so as to achieve a positive impact about civil society.
In any case, whether it is simply a matter of obtaining the maximum profit or, in a more sophisticated approach, to create value, the basic concept does not change: the achievement of shareholders’ objectives is the guiding star of the company's business and must guide management in making the most important decisions.

The idea that what makes shareholders satisfied automatically makes the whole community satisfied began to be seriously challenged in the United States in the 1930s, when the dramatic consequences of the grave crisis of 1929 and the attempts (in most successful) to pass the costs of financial failures onto the poor middle classes bared the inefficiencies of a system based on the free market and, above all, highlighted how the objectives of the different social groups were not necessarily convergent.

The substantial failure of economic theories liberalist, classical and neoclassical, and the simultaneous success of the Keynesian ones, based on the need for direct intervention of the state in the economy, aimed at achieving greater social equity also through economic policies that redistribute income and wealth, thus highlighting the need to rethink the social role of companies and to abandon a concept that favoured the interests of shareholders alone.

In other words, it was a question of considering the company no longer just as a machine for the production of profits but as an integral part of a wider environment consisting of a plurality of economic, political and social forces that interact with the company itself and for which it is responsible.

It had to be questioned, therefore, the idea for which the company takes on these responsibilities at the same time where he tends to make a profit. The dramatic social consequences of the 1929 crisis, the general increase in inflation and unemployment levels caused by the serious world oil crisis of the early 1970s, the unscrupulous behavior of many multinational groups that exploited the resources of the poorest countries without contributing to their development, the explosion of environmental problems and, especially in the recent years, the succession of financial scandals have shown that things are not exactly like this and that the economic dimension of business activity cannot be pursued without taking account of its social effects.

Precisely as part of a broader context, no longer limited to its shareholders, the company is asked today to be ethical, as well as effective and efficient.

The issue of the market, ethics and business conduct seems to remain as it is today. Information and globalization, in fact, have therefore had the important role of making everyone aware of different situations where sustainability and ethical approaches do not coincide with the interests of companies, as it happens in China, a country - in today’s world - that, due to economics practices, is seeing high levels of economic growth, making China a “world factory” but with high costs in terms of sustainability. China, in fact, is now facing big dilemmas about economy and environmental uncertainties due to its participation in global supply chains. China is now on a hot seat concerning the expected future and its exponential growth related to sustainable practices has been fiercely criticized, and over the next decades the debate concerning its sustainability will take place both inside and outside China.

**Supply chains in the Asian markets**

China’s issues can be taken as an example that can be discussed to analyse success and failure in achieving developmental pattern that will have inescapably consequences within the country itself and the rest of the world.

Richard Welford and Stephen Frost tried to tackle the problem behind supply chain practices, in fact codes of conduct and associated inspection are very often run through the supply chains, and audits performed, however in most cases these procedures are seldom effective and often flawed.

Larger firms have more resources to overcome issues such as lack of resources and skills as well as lack of stakeholders’ awareness. Smaller companies have graver implications.

Practices pursued both internal and external by the firm have consequences to the response of the latter.

In China, an increasing number of firms are sourcing products, and not so rarely services as well, from supply chains located in Asia.

These issues are related to the Asian market, more specifically Chinese, in which the example of the modern slavery occurred to the ethnic minority of the Uyghurs. Practices such as outsourcing and offshoring are taking place nowadays, this is an unstoppable process which started many years ago.

Nowadays the world is ruled by supply chains, which have changed the world as we know. Poor nations are developing, due to the offshore process that is taking place in emerging markets. At the moment, it is
possible to be part of a SC instead of building one. Offshoring is a recent born practice, fostered by economies seeking for mobility, run by domestic policy reform.

As stated in the EICC code of conduct firms which adhere, as mentioned in it, must regard the code as a total supply chain initiative. At a minimum, members shall also require the application of the above-mentioned code to their next tier suppliers and to acknowledge it. In today’s world a phenomenon is spreading around the globe, especially in emerging markets: modern slavery. What appear from recent studies in China a new scandal has been reported regarding State-imposed forced labour. The situation afflicting the community of the Uyghurs, settled down in the region of Xinjiang, in the far west of China. A vast transfer was facilitated by the Chinese government at the expense of the ethnic minority of Uyghurs. The condition they are forced to work with, suggests a situation where forced labour is on the daily agenda. Their labour is found to be in more 83 well-known global brands in technology, automotive and clothing. It is estimated that more than 80,000 of Uyghurs were conveyed onto factories across China.

**Figure 1 – Uyghurs’ delocalization flows** (Xu et al., 2020).

In these places usually they live in confined spaces, obligated to follow ideological training and having limited freedom of movement.

In recent period of times Chinese government has attracted international attention to these practices, which seem to be state-sponsored and is tainting the global supply chain of prestigious brands in various fields.

**Figure 2 – Brands involved** (Xu et al., 2020).
It has been noticed in recent years that the government began to “sponsor” online this workforce, addressing it as qualified, secure, and reliable. Recently, interwoven, and worldwide networks are giving new opportunities to companies. What is possible to see today has been driven mainly by two meaning of technology: transportation, and transmission. In the pre-globalisation-world, goods were produced in the exact amount that would have been consequently consumed. However, in the 1830s the industrial revolution was advancing, and poor transportation technology was supplanted by fast and reliable trains. It stated the beginning of North industrialisation and south de-industrialisation. With the arrival of the second unbundling, around the 1980s, the ICT was the key to make worldwide supply chains possible, and wage differences made it profitable. Thinking back at the time when micro economic trades where accomplished between villages, supply chains are a revolution that keeps improving and expanding at all stages.

Foreign companies operating in China face new challenges, they need to secure the integrity of their supply chains. It is necessary in order to protect their brands from the reputational risk that forced labour, or exploitation of emerging countries resources, would put them on the world stage. However, it is seen difficult for brands to properly determine if their supply chains are flawed, making sure that their products do not have anything to do with forced labour. This represents a threat for the brands reputation overseas, back in their original countries.

Considering the above-mentioned example of the Uyghurs and the involvement of 83 international brands, not all of them responded to the accuse of to the investigationled by the Australian Strategic Policy Institute. Among these, only a few addressed the problem responding to the accuses. Adidas defended itself with an open letter, stressing its commitment about the overall situation that is affecting the rights and freedom of the ethnic groups in the Autonomous Region of China. It is stated by Adidas that, in their supply chains, any form of use of forced labour is strictly prohibited, moreover, it is not permitted to suppliers to make use of government-managed dispatched workers in China. Furthermore, according to investigations to date, it is possible to confirm no direct contractual relationship with any of the suppliers which use forced labour. This is a scheme that very often is seen, indeed many brands cannot (or do not want) to verify their affiliation with such suppliers.

**Implementation of sustainablepractises**

In recent years, questions and complaints concerning sustainability in supply chains arose. Many holding firms agreed on contracts with various suppliers, which are not held responsible for what happens in the supply chains, in contrast, in the public opinion the main firm is pledged. A company may feel pressed about becoming more sustainable due to the reputational risk, which nowadays are not the only reason. Climate change is a trend topic, among the partners and stakeholders as well. It is possible to decouple the meaning of sustainability into two main concepts: social responsibility and triple bottom line (TBL) that involve focus on economic, environmental, and social performance, leading to a new goal for SCs, being sustainable. A company values should not be only about cost reduction but also is important about the contribution in the community, value creation in terms of final product quality, innovation, and sustainability.

An aggressive cost focus of western companies does not help their Chinese suppliers to comply with sustainability standards. It is important to focus on the bottom lines of economic, environmental, and social performance, finding the right compromise and meeting half-way with all the actors of the supply chain network. It is fundamental for companies, which offshore their operations, to bear in mind the laws in force. Although there are differences in occidental and Chinese ethical reasoning. In an ideal world, firms’ focus can be at the same time on economic, social, and environmental impact. However, this is not the case, and firms base their aim onto dynamics and ever-changing influence of customers, partners, and stakeholders, determining what to focus on. Along with the increasing attention paid to environmental performance, more managers are beginning to understand that a mere environmental compliance is not satisfactory, the society, stakeholder and governments need improved environmental stewardship.

In the past decades, the focus of the public opinion was directed towards chemicals, petrochemicals, and mining industries. However, it has been raised the awareness concerning flaws in nearly every company’s
supply chains. In fact, each management is as sustainable as its supply chain. It can be found massive tension between firms and Chinese suppliers standards and socioeconomic environment regarding several issues. Undoubtedly, choices which are found to be sustainable are not considered convenient in the short-term. Thereby, firms stand in the middle of a crossroad, on the one hand there is the choice to have sustainable suppliers, increasing production cost but keeping an environmental integrity, meeting stakeholder ethical expectations. On the other hand, firms may choose unsustainable practices in sake of profitability and cost reduction. Nonetheless, companies evaluate sustainability based on their methods, selecting which partner is considered to meet the firm’s values and beliefs. This is the main obstacle found on the way of true sustainability, the inconsistency of the evaluation alignments among companies. It completely depends on the organisation’s culture, since there are a lot of different definition for sustainability within a single company. On top of that, the various nuances of interculturalism are seldom considered. It is widely recognised that sustainability standards of western countries may differ from the ones where firms offshore the production of their goods. These organisations, face in emerging countries, different social norms which are unacceptable in the occidental culture. E.g. in emerging countries such as India and Bangladesh, part of the schooling system is considered to be enriched by the use of child labour as a form of education. Reason behind workers are willing to be exploited is their origin, most of them come from rural area in the west of China. They would move to eastern China in order to earn as much as possible before heading back to their villages.

As stated before, suppliers act as a decisive character, in fact they increase or decrease the benefits created by the share of sustainable initiatives, furthermore they make competitive a firm through various practices. However, if on the one hand management has the possibility to make supply chains more sustainable. On the other hand, they have to deal with different cultures and environments when procuring abroad. A risk component is part of the procurement process, the so called “supplier sustainability risk”, is defined as the negative potential to have adverse impacts on the buying firm if a misconduct of its supplier occurs. In emerging countries practices that deviate from the line of conduct of western companies, take place very often, influencing the reputation of the corporate. A sustainable firm is required, by the stakeholders, to select sustainable suppliers but it is remarkably difficult to set criteria on which the company should base its selection. It heavily depends on the goals of the buying firm. Concerning labour contracts, Chinese government in 2008 created a new law which restricts overtime to 36 hours per month. It lowered down the limit, aligning it to international labour standards. A few dozen of suppliers is complying with the new law, whilst most suppliers do not. Overtime is used in such a way to control staff size in order to cut costs. In addition, workers are willing to work extra hours to increase their salaries, since the minimum wage is incredibly low. Nonetheless, overtime is a performance indicator for workers, it shows to workers that the employer is doing well and who controls overtime face troubles in finding adequately trained employee.

Conclusions
For a company, therefore, behaving ethically also means guaranteeing the customer what they have been promised, recognizing the values that make us participate and aware of the society in which we live, understanding what consumers are asking for first of all. They, in fact, require companies to act in an ethical perspective; the answer must be to keep the promises made and the commitments made. Nowadays, consumers are becoming increasingly sensitive to ethical issues. Companies, if they want to stay in the market, will be called upon to produce goods and services while respecting workers, environment and customers themselves. They will have to think, in addition to the remuneration of shareholders or their profits and stock-options, also about transparency, providing correct and detailed information. Those who will work well in compliance with these rules will be rewarded by the recognition of many consumers who will be, in the future, increasingly willing to spend more and invest in products and services provided by companies that follow ethical principles.
Corporate strategies must therefore follow this objective, i.e. respect for the values of ethics and sustainability, so as to be able to respond effectively to the requests of the informed and responsible consumer, who wants to buy but in the same way wants there to be correct and satisfying conditions behind his purchase.

REFERENCE


