

THE GLOBAL SUPPLY CHAIN:
ROLES FOR THE SOCIAL ECONOMY

Avner Ben-Ner
Carlson School of Management
University of Minnesota

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CONTEXT

Introduction

Globalization

Localization

Globalized
Supply Chain
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Consequences

Remedies

Roles for the
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Conclusions

- The world is a complicated place
- Complex and conflicting global processes
- Identities in turmoil
- Globalization and localization pressures

MY ARGUMENT

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- Globalization enables
 - Specialization
 - Economies of scale
- Long supply chains with anonymous links
 - Asymmetric information along the chain
 - Increased social distance between different stages of the chain and between producer and consumer
 - Greater willingness to profit by taking advantage of asymmetric information
- Private and public responses insufficient
- Roles for the social economy

INFORMATION IN ECONOMICS

CONCEPTUAL BACKGROUND

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- Decision-making with asymmetric information
- Information within and across firms
 - Costly to obtain, verify, interpret
 - A lot of it!
- Private responses: monitoring, integration...
- Public responses: regulation, inspection...
- Social economy responses: self provision, benevolent provision...
- Residual asymmetric information results in inefficiencies and vulnerabilities

GLOBALIZATION

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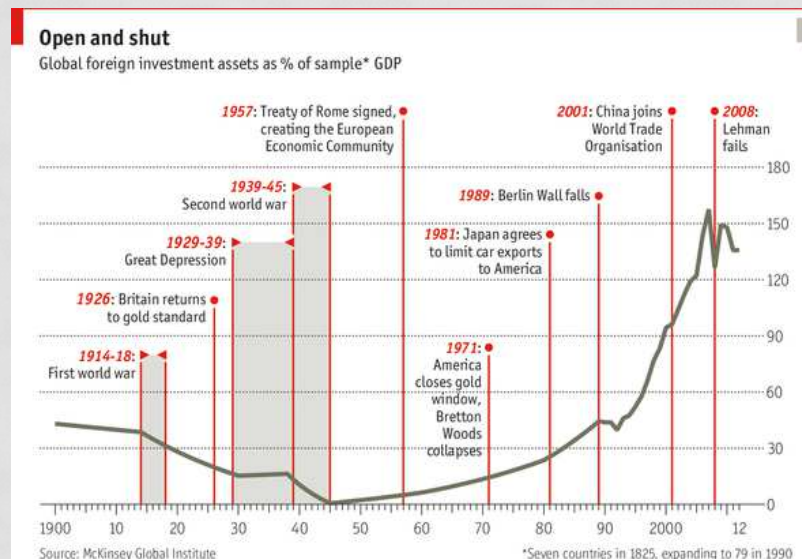
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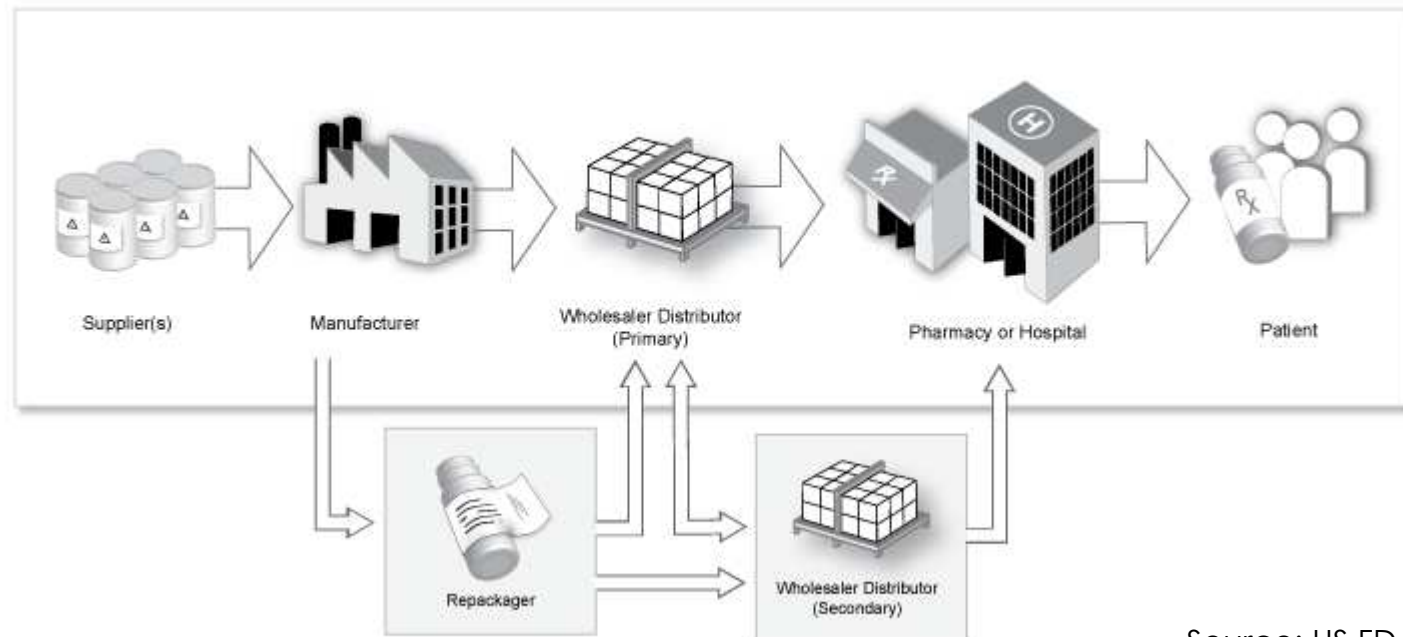
Roles for the Social Economy

Conclusions

- A process of economic, social, and cultural integration through communication, transportation, trade and finance



GLOBALIZATION AND LONG SUPPLY CHAINS



Source: US FDA

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- McDonalds restaurants in 118 countries
- Citibank retail banking in 160 countries
- An iPhone has parts produced by more than 15 producers in 7 countries – a short chain!

GLOBALIZATION ENTAILS

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- Long supply chains with anonymous links
- Products made in one place and consumed in other places
- Decisions made in one place affecting people in other places
- Pressure for standardization of
 - communication between stages of the chain
 - management and operations practices
 - final products
 - homogenization
 - dominant brands

LOCALIZATION

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- Shifts economic activity to small- and medium-sized entities that trade on a more restricted geography
- Brings production closer to consumers and users
- Does not mean autarky or community self-reliance

LOCALIZATION EXAMPLES

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- Number of farmers' markets in the U.S. has doubled in 10 years to 7000
- Number of ecovillages globally has expanded to 500 worldwide
- Australia: Bana Yarralji
- Quebec: Village of Saint-Camille
- New York: Gourmet chicken movement



Municipalité canton de
SAINT-CAMILLE

TODAY'S PRESENTATION

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Will NOT DISCUSS

Working conditions and environmental concerns*

Employment effects

Benefits of globalization to consumers around the world and to producers in India, China, etc.

**These topics have been examined by a number of academics and practitioners, e.g., A. Harney, The China Price.*

WILL EMPHASIZE

Problems associated with global supply chains**

Measures to address problems

Potential advantages from a growing social economy

*** Some academic and practitioner literature about problems with global supply chains, e.g., Peter Navarro, Death by China.*

GLOBAL SUPPLY CHAIN ISSUES: EXAMPLES

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- Mattel recalled Chinese-manufactured toys in 2007
- ABP Food Group recalled beef sourced from a Polish supplier in 2013
- Fake Xanax anxiety pills from China seized in Zurich in 2013
- Health Canada recalled Indian-manufactured birth control in 2013
- Breast milk sold online is often tainted (2013)
- Dog food with untraced content sickens/kills (2013)
- *Adulterated flour (Rochdale, 1844)*

These are consequences of taking advantage of asymmetric information

Most cases are unlikely to be known

CLOTHING MANUFACTURING EXAMPLE

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- Bayard Winthrop, the founder of the clothing company American Giant, has returned production to the U.S.
- Domestic manufacturing has several advantages over outsourcing
 - Transportation costs are much lower
 - Turnaround time is quicker
 - Labor costs — *the reason all these companies fled in the first place* — aren't that much higher than overseas because of automation
- “When I formed the business, I wasn't saying, ‘From the cotton in the ground to the finished product, this is going to be all American-made,’ ” he said. “It wasn't some patriotic quest.”

(New York Times, September 19, 2013)

GLOBALIZED SUPPLY CHAIN ISSUES

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1. Increased asymmetry of information along the supply chain: less transparency, longer lead times, and more instability
2. Regulation is difficult:
 1. (a) international regulation is weak and
 2. (b) national regulation is difficult to extend across borders
3. Weakened connection between producer and consumer

These are *inherent* problems – not China-specific, etc. problems

1. ASYMMETRY OF INFORMATION

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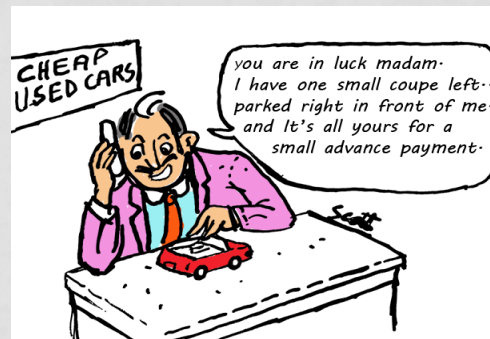
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- Increasingly complex supply chains give rise to higher monitoring costs, language barriers, and other logistical problems
- As manufacturers may not directly or immediately bear responsibility for poor quality control, they have incentives to shirk



2A. INTERNATIONAL REGULATORY CHALLENGES

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- International regulation is implemented by organizations like the UN, ILO, WTO, and Basel Committee on Banking Supervision
- Difficult because of poor regulation articulation across borders, weak enforcement, and regulatory capture
- Effectiveness of voluntary ISO standards is limited

2A. INTERNATIONAL REGULATORY CHALLENGES (CONT.)

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- Foreign policy goals impede international regulatory cooperation
- Governments support local producers at the expense of users
- Significant costs and uncertain benefits
- International inspection, regulation, and enforcement regimes are generally weaker than national counterparts, especially in developed countries

2B. NATIONAL REGULATORY CHALLENGES

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- But national regulation, regardless of location, is limited by cost and politics:
 - The Food Safety Modernization Act of 2011 requires the U.S. FDA to inspect every domestic and foreign food factory, warehouse, and establishment that supplies U.S. markets
 - Program costs are estimated at \$1.4 billion over the 2011-2015 period, according to the U.S. Congressional Budget Office

3. PRODUCER-CONSUMER RELATIONS

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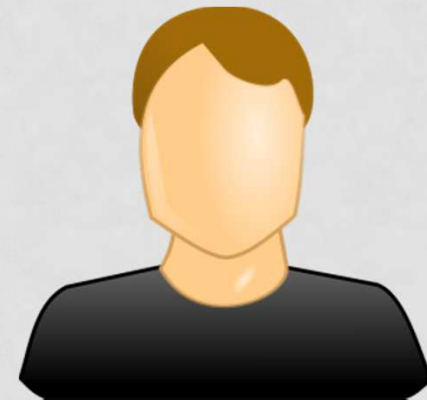
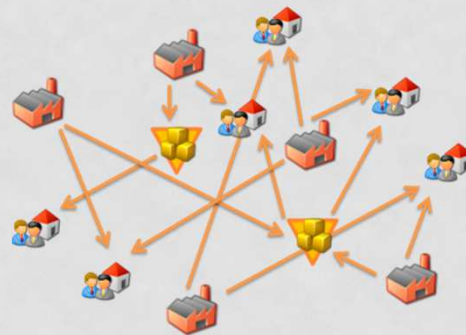
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- Weakened motivation for benevolence and CSR across the supply chain
- The connection between producer and consumer is weakened



CONSEQUENCES OF CURRENT GLOBALIZED SUPPLY CHAINS

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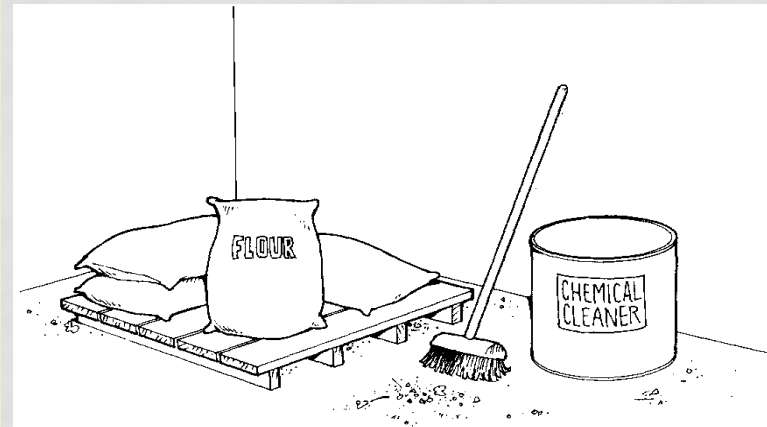
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1. Quality control at various stages of the supply chain is often weak
2. Quality, durability, and reliability of many goods and services is uncertain



REMEDIES TO GLOBAL SUPPLY CHAIN PROBLEMS

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1. Private
2. Public
3. Social
Economy



PRIVATE REMEDIES

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1. Shorten the supply chain:
 - Zara, the Spanish clothing company, increasingly relies on European plants
 - U.S. textile manufacturers have restarted domestic production
2. Establish long-term relationships with suppliers
 - Toyota
 - Apple
3. Invest in more rigorous inspection of products from previous links in the supply chain
 - Third-party warehouse inspection
 - On the line (chain) inspection
 - Inspection of the vendor
4. Vertical reintegration

PUBLIC REMEDIES

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1. Improve cross-national regulatory regimes

1. E.g., UN Global Compact

2. Increase national inspection of imports

These are limited in scope:

- expensive
- politically complicated

SOCIAL ECONOMY REMEDIES

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1. Provide “regulation”
2. Production by social enterprises and support for local producers
3. Provide resources
4. Maintain local identity

(NGOs involved in labor and environmental standards inspection and enforcement – not the focus today)



SOCIAL ECONOMY

Strengths

- ✓ No incentives to exploit consumers
- ✓ Inherent connection between producers and consumers
- ✓ Local roots, local connections, local identity, local concerns

Weaknesses

- Governance and agency problems
- Lower efficiency
- “Selling out”
- Limited access to capital

“REGULATION”

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- Weaker motive to distort information
- ISO-like certification bodies
- Consumer cooperatives as information managers
- Final product inspection (*Consumer Reports*)

“REGULATION” EXAMPLES

The Wedge Natural Foods Co-op

- Inspection of products and vendors
- Foster sustainable local producers and connect them to consumers
- Controlled by consumers



Forest Stewardship Council (FSC)

- “Chain of Custody” certification enables consumers to choose products that support responsible forest management.



PRODUCTION

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- Increase production by cooperatives and other social enterprises
 - Less asymmetric-information motivated behavior
 - Greater supply chain control
 - Social economy enterprises less exploitative
 - Members participate in decision-making
 - Closer to consumers – less social distance
- **Technology makes small, specialized production as cheap as mass production**
 - **3-D printing, robotics, etc.**
 - **Branding and economies of scale in advertising remain obstacles for small companies**

RESOURCES

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- Encourage local business and information sharing networks
- Incubators for new firms
- Access new, local networks for recruiting capital, labor, and other resources
- Social economy organizations enjoy local networks and are trustworthy protectors of local public interests

RESOURCES EXAMPLES

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- *Incipit*: Business incubator near Rome houses dozens of enterprises in information and communications technology, wood, textile, and jewelry production
 - Build links with other vocational training centers, universities and business associations
- Textile production coalition in Minneapolis to identify and train workers
 - Run by a coalition of manufacturers, a nonprofit organization and a technical college

IDENTITY

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Conclusions

- Globalization encourages cultural homogenization, which causes discomfort for a lot of people
- The social economy can help maintaining local identities and encouraging a sense of belonging

WHAT TO DO?

POLICIES FOR THE SOCIAL ECONOMY

CAN THE SOCIAL ECONOMY MEET CHALLENGES OF GLOBAL SCOPE?

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- Capital for expansion is in short supply
- Entrepreneurship is difficult to develop
- The problem is large and global – but this solution is decentralized and local
- Success requires understanding of the problem and deliberate action
- Concentrate on areas of greatest importance and probability of success
 - For example, demand for food is very responsive to trustworthy information about pesticides, source, etc.

CAN THE SOCIAL ECONOMY MEET CHALLENGES OF GLOBAL SCOPE?

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- Identify greatest obstacles for social economy 'regulation,' production and provision of resources
 - Economies of scale: promote new technologies that are efficient at small scale
 - Marketing and sales: collaboration among social economy organizations to gain economies of scale and branding advantages
 - Employ new methods of raising capital
- Cooperate with local for-profit firms and public agencies

IN CONCLUSION...

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- Globalization has many benefits and drawbacks
- Ideas discussed today focus on how to deal with some problems of globalization. Erecting trade barriers or promoting autarky are not the answers
- Social economy organizations are not a panacea but can alleviate some problems
- They can build connections between producers and consumers, not just in agriculture, and shorten the supply chain and increase quality control
- There are many successful examples to learn from

LEARN FROM SUCCESSFUL SOCIAL ECONOMY EXAMPLES



Coexphal
(Almería)

(東京俳優生活協同組合)



Test-Aankoop
Test-Achats

Crowdfunding



Conclusions



THANK YOU!

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