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Social Supply Chain Risk Management: A Case Study in a Brazilian Company

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Abstract

This paper discusses the social risk supply chain management through a case study in a Brazilian company. We map the social risks and the main consequences of these risks tracked by the organization. By comparing the findings of the case study with the literature, the paper contributes to the academic studies with 2 new social risks, the main consequences of these risks, and the description of the company's strategy to manage its risks.

Keywords: Social Risk, Risk Management, Case Study.

Introduction

Academic researches in supply chain risk management (SCRM), in general, address the risks that occur due to interruption at some point in the chain, which later blocks the flow of materials, funds or information among the entities of the supply chain (Bode et al., 2011). Therefore, they approach the traditional view of SCRM, with the focus on avoiding interruptions along the chain to reduce financial losses that this disturbance can cause (Bode et al., 2011; Hofimann et al., 2014).

The risk management literature is diverse, but researches on financial risks have been studied for a longer time and have greater repercussion due to significant economic changes for organizations. However, this classical approach focused on financial performance does not consider the social view to be purely economic (Busse, 2016).

The social risks started to gain academic attention with the introduction of the concept of Triple Bottom Line (Elkington, 1994). Nevertheless, research on the social risks in which the supply chain of a company may be involved is still needed (Tang, 2018). Basta et al. (2018) also argue that when addressed, social risks are mostly
limited to labor rights and working conditions.

Therefore, the present paper aims to study the social risks in supply chains through a case study answering two research questions:

(i) The social risks and consequences found in academic literature are found / relevant also in a business enterprise?

(ii) What strategies does the company use to manage its social risks?

The case study considers a Brazilian company of Cosmetics, involved in the manufacture, industrialization, distribution and sale of cosmetics, fragrances and personal hygiene products. We compare and validate the results of the case with the list of 24 social risks and 13 consequences proposed by Cunha et al. (2019).

The remainder of the paper is organized as follows: Section 2 addresses the case study methodology. Section 3 presents the results and discussion of the case study, followed by a section presenting the concluding remarks and suggestions for future research.

**Research Methodology**

The present research adopted the case study methodology proposed by Yin (2013), composed of six steps: plan, project, preparation, collection, analysis, and sharing.

The plan aims to identify the relevant situation for the accomplishment of the case study in detriment to other research methods. Thus, the event to be studied within the context of real life is the management of social risks in supply chains.

We present a unique case as an exploratory study of a theme little covered by the literature. The present research considers common case study to capture the circumstances of a daily situation to provide processes related to some theoretical interest.

The project was carried out with a Brazilian company of Cosmetics recognized for its vision of sustainability, the principle of generating positive impacts on society and for being an organization that combines economic growth with the promotion of social and environmental well-being. The research question compares the social risks and the consequences that these risks can generate for a company covered by the academic literature with what is observed in a supply chains of a real company. The criteria for data interpretation to actual data that can reinforce, complement or contrast with the results derived from the academic literature to bring new insights to the strategies to mitigate these risks.

In the preparation stage, we developed the case study protocol, defining candidates, selecting the final case to be studied and synthesizing the initial definitions of the study.

Data was collected through documents made available by the company, interviews, and secondary documents from the internet. First, the professionals of the studied company answered an online questionnaire. This questionnaire was based on Cunha et al. (2019) and made available to respondents through the SurveyMonkey platform. Then, we conducted face-to-face interviews with open questions based on answers previously reported by company professionals. Finally, we compiled documents made available by the interviewees and secondary materials available on the website of the company studied.

The professionals considered in these interviews effectively deal with the risks of the company, and are: (i) the Supply Manager, responsible for Performance
Management and Relationship with Suppliers; (ii) the Audit Coordinator of Supply Management, and (iii) the Compliance Coordinator.

The data analysis considers the pattern matching technique, in which the theoretical reference is used as prognosis and compared with the results of the case study.

Finally, the sharing stage consists of the publication of the present paper.

Results and Discussion

The company's mission is to promote well-being through the mobilization of a network of people capable of integrating scientific knowledge and the sustainable use of the rich Brazilian botanical biodiversity, in order to deliver the cosmetics manufactured from natural elements of the Brazilian flora, processed, distributed and sold.

Through the online questionnaire, it was possible to understand that the company has three areas responsible for its risks, namely: (i) the Supply area, which deals with risks related to suppliers; (ii) the legal and Compliance area, an area concerned with issues related to labor laws, including the risks of corruption and bribery; (iii) the area of Corporate risks, encompassing other risks.

Through the interviews, it was possible to understand that the Brazilian cosmetic company has means of identifying social issues present in its supply chain through an audit carried out periodically by the company, through a complaint from one supplier over another (which has already occurred with a textile supplier), and through the media.

The interviewees stated that the company has a list of risks predefined by a multidisciplinary group (encompassing area of supplies, risk management, legal area and relationship with suppliers), which is reviewed every two years and serves as the basis for the supplier's audit checklist.

Among the 24 social risks found in Cunha et al. (2019) and listed for the interviewees, 11 of them are not on the list of pre-defined risks to be audited for the studied company, these being: unfair or low wages, although the same worries about workers' compensation however, it still cannot reach the level of detail of the amount paid by its suppliers to employees; access to drinking water; access to basic sanitation; unfair compensation; reallocation or rupture of indigenous peoples; exposure of communities near the end of activity; unavailability to public facilities; expropriation; exposure to unemployment; reallocations without explicit grounds and equality before the law.

Some of the social risks present in Cunha et al. (2019) do not fit directly with the area of cosmetics addressed. However, some risks such as low or unfair wages, exposure of communities close to the end activity and unavailability to public facilities are suggested as possible risks to be added to the list of social risks to be audited as they can cause significant damages to the company.

The respondents added two social risks to the list of Cunha et al. (2019): Corruption and Bribery and Compliance with Local Labor Legislation. Corruption and bribery should be added to the list presented in Cunha et al. (2019), as they may create critical social risks. For example, if the money destined to the aid of an Amazon community is diverted, the community will not receive the necessary assistance and may trigger various social risks. However, concerning local labor legislation, this risk applies to the cosmetics company studied because its suppliers
are within the Brazilian territory. If the company has suppliers located outside Brazil, the law to be followed should be the one proposed by the International Labor Organization (ILO, 2017).

Besides the company's identification of the social risks found in the academic literature, the developed questionnaire also addressed the consequences that these risks could bring to the company.

Regarding the consequences presented in Cunha et al. (2019), those that appear most frequently in the questionnaire are the damage of the company's reputation, the risk of operational stops, individual claims or collective action and payment of mandatory compensation by the court. The profit reduction consequence was mentioned only twice which demonstrates that the company has a social concern that goes beyond the financial consequence that these risks can cause.

In addition to the two respondent areas of the online questionnaire, the Audit Coordinator explained the process in more detail during the interviews. As strategy to manage the social risks that may be present in its supply chain, the company performs two types of audits, one related to the new suppliers and another related to the contracted suppliers of the company.

The main objectives of the Audit process for the company are to mitigate risk of shortages of products, to protect the company's image and the integrity of employees, contributing to the maintenance/ obtaining of certifications and awards which guarantee brand value, and to integrate company beliefs and values into the supplier relationship network, ensuring the development of the value chain.

The audit process takes place through a checklist questionnaire answered by direct suppliers. According to the criticality of the supplier, audits take place at one-year intervals (most critical suppliers) to five years (less critical suppliers). The company studied has a partnership with eight different companies that perform around 300 audits per year with their suppliers. The companies to be audited are defined by the company studied, and the process of auditing the suppliers happens with a marked date, that is, without surprise for the suppliers.

The checklist is based on six pillars: Quality, Environment, Health and Safety at Work, Legal Requirements, Code of Conduct, and Social Responsibility. In this way, the supplier can be classified into three groups: (i) approved; (ii) approved with restrictions, where the supplier is still able to sell, but must adapt within 3 months with the requirements demand in a corrective action plan; (iii) Disapproved, where the supplier will not be able to supply. The corrective action plans are individual and depend on the responses of each supplier. Some items make suppliers automatically disapproved, such as: forced or compulsory labor, child labor, environmental requirements, legal noncompliance, non-compliance with benefit payment rules, non-compliance with health and safety standards, and corruption.

Conclusion

The case study answered two research questions. The first one was answered as several social risks found in the literature coincide with the social risk monitored by the studied company. However, it became clear that social risks vary according to the area in which the company operates. Therefore, risks related to areas of construction, mining or oil and gas may or may not refer to the risks present in the area of cosmetics.

The second research question encompassed the strategy used by the company
to deal with its social risks. Cunha et al. (2019) presented the strategies in a general manner, whereas in the case study the process of supplier auditing was discussed as the strategy used by the company to manage social risk in its supply chain.

In this way, the main contribution of the paper to bring new insights to the academic literature through comparison between a real case and the results from Cunha et al. (2019). The social risks found by the academy may be included in the social supply chain management of the company. On the other hand, we demonstrate that the business environment brings updates back to the academy.

As future research, more case studies should investigate other supply chains, highlight disparities in relation to the private and public sector, and explore different types of organizations as well as different organizational areas, such as oil and gas, mining, construction, cosmetics, and textiles. Additional studies may also focus on the importance of stakeholders and their social risk management actions and other social risk management strategies.

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