

# **Corporate Social Responsibility in an International Supply Chain**

**New Zealand**

Written by

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The case was developed with the cooperation of a company that wishes to remain anonymous solely for educational purposes as a contribution to the Project entitled "New Corporate Procurement Strategy on Trade in Goods and Services in APEC Region - Supply-chain options with CSR perspective -" conducted under the auspices of the Asia Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. No part of this case can be reproduced, stored or used without the written permission of the author and the Asia Pacific Economic Cooperation.

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## Executive Summary

This case discusses a situation in which good Corporate Social Responsibility (CSR) practices were instituted in a supply chain extending from China to New Zealand and Australia. This was accomplished through the forceful and consistent efforts of a supply chain logistics intermediary, ABS Logistics.

ABS Logistics helped a New Zealand manufacturer, Woodward Laundry Products, contract out a portion of its manufacturing to a Chinese firm named Conghua Metals Company, with the assistance of a North American sourcing company, Hayden International Sourcing.

In spite of the generally low level of visibility in New Zealand of human rights and labor abuses by contract manufacturers in many low-cost labor economies, ABS Logistics did not only persist in developing its own CSR policy in this area but it also convinced Woodward Laundry Products (the customer) to institute a similar policy. The two firms required similar policies and compliance on the part of Hayden International and the supplier, Conghua Metals.

The case describes the companies involved, the nature of the supply chain and the activities conducted, and the lessons learned from the process of instituting good CSR practices in a supply chain.

The good practices illustrated here include formulating a CSR policy, inculcating the meaning and application of the policy among the employees, persuading both customers and suppliers to comply with the policy, and putting in place methods to ensure continued compliance by all parties. But the most important characteristic of an effective CSR policy is the will of the firms involved to make sure everyone lives up to it.

## Introduction

This case deals with four parties in an international supply chain stretching from China to New Zealand and Australia. The players in this supply chain consist of a New Zealand manufacturer (Woodward Laundry Products Limited), an international logistics company based in New Zealand (ABS Logistics), a service provider known as a “sourcing” company founded by North Americans and operating in China (Hayden), and a manufacturing company in Guangdong Province, China (Conghua Metals Company).

Woodward Laundry Products of New Zealand is a manufacturer and supplier of metal and plastic laundry products to the New Zealand and Australian appliance retail, building and plumbing industries. The Woodward product range includes laundry tubs, ironing centers and ducting. The company enjoys a strong market share in New Zealand (over 50%) and is a growing presence in the Australian market. Since its founding in 1982, Woodward has manufactured its complete product range at a factory in Auckland, New Zealand.

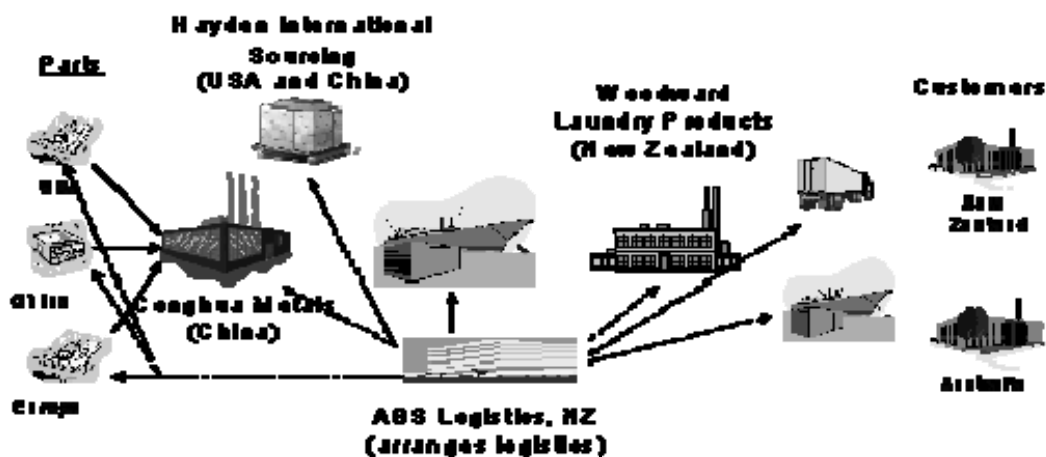
As Woodward’s preferred supplier of international freight services for the last 14 years, ABS Logistics transported and imported components and sub-assemblies to Woodward from Australia, the United States, Europe and Asia. The company subsequently exported finished products from New Zealand to Australia. In 2005, however, Woodward learned that just like in many other industries, the dominant position the company had historically enjoyed was under threat from alternative products sourced from Asian economies, particularly China.

While this threat was not altogether new to Woodward, the company had been able to maintain good business before on the basis of fast delivery and the high quality of its finished products.

However it was becoming apparent that quality and delivery performance alone would not be sufficient for Woodward to protect, much less grow, its market position. Given this situation, the company decided to explore the opportunity to move some or all its manufacturing activities to China.

In early 2006, Woodward chose ABS Logistics International to lead this investigation because of the firm’s wide experience in importing and exporting, and in running international logistics operations. Woodward and ABS Logistics jointly studied a number of sourcing companies with in-depth knowledge of Chinese manufacturers. After a detailed search, the two companies finally appointed Hayden International Sourcing, a North American-owned company, to find a manufacturer capable of meeting Woodward’s needs and assisting its operations. Using Hayden’s detailed knowledge of Chinese manufacturing practices and companies, the three parties selected Conghua Metals Company as the supplier for the bulk of the product range required by Woodward. Conghua Metals was a manufacturer based in the Guangdong province of southern China. **Figure 1** shows a schematic diagram of the supply chain that this multi-firm collaboration ultimately employed.

**Figure 1:**  
The Supply Chains and Its Participants



The issue of Corporate Social Responsibility (CSR) surfaced relatively early in the search for a Chinese manufacturer. ABS Logistics, in particular, realized that it was taking on a whole new set of activities and relationships that presented a variety of risks for the firm.

This case describes the interesting development and evolution of ABS Logistics’ recognition of CSR and the approach that it adopted. ABS Logistics did not only have to address issues of CSR internally; it also had to be sure that the entire supply chain also developed the necessary CSR policies and culture so that the firm could protect its own reputation in the supply chain and in any future business.

## The ABS Logistics Group

The ABS Logistics Group was founded in 1980. The transport industry environment in New Zealand at that time was highly regulated, requiring all freight traveling over 150 kilometers to be moved by rail. The market was dominated by several giant transport companies. When

deregulation occurred in 1985, ABS Logistics evolved rapidly to become one of the major firms in the New Zealand logistics sector.

ABS Logistics International was created as a subsidiary of ABS Logistics in 1984. The subsidiary company established a beachhead in Australia in 1992, with an operation in Sydney, followed in the next few years by depots in Melbourne and Brisbane. It invested in Australia in pursuit of its vision to have a single Australasian logistics and freight market.

ABS Logistics became a publicly listed company in June 1998 and later added interests in the United States and Southeast Asia. As of 2007, the firm has already established an office in China to take care of its business with firms exporting to Australia and New Zealand, as well as with firms importing from those two economies to China.

ABS Logistics Limited is a fully integrated service company. The business incorporates a number of different brands dealing with business activities ranging from door-to-door domestic and international transportation and managed warehousing, to specialist divisions offering dangerous goods and temperature-controlled transport and warehousing. Like many other international logistics companies, ABS Logistics focuses on bringing complementary services together to achieve integration of the activities in their customers' supply chains.

ABS Logistics has a simple and logical management philosophy, which is, build a strong team culture, promote from within and reward good work. The firm has a relatively flat organization with little hierarchy or bureaucracy. Everyone is treated as an important link in the firm's chain of activities. The headquarters operates in an open-office plan; even the Chief Executive Officer (CEO) holds office in the open with the rest of the employees.

## **Hayden International Sourcing Company**

Hayden was formed in the mid-1990s when two Americans who had worked for a large multinational firm in China for many years as production coordinators decided to go into business for themselves. Their job which involved working with Chinese-owned contract manufacturing companies which were doing business with their employers gave them considerable experience. Being fluent in Chinese, the two set up their Hayden operation in Hong Kong, China and began soliciting business from smaller western companies that wished to take advantage of low-cost manufacturing options in China.

Sourcing companies are consulting firms that specialize in seeking out firms in Asia, primarily manufacturers, who can meet the needs of buyers looking for low-cost, high quality production. Most of the potential customers of the sourcing companies have relatively little experience in doing business in places like China, little knowledge of local customs and regulations and limited Chinese language skills. Thus, a sourcing company that has all these capabilities can be a very valuable resource.

The presence of these sourcing companies has become widespread. The biggest and most famous of these is Li & Fung.<sup>1</sup> Li & Fung initially started in the apparel industry by developing a network of Chinese manufacturers that could be marketed as sources for large apparel manufacturers in North America and Europe. The firm which has grown very big now offers a whole range of supply chain services beyond sourcing.

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<sup>1</sup> F. Victor and J. Magretta, Fast, Global, and Entrepreneurial: Supply Chain Management, Hong Kong Style. *Harvard Business Review*, September-October, 1998, 102-114.

As a sourcing company, Hayden not only participated in the initial identification and negotiation of the arrangement between Woodward, ABS Logistics and Conghua Metals, but also continues to monitor quality, delivery, payment security and logistics.

## **Conghua Metals Company**

A group of workers in a small Chinese town originally put up a manufacturing operation in a small shed just outside of town to make simple metal parts for larger companies nearby. The founders were quite aggressive. They continually sought out more business and developed other capabilities. After several years of growth and numerous additions to the original shed, the group established a formal business entity and named it Conghua Metals Company. By then, the firm already had the capability to make fairly complex metal components and parts. They also had sufficient capacity to produce large orders for both domestic Chinese and foreign customers, primarily other manufacturers.

In order to continue to grow, Conghua Metals had to go farther and farther from their immediate vicinity to attract workers. Today many of the workers come from rural, central China and are housed in dormitories owned by Conghua. This means that they are readily available to work overtime to meet heavy production demand.

The founders of Hayden had established a relationship with Conghua Metals while still working for their previous company. In their experience, Conghua Metals could be counted on to produce low cost parts of acceptable quality on a consistent basis. Thus, when ABS and Woodward contacted the firm regarding potential suppliers in China, Hayden proposed Conghua as an excellent candidate.

## **ABS Logistics Supply Chain Operations with Woodward Prior to the New Arrangement**

The Woodward business traditionally had been predominantly an export account for ABS Logistics. ABS Logistics handled shipments from New Zealand to Australia. Import movements prior to the engagement with Conghua Metals in China all involved components originating in Australia, The United States and Europe.

Woodward's international freight spending with ABS was 65% export and 35% import. On a physical volume basis, the split was 85% export and 15% import. The disparity reflected the fact that export shipments were all short haul to Australia while import shipments were predominately from the Northern Hemisphere. The operational emphasis on the imports focused on meeting planned production deadlines so that finished product assembly could continue without interruption.

Export arrangements targeted short transit sailings to maintain service delivery levels in Australia with minimum inventories. While freight rates were monitored, operators involved in the account focused on supplier management, timely tracking information and physical delivery. Due to the strong market position of almost the entire Woodward range of product, continuity of finished product supply was deemed more important than planning to reduce shipping costs of components.

In order to meet these service requirements, ABS Logistics deployed a customer service representative to receive and collate Woodward orders from suppliers, and to ensure that suppliers meet the expected shipping dates. Any variance or supplier failure was communicated through a weekly status report which highlighted exceptions to the delivery schedules.

## **New Supply Chain Operations with Hayden and Conghua Metals**

The new, prospective arrangements involving a Chinese contract manufacturer required significant effort from ABS Logistics and Woodward. Once Conghua Metals was selected as the supplier, Hayden arranged for Conghua to produce some prototypes of the components to be purchased by Woodward. After initial inspection in China by visiting Woodward personnel, the components were flown to New Zealand for approval by various New Zealand Standards Boards. There it was found that several of the underlying parts procured in China failed to meet New Zealand standards. Thus, Conghua would have to import these parts to China, a task which the company had no experience with. ABS Logistics, through its local China office, provided significant help to Conghua in the firm's efforts to obtain an import license.

Once regular production and shipping began, Conghua as the party that loaded and sealed the containers destined for Woodward was required to complete various bio-security packing declarations for Australia and New Zealand. Again ABS Logistics personnel taught several of Conghua's English-speaking employees how to correctly complete these forms.

One unanticipated outcome of the relationship was that Conghua gained sufficient capacity to produce in one week all the components required by Woodward for three months. As a result, Conghua took over the additional task of warehousing the production at its plant for a certain amount or cost that was unanticipated. This was done to maintain a smooth flow of products over time to Woodward. ABS continues to look for alternatives to this arrangement.

Overall, what had once been a relatively simple supply chain model has evolved into a complex series of activities and movements that requires a significant amount of remote coordination and control. ABS Logistics and Hayden International Sourcing serve as the facilitators that maintain this series of transactions between Woodward Laundry Products and Conghua Metals.

## **Corporate Social Responsibility in New Zealand**

The New Zealand economy is heavily based on agricultural products. The primary exports are dairy products (powdered milk, butter and cheese), forest products (logs, lumber and pulp), meat products (beef and lamb) and fish (both wild and farm-raised). Major imports consist of apparel, machinery and equipment of all types.

CSR initiatives focus primarily on environmental issues: being "green", "sustainable" and non-nuclear. Other CSR efforts relate to energy consumption and "carbon footprints" or the amount of net carbon dioxide produced or consumed by a process. The entire country takes great pride in its reputation as an environmentally sound place in which to work and live.

New Zealand also has strict rules and regulations concerning working conditions, pay and safety for employees in domestic businesses. There is almost no hint of unfair and inhumane treatment

of workers in the economy. On the other hand, there appears to be much less recognition of how purchasing and outsourcing goods and services in other economies might contribute to labor and human rights abuses. Nor is there any strong drive to suggest that companies procuring goods and services from other economies should concern themselves with these issues.

Obviously, numerous companies in the economy, primarily retailers and distributors, purchase significant quantities of goods from Southeast Asian economies and China. Several companies that the author approached for this project indicated that they really had no particular policy on CSR issues related to labor, but probably should begin programs in this area. Thus there has been little public outcry pressuring New Zealand firms to institute strong CSR policies and procedures related to labor and human rights as there has been in North American and European economies.

## Corporate Social Responsibility at ABS Logistics

When ABS Logistics was approached by Woodward Laundry Products to lead the effort in helping Woodward outsource some of its production, ABS did not have any explicit CSR policy. However, the firm did have a culture of treating its own workers fairly and rewarding good performance. Woodward was in essentially the same position.

With the advent of its new role, however, the CEO of ABS Logistics (who was an avid runner and user of Nike products) recalled the troubles Nike had when examples of human rights and labor abuses were exposed in the factories of some of the firms that made Nike products. Even though Nike and other firms, especially those in apparel and high technology, put in place strong standards of conduct for suppliers and procedures (audits) for ensuring compliance, there was evidence of many firms professing to meet the standards, but were in fact hiding on-going abuses.<sup>2</sup> The CEO recognized that ABS Logistics could potentially put its reputation in jeopardy if it became involved in similar cases.

ABS Logistics did have a code of conduct for its employees. This focused on honest and fair treatment of employees and business partners. For example, it prohibited accepting gifts from suppliers and giving gifts to customers. It goes without saying that bribes are illegal in New Zealand. It also called for non-discrimination on the basis of race, gender or sexual preference. However it made no mention of working conditions in the operations of suppliers or customers.

The CEO decided to formulate a specific CSR statement that would guide the company employees in their dealings with outside parties. Calling together a group of senior employees, he began a dialogue within the company on CSR. This culminated in the recommendation to hire a consultant to help, firstly to guide the development and publishing of a CSR policy, and secondly to educate the employees on the nature of CSR initiatives and the implementation of the ABS Logistics CSR policy.

This process took a period of several months, but in the end, all employees received at least three hours of orientation and instruction concerning the policy. Those employees with direct responsibility for customer or supplier relationships participated in another eight hours of discussion on the subject with the consultant, the CEO and the vice-president for Human Resources.

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<sup>2</sup> “Secrets, Lies, and Sweatshops,” *Business Week Online*, 27 November 2006.  
Website: <http://www.businessweek.com/print/magazine/content/06-48/b4011001.htm?chaqn=gl>.



Given the strong support of senior management, all the employees of ABS Logistics recognized the importance of this initiative. The initiation and development of the relationships with Hayden and Conghua Metals offered a good opportunity to test the strength of this commitment.

## **Implementing CSR in the Woodward - ABS Logistics Supply Chain**

In its relationship with Woodward, it was not sufficient for ABS Logistics to proceed with its CSR initiative independently. ABS had to convince Woodward to support and enhance this initiative if the entire supply chain were to be based on sound CSR principles. Woodward itself did not have a CSR policy regarding labor issues and human rights. The firm had just taken these matters for granted in its New Zealand and Australian operations.

ABS Logistics found itself working to educate Woodward on the same issues it had dealt with regarding CSR. ABS convinced Woodward to establish a sound policy by arguing that the risk of sullyng its good reputation was not worth using just any inexpensive Asian contract manufacturer. It would only be a matter of time before the public in New Zealand and Australia would adopt viewpoints regarding labor abuses similar to those in North America and Europe, especially because China's role in world manufacturing continued to increase.

ABS Logistics also argued that finding a sourcing company committed to CSR was critical to finding a qualified manufacturing partner. This created the search that culminated in the selection of Hayden International Sourcing. Hayden's clients included several North American manufacturers who had sensitized Hayden to CSR issues and standards. Hayden in turn, having numerous contacts and relationships with Chinese manufacturers, made it a point to focus on those firms that were apparently doing the best job of living up to the human rights and labor standards promulgated by organizations such as Fair Labor Standards in the United States.<sup>3</sup> With these credentials, Hayden appeared to be a good partner for Woodward and ABS Logistics.

The next step was to find a qualified Chinese manufacturer who would agree to the CSR standards. It was Hayden who suggested Conghua Metals. Hayden was already using Conghua in association with a US manufacturer. Conghua had successfully passed an audit by that customer's representatives recently. Obviously Conghua also appeared capable of producing the components desired by Woodward. Hayden strongly supported a contract with Conghua.

But ABS Logistics was not convinced that all this was enough, and given the revelations cited in *Business Week*, ABS Logistics was probably justified in this skepticism. The firm pressed both Hayden and Conghua for a contract that expressly committed Conghua to comply with ABS Logistics standards of CSR and to allow periodic audits by independent compliance officers.

All parties signed the contract. Woodward, ABS Logistics and Hayden all agreed to exercise continued vigilance over the Conghua operations. Further, ABS persuaded Woodward to agree not to demand extreme price reductions that might tempt Conghua to cheat on the contract. Thus, the operations described above began. So far Conghua has been audited once and has successfully passed the audit.

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<sup>3</sup> Ibid.

## Conclusion

This case describes the rather unique role of a supply chain intermediary, ABS Logistics, serving as a catalyst in the development of a supply chain compliant with good CSR practices regarding fair labor standards and human rights. The role is unique because it is usually the customer, Woodward in this case, that drives such initiatives, if any. This case shows that any member in a supply chain can be the party that sensitizes the entire chain to Corporate Social Responsibility issues.

The good practices illustrated here include having a written CSR policy, inculcating employees in the meaning and application of the policy, persuading both customers and suppliers to also comply with it, and putting in place methods to ensure continued compliance by all parties. But the most important characteristic of an effective CSR policy is the *will* of the firms involved to make sure that everyone lives up to it.