PORTFOLIO ADVISORY BOARD

ADRIAN DOMINICAN SISTERS

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RESPONSIBLE INVESTMENTS

Making a difference in the global community

Perspectives on Outsourcing and Offshoring

Outsourcing is a process in which a company contracts another entity to produce the products or supplies it needs to conduct business. This process can create jobs but it's likely that employees will have lower salaries with little or no benefits, depending on where the outsourcing is located. When a company contracts with another entity to produce goods outside its home base, the process is called *offshoring*. When the product is not contracted outside the home base, the transaction is called *outsourcing*.

Outsourcing and offshoring are used to produce goods because labor is cheaper, the cost of production is reduced, and the company can downsize its own on-sight workforce. A lower production cost saves money for customers.

Outsourcing is a complex process that spans states and continents, creating an extended supply chain for companies (Outsourcing Supply Chain Management-8 Issues: Thomas Craig-8-20-03). Contract suppliers is a term used by socially responsible investors to identify factories that do outsourcing for companies, such as Target, J.C. Penney, Sears, Wal-Mart, Kohl's, T.J. Maxx, K-Mart, Toys R Us, McDonalds, and Gap. *Accountability, transparency* and *responsibility* are addressed by shareholders with management of these companies, emphasizing their accountability for how products sold in their stores are produced. Workers' rights and the environment must be protected, and sustainable wages must be paid to workers wherever they labor. Companies also have the obligation to share non-proprietary information with shareholders and consumers (transparency).

When a company contracts or outsources its production, responsibility, transparency and accountability are transferred from the retailer to the ubiquitous and less identifiable buyer/supplier. This diminishes the possibility of holding large retailers accountable for social, cultural, environmental and economic abuses and violations when they occur.

An example of the negative aspects of outsourcing involves Wal-Mart, the world's largest retailer. Outsourcing was systematically used to pressure and eventually bankrupt suppliers. They were forced to lower prices to correspond with cheaper goods produced offshore. When various suppliers refused to lower prices, Wal-Mart eliminated their products, severely undercutting the supplier's ability to stay in business. This strategy forced Vlasic Pickles and several textile mills in North Carolina into bankruptcy ("Wal-Mart Sales Power Systematically Bankrupts Suppliers," Fast Company Magazine, Dec. 2003).

Consumers benefit from outsourcing and the contract supplier system because they are able to purchase goods at lower prices. This is the motivating thrust that competitively drives businesses to keep prices low for customers. Consumers must continue to ask, **who benefits and who is left out by outsourcing, off-shore production and downsizing?** Should cheap prices be the sole motivation when buying goods? How can we creatively balance the social and economic benefits in a more equitable manner? This is the challenge.

– Annette M. Sinagra, OP
Corporate Responsibility Analyst

"We walk in solidarity with people who are poor and challenge structures that impoverish them."
– General Chapter '04

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Adrian Dominican Sisters • 1257 East Siena Heights Dr. • Adrian, MI 49221-1793

517-266-3523 • Fax: 517-266-3524 • PMcLaughlin@adriandominicans.org • www.adriandominicans.org