



Commentary

Safety First Abroad

Ben W. Heineman Jr. 05.29.08, 6:00 PM ET

Serious safety and quality concerns in outsourced components, ingredients and products have now moved to the top of the globalization agenda.

These concerns raise serious questions of regulatory policy and reach. But make no mistake, they are first and foremost the responsibility of corporations that move products into the streams of commerce, posing immediate and direct challenges of accountability for complex global-supply chains.

For more than a decade, concern about U.S. job loss has dominated the U.S. debate about globalization--either through the reduction of blue-collar manufacturing jobs (which has been occurring for more than 30 years for many reasons) or the threatened exodus of white collar jobs (though the numbers are small for now).

But in the past year, the outsourcing debate has acquired new dimensions: lead paint in toys, antifreeze in toothpaste, tainted ingredients in blood-thinner medicine and unsafe food (for people and even pets).

China, in particular, has been the cause of some of the most dramatic headlines, the prime examples being Baxter International, which halted sales of its blood thinner Heparin because manufacturing problems were allegedly associated with death and injury in patients, and Mattel, which has had to recall about 500,000 toy cars with lead paint and 18 million toys with loose magnets children could swallow.

Consumers, parents, patients and regulators have begun to question whether products using global suppliers are of sufficient quality and safety to protect American end-users--and end-users elsewhere in the world--from grievous harm.

This in turn has provoked intense, front-page discussion about the need for more regulation. What is the proper role of sourcing countries, such as China, in setting standards, inspecting manufacturing facilities and certifying the quality and safety of sourced items?

Debates about the Federal Drug Administration and the Consumer Product Safety Commission--about their roles in setting standards, mandating testing requirements and inspecting components, ingredients and products both overseas and at the border--have also heated up. (The states, too, are passing new laws on product safety standards for items like toys.)

The FDA has acknowledged that it lacks the resources to inspect offshore facilities. For example, it can only review 10 to 20 of China's 700 drug plants each year, according to news reports.

But the very hot and very visible debate about regulation should not obscure the fundamental point: Businesses are responsible for their products and must have sourcing disciplines which ensure their products are free of safety and quality defects. Regulation may be necessary. The first, strong line of defense must, however, be in the companies themselves.

This basic responsibility exists whether the business is sourcing a finished product or components, whether it is making expensive aircraft engines or cheap toys, or whether it sources from one supplier alone or must rely on second- and third-tier sources to provide first-tier suppliers with necessary elements of a product.

Global companies have, in the past 15 years, developed elaborate global-supply chains and practices for ensuring a measure of quality and safety. When companies had integrated vertical manufacturing processes, they were responsible for what went out the door. The "deverticalization" of the production process through off-shoring and outsourcing doesn't--or shouldn't--change that ultimate responsibility.

The energized debate about supply-chain quality and safety must therefore start with a better public, business and regulatory understanding of internal corporate practices to protect users.

The problem is that there are great variations in overseas suppliers. Some are large, well-known and well-vetted. Others are small and shady, with shifting names and locations. Some companies have created strong disciplines to ensure quality and safety and have been willing to absorb cost, while others have viewed off shoring and outsourcing primarily as a cost-cutting exercise.

The fundamental task for companies is to define precisely what elements they want from suppliers in terms of product design, materials, manufacturing, quality, testing and safe delivery. Six sigma quality techniques, like detailed process mapping, are important tools when quality and safety are essential (which is almost always).

These critical elements of the offshore, outsourced product, component or ingredient need to be driven through all stages of the sourcing process: from solicitation of bids to qualification of suppliers to monitoring, auditing and testing by the ultimate seller of the product before it enters the market. Due diligence, akin to that used in deals, is required to navigate the many shoals of shoddy businesses in the developing world--and to pierce the first-tier supplier, drilling back to the practices of second- and third-tier suppliers.

Recently, Wal-Mart ordered its suppliers to meet new product safety standards in toys, including limits on certain metals and chemicals, and to establish better testing and "tracing" of the precise steps taken to create products overseas.

This initiative was undertaken for a variety of business reasons: to restore consumer confidence, set the company global standard above conflicting state and local requirements, protect the brand and avoid liability. Wal-Mart concluded that it needed to spend more on quality and safety in the overseas supply chain--and consumers would pay for safety. Said one competitor: "If Wal-Mart is coming out with standards, which are tougher than the [federal government's] and tougher than the [States' requirements] ... everyone has to follow it."

There should, of course, be a debate about the respective roles of regulatory authorities in the sourcing and end-user nations. But it may take time to define national responsibilities--and even longer to fund and bring these responsibilities up to necessary scale.

This debate must build on--not mask--the fundamental principle of global sourcing. The company is responsible; it cannot rely on regulatory authorities to set standards or to cover its posterior. The head of a toy and video game consulting company put it succinctly: "Retailers are getting sick and tired of all the bureaucratic wrangling that's going on. They're just taking things into their own hands." As well they should.

If corporations are going to offshore and outsource products, components and ingredients, then it is back to basics. Their own supply chain protections must be rigorous and robust--just as if they were the vertically integrated domestic companies of yesteryear.

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