**Beat: Business**

# Subcontracting: an ever-more demanding strategy choice

### Subcontracting and its requirements

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**USPA NEWS -** Subcontracting: a business method which appeared with globalization and started a revolution in the industrial world. Enabling top companies to focus on their area of expertise and the final product, the new industrial method generalized over the past decades, with a fair share of success, as long as transparency and total control of the supply chain were part of the production process.

The past years´ press has been rife with subcontracting scandals, most of which focused on working conditions. But labour laws ignoring borders is not the only risk: quality control, fraud and production processes are also at play. Whichever the problem, they all group in one batch: controlling the goods produced with your name printed on it. Working conditions NGO WellMade (1) advocates: “One of the issues with subcontracting is that it is often unmonitored. Many brands are not aware of the exact locations of their subcontractors. And if you don´t know that, you´re open to all kinds of risks. Unmonitored subcontracting complicates the implementation of the Code of Conduct. When something goes wrong at a factory, it is often difficult to clearly assign responsibility. Many subcontractors are small factories and are not able to meet the brand´s Code of Conduct for fire and building safety for example.“

Subcontracting may be a valid way to achieve satisfactory levels of performance, the client being the final beneficiary, but this strategy can only be implemented with a solid quality-control policy, and with a commitment to transparency towards the client, lest the relationship be damaged, and the products drop in quality.

Gap made the bitter experience of losing control of its supply chain in 2007 and is only starting to recover. Back then, ABC News Hilary Brown had reported (2): “The multi-billion dollar global fashion company Gap has admitted that it may have unknowingly used child labor in the production of a line of children's clothing in India. ABC News obtained some of the video material an investigative reporter based in Delhi used to substantiate his story. It shows children who appeared to be between the ages of 10 and 13, stitching embroidered shirts in a crowded, dimly lit work-room. The video clearly shows a Gap label on the back of each garment. The reporter, Dan McDougall, said the children were working without pay as virtual slaves in filthy conditions, with a single, backed-up latrine and bowls of rice covered with flies. They slept on the roof, he said.“

Gap put forward the defense that they didn´t know - and had no way of knowing - of the working conditions under which the articles were being produced. The defense was rejected by the public, on the basis that subcontracting did not alleviate the responsibility for control, and Gap had to completely reorganize (3) its supply line in the wake of the scandal. It is now clear and legislated that the parent company must take responsibility for its entire production chain. The difficulty for a case like this is when the local supplier subcontracts the production to a third party.

High-quality products are also a high-risk business for both supplier and client, when subcontractors are brought into the production line. Banknote production, for instance, has the particular nature of being a small market, with a small number of clients (central banks, exclusively), and an even smaller number of producers. Crane, one of the world´s largest banknote producers, was recently blamed for its lack of transparency in its highly-sensitive production for Tunisia. The fear echoed across many platforms, as documentary director Lance Austin wrote:

“The secure printer chose, in all likelihood for logistic reasons, to launch production in its Moroccan unit. A request for information regarding the quality and security guaranties included in the contract was sent to Mr Abdelaziz Ben Said, executive director at the Tunisian Central Bank, and Mr Mohamed Rekik, vice-governor, but they surprisingly declined to comment.“ pointing at the transparency missing from the subcontracting policy. Although this policy does yield additional income for the manufacturer, clients are then entitled to ask questions regarding quality control, over which they can afford no leeway whatsoever, lest their national currency become compromised.

Finally, loose control over the production line can tip outright into fraud and security crises. The United States went through large public waves in 2012, when vast amounts of Chinese counterfeit parts were discovered on US military equipment, including particular

sensitive items, such as special forces helicopters and transport planes. The BBC reported (4): “A year-long probe found 1,800 cases of fake parts in US military aircraft, the Senate Armed Services Committee said. More than 70% of an estimated one million suspect parts were traced back to China, the report said. It blamed weaknesses in the US supply chain, and China's failure to curb the counterfeit market. The failure of a key part could pose safety and national security risks and lead to higher costs for the Pentagon, the committee said.“ Even regulations as tight as the Army´s had not sufficed in quelling the plague, which only thorough investigations diagnosed. Needless to say, the discovery meant the end of business for many military suppliers, which often work on a single client basis.

In business as elsewhere, the best is sometimes the enemy of the good, and temptations can be great to follow an all-financial logic, and away with the rest. Countless companies have damaged their image beyond repair or lost their clients´ trust by resorting to cheaper production methods, because control policies hadn´t been included in the subcontracting. Globalization and the increase in global logistic capacities has just made the temptation greater.

(1) http://www.wellmade.org/cases/subcontracting-can-small-group-workers-produce-many-t-shirts/
(2) https://abcnews.go.com/WN/story?id=3787304&page=1
(3) https://www.cbc.ca/news/gap-pulls-half-its-orders-from-india-supplier-after-child-labour-scandal-1.661995
(4) https://www.bbc.com/news/world-us-canada-18155293

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