

NYU Stern School of Business
Department of Information, Operations & Management Sciences
OPERATIONS MANAGEMENT RESEARCH SEMINAR

TOPIC: Ethical Sourcing in Emerging Economies

SPEAKER: Li Chen (Duke)

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TIME: 11:00 AM-12:00PM

PLACE: KMC 5-75

ABSTRACT

Globalization has led many brand owners and retailers to expand their sourcing bases into emerging economies. Sourcing from emerging and developing economies may yield direct cost savings, but this practice often entails greater supplier responsibility risk (such as supplier noncompliance with environmental or labor standards). There exist a variety of different actions buyers can take to mitigate such risks, but the relative effectiveness of these actions is not clear. In this paper, we develop a supplier responsibility risk model in which some suppliers in emerging economies may be more prone than others to cut corners because of differences in suppliers' intrinsic ethical levels. Based on this model, we find that, when the stake of supplier responsibility problems is high, the buyer should offer the supplier price premiums, nonmonetary rewards, and long-term contracts. For the situation in which a supplier's intrinsic ethical level is unobservable to the buyer, we study a screening mechanism based on delayed payment terms. Surprisingly, we find that, when the stake of supplier responsibility problems is high, the optimal screening mechanism collapses to a random selection. We further discuss the implications of third-party certification programs and supplier development initiatives within our ethical sourcing framework.

Bio

Dr. Li Chen is an associate professor of business administration at The Fuqua School of Business, Duke University. Dr. Chen's research interests include supply chain information and control problems, decision-making with learning based on imperfect information, behavioral operations, and sustainable operations. At Fuqua, Dr. Chen teaches supply chain management for various programs, including the Global Executive MBA, Weekend Executive MBA, Daytime MBA, Master of Management Studies, and Master of Management in Clinical Informatics. Prior to joining Fuqua, Dr. Chen spent four years at TrueDemand Software, where he was the cofounder and lead scientist of the company. Dr. Chen obtained his PhD in Management Science and Engineering from Stanford University.