



PRINCIPLES AND
STANDARDS OF
**ETHICAL SUPPLY
MANAGEMENT
CONDUCT**
WITH GUIDELINES



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Thomas Derry, Chief Executive Officer

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USA
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WITH GUIDELINES

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PRINCIPLES

Integrity in Your Decisions and Actions

Value for Your Employer

Loyalty to Your Profession

From these principles are derived the ISM® standards of supply management conduct:

STANDARDS

1. **IMPROPRIETY.** Prevent the intent and appearance of unethical or compromising conduct in relationships, actions and communications.
2. **CONFLICT OF INTEREST.** Ensure that any personal, business and other activities do not conflict with the lawful interests of your employer.
3. **INFLUENCE.** Avoid behaviors or actions that may negatively influence, or appear to influence, supply management decisions.
4. **RESPONSIBILITIES TO YOUR EMPLOYER.** Uphold fiduciary and other responsibilities using reasonable care and granted authority to deliver value to your employer.
5. **SUPPLIER AND CUSTOMER RELATIONSHIPS.** Promote positive supplier and customer relationships.
6. **SUSTAINABILITY AND SOCIAL RESPONSIBILITY.** Champion social responsibility and sustainability practices in supply management.
7. **CONFIDENTIAL AND PROPRIETARY INFORMATION.** Protect confidential and proprietary information.
8. **RECIPROCITY.** Avoid improper reciprocal agreements.
9. **APPLICABLE LAWS, REGULATIONS AND TRADE AGREEMENTS.** Know and obey the letter and spirit of laws, regulations and trade agreements applicable to supply management.
10. **PROFESSIONAL COMPETENCE.** Develop skills, expand knowledge and conduct business that demonstrates competence and promotes the supply management profession.

STANDARDS AND GUIDELINES

Preamble

A distinguishing characteristic of a profession is that practitioners combine ethical standards with the performance of technical skills. Supply management professionals must subscribe to a set of ethical principles and standards to guide individual and group decisions and actions.

Our ethical principles are integrity, value and loyalty. From these principles our standards are established to (1) encourage adherence to uncompromising ethical behavior, (2) increase awareness and acceptance of ethical conduct, and (3) emphasize the role of ethics when formulating decisions.

These standards are guidelines for use by all who manage or influence the supply chain. The standards do not supplant an organization's policies but are a model for consideration.

Every supply management professional is responsible to strive for acceptance and adherence to these ethical standards. Organizations are encouraged to develop, publish and enforce an ethics policy that supports these principles and standards. Policies and procedures must be clear, transparent and enforceable. The ethics policy should be shared with all employees, including those outside the supply organization, and with suppliers. Training must be on-going and comprehensive.

Information contained in this booklet will provide insight for handling difficult day-to-day matters. However, standards and guidelines cannot cover every situation, or nuance, and do not take the place of good judgment or sensitivity to other cultures, laws, customs and practices. When in doubt, consult with management and professional colleagues.

1. IMPROPRIETY

Prevent the intent and appearance of unethical or compromising conduct in relationships, actions and communications.

Supply management professionals deal with internal and external customers and suppliers. Interaction and treatment between supply professionals and these constituents must be honest and fair-minded. Avoid actions that appear to, or actually, diminish ethical conduct. Consequences of a perceived impropriety can be the same as consequences of an actual impropriety.

Recommended guidelines for preventing impropriety:

- a. Maintain business professionalism in all communications, including social media.
- b. Work to identify situations which, even through unanticipated circumstances, may negatively impact business relationships.
- c. Discuss an actual or potential impropriety with management. Take action as appropriate.
- d. Avoid actions throughout the organization that might create the suspicion of impropriety.

- e. Select outside business and event venues with care to manage possible misperceptions by the business community or others.
- f. Avoid excessive discussion of personal matters.

2. CONFLICT OF INTEREST

Ensure that any personal, business and other activities do not conflict with the lawful interests of your employer.

Supply management professionals must not use their positions to induce another person to provide inappropriate benefits to themselves or others. Potential conflicts arise from family, business, personal or financial relationships. Even though a conflict may not technically exist, supply management professionals must avoid the appearance of such a conflict.

Recommended guidelines to avoid and manage conflicts of interest:

- a. *Potential Conflicts*: Discuss actual or potential conflict(s) of interest with management. Reassign supply management responsibilities as warranted or necessary.
- b. *Guidance on Conflicts*: Notify the appropriate person for guidance or resolution when a potential conflict of interest arises.
- c. *Conflict of Interest Statements*: Advocate that your employer obtain and review conflict of interest statements that encourage employees to disclose any potential conflict of interest upon initial employment and annually thereafter.
- d. *Secondary Business/Employment*: Do not harm the interests of your employer through a secondary business or other employment.
- e. *Personal Business*: Do not engage in inappropriate personal business with your employer, employer's competitors or suppliers. For example, lending money to, or borrowing money from, any customer or supplier.
- f. *Investments or Business Ownership*: Follow employer policies and practices covering investments, equities and other financial instruments.
- g. *Inside Information*: Do not use inside information for personal gain.
- h. *Outside Activities*: Do not misuse your position as an employee to the detriment of your employer or its reputation.

3. INFLUENCE

Avoid behaviors or actions that may negatively influence, or appear to influence, supply management decisions.

Every person in a position to influence a supply decision must avoid all activity that may diminish, or even appear to diminish, the objectivity of the decision-making process. Interests of the employer must be served by those who are a part of the supply process.

Influence is a factor in almost all business decisions. Use care to evaluate the intent and perception of influence on supply management decisions. Clarity can often be gained by asking questions such as:

- Is the business activity in the best interest of the employer?
- How will the business activity be perceived by peers and others?

Sources of influence can be introduced into relationships between buyers and sellers, including:

- a. Employer policies
- b. Gifts, gratuities or entertainment
- c. Business meals
- d. Relationships
- e. Product samples
- f. Political matters
- g. Advertising
- h. Market power
- i. Specifications and standards

Recommended guidelines for dealing with matters of influence:

Guidelines cannot cover every situation and do not take the place of good judgment or sensitivity to other cultures, laws, customs and practices.

- a. *Employer Policies*: Supply management professionals should encourage and recommend the development and implementation of policies that eliminate or reduce inappropriate influences on the supply process.
- b. *Gifts, Gratuities and Entertainment*: The giving or receiving of gifts, gratuities or entertainment have the potential to influence buying decisions. These may be offered to a supply professional, others involved with a buying decision or to a family member.
 - Manage and evaluate carefully the acceptance of gifts, gratuities or entertainment, even if the value is small. Develop and communicate a written policy.
 - Consider the frequency of giving or receiving gifts, gratuities or entertainment and measure the “collective impact.”
 - Abide by the letter and the intent of guidelines and policies.
 - Do not solicit gifts, gratuities or entertainment for yourself, your employer or your family.
 - Avoid accepting monies, loans, credits and preferential discounts.
 - Seek direction from management if there is concern that a business relationship may be impaired or appear to be impaired by refusal of a gift, gratuity or entertainment.
- c. *Business Meals*: Meals are occasionally required when conducting business and are often a part of building business relationships.
 - Use care to ensure a meal is for a specific business purpose.
 - Manage meal frequency and cost with suppliers.
- d. *Relationships*: Avoid situations where relationships may negatively impact business decisions.

- e. *Product Samples*: Product samples may be offered by suppliers or requested by the buying organization when necessary for testing or other purposes. Document transactions covering the acceptance and use of product samples. Clarify the responsibility for the cost of samples and address any obligation for sharing test results with the supplier.
- f. *Political Matters*: All organizations are subject to internal and external forces and pressures. Internal forces and pressures result from an organization's culture. External forces and pressures result from economic conditions, laws, regulations, public opinion, special interest groups and political entities. The negative influence of internal and external forces and pressures on supply management can be minimized when the organization adopts, communicates, and behaves based on ethical principles and standards.
- g. *Advertising*: Exercise care when accepting advertising or promotional items, participating in activities that promote one supplier over another or activities that could be perceived as preferential treatment.
- h. *Market Power*: Supply management professionals must be aware of their organization's position (e.g., economic size, power, etc.) in the marketplace and ensure that market power is not abused.
- i. *Specifications and Standards*: Supply management professionals must ensure that specifications and standards are objectively developed and communicated.
- j. *Communication*: Follow organization media policies, including those related to social media.

4. RESPONSIBILITIES TO THE EMPLOYER

Use reasonable care and granted authority to deliver value to the employer.

The supply management professional must serve the lawful interests of the employer. This requires application of sound judgment and consideration of both legal and ethical implications.

Recommended guidelines for satisfying responsibilities to employers:

- a. Understand the authority granted by your employer.
- b. Obtain maximum value for the employer.
- c. Avoid activities that compromise, or create the perception of compromising, the best interests of the employer.
- d. Ensure virtual office, and other working arrangements, deliver value to the employer.
- e. Notify the employer of known or suspected unlawful or unethical activities.
- f. Avoid unauthorized use of the employer's name.
- g. Avoid using the employer's purchasing power to make purchases for non-business use. If employer-sponsored personal purchasing programs exist, make certain that the arrangements are fair to suppliers, employees and the employer.

5. SUPPLIER AND CUSTOMER RELATIONSHIPS

Promote positive supplier and customer relationships.

Supply management professionals are responsible for developing and maintaining effective business relationships with suppliers and customers. Impartiality across all business interactions and transactions enhances the reputation and good standing of the employer, the supply management profession and the individual supply professional.

Recommended guidelines for maintaining positive supplier and customer relationships:

- a. Develop and implement policies and procedures for business processes that are fair, unbiased and applied consistently, including where long-term relationships exist with key suppliers and customers.
- b. Encourage prompt and fair problem resolution.
- c. Avoid unreasonable demands.
- d. Communicate promptly, openly and directly.
- e. Establish a process for suppliers and customers to notify your employer of known or suspected unlawful or unethical activities.

6. SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Champion social responsibility and sustainability practices in supply management.

Supply management professionals are in a position to lead and direct the development and integration of sustainability and social responsibility policies and strategies into the business and supply chain. Supply professionals are also in the position to reinforce the importance of personal commitment and how such commitment impacts sustainability and social responsibility initiatives and outcomes.

ISM® definitions of sustainability, social responsibility and related principles follow:

- *Anti-Corruption.* Corruption in all of its forms, including extortion and bribery, will not be tolerated.
- *Diversity and Inclusiveness — Workforce and Supply Base*
 - *Workforce.* Workforce diversity and inclusiveness is the attraction and retention of a workforce that reasonably represents the customer and communities in which the organization operates.
 - *Supply Base.* Attraction and retention of a diverse supply base is the responsibility of each supply professional.
- *Environment.* Supply management promotes protection, preservation and vitality of the natural environment.

- *Ethics and Business Conduct.* Every supply management professional is responsible for behaving ethically and actively promoting ethical conduct throughout the supply chain.
- *Financial Integrity and Transparency.* Financially responsible supply management is characterized by integrity and transparency in all supply-related dealings and decisions.
- *Global Citizenship.* Global citizenship is the ethical and moral obligation to act for the benefit of society locally, globally and virtually.
- *Health and Safety.* Health and safety is the condition of being protected or free from the occurrence of risk of injury, danger, failure, error, accident, harm and loss of life.
- *Human Rights.* Human beings have universal and natural rights and status regardless of legal jurisdiction and local factors.
- *Labor Rights.* Supply management is committed to protecting and respecting labor rights globally.
- *Sustainability.* Sustainability is the ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental and social challenges.

For more detailed information, please visit www.ism.ws/sr.

7. CONFIDENTIAL AND PROPRIETARY INFORMATION

Protect confidential and proprietary information.

Confidential and proprietary information requires protection and should be shared with others only when needed. Access must meet employer ethical guidelines, contractual obligations, government regulations and laws. Supply management professionals should ensure that recipients of confidential and proprietary information know that they have an obligation to protect it.

Examples of information that may be considered confidential or proprietary include:

- Price and other related elements
- Contract terms and conditions
- Bids and quotations
- Product and other costs
- Descriptions of formulas and processes
- Designs and drawings
- Organizational plans, goals, objectives, strategies, and results
- Financial information not available from public sources
- Information that may impact prices of financial instruments
- Wages and salaries
- Information about employees, officers and directors

- Personal demographic and other data, including background checks and investigations
- Sources of supply
- Computer software programs, languages and applications

Recommended guidelines for confidential and proprietary information:

- a. Develop and communicate a policy regarding protection of confidential and proprietary information.
- b. Mark and identify confidential and proprietary information appropriately.
- c. Use nondisclosure agreements that state the terms for use of confidential and proprietary information.
- d. Accept no confidential or proprietary information unless you have the right and need to use it.
- e. Protect confidential and proprietary information given to you.
- f. Require that confidential and proprietary information given to others be protected by them.
- g. Use confidential and proprietary information only for its intended purpose.

8. RECIPROCITY

Avoid improper reciprocal agreements.

Reciprocity is both a legal and an ethical issue that may result in legal sanctions against the organization, its management and/or its supply management personnel.

When supply management professionals or their organizations give preference to suppliers because they are also customers, or when the organization influences a supplier to become a customer, the professional or the organization is engaging in a practice known as reciprocity. Agreements involving a specific commitment to buy in exchange for a specific commitment to sell also constitute reciprocity.

Recommended guidelines for dealing with reciprocity:

- a. Understand suppliers that are also customers may not be a problem if the customer/supplier is the best source.
- b. Use care with supplier lists and ensure they are not provided to others for their use in pursuing improper reciprocal agreements.
- c. Apply and obtain accounting, legal and ethical guidance when potential issues of reciprocity arise.
- d. Recognize that reciprocal relationships may be an illegal restraint of trade in some countries.

9. APPLICABLE LAWS, REGULATIONS AND TRADE AGREEMENTS

Know and obey the letter and intent of laws, regulations and trade agreements applicable to supply management.

Supply management professionals should develop and maintain an understanding of the legal concepts that govern their activities as agents of their employers in the countries in which they operate. These include laws, regulations and trade agreements at the international, national, state, provincial and local levels. In addition, it is common for industries to have unique regulations and laws with which supply managers must comply.

Some examples of laws and regulations that supply management professionals should be aware of include:

- Agency laws
- Contract and commercial laws
- Electronic commerce laws
- Antitrust laws
- Trade agreements
- Trade regulations
- Industry-specific laws and regulations
- Government procurement regulations
- Patent, copyright, trade secret and trademark laws
- Environmental laws
- Employment laws and regulations
- Worker health and safety laws
- Transportation and logistics laws and regulations
- Financial laws and regulations
- Other laws as applicable

The ISM® Web site contains content regarding applicable laws, regulations and trade agreements of different countries at: www.ism.ws/tools/content.cfm?ItemNumber=18252.

Recommended guidelines for understanding and complying with applicable laws, regulations and trade agreements:

- a. Seek training in legal aspects that govern conduct of supply management professionals.
- b. Understand and follow laws, regulations and trade agreements that are specific to the countries where business is transacted.
- c. Involve legal counsel early in analysis and planning to identify and avoid potential legal issues.
- d. Understand and apply laws specific to governmental entities.
- e. Seek legal counsel when conflicts may exist. Interpreting the laws is the responsibility of legal counsel.

10. PROFESSIONAL COMPETENCE

Develop skills, expand knowledge and conduct business that demonstrates competence and promotes the supply management profession.

Competence is expected of supply management professionals. Developing business skills and increasing knowledge of supply management demonstrates a commitment to the profession and positively impacts you, your employer, peers and suppliers. Professional development requires continuing education.

Recommended guidelines for achieving a high level of professional competence:

- a. Personally adopt and promote the ethical standards expected of a supply management professional.
- b. Encourage, support and participate in ongoing ethics training.
- c. Establish a self-development program designed to identify and fill gaps to remain current with changes impacting the supply management profession and business.
- d. Encourage ongoing professional development of employees and suppliers.
- e. Mentor and teach those who want to learn.
- f. Become actively involved in supply management and other professional associations.
- g. Earn and maintain the Certified Professional in Supply Management® (CPSM)®, Certified Professional in Supplier Diverity® (CPSD™), and other professional certifications.

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ISM® appreciates the willingness of the Purchasing Management Association of Arizona to share their "Guidelines for Ethical Procurement Practices," published in 1986, as a model. This document has been reviewed and updated by the ISM® Ethical Standards Committee on an ongoing basis and has evolved to become what is known today as the *ISM® Principles and Standards of Ethical Supply Management Conduct with guidelines.*

For additional information or to download a copy of this
brochure, visit the ISM® Web site at www.ism.ws/sr.