

Strengthen Your Supplier Relationships By Enhancing Ethical Conduct

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Abstract. Developing an ethical foundation for individuals involved in purchasing activities requires a set of business practice standards and professional codes of conduct. Maintaining a set of business practice standards and professional codes of conduct serve as an ethical foundation from which to encourage suppliers to establish an ethics policy and commit to ethical conduct. Baxter has developed the *Business Practice Standards for Suppliers* guide that outlines the ethical behaviors we expect from our suppliers. This workshop will share with you how to elevate awareness of good business practices and unethical pitfalls in procurement activities as they relate to perception, conflict of interest, gifts, confidential information, child labor, adherence to laws, and full and open competition.

Objectives. Participants will learn how we communicate our business ethics program to our suppliers and an brief overview of what's included in the program including topics such as; the impact of ethics on an individual, types of ethical issues in buyer-supplier relationships, types of ethical standards, supplier personnel roles and responsibilities, and how to develop a list of supplier resources. Discussion will include impact of business ethics on short-term gain versus long-term gain, meeting sales objectives at any cost, personal gain, protecting customer information, and using confidential information to gain an advantage.

Introduction. It is beneficial to encourage suppliers to establish an ethics policy as well as support your company's commitment to ethical conduct. Producing a conscientious team of professionals who are concerned with the same human values of conduct and goodness can be a challenge given the various ways individuals perceive these values as playing out in the workplace, cultural differences throughout countries, and the management style of each and every organization worldwide.

Ethics in business continues to be important across all industries. The emphasis on ethics in your environment is due to its relationship to general morality as well as its favorable impact worldwide on your ability to enhance your competitive opportunities, continuously improve your processes, ensure total quality throughout your businesses, and increase consistency in your operations.

Economic Success Linked to Ethical Behavior. Having an ethical policy in place is a basic business requirement today. Having suppliers and employees exhibit universal ethical behavior in their day-to-day operations, however, is an asset. Ensuring a track record of outstanding ethical conduct is just as important as product and service quality, competitive prices, and efficient operations.

Upsides/Downsides of Ethical Behavior. The upsides of ethical behavior in a business environment are very positive. The downsides of not encouraging and adhering to business

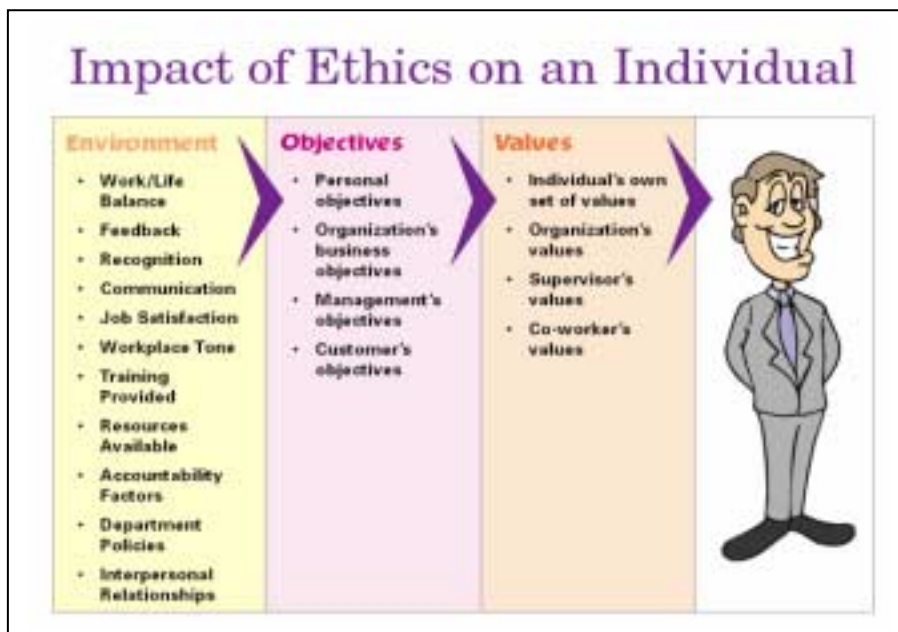
ethics policies include the risk of unethical business practices that affect your reputation in the marketplace, unethical behavior of employees occurring, and/or the risk of legal prosecution. A negative impact on the company's image is difficult and tedious to repair. Learning the hard way about the importance of practicing ethical behavior oftentimes includes severe penalties for unethical conduct such as costly litigation, adverse publicity, low employee morale, deteriorating productivity, loss of sales, and government intervention/regulation.

Strengthen Quality and Integrity of Purchasing Activities. Developing an ethical environment within your organization helps you facilitate issue resolution, prevent problems, and create a pleasant and enjoyable workplace. A plan of action for doing this might include:

1. Stressing the importance that all individuals need to consistently exhibit ethical behavior
2. Educating everyone on your business practice standards
3. Raising ethical issues and concerns by providing a forum to do so
4. Developing a network of professionals who treat themselves, their coworkers, customers, and suppliers with integrity, honesty, openness, and fairness all of the time
5. Educating everyone on the risks involved in unethical behavior

Business Ethics/Ethical Defined. Ethics is defined as the study and philosophy of human conduct, with emphasis on the determination of right and wrong, that which is moral, the basic principles of right action, a work or treatise on morals, and a standard of character set up by any race or nation. Ethical is defined as that which follows the right principles, as defined by a given system of ethics or professional conduct.

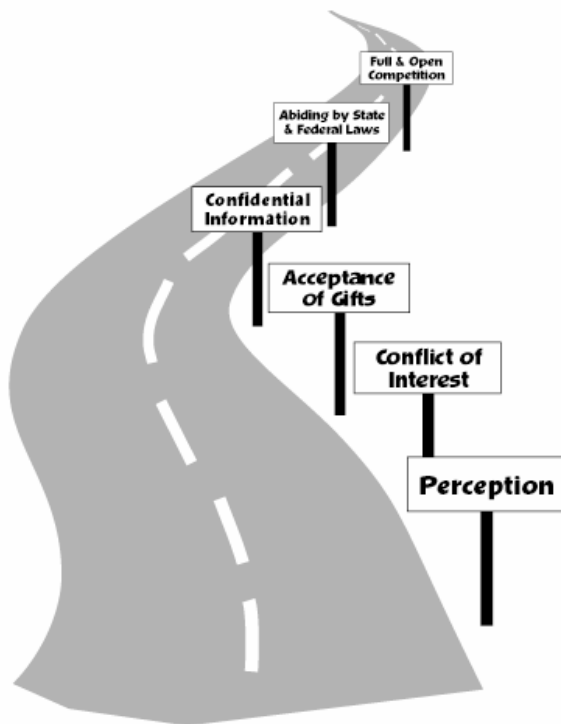
Corporate Business Practices. Determine what your company stands for. High-quality products? Service excellence? Integrity in business practice? Identify your company's commitment. Addressing and meeting customer needs? Building successful supplier relationships? Caring for its world community? Does your company need a corporate business practices function? What should the function be? To provide resources and guidance for employees, customers, and suppliers who have questions concerning the application of the company's business practice standards or who wish to report a possible violation of those standards? Who will this office be accountable to? What will this office be accountable for? Providing guidance on company's business practice policies? Reporting and investigating business practice issues? Verifying compliance with the company's business practice policies, application of those policies, and responses to non-compliance?



The ability of an individual to act ethically is affected by values placed upon him/her. Values are driven by his/her own personal set of objectives and agenda, as well as those set by co-workers, his/her supervisor, and the organization. Individuals react to these values depending upon the environment he/she is working within.

Baxter's Ethical Conduct Program for Suppliers. Baxter's Program follows the road of ethical standards requiring that company personnel and suppliers are attentive to several major areas: perception, conflict of interest, acceptance of gifts, confidential information, abiding by state and federal laws, and full and open competition.

Ethical Standards



A Sample Supplier's Decision Guide

- Should I or shouldn't I give a gift, entertainment or preferred treatment?
- Is it clearly related to the conduct of my customer's business?
- Is it moderate, reasonable, and in good taste?
- Would a customer employee feel comfortable openly displaying the gift he/she is receiving?
- Could the offer, in and by itself, influence my customer's business judgment in any way?
- Am I, the supplier, viewing a gift or entertainment as a determining factor in my customer's decision?
- Would a customer employee be allowed to reciprocate with a gift or entertainment of equivalent nature?

Baxter's Business Practices function and regional business practice committees work to make sure that every Baxter team member and supplier know and understand the company's business practice standards and how they apply to their jobs, and their relationship with each other.

The Business Practices for Suppliers guide is available in four languages and is broadly distributed to our global supplier base. The suppliers are required to fill out the response card included with this guide acknowledging they have received and understood its contents. We keep a database of the responses to verify that the appropriate suppliers have received the communication.

In October 2002, Baxter's Purchasing and Supplier Management team, along with the Business Practices group, also sponsored the company's first formal workshops for suppliers on ethical conduct in dealing with Baxter. Held in Puerto Rico ninety (90) suppliers serving all six Baxter facilities in Puerto Rico participated. The workshops are an opportunity for suppliers to meet with us face to face to fully understand our requirements, discuss ethical situations and receive guidance on developing a program for their organization.

Baxter's Supplier Workshops. The four-hour workshop, entitled "Ethical Conduct: A Supplier's Guide to Working with Baxter", included direct material suppliers (suppliers of materials directly involved in the production of Baxter products), indirect material suppliers (suppliers of lab supplies, office supplies, printed materials and other items related to the business) and service providers (transportation carriers, consultants, utility providers, travel agents and other support services). Topics included actual and perceived conflicts of interest, gifts and entertainment, managing confidential information, fair and open competition and an overview of state, federal and international laws. The workshops were such a success that we will be continuing them in 2003 to a large percentage of our supplier base regionally.

Ethics Quest Game. A board game called Ethics Quest provided scenarios from the suppliers' point of view. Suppliers were presented with scenarios of real-life business-practice issues and a set of choices. Right choices moved them around the board.

Conference Follow-up. Baxter's Business Practices offered to provide suppliers with tools and coaching to help them develop a business ethics program in their own organizations. There is also a supplier site on Baxter.com under "Doing Business with Baxter" where suppliers can access this information.

Getting Started. Developing a set of supplier resources is important to your effort so that you can monitor the environment. Do you have an individual, a group, or a department to handle business practices? This initiative should provide guidance on the application of company's business practice policies, report and investigate business practice concerns, implement a no retaliation policy, facilitate benchmarking opportunities, and mentor. A business practice standards helpline can be a toll free number, a number for international access. Anonymous inquiries should be welcome and no caller identification or tape recording mechanism should be in place. Your web site should contain pertinent ethical policy information for suppliers, supplier quality standards, business practice standards for suppliers, and appropriate contact information.

Conclusion. A set of business practice standards and professional codes of conduct are critical elements of your development of an ethical foundation for individuals involved in purchasing activities. By encouraging suppliers to establish an ethics policy and commit to ethical conduct, you can ensure that you're on the road to elevating awareness of good business practices and unethical pitfalls in procurement activities.