



Ethical Practices, Drivers & Barriers: Supply Professionals and Their Peers Weigh In

On Behalf of the ISM Ethical Standards Committee:
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Monday, May 8, 2006
10:40am

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Outline

Survey Report Out

- Survey overview
- Survey fundamentals
 - Survey results
- Use of the survey results

Open Discussion

- Key drivers to ethical practices
- Key barriers to ethical practices

Wrap-Up



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Survey Report Out

An Overview: 2006 Ethical Practices Survey

- Goal
 - To understand what is happening within organizations on the ethics front
 - To draw conclusions to help management be more effective in ensuring ethical behavior
- Respondents
 - Supply professionals
 - Links to others in the organization outside of the supply management function

An Overview: 2006 Ethical Practices Survey

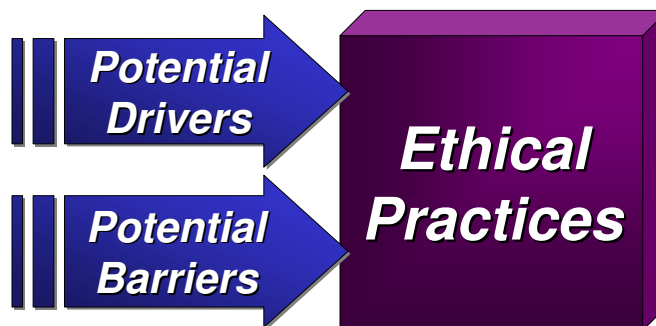
- 1,245 survey respondents
- 42% from manufacturing firms, 15% government & services
- Median organization size of \$100-500M annual sales
- Median annual spend between \$10-50M
- 56% of respondents held supervisory positions with titles including manager, director, and vice president/executive/CPO
- Median work experience in functional area was 9-15 years



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Survey Foundations: Drivers & Barriers

Areas of focus for the survey questions



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Survey Results – Barriers

Potential Barriers to Ethical Behavior

- Pressure to perform
- Business priorities
- Differing standards across functions
- No internal consequences
- Supplier pressures
- Ineffective training
- Regulatory compliance

Survey Results – Drivers

Potential Antecedents of Deceitful Practices

“Lower Level”

- Individual employee values
- A people-oriented organizational culture that promotes corporate citizenship
- Policies that include explicit sanctions and punishments for unethical behavior

Survey Results – Drivers

Potential Antecedents of Deceitful Practices

“Higher Level”

- An organizational culture that focuses on short-term bottom-line gains

Open Discussion

To what extent do you believe ...
... *meals, gifts and entertainment with
suppliers influence sourcing decisions?*

Survey Results

To no extent whatsoever or to
almost no extent

~ 93%

Today's Question:

Almost no influence because of policies /
practices or individual behaviors & values?

Then why concern about a
“dual” standard?



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Respondent Feedback: The “Dual Standard”

- There is a dual standard between purchasing and the sales functions
- Sales sees lunches, etc., as an important part of forming a “partnering” relationship and this is a good, ethical way of doing business; purchasing sees the same thing as “bribery”.....there is merit to both arguments and that policies that avoid extremes are likely the best
- Over the year what is acceptable and what is not has changed greatly. Rules, regulations, and policies have required some of these changes. Supplier's have been forced to pare their budgets that allow them the opportunity to do things that were accepted in past. As an organization we must not lose sight of this and relax as the champion of ethical behavior.

*Paraphrased quotes from survey respondents
ISM Ethical Standards Survey
March 2006*



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To what extent do you believe ...
... *there are examples in your organization
where politics inappropriately influenced
sourcing decisions?*

Survey Results

To no extent whatsoever or to
almost no extent

~ 54%

Today's Question:

How can/should the Supply Chain
Professional react to situations of political
influence in sourcing decisions?



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Respondent Feedback: Inappropriate Political Influence

- As agent of the company ... it is the fiduciary responsibility of every supply management employee to hold themselves to high ethical standards – even if the company is not supportive – such standards will allow you to maintain your integrity with your suppliers and in the market place
- Our biggest problem is that people give business to suppliers because they are their friends. I am ethical because I do not like to create obligations for myself – I don't want to make decisions harder than they have to be or give suppliers the impression that they are going to get business because of a dinner, etc.
- I find that my decisions are increasingly compromised by political considerations ... our customers may require that we purchase from a particular manufacturer, not because of personal preference but because of inappropriate relations they have with those manufacturers. If we don't use those manufacturers, the customer may go direct or use another supplier.



*Paraphrased quotes from survey respondents
ISM Ethical Standards Survey
March 2006*

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To what extent do you believe ...
... *your function has shared confidential information about one supplier with another supplier?*

Survey Results

To no extent whatsoever or to almost no extent

~ 76%

Today's Question:

Is there any information that is not confidential in a buyer-supplier relationship?



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Respondent Feedback: Sharing of Confidential Information

- Very different perspectives depending on who you talk to. What is confidential to one is not to another. I am continually amazed at ones ability to justify and rationalize outlandish behavior.
- When I inform a vendor that they did not win a bid because they were not the lowest bidder with the same service & quality, I am often asked by the vendor "Well who was?, Who did you give it to?" My response - "That I will not tell you." This can change an opinion of a vendors' ethics – they know they should not be asking the question to begin with.
- I think there needs to be a differentiator between treating all suppliers equally when there are instances with strategic partnerships. We utilize strategic partnerships and those suppliers do receive "preferential consideration" during quotations because they bring more to the table than merely a quote and the production of parts. We leverage supplier's technology and expect more from strategic sources.



Paraphrased quotes from survey respondents
ISM Ethical Standards Survey
March 2006

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Respondent Feedback: Sharing of Confidential Information

continued

- We have found that confidentiality is compromised occasionally by those not specifically trained in the supply management disciplines.
- I fully believe that whenever there is an unethical supplier selection, there are hidden costs. I also believe that thanks to global competition and communication, unethical practices should be easily limited.
- The available tools allow to quickly compare offers, and some industries (I work in the automobile industry), are bound to become more and more transparent.
- Success in my career has had everything to do with treating suppliers fairly - because of that I've always been able to count on suppliers giving their total support to my organization, whether they agree with the corporate philosophy or not.

*Paraphrased quotes from survey respondents
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To what extent is your organization's
culture motivated by ...
*... short term results oriented or driven by
quarterly fiscal results?*

Survey Results

Most, very or somewhat
characteristic

~ 62-70%

Today's Question:

How can you position your company to
minimize the impact of a "short term results
focus" on ethical practices?



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Respondent Feedback: Short Term Results Orientation

- I believe that the business trend of always beating the last quarter profits is hurting organizations ethically. People are always creating arms length relationships because there might be something better down the road. In fact a strong supply base can only be built around those suppliers who are fair to their customers and also to themselves.
- Pressure to "make the numbers" can lead to inappropriate decisions. This holds true not only for supplier selection, but also personnel decisions, performance evaluation of both suppliers and personnel, and overall supplier management.
- Upper management personnel can not be excluded from ethical behavior requirements or setting ethics policy ... these people establish acceptable corporate culture. Without solid ethics, another Enron is imminent.
- I believe that most people act in an unethical way due to either pressure from upper management or lack of training.



Paraphrased quotes from survey respondents
ISM Ethical Standards Survey
March 2006

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To what extent does your organization's culture ...
... ensure awareness of our organization's code of conduct by all employees?

Survey Results

To a great extent or very great extent

~ 57%

Today's Questions:

Does awareness by all help the Supply Chain professional? How? How to make it happen?



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Respondent Feedback: Awareness of Code of Conduct by All

- Ethical behavior is brought with the employee when employment begins. The working environment can and often does influence those with moral/ethical boundaries that are not well-defined. That makes the selection of employees with high standards critical. It also points to the responsibility of the employer to provide a working environment that requires/expects only the highest level of ethical behavior, and models such behavior at all levels of management.
- I believe majority of ethical standards/behavior are developed from environment individuals were raised, culture from different countries and motivation to do right based on what each individual believe; hence understanding organizational ethical standards may vary based on each industry, it must be well communicated both verbally and in documents, preferably through some kind of training/seminar.



*Paraphrased quotes from survey respondents
ISM Ethical Standards Survey
March 2006*

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Respondent Feedback: Awareness of Code of Conduct by All *continued*

- Especially when adjusting to low cost country sourcing, business practice may seem counter to US or European "ethics". Through education and leadership in an organization, ethics will not be compromised and ways of working and doing business in countries like China can be carried out in an ethical manner.



*Paraphrased quotes from survey respondents
ISM Ethical Standards Survey
March 2006*

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To what extent does your organization's culture ...

... require suppliers to comply with your organization's code of conduct?

Survey Results

To a great extent or very great extent

~ 55%

Today's Questions:

Does awareness by suppliers help the Supply Chain professional? How to make it happen?

Further Discussion?

Wrap-Up

Use of Survey Results

- Designed to provide practical information & suggestions for use by management across disciplines and by supply professionals
- Compare / contrast the policies and procedures of your organization to get a sense of how you measure up to the results of the study
- Use study results to determine where you can most effectively influence individual behaviors and company practices
- Use this document as a discussion tool for your team

