SOCIAL RESPONSIBILITY AND THE SUPPLY MANAGEMENT PROFESSION:
A Study of Barriers and Drivers to Ethical Practices

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INTRODUCTION

The relevance and importance of ethical business practice is as strong as ever. Ethical behavior and its impact on behavior of the enterprise, and each individual within the enterprise, continues to be critical. Management must continually reevaluate ethical values, policies and training and be vigilant to potential problems. This study was designed to provide specific information on drivers and barriers to ethical behavior that can be used by management to ensure and enhance a positive approach to ethical practices and decisions.

In 2002 the ISM Board of Directors' vision resulted in the creation of a Commission on Social Responsibility. The Commission's charge was to develop the first set of social responsibility principles and standards specifically directed at supply management professionals. Social responsibility has been defined as "a framework of measurable corporate policies and procedures and resulting behavior designed to benefit the workplace and, by extension, the individual, the organization and the community in areas of community, diversity, environment, ethics, financial responsibility, human rights and safety."

This ethics survey has been designed to complement the 2002 *Social Responsibility and the Supply Management Profession: A Baseline Study* (http://www.ism.ws/sr/files/ SR_baselineStudy.pdf). It furthers the Commission on Social Responsibility's commitment to measure the impact of its effort on supply professionals and their suppliers. ISM's Ethical Standards Committee conducted this study on behalf of the Committee on Social Responsibility.

This report for supply managers and senior management summarizes results of a large-scale survey. The survey was designed to gather data from the perspective of supply managers and other disciplines. Supply managers were asked to respond to the questionnaire and send it along to other knowledgeable supply managers within the enterprise. Additionally, supply managers were asked to provide the survey link to others in the organization outside of the supply management function (for example, engineering, finance, information technology (IT), marketing or operations) who regularly interact with supply management.

The goal of the survey was to more fully understand what is happening within organizations on the ethics front and draw conclusions to help management be more effective in ensuring ethical behavior.

When asked "… what role supply management should play in support of ethical behavior within the organization," supply professionals used words and phrases like major role, driving force, gatekeeper, leader, role model, key role, cornerstone and critical role.

Four quotes taken from the survey seem to sum up the broad spectrum of input:

"Ethical behavior is like other policies within the organization that need to be supported by upper management. This needs to be applied equally across all departments and not just limited to the purchasing department."

"I find that 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.' I happen to be one who thinks there is merit to both arguments and that policies that avoid extremes are the best."

"Ethics is an area that is not generally understood by the multicultural workforce usually found in every environment."

"People are people and it boils down to individual ethics and integrity."

Frequently, quotes expressed emotion because of unethical practices within their organizations. This report reinforces the need for ongoing commitment and resources management in order to support existing ethical practices and build on them to improve practice across the enterprise.

THE SURVEY

The Ethical Standards Committee developed an e-mail survey. The survey was e-mailed to 13,533 e-mail addresses. Of these, 2,866 were returned as undeliverable and 276 generated "out of office" replies. A reminder e-mail was also sent out.

RESPONDENTS

A total of 1,245 usable surveys were returned for a response rate of 11.7 percent

Figure 1 shows that the largest percentage of respondents was from manufacturing firms (42.3 percent), followed by government (7.4 percent) and services (6.6 percent). Other industry respondents came from agriculture, construction and utilities.
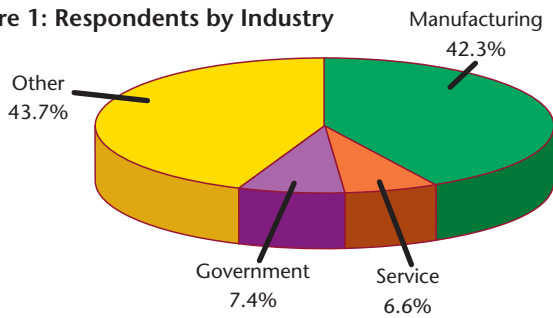
Figure 1: Respondents by Industry

Manufacturing 42.3%
Other 43.7%
Government 7.4%
Service 6.6%

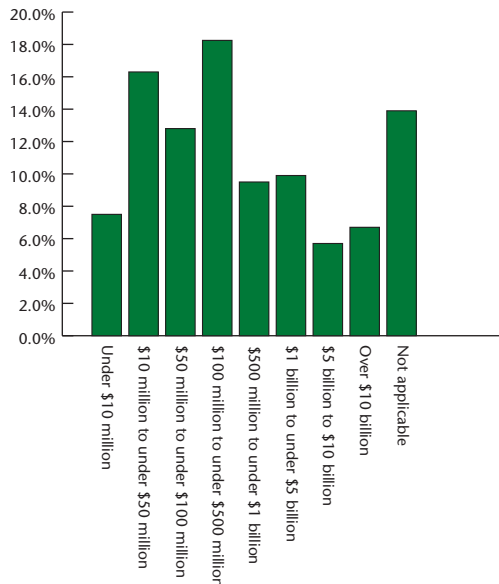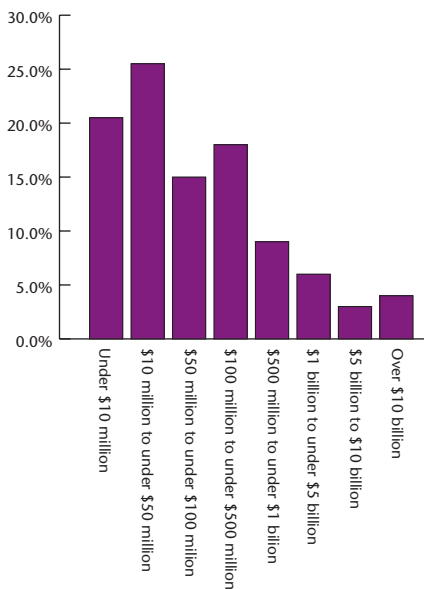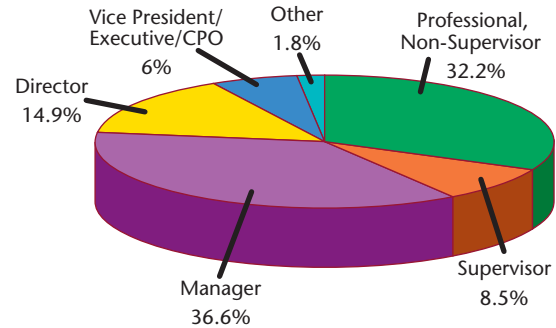**Figure 2: Annual Sales of Respondents' Organizations**

Figure 3: Spend

As shown in Figure 2, the median organization size in terms of annual sales was between $100 million and $500 million dollars (18.4 percent of responding organizations) and ranged from under $10 million (7.4 percent of responding organizations) to more than $10 billion (6.8 percent of responding organizations).

Figure 4: Respondents' Position in Their Organizations

Vice President/Executive/CPO 6%
Other 1.8%
Professional, Non-Supervisor 32.2%
Director 14.9%
Manager 36.6%
Supervisor 8.5%

According to Figure 3, the annual value of spend for responding organizations ranged from under $10 million (20.2 percent) to more than $10 billion (3.4 percent), with a median value of between $10 million and $50 million (25.5 percent).

Figure 4 shows the majority of respondents held supervisory positions, with titles including manager (36.6 percent), director (14.9 percent) and vice president/executive/chief purchasing officer (CPO) (6.0 percent). The median work experience with the respondent's functional area was nine to 15 years, suggesting that respondents had a considerable amount of experience and background to be able to answer the survey's questions.

Table 1 displays the survey questions assessing ethical issues relating to supply management, and the average responses of purchasing, operations and finance personnel in responding organizations. These questions were answered on a seven-point scale where 1 = to no extent whatsoever and 7 = to a very great extent. The average responses to these questions ranged from 1.17 for Question 3 (gifts or entertainment influencing sourcing decisions within the function) to 3.00 for Question 5 (others within the organization receiving gifts or entertainment from suppliers outside of the organization's policy). This is an interesting contrast, which suggests that while some violations might occur in terms of accepting gifts or entertainment, respondents did not believe that supplier gifts or entertainment ultimately had any influence on the sourcing decision.

A further examination of the questions displayed in Table 1 found some significant differences in responses *across functions*. The purchasing and operations management functions have shared confidential information about one supplier with another supplier (Question 1) to a significantly greater extent than has the finance function. Perhaps similarly, the finance function believes that others in the organization have received meals from outside of the organization's policy (Question 6) and given inappropriate preference to suppliers in sourcing decisions (Question 7) to a greater extent than either the purchasing or operations functions. The finance function also believed to a greater extent than did the operations function that there were instances

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Table 1: Differences in Perceptions Across Functions

Survey Question (To what extent do you believe …)	Mean Response			Significant Differences
	PUR	OPS	FIN	
1. your function has shared confidential information about one supplier with another supplier?	**2.00**	**2.00**	**1.56**	PUR>FIN, OPS>FIN
2. your function has shared confidential supplier or sourcing information with those in your company that had no need to know?	2.21	2.23	1.96	
3. gifts or entertainment influence sourcing decisions in your function?	1.33	1.35	1.17	
4. meals with suppliers influence sourcing decisions in your function?	1.29	1.35	1.21	
5. others in your organization have received gifts or entertainment from suppliers outside the organization's policy?	2.65	2.64	3.00	
6. others in your organization have received meals from suppliers outside the organization's policy?	**2.52**	**2.42**	**2.94**	FIN>PUR, FIN>OPS
7. there are instances where your organization gave inappropriate preference to suppliers in sourcing decisions?	**2.29**	**2.10**	**2.69**	FIN>PUR, FIN>OPS
8. there are examples in your organization where employees or employee family members have a personal interest or investment in a supplier that is outside of conflict of interest guidelines?	1.84	1.70	1.99	
9. there are examples in your organization where supplier business was awarded to supplier(s) that employ or are owned by friends or family or employees?	1.99	1.92	1.87	
10. there are examples in your organization where politics inappropriately influenced sourcing decisions?	**2.66**	**2.32**	**2.96**	FIN>OPS
11. there are examples in your function where someone invented (made up) a second source of supply to gain competitive advantage?	1.43	1.42	1.40	
12. there are examples in your function where someone exaggerated the seriousness of a problem to gain concessions from a supplier?	2.11	2.12	1.95	
13. there are examples in your function where someone purposefully misled a salesperson in a negotiation?	1.88	1.78	1.69	

Notes: PUR = Purchasing, OPS = Operations, FIN = Finance
Results from a discriminant analysis indicate a significant overall difference in responses across functional affiliation of respondents (p = .0047 for Wilk's Lambda; p = .0001 for Roy's Greatest Root = 0.0001). Mean responses where statistically significant differences exist are highlighted. Tukey's Studentized Range (HSD) test was used to assess individual differences at the question level.

where politics inappropriately influenced sourcing decisions (Question 10).

Through a technique referred to as confirmatory factor analysis, we were able to group the questions presented in Table 1 into two broad categories: (1) Deceitful Practices, which included activities such as inventing (making up) a second source of supply to gain competitive advantage and purposefully misleading a supplier in a negotiation; and (2) Subtle Practices, such as sharing confidential information about one supplier with another supplier and allowing gifts or entertainment to influence sourcing decisions.

As a next step, we examined the potential barriers to these unethical supply management practices, and some potential drivers and related factors that might lead to more ethical behaviors.

BARRIER-RELATED FACTORS APPLIED TO ETHICAL PRACTICES

Tables 2 and 3 list a set of conditions that can affect ethical behavior. The presence of one or more of the conditions can facilitate subtle or deceitful practices. These 10 barriers were entered into a multiple regression analysis for each of the sets of practices, and those barriers that significantly relate to the practices are highlighted in each of the tables. In the case of deceitful practices, differing standards across functions, a lack of internal consequences for unethical activity, business priorities taking precedence over ethical practices, supplier pressures to engage in unethical activity and pressure to perform within the respondent's organization all lead to significantly higher levels of unethical practices. Regarding subtle practices, ineffective training, regulatory complexity and supplier pressures were all significantly related to higher levels of unethical activity.

Table 2: Barriers That Enable Deceitful Practices*

Variable	t Value	Pr>|t|
Lack of Leadership	1.00	0.3194
Ineffective Training	0.80	0.4245
Ineffective Communication	-1.65	0.1002
Differing Standards Across Functions	**2.81**	**0.0050**
No Internal Consequences	**2.36**	**0.0186**
Business Priorities	**2.85**	**0.0045**
Regulatory Complexity	0.13	0.8963
Situational Ethics	1.66	0.0980
Supplier Pressures	**2.34**	**0.0195**
Pressure to Perform	**3.86**	**0.0001**

* Adjusted R^2 from multiple regression analysis = 0.1710 (F = 21.61, p<.0001). Bolded items are significantly related to the Deceitful Practices dependent variable.

Table 3: Barriers That Enable Subtle Practices*

Variable	t Value	Pr>|t|
Lack of Leadership	1.90	0.0583
Ineffective Training	**2.12**	**0.0340**
Ineffective Communication	-1.30	0.1926
Differing Standards Across Functions	0.86	0.3894
No Internal Consequences	0.27	0.7894
Business Priorities	1.03	0.3019
Regulatory Complexity	**1.98**	**0.0483**
Situational Ethics	1.21	0.2255
Supplier Pressures	**2.09**	**0.0366**
Pressure to Perform	0.91	0.3614

* Adjusted R^2 from multiple regression analysis = 0.0832 (F = 10.07, p<.0001). Bolded items are significantly related to the Subtle Practices dependent variable.

These findings have several interesting implications. First, it would appear that a lack of training, defined as either a total lack of training or providing ineffective training, can lead to higher levels of subtle practices. This would suggest that providing more and better training might lessen employee involvement in subtle practices. Conversely, the finding of no relationship between a lack of training and deceitful practices suggests that employees will engage in deceitful practices regardless of training provided. It is likely that employees are already aware that these deceitful practices are unethical, and that training will not affect their decision of whether to engage in these activities.

Instead, deceitful practices are affected by a lack of internal consequences (including a failure to enforce internal sanctions and punishments against unethical behavior), business priorities taking precedence over ethical behavior and pressure to perform well by meeting or exceeding metrics, often with associated time pressures. These findings suggest that organizations might lower the incidence of deceitful practices by attempting to refocus their culture from one of a strict and perhaps short-term goal of improving the bottomline to one that considers the bottomline in concert with ethical issues. Many of these issues are discussed in more depth next.

DRIVERS OF ETHICAL PRACTICES

Six potential drivers of unethical practices are shown in Tables 4 and 5. Two of these drivers result in significantly lower levels of deceitful practices — individual employee values and a people-oriented organizational culture that promotes corporate citizenship — and one antecedent results in significantly higher levels of deceitful practices — an organizational culture (also see Appendix 1) that focuses on short-term bottom-line gains. These same relationships hold in the case of subtle practices. In addition, subtle practices can be lessened through the development and use of written corporate policy that includes explicit sanctions and punishments for unethical behavior.

The survey results suggest that individual values are a key facilitator of ethical behavior in the case of both deceitful and subtle practices. Some of the comments by survey respondents to our open-ended questions perhaps best summarize this finding:

"Ethics are part of a person's values. If the person is ethical, then their dealings with suppliers will be on a good basis."

"Integrity is who you are when no one else is looking. It comes from within.

"I believe that the moral character is the most important factor in ethical behavior. Especially since the people who know the rules generally know how to get around them, if they want to."

Respondents also suggested that the values of individuals could be further supported by a company's culture:

"Ethics begin with the quality and moral values of the employees, and fortunately we have very good people. The company, in turn, is supportive of their efforts."

"The standard is the highest ethical behavior. It is a subject covered in interviews when hiring senior employees. The standard and example are in the culture."

"It is all up to the individual. I must add, however, that the environment surrounding the individual

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Table 4: Antecedents to Deceitful Practices*

Variable	t Value	Pr>|t|
Policy and Procedures	-1.04	0.3000
Top Management	0.96	0.3394
Government Regulations	-0.82	0.4140
Individual Employee Values	**-5.54**	**<.0001**
Culture (Citizenship)	**-9.42**	**<.0001**
Culture (Short-term Orientation)	**2.00**	**0.0461**

* Adjusted R^2 from multiple regression analysis = 0.1279 (F = 29.98, p<.0001). Bolded items are significantly related to the Deceitful Practices dependent variable.

Table 5: Antecedents to Subtle Practices*

Variable	t Value	Pr>|t|
Policy and Procedures	**2.70**	**0.0071**
Top Management	1.56	0.1193
Government Regulations	-1.10	0.2735
Individual Employee Values	**-5.00**	**<.0001**
Culture (Citizenship)	**-5.68**	**<.0001**
Culture (Short-term Orientation)	**2.22**	**0.0267**

* Adjusted R^2 from multiple regression analysis = 0.0792 (F = 18.04, p<.0001). Bolded items are significantly related to the Subtle Practices dependent variable.

will go a long way to help sway the individual's train of being."

"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."

Conversely, an organizational culture that focuses on short-term gains can lead to higher levels of unethical practices among employees, as shown in Tables 4 and 5, and as highlighted by this comment:

"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. Until U.S. businesses understand this, there will always be room for those unethical suppliers who are just trying to make a quick sale for this quarter's numbers."

Finally, the use of policies and procedures appears to reduce subtle ethical practices, but not deceitful practices. One explanation for these findings is that communication of policies can create awareness of some of the subtle, "grey" ethical issues that might exist. Conversely, the deceitful practices consist of activities that most employees already recognize as being ethical improprieties, regardless of the presence of ethical policies and procedures. As was stated by one study participant regarding policies and training:

"Most people know right from wrong — but the 'grey' cases, which are most of the situations, can be problematical."

USE OF SURVEY RESULTS

The survey was designed to provide practical information and suggestions for use by management across disciplines and by supply professionals. Compare and contrast the policies and procedures of your organization to get a sense of how you measure up to the results of the study. Then use the study results to determine where you can most effectively influence individual behaviors and company practices.

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Appendix

Organizational Characteristics

To what extent are the following characteristics part of your organization's culture?

	Most	Very	Somewhat	Neither Uncharacteristic nor characteristic	Somewhat	Very	Most	Combined somewhat, very and most characteristic
		Uncharacteristic				Characteristic		
1. Being people oriented	1.2%	3.7%	5.9%	8.6%	26.6%	38.1%	15.9%	80.6%
2. Being fair	1.6%	2.9%	6.8%	7.9%	26.8%	36.8%	17.3%	80.9%
3. Being supportive	1.0%	4.6%	7.6%	8.7%	31.1%	31.5%	15.5%	78.1%
4. The desire to be a good corporate citizen	1.1%	2.1%	5.3%	9.8%	23.5%	37.0%	21.2%	81.7%
5. Being bottomline-focused	0.8%	2.1%	5.0%	8.3%	24.0%	36.7%	23.1%	83.8%
6. Being profit-driven by fiscal quarter results	5.0%	5.1%	5.0%	12.8%	25.0%	27.9%	19.3%	72.2%
7. Being short-term results oriented	4.7%	8.4%	8.3%	16.1%	31.1%	19.5%	11.8%	62.4%

- 1 THROUGH 4 ARE DRIVERS OF ETHICAL BEHAVIOR
- 5 THROUGH 7 ARE BARRIERS TO ETHICAL BEHAVIOR

Note:

The *ISM Principles and Standards of Ethical Supply Management
Conduct with Accompanying Guidelines* can be found on the ISM Web
site at http://www.ism.ws/ISMMembership/PrincipleStandards.cfm.

To access the free ISM web-based, self-study course on ethics, please
go to www.ism-knowledgecenter.ws.