

**A well-defined and clearly communicated corporate code of ethics offers companies a priceless peace of mind.**

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Expectations of corporate behavior have risen in light of many high-profile corporate scandal cases. "Many companies are learning from the hard lessons of Enron and others that did not function from an ethical base and were more focused on personal gain than integrity," says Carla Lallatin, C.P.M., ISM Ethical Standards Committee chair and president of Lallatin & Associates in Rego

Park, New York. "We have seen the impact that unethical conduct has had not only on profitability, but in some cases, on the ability of a company merely to survive. In today's competitive environment, companies cannot afford to take this kind of risk."

Consequently, corporations are no longer expected only to obey laws, but are also accountable for maintaining higher principles and values. Companies that adhere to strict ethical guidelines often enjoy a clear marketplace advantage — they are never scathed by a scandal from which the company's reputation may never recover, customers and investors have more faith in and respect for the company, employee turnover is lower, employee morale is higher and productivity is increased. Additionally, international regulatory developments provide legal and financial incentives to corporations that establish standards of conduct and provide their employees with ethics education and training.

"Simultaneously, the reputation for being ethical cements customer loyalty, helping your company to not only maintain but also increase its market share," says Lallatin. "Both reduced acquisition costs and increased sales translate to increased dollars in terms of profitability."

Mike Darland, vice president, supply chain and chief procurement officer for Sappi Fine Paper in Boston, believes that high ethical standards allow, encourage and even sustain good competitive behavior. "And if all that's true, that leads to good business," he says. "Any time a company is viewed as having nonethical behavior, the reputation of that company becomes damaged. When your ethical performance and reputation is viewed as substandard, or noncompliant, suppliers may choose not to engage with you."

As a result, business leaders are increasingly recognizing the importance of responsible business conduct as a means of preserving a company's intangible assets. "The perception of substandard ethical behavior can go all the way through the company, damaging the employees, the company performance, our shareholder value and most likely our customer value," asserts Darland. "There is a chance that a bad reputation because of obvious non-ethical behavior could lead to significant damage to the company and all the vested interests of that company."

## ISM Established Ethical Guidelines Early On

Seeing the importance to the supply management field long before ethical standards became front-page news, ISM established the *Principles and Standards of Purchasing Practice* in 1923, which was revised in January 2002 to the *Principles and Standards of Ethical Supply Management Conduct With Accompanying Guidelines*. These guidelines were recommended to all those who influence the supply management process, including supply management professionals, engineers, quality control personnel, sales representatives and senior management. The guidelines consist of 12

## In Brief: The Ethics Principle

This is the fifth in a series of seven articles detailing ISM's *Principles of Social Responsibility*. The *Principles* are the result of an ISM initiative to promote excellence in social responsibility, assisting in the implementation and continuous improvement of supply management organizations and professionals.

Social responsibility is 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.

This month's article details the *Principle of ethics*; ISM encourages professionals to:

- Be aware of ISM's *Principles and Standards of Ethical Supply Management Conduct*
- Abide by your organization's code of conduct

The following audit questions related specifically to **ethics** can be used by an organization to determine if it is moving forward, aspiring to industry best practices and seeking information from others.

- Does your organization have a formal code of ethics in place? How is the code communicated to employees and suppliers? How does your organization's code align with ISM's *Principles and Standards of Ethical Supply Management Conduct*?
- What corrective action and compliance processes exist?
- Is ethics a part of each individual's job responsibilities and objectives? How are results measured?
- Are suppliers required to have a code of ethics in place to address unethical behavior and a methodology to support action and compliance?

standards of supply management conduct that are derived from the following three principles: loyalty to your organization, justice to those with whom you deal, and faith in your profession.

Specifically, the 12 ISM codes of conduct, as derived from the *ISM Principles*, are:

- **Perceived impropriety.** Avoid the intent and appearance of unethical or compromising conduct in relationships, actions and communications.
- **Responsibilities to the employer.** Demonstrate loyalty to the employer by diligently following the lawful instructions of the employer, using reasonable care and granted authority.
- **Conflict of interest.** Avoid any personal business or professional activity that would create conflict between personal interests and the interests of the employer.
- **Issues of influence.** Avoid soliciting or accepting money, loans, credits or preferential discounts, and the acceptance of gifts, entertainment, favors or services from present or potential suppliers that might influence, or appear to influence, supply management decisions.
- **Confidential and proprietary information.** Handle confidential or proprietary information with due care and proper consideration of ethical and legal ramifications and governmental regulations. ►



Art by Jason Steed

## ISM's Free Online Ethics Course

ISM's Knowledge Center features a free online ethics course worth one Continuing Education Hour applicable to C.P.M. recertification or A.P.P. reaccreditation. "Ethics: A Behavioral Awareness Tool" compiles previously published ISM articles, case studies, the ISM *Principles and Standards of Ethical Supply Management Conduct*, ethical questions and answers, ethical activities and templates of standard documents for supplier communication. These tools provide supply managers with a user-friendly introduction to ethical topics. To sign up for this free course, visit [www.ism-knowledgecenter.ws](http://www.ism-knowledgecenter.ws).



## ISM's SR Web Site

ISM is committed to becoming the central repository of information in support of all matters related to social responsibility. The following resources can be accessed through the ISM Web site at [www.ism.ws](http://www.ism.ws):



- *Principles of Social Responsibility*
  - The accompanying supply management audit for the social responsibility *Principles*
  - Links to other social responsibility related Web sites (for example, Business for Social Responsibility, World Business Council for Sustainable Development, and Corporate Social Responsibility Newswire)
  - Social responsibility articles and research
  - ISM's Committee on Social Responsibility
  - Ways you can foster social responsibility and show your support for the ISM *Principles*
- 
- **Supplier relationships.** Promote positive supplier relationships through courtesy and impartiality.
  - **Reciprocity.** Avoid improper reciprocal agreements, which is both a legal and an ethical issue.
  - **Applicable laws.** Know and obey the letter and spirit of laws applicable to supply management, including agency law, UCC, UCITA, OSHA, antitrust laws and EPA laws.
  - **Small, disadvantaged and minority-owned businesses.** Encourage support for small, disadvantaged and minority-owned businesses.
  - **Professional competence.** Acquire and maintain professional competence, which can be defined as the mastery of a body of knowledge, continued efforts to increase one's ability and knowledge of the profession, communication skills, the willingness to share knowledge with others, and conformance to the highest standards of ethical behavior

- **National and international supply management conduct.** Conduct supply management in accordance with national and international laws, customs and practices, your organization's policies and these ethical principles and standards of conduct.
- **Responsibilities to the profession.** Enhance the stature of the supply management profession.

The ISM *Principles and Standards of Ethical Supply Management Conduct With Accompanying Guidelines* is available at [www.ism.ws/ISMMembership/PrincipleStandards.cfm](http://www.ism.ws/ISMMembership/PrincipleStandards.cfm).

### Unique Ethical Considerations

These 12 guidelines are noble and would appear to be fairly straightforward. But digging just below the surface, it's easy to see that ethics quickly leads to some gray areas. The label "sound ethical practices" can have different meanings to different entities. For example, the global environment in which many companies do business today can create a unique ethical situation. Different levels of ethical standards exist throughout the world and are sometimes in conflict with "traditional" American values. As a result, companies must remain cognizant of these differences on what is proper and respected.

Some cultures, for instance, offer gifts as a means of friendship. But when does a gift from a supplier become a bribe?

Aside from global implications, sometimes the gray area of ethics becomes even more muddled with legalities. In fact, it was the litigious nature of our society that prompted many U.S. companies to implement formal ethics initiatives. So where does the law end and ethics begin?

According to Ernest G. Gabbard, J.D., C.P.M., CPCM, director of corporate strategic sourcing for Allegheny Technologies Inc. at its corporate headquarters in Pittsburgh, some areas that deserve attention in the context of legalities and ethics include bribery, gifts, meals and proprietary information. For example, unless a supplier's information is protected under intellectual property statutes, such as patents or copyrights, it is not illegal to share that information with other suppliers; however, such information sharing could certainly be unethical if it compromises a supplier's competitive position. For instance, sharing a supplier's cost or pricing data with another supplier would be unethical, even though it might not be illegal.

"There is no litmus test for when an act will be unethical; however, the ISM *Principles and Standards of Ethical Supply Management Conduct* provide an exceptional guide for supply chain

**Throughout their careers, supply managers will undoubtedly face many ethical dilemmas.**



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# ISM's New Principles of Social Responsibility



Social responsibility is 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 the following areas:

*Community*

*Diversity*

*Environment*

*Ethics*

*Financial Responsibility*

*Human Rights*

*Safety*

*The Institute for Supply Management™ recognizes and thanks the following for their support of these Principles.*



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(as of November 18, 2004)

For more information on how your company can support these Principles, visit [www.ism.ws/SR](http://www.ism.ws/SR)

## A Spectrum of Responses for Ethics

ISM's social responsibility survey compiled the following responses about the *Principle* of ethics. The survey was part of the first-ever social responsibility report for supply managers by ISM. This data can be found in the box at right:

	Total Number of Responses for the Statement	To No Extent or Almost No Extent		To a Good, Great or Very Great Extent	
		Number	Percent	Number	Percent
Abides by a formally endorsed set of principles and standards of ethical conduct	952	49	5%	790	83%
Conducts/participates in ethical training	952	224	24%	436	46%
Requires suppliers to demonstrate that they have an ethics policy and program in place	952	519	55%	180	19%

(Continued from page 32)

managers," says Gabbard. "These should be supplemented with the policies of the supply chain manager's employer, and with prudence and judgment. I cannot imagine any circumstances in which the supply chain manager could comply with these *Principles* and still be in violation of any substantive law."

While the government provides the legal framework that says what society will put up with, businesses must take the lead in addressing those issues where governmental bodies have failed to come up with a solution.

### Developing an Ethics Policy

Throughout their careers, supply managers will undoubtedly face these and many other ethical dilemmas. A surefire way to ease their confusion is via a sound corporate ethics policy.

The ability of companies to implement formal business practices initiatives often depends on the availability of financial and staffing resources. The training of the policy must then be delivered through senior management, external specialists or departmental staff, such as human resources or legal personnel.

"Sappi Fine Paper has always lived by the premise that good ethical behavior is good business," says Darland. "About a year and a half ago, we again published a very formal code of ethics. The code of ethics handbook that was handed out to every individual came down from our CEO directly. Those at the CEO and senior leadership level briefed all the employees, while the general counsel offered words of advice." This policy spans the entire company and covers such broad-scope subjects as anti-competitive behavior, intellectual property and sourcing. Sappi employees concerned about a breach of ethical behavior can call the company's ethics hotline and are encouraged, if the conflict is large enough, to go to general counsel directly.

An important step in eliminating unethical behavior is to clearly communicate your company's policy concerning this issue to both supply managers and suppliers. This means a company must go beyond merely developing a code of ethics; it must educate its employees on how to abide by the code and why it is important to do so. Increasing the frequency of communication

## How Does Your Company Compare?

In April 2004, ISM conducted a baseline study to determine firms' activities with regard to social responsibility. Below is a sample of responses provided with regard to ethics and ethics policies. The wide variety of responses shows that while many companies have taken the necessary action to properly implement a corporate code of ethics, others are still lagging behind.

- We have an established hotline to report unethical behavior and we publish yearly communications to our suppliers.
- 100 percent of employees must report incidences of gifts/meals offered by suppliers.
- Letters to suppliers regarding our policies are sent out each year.
- A formal statement of vendor ethics is published on our Web site and included in our contracts.
- The ISM *Principles* are posted in the purchasing office.
- All employees are required to take and pass a code of conduct online examination annually.
- We developed a code of ethics for all the employees and one for the purchasing organization, but there are no activities to support either its implementation or demonstration.
- We simply have broad company policy which details employee conduct, but nothing specifically for purchasing.

For a full copy of the baseline study, visit [www.ism.ws/SR/files/SR\\_baselineStudy.pdf](http://www.ism.ws/SR/files/SR_baselineStudy.pdf).

pertaining to business ethics and varying the medium through which that communication is delivered are the most successful methods of accomplishing this goal. Ethics programs that incorporate a means for employees to share their feedback with the organization have a greater likelihood of long-term success.

"Every year we bring the supply base together for the review of corporate performance, what our expectations are, what our strategy is, what the industry is doing, what our expectations of the suppliers are and how we engage suppliers for maximum value through the company, all the way through to our customers," explains Darland. "We include our corporate ethics, our expectations of them, our standards of behavior when it comes to procurement from them, and how they will be expected to comply with this. I also go through the high-level ethical rules as standardized by ISM, and I use that as a reference background. The ISM rules serve as an excellent source of concise and comprehensive ethical standards of behavior."

Lallatin explains that once you communicate your policy to your suppliers, they will watch to see if everyone in your company holds to the policy. "If they find that you do, you will have taken a big step toward creating an environment of trust and cooperation," she says. "The atmosphere created will open up avenues of communication and cooperation that will help product and process costs."



If your organization already has an ethics policy in place, review it. Is it sufficient as written? Are you able to identify some weaknesses? If so, develop a plan to make the policy stronger. Is your ethics policy properly communicated throughout your organization? If not, find another avenue to get the message out to your employees and suppliers loud and clear. (For other important audit questions, see the box on page 31.)

Because this issue is far from black-and-white, the large gray expanse between proper and improper behavior should be on the minds of corporate America. As the pressure on business to play a role in social issues continues to grow, attention to ethics will become even more prevalent. While Plato may have had a point when he said, "Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws," business ethics is a foggy area that could find some supply managers in hot water, even if their initial intentions were above board. Company policy must be carefully spelled out in a corporate code of ethics that is understood by all employees as a measure to avoid any ambiguity as to what will and will not be tolerated when dealing with ethical dilemmas. [ism](http://www.ism.org)

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