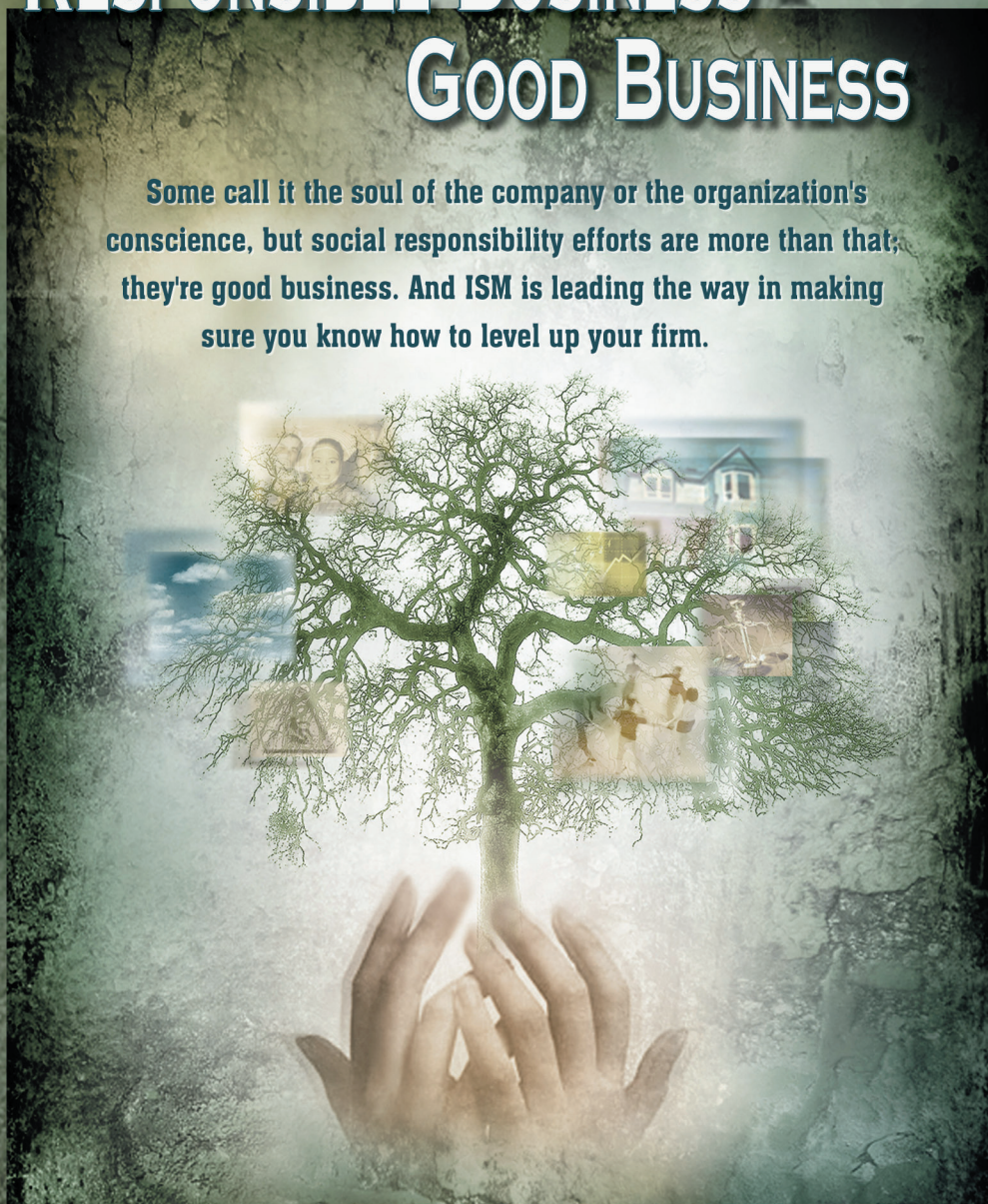# INSIDE SUPPLY MANAGEMENT®

Resources to Create Your Future

May 2004

RESPONSIBLE BUSINESS = GOOD BUSINESS

Some call it the soul of the company or the organization's conscience, but social responsibility efforts are more than that; they're good business. And ISM is leading the way in making sure you know how to level up your firm.

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BY JULIE S. ROBERTS, A.P.P.

COVER STORY

Supply management professionals are in a key position to influence and achieve a balance of good business and socially responsible practices.

The universe is made up of coordinating systems. Solar systems, ecosystems and smaller systems like photosynthesis and systems of the human body. Each system operates according to physical laws and subsystems that must function simultaneously and in balance with the others.

An organization's universe is made up of functioning systems relating to revenues, expenses, profits and losses. All organizations seek to implement best practices and focus on core competencies to achieve competitive advantage. However, these functions must be balanced. If one function is performed at the expense of another, an imbalance results.

Social responsibility can be compared to the gravity component of the solar system. While each function is needed in an organization and the solar system, gravity and social responsibility must exist so that all other systems can function. For most of us, gravity goes unnoticed, but a lack of it would certainly change the way the universe functions. Social responsibility is not always formally recognized within organizations, but a lack of it certainly captures attention and impacts the health of the organization. Socially responsible organizations enjoy improved financial performance, an enhanced reputation, increased productivity and quality, and increased retention of employees — so says Business for Social Responsibility (BSR), "a global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment."

Social responsibility is an organization-wide responsibility, and its absence reflects on each part of an organization. Nevertheless, there are specific areas in which supply management professionals have direct involvement and can positively influence their organizations' social responsibility practices, attitudes and thought processes.

To influence, supply management professionals must understand social responsibility, its definition and the impact on organizational actions. Recently, ISM undertook a paramount initiative to positively influence the business community with regard to social responsibility.

This initiative is not one in name only. The ISM Board of Directors created a Commission on Social Responsibility in August 2002, and the results are the creation of social responsibility principles, a self-auditing resource and now a Committee to continue ongoing support of this initiative.

Certainly ISM recognizes the associated problems when organizations behave irresponsibly, but more importantly ISM sees the social, fiduciary and ethical benefits of behaving responsibly. In other words, socially responsible behavior is good business practice.

The 89th Annual International Supply Management Conference and Educational Exhibit marked the announcement of this initiative, but there's much more on the horizon of ISM's ongoing promotion of social responsibility. Self-auditing tools, surveys, educational information, award programs and continuing support are all part of this initiative. This article outlines ISM's definition of social responsibility, its involvement and objectives with regard to this initiative, reasons why social responsibility is important, the business case for social responsibility, and an overview of ISM's continuing support efforts.

Social Responsibility Defined

ISM defines social responsibility 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 (listed in alphabetical order)":
- Community
- Diversity
- Environment
- Ethics
- Financial Responsibility
- Human Rights
- Safety

Each principle has accompanying supply management practices that supply management professionals are encouraged to exemplify in their business dealings. These practices also help to explain the principles of social responsibility.
- **Community**
  1. Provide support and add value to your communities and those of your supply chain.
  2. Encourage members of your supply chain to add value in their communities.
- **Diversity**
  1. Proactively promote purchasing from, and the development of, socially diverse suppliers.
  2. Encourage diversity within your own organization.
  3. Proactively promote diverse employment practices throughout the supply chain.

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Points of Interest

At a glance, here are the main points covered in this article. By reading it, you will learn:

- **ISM's definition of social responsibility**
- **The seven principles of social responsibility as they relate to supply management**
- **Why ISM has taken such a proactive role in promoting social responsibility**
- **The business case for socially responsible behavior**
- **Results from the first survey on social responsibility**

- **Environment**
  1. Encourage your own organization and others to be proactive in examining opportunities to be environmentally responsible within their supply chains either "upstream" or "downstream."
  2. Encourage the environmental responsibility of your suppliers.
  3. Encourage the development and diffusion of environmentally friendly practices and products throughout your organization.
- **Ethics**
  1. Be aware of ISM's *Principles and Standards of Ethical Supply Management Conduct*.
  2. Abide by your organization's code of conduct.
- **Financial Responsibility**
  1. Become knowledgeable of, and follow, applicable financial standards and requirements.
  2. Apply sound financial practices and ensure transparency in financial dealings.
  3. Actively promote and practice responsible financial behavior throughout the supply chain.
- **Human Rights**
  1. Treat people with dignity and respect.
  2. Support and respect the protection of international human rights within the organization's sphere of influence.
  3. Encourage your organization and its supply chains to avoid complicity in human or employment rights abuses.
- **Safety**
  1. Promote a safe environment for each employee in your organization and supply chain. (Each organization is responsible for defining "safe" within its organization.)
  2. Support the continuous development and diffusion of safety practices throughout your organization and the supply chain.

ISM's Involvement and Objectives

Where and when did ISM's social responsibility initiative get its start? The 2002 ISM Board of Directors recognized the growing importance of social responsibility and the impact that supply management professionals could have on the business community through their promotion of socially responsible practices. Based on this vision for the future, the Commission on Social Responsibility was appointed by the Board in August 2002. Its purpose was to create a preamble with principles and standards of social responsibility, develop a set of recommendations for future action, and create a self-auditing document that supply management professionals could use as a tool for measurement and improvement.

The Commission reviewed numerous written works to form recommendations including the CAPS Research study, *Purchasing's Contribution to the Socially Responsible Management of the Supply Chain*, by Craig R. Carter, Ph.D., and Marianne M. Jennings, JD, and the United Nation's *Nine Principles of the Global Compact*. Then, in July 2003, the ISM Commission on Social Responsibility

"ISM believes supply management is a key contributor in the development and implementation of social responsibility principles."

developed a set of recommendations regarding social responsibility. The recommendations were approved by the ISM Board of Directors in August 2003, and the *Principles of Social Responsibility* was created as a guide for supply management professionals to use when developing supply management policies regarding social responsibility issues. In addition to providing recommendations and the *Principles* document, the Commission also produced a supply management audit for social responsibility standards and a suggested implementation and communication plan.

After the work of the Commission was complete, the Board of Directors recognized a need to further the work of the Commission by creating an ongoing Committee on Social Responsibility, and it was formed in the fall of 2003. The Committee refined the audit tool, and working with ISM, is currently asking organizations to support social responsibility principles as well as to donate resources to enable the communication of the principles. ISM is also gathering policies, information and, more specifically, best practices from organizations to be made available to the supply management community.

The Committee has worked vigorously on developing a survey to gauge the baseline level of social responsibility within the profession and among suppliers. This first survey was completed and the report was released in April 2004. (See the box on page 33 for a summary of the results.) This survey will be conducted annually to track the progress of socially responsible behaviors in the supply management community.

The numerous activities, actions, efforts and resources that have been devoted to this social responsibility initiative reinforce the importance of the issue and the reason for ISM's support.

Why Social Responsibility is Important

The *Principles of Social Responsibility* preamble underscores the importance of social responsibility for the entire supply management community. It says, "ISM believes supply management is a key contributor in the development and implementation of social responsibility principles. The supply chain can be impacted both 'upstream' and 'downstream.' The purpose of these principles is to increase supply management's awareness and to provide tools to supply management professionals for the development of a proactive supply management social responsibility program for their organization."

Addressing Fortune 500 top-level supply executives, Anthony S. Nieves, C.P.M., A.P.P., CFPM, senior vice president of purchasing and supply for Hilton Hotels Corporation World Headquarters, Hilton Supply Management, in Beverly Hills, California, and the Chair of the ISM Board of Directors, explains, "We recognized that many of us find ourselves sourcing all over the world. This presents special challenges with respect to local customs, laws and practices. The commission developed a set of standards to help us lead our companies and suppliers through these perilous

Results from Social Responsibility Survey

The following chart is based on results from the ISM Social Responsibility Committee's survey, "Social Responsibility and the Supply Management Profession: A Baseline Study." The chart tracks the average response to the following questions under each of the seven principles of social responsibility.

Currently, our purchasing and supply management function*: 1 2 3 4 5 6 7

I. Community
a. Has volunteers supporting local charities **3.70**
b. Donates to community organizations **3.93**

II. Diversity
a. Purchases from diversity-owned suppliers **3.77**
b. Has a formal supplier diversity purchase program **3.09**
c. Proactively develops diversity-owned suppliers **2.93**

III. Environment
a. Reduces packaging materials **3.69**
b. Challenges suppliers to commit to waste reduction goals **2.84**
c. Participates in the design of products for recycling or reuse **2.84**
d. Assesses the environmental responsibility of suppliers . . . **2.88**

IV. Ethics
a. Abides by a formally endorsed set of principles and standards of ethical conduct **5.70**
b. Ensures awareness of our organization's code of conduct by all employees **5.39**
c. Requires suppliers to comply with our organization's code of conduct **4.29**

V. Financial Responsibility
a. Is knowledgeable of and follows generally accepted financial standards and requirements **5.79**
b. Actively promotes responsible financial behavior throughout the supply chain **5.42**

VI. Human Rights
a. Conducts supplier visits to ensure that suppliers are not using sweatshop labor **3.11**
b. Ensures that suppliers comply with child labor laws **3.08**
c. Requires suppliers to provide fair compensation (a living wage) to workers **2.78**

VII. Safety
a. Ensures that suppliers' locations are operated in a safe manner **3.58**
b. Ensures the safe incoming movement of product to our facilities **5.02**

*1 = To no extent whatsoever; 2 = To almost no extent; 3 = To a little extent;
4 = To some extent; 5 = To a good extent; 6 = To a great extent; 7 = To a very great extent

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waters so we can read the newspaper each day knowing that our activities and companies will not be front-page news for abuses of people or places in our sourcing efforts." He notes that getting involved with social responsibility is a "golden opportunity to move our profession into the forefront of an important issue." In fact, he states that many supply executives ask ISM to help them gain greater appreciation from senior management and the public at large. He admits that this social responsibility action doesn't achieve that goal by itself, but that it is a positive and strong start.

Many organizations already have their own standards in place for corporate-wide behavior. For instance, it's common to hear of organizations with a code of ethical business behavior. But, as Nieves stated in a speech introducing the initiative at the 89th

Annual International Supply Management Conference in Philadelphia, "What has not been available before were principles for *our* profession — principles that are focused specifically on supply management's role in social responsibility."

Furthermore, while many organizations have their own socially responsible behavior codes in place, supply managers are in a unique position to look beyond their own organizations to their suppliers — to ensure that those in their supply chains are also adhering to socially responsible practices.

Paul Novak, C.P.M., A.P.P., CEO of ISM comments about why ISM has taken such an active role in promoting socially responsible behavior. He says, "Socially responsible supply management has always been important. In the global environment that business

Summary of Survey Results

On April 25, 2004, the ISM Social Responsibility Committee released a report entitled, "Social Responsibility and the Supply Management Profession: A Baseline Study." The report is based on the results of a large-scale survey of supply managers across the manufacturing, service and government/education sectors — regarding the seven principles of social responsibility.

The Demographics

The data is representative of a broad range of respondents. Of the 1,163 organizations (a 15 percent response rate) that responded to the survey, manufacturing organizations comprised 45 percent, service organizations made up 30 percent, and government and education organizations contributed 9 percent of the responses. Sixteen percent of respondents described their organizations as "other." A majority of the respondents are at a manager level or higher within their organizations, and most of the respondents' organizations have an annual spend in the range of $10 million to $50 million dollars. Seventy percent of organizations conduct business in the United States and at least one foreign country, while 30 percent conduct business in the United States only.

Survey Findings

As evidenced by the table on page 22, most organizations are measuring activities that occur internally. The report suggests that "the responding organizations are, as a whole, at the stage of 'getting their own house in order' before working with other members of the supply chain." Additionally, the chart indicates that many organizations already have principles established around ethics, financial responsibility, and safety, while other principles represent newer dimensions of social responsibility.

Other tables within the study indicate that diversity support is greater in government and education and service organizations than in manufacturing organizations. However, manufacturing organizations are more involved in environmental and safety initiatives than service and government and education organizations. Furthermore, manufacturing organizations are more involved in human rights activities than government and educational organizations.

Interestingly, nearly all responding organizations had policies for each of the seven principles for all employees. But there is a lack of performance measurements for suppliers in any of the seven principles. Again, this reinforces the earlier supposition that organizations are working internally first and then rolling the initiatives out to suppliers in their supply networks.

The report concludes with specific examples of measurements or measurement-related information. For instance, some respondents shared the names of the community agencies that they support as well as some of the measurements used to gauge their support. Examples of other measurements, such as environmental measurements, are also offered.

In the end, the report notes that "a considerable number of supply professionals are actively engaged in supporting socially responsible behavior." Nevertheless, there is room for improvement — particularly among suppliers.

For the full text of this report, go to the ISM Social Responsibility Web site at www.ism.ws/sr.

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deals with today, it has assumed even more importance. None of us wants to be associated with things like slave labor, sweat shops or other clear violations of human rights. ISM is the world's largest and oldest association dedicated to the practice of supply management, and it seems only reasonable that ISM try to help those in the profession carry out their activities responsibly."

Responsible Business = Good Business

Up to this point, this article has addressed reasons why social responsibility is important or pertinent to supply management professionals. However, what most supply management professionals are interested in is the business case. How will efforts to conduct socially responsible business (and to ensure that suppliers are conducting socially responsible business) pay off?

Novak states, on the opening page of the *ISM Principles of Social Responsibility*, "Commitment to socially responsible behavior is good business — in both the public and private sectors. Often payback can be quantified in financial terms. Socially responsible behavior may even ensure that an enterprise will avoid difficult or embarrassing scrutiny. However 'soft' payback in dignity, success, self-worth and honor provides the real foundation and rationale for socially responsible behavior."

Supply management professionals have found, though, that there are hard dollar benefits of socially responsible behavior. A few professionals from the ISM Social Responsibility Committee make the following points about social responsibility's impact on business benefits in general and specific to their organizations. ➤

Beth Heinrich, strategic programs manager for Motorola SPS, Scottsdale, Arizona, notes, "There are some definite trends appearing in the business world around social responsibility. Customers are giving 'preferred' status to those suppliers that have solid policies and procedures in place around social responsibility. That can add up to real dollars in increased revenues. Another trend is the movement toward 'socially responsible' investing. Investors are finding that organizations with socially responsible core values, policies and procedures are less likely to have issues such as boycotts, strikes, lawsuits, and damaging headlines. This makes investing in a socially responsible company much more attractive than investing in one that isn't."

Gwendolyn Turner, manager, supplier diversity, Pfizer, Inc., in New York, adds, "As the leader in the pharmaceutical industry, it's important that Pfizer act in socially responsible ways. We have a responsibility to make the communities and countries in which we operate better places to work and live. We've all been taught by the examples of companies that have overlooked investors and consumers in

> "Commitment to socially responsible behavior is good business. Often payback can be quantified in financial terms."

an effort to achieve only financial goals — without considering overall business objectives. For Pfizer, the business objective is holistic — it's about benefiting the community, reaching financial goals, building supplier relationships, and finding cures for diseases. To be numbered among the truly great companies, we need to behave in socially responsible ways."

These comments are supported by research from the BSR in a white paper entitled, "Introduction to Corporate Social Responsibility." The white paper provides a list of hard benefits and describes each one.

Improved financial performance — A BSR research paper, "Overview of Corporate Social Responsibility," describes a correlation discovered in a 2002 DePaul University study. The study "showed that overall financial performance of the 2001 *BusinessEthics* Best Citizen companies was significantly better than that of the remaining companies in the S&P 500 Index, based on the 2001 *BusinessWeek* ranking of total financial performance. The Best Citizens scored ten percentile points higher than the mean ranking of the remainder of the S&P 500 companies."

Resources to Help

As part of its commitment and dedication to this important initiative, ISM has created and gathered information to assist like-minded firms. ISM recognizes that organizations are at different stages with regard to their adoption of socially responsible policies, practices and measurements. Some organizations have detailed policies and practices in place internally and throughout their supply networks. Others may have policies and practices in place internally, but efforts haven't spread beyond their organizations. Still others may realize the importance of social responsibility but haven't yet implemented formal policies and practices. Regardless of the stage of adoption of socially responsible practices and policies, these resources will help firms advance their social responsibility initiatives and in turn, the supply management profession.

Web Resources

The ISM Web site is quickly becoming a useful resource for supply professionals to find information about social responsibility, in general and for specific principles. For instance, within each of the seven principles are links to Web sites with pertinent information. Furthermore, the Web site provides a forum for organizations willing to share their social responsibility policies. Supply professionals looking for ISM articles about social responsibility will find a section with links to past articles, and the general resources section provides links to organizations that specialize in social responsibility.

A significant Web resource available to assist with social responsibility efforts, particularly those relating to diversity, is the 2003 Telecom Supplier Diversity Task Force Report. Members of the telecommunications industry met in 2002 when they saw declining participation from diversity suppliers. The report, based on the discussions of the task force members "offers the industry 21 supply chain recommendations to improve supplier diversity programs. These include activities such as better sourcing, risk mitigation, process quality and control, financial management

and industry collaboration." In addition to recommendations, the task force assembled various supply chain management tools and best practices to support the implementation of recommendations. This valuable resource is available as a link in the Research section on the ISM Social Responsibility Web site.

Additional research includes the most recent data from the social responsibility survey (see box on page 23) as well as past studies conducted by CAPS Research. Perhaps one of the most significant studies is entitled, "Purchasing's Contribution to the Socially Responsible Management of the Supply Chain," by Craig R. Carter, Ph.D., and Marianne M. Jennings, JD. This research was used extensively in the creation of the *Principles* by the Commission.

Self-Audit Resource

One of the primary resources available to organizations is a result of the efforts of the ISM Commission on social responsibility. The Commission and ISM Committee created a self-audit document to "provide a beginning, thought-provoking self-evaluating guide for supply professionals and the organizations for which they work." This self-audit document is included within the ISM Principles of Social Responsibility booklet as well as the ISM Web site.

ISM principles of
social responsibility

The audit resource offers audit questions that are "designed to help the supply professional and organization determine if it is moving forward, aspiring to industry best practice, and seeking information from others."

The auditing resource concludes with an invitation to all organizations to help foster social responsibility by notifying ISM that it supports the *ISM Principles of Social Responsibility*. The form also serves as an invitation to share policies, procedures and other information that would be useful to others. For a hard copy of the *ISM Principles of Social Responsibility* and the accompanying self-audit resource, please contact ISM Customer Service at 800/888-6276 or 480/752-6276 or custsvc@ism.ws.
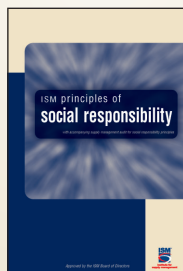
Another study by the University of Southwestern Louisiana supports bility. The study, entitled "The Effect of Published Reports of Unethical Conduct on Stock Prices" showed that publicity about unethical corporate behavior lowers stock prices for a minimum of six months.

Reduced operating costs — The introduction to the BSR paper suggests, "Environmentally oriented and workplace initiatives, can reduce costs dramatically by cutting waste and inefficiencies or improving productivity." Examples include:

1. Reducing gas emissions that contribute to global climate change also increases energy efficiency and reduces utility bills
2. In human resources, work-life programs can result in reduced absenteeism and increased retention — saving money by increasing productivity and reduction in hiring and training costs.

Enhanced brand image and reputation — Customers are often attracted to companies with a socially responsible image, but a socially responsible reputation within the business community also increases a company's ability to attract capital and trading partners. A 2003 survey of MBA students by the Aspen Institute Business and Society Program found that approximately 75 percent of MBA students surveyed think that companies benefit from fulfilling their social responsibilities with a better public image or reputation.

Increased sales and customer loyalty — The BSR report, "Overview of Corporate Social Responsibility," suggests, "A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible." A few findings from recent studies include:

1. "A 2001 Hill & Knowlton/Harris Interactive poll showed that 79 percent of Americans take corporate citizenship into account when deciding whether to buy a particular company's product; 36 percent of Americans consider corporate citizenship an important factor when making purchasing decisions."

2. "A 2002 Cone Corporate Citizenship Study found that of U.S. consumers who learn about a firm's negative corporate citizenship practices, 91 percent would consider switching to another company, 83 percent would refuse to invest in that company, 80 percent would refuse to work at that company and 76 percent would boycott that company's products."
3. A 2002 survey conducted by Environics International found that "almost 50 percent of consumers had considered punishing a company based on its social actions."

Increased productivity and quality — The introduction to the BSR paper suggests, "Company efforts that result in improved working conditions, lesser environmental impact or greater employee involvement in decision-making often lead to increased productivity and reduced error rate."

Increased ability to attract and retain employees — The 2002 Corporate Social Responsibility Monitor, a survey of 25,000 citizens in 25 countries conducted by Environics International Limited, finds that "eight in ten people who work for a large company say that the more socially responsible their company becomes, the more motivated and loyal they become as employees."

Access to capital — In 2002, the Washington Post commented that U.S. assets in socially screened funds had risen to $2 trillion. This is supported by the 2001 findings from the Social Investment Forum that $2.34 trillion in assets are under management in portfolios that use social responsibility screens. Another 2003 report from the Social Investment Forum notes that one out of every nine dollars under professional management in the U.S. is involved in socially responsible investing. The 2002 CSR Monitor from Environics International Limited also reports that 60 percent of respondents strongly or somewhat agree that they would sell shares if a company or fund behaved in a socially irresponsible way, despite high earnings.

What's on the Horizon?

This social responsibility initiative does not end with the distribution of the ISM Principles of Social Responsibility booklet, the self-audit resource, survey and accompanying report, or numerous Web resources. (See the box on page 34 describing the Web resources in more detail.) The support of this initiative is ongoing, and here's an outline of ISM's planned efforts for future support of this important business imperative.

• Ongoing publicity of social responsibility issues, supporting organizations and education as it relates to supply management
• Continued development of educational resources for educators to use with students in the classroom
• Development of social responsibility workshops for various conferences
• Identification of opportunities to conduct survey research on elements of social responsibility
• Updating of current educational materials to include social responsibility
• Development of an award program to recognize socially responsible supply management organizations

Most organizations are behaving and supporting socially responsible behaviors in some fashion, even if they are not proactively promoting every principle of social responsibility. However, now is the time for supply management professionals to take an active role in promoting, supporting and practicing socially responsible behavior — not only individually, but throughout their organizations and within their supply chains. ism

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Check out the Web sites below. These URLs provide additional information related to topics covered in this article.

ISM
www.ism.ws/sr

CAPS Research
www.capsresearch.org

Business for Social Responsibility
www.bsr.org

World Business Council for Sustainable Development
www.wbcsd.org

The Boston College Center for Corporate Citizenship
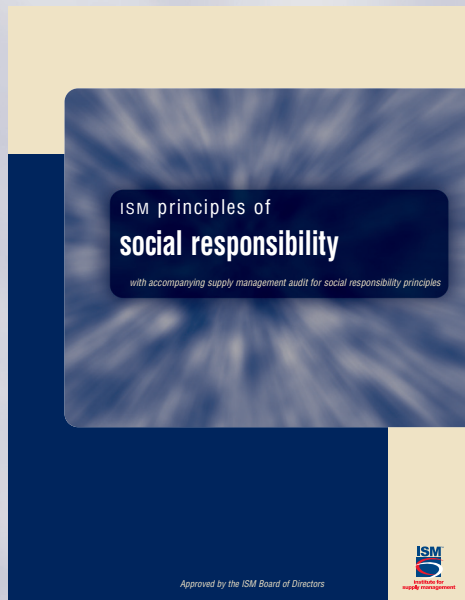www.bc.edu/centers/ccc/index.html

The World Bank Institute Guide to Corporate Social Responsibility and Sustainable Competitiveness
www.worldbank.org/wbi/corpgov/csr/about.html

The Corporate Register: A Database of Information on Corporate Social Responsibility
www.corporateregister.com

ISM's New
Principles of Social Responsibility

ISM principles of
social responsibility

with accompanying supply management audit for social responsibility principles

Approved by the ISM Board of Directors

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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	*Financial Responsibility*
Diversity	*Human Rights*
Environment	*Safety*
Ethics	

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DELPHI	Delphi Corporation	**Ryder·**	Ryder System Inc.
HIGHMARK®	Highmark Inc.	**sappi**	Sappi Fine Paper North America
Hilton	Hilton Hotels Corporation	**SBC**	SBC Services
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