SOCIAL RESPONSIBILITY AND THE SUPPLY MANAGEMENT PROFESSION: A BASELINE STUDY

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INTRODUCTION

A supply professional only needs to look at the front page of the *Wall Street Journal* to be reminded of the importance of social responsibility. Recent ethical improprieties concerning accounting and finance, as well as safety, environmental, and human rights issues often make front-page news. Conversely, organizations that have exemplary records in these areas of corporate social responsibility (CSR) can market their efforts to customers, shareholders, employees, and other stakeholders including suppliers.

The supply management function, which sits at an organization's boundary and is the key interface with suppliers and supply chain intermediaries such as transportation and logistics service providers, can play an important role in an organization's CSR efforts. But what are the specific types of activities that supply managers can engage in to support their organizations' CSR initiatives? Currently, how involved are supply managers? Are there any key differences across broad sets of industries such as manufacturing, service, and government? And, finally, what actions can organizations in general, and supply managers in particular, take in order to drive and facilitate supply management activities relating to CSR?

In 2002, the Institute for Supply Management™ (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 practices specifically directed at supply professionals. Social responsibility was 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 areas of community, diversity, environment, ethics, financial responsibility, human rights, and safety." The agenda set by the Commission was for ISM to:

- increase the supply management profession's awareness of social responsibility;
- provide tools, information, and best practices for the development of a proactive social responsibility program for supply management professionals and their organizations;
- make available social responsibility references to supply management professionals; and
- raise the profile of supply management through the promotion of social responsibility internally and through supplier personnel.

The ISM Board of Directors approved the work of the Commission and accepted its recommendation to establish an ongoing Committee to (a) carry on the work it had begun, and (b) measure the impact this effort was having on supply professionals and their suppliers.

This first-ever social responsibility report for supply managers summarizes the results of a large-scale survey of supply managers representing a diverse set of industries across the manufacturing, service, and government/education sectors. Perhaps the following four quotes represent the spectrum of input received from respondents:

"I doubt my responses were helpful, but boy does it make you think. I can make lots of excuses why we have not done as much as we should. This survey was like a good Sunday sermon, it challenges me to do what is necessary. I am certain that should you have this survey again in 6-12 months, we will have responses we can be proud of."

"Requirements for socially responsible conduct aren't really applicable to the way we buy, what we buy, and who we buy it from. We're buying relatively sophisticated product from developed countries"

"Some of the ideas suggested…potentially infringe on basic human rights and freedoms. Should a corporation dictate and set standards for other corporations in parts of the planet where we have no expertise of their customers, mores, or financial structure…?"

"Our Company is very committed to social responsibility and has a very active corporate sustainability program…"

The survey brought social responsibility to the consciousness of supply professionals, captured the belief some have that this topic is not applicable to them, and raised a number of thorny and difficult subjects. Clearly, creating principles applicable across social, sector, organization (public, private, and nonprofit), and country boundaries is a daunting task. Federal, state and local laws and regulations, global laws and regulations, and customs and practices pertinent to social responsibility must be a relevant and integral part of the development and implementation of policies and procedures for each organization and its suppliers.

This report provides the reader with descriptive statistics of the survey respondents, including their industries, organization sizes, and levels of global activity. We then describe the current level of involvement of these organizations in seven broad dimensions, or principles of corporate social responsibility; for the purpose of brevity, we label the involvement of the supply function in social responsibility activities as *supply social responsibility* (SSR).

We also compare the level of SSR across industries, and examine any differences regarding domestic versus global sourcing. Finally, we conclude by considering specific actions that management can take to facilitate the implementation of SSR activities in their organizations.
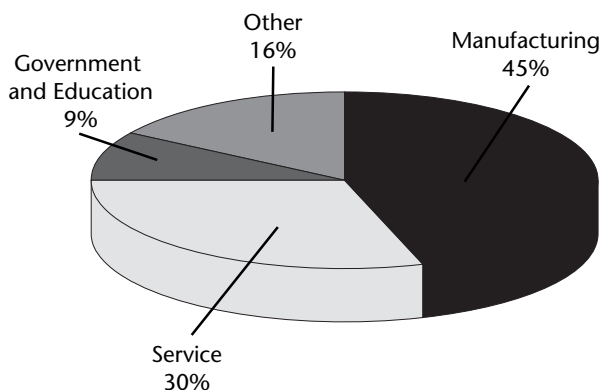
THE SURVEY

In the fall of 2003, the Committee for Social Responsibility developed an e-mail survey, based on an earlier study conducted by CAPS Research (Carter, Craig R. and Marianne M. Jennings. *Purchasing's Contribution to the Socially Responsible Management of the Supply Chain*, Center for Advanced Purchasing Studies, 2000). In some cases the ISM survey added statements and reworded others from the original CAPS Research study. The survey went through several iterations of rewording based on the input from the Committee, as well as input from managers and employees of organizations represented by the Committee.

In January 2004 the survey was e-mailed to 11,119 addresses. Of these, 1,809 were returned as undelivered, 152 were rejected as spam, and 157 generated "out of office" replies. A reminder e-mail went out one week after the initial e-mail.
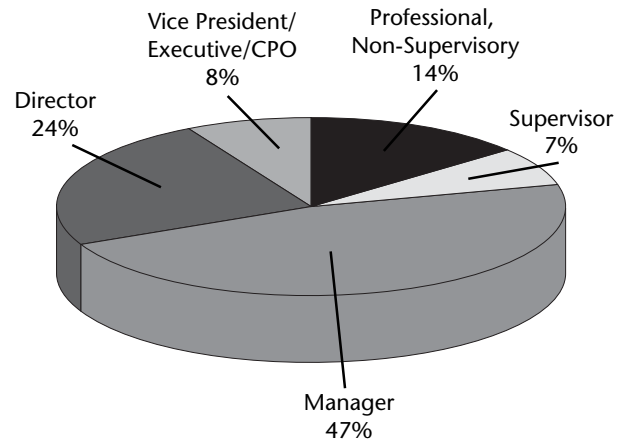
RESPONDENTS

A total of 1,163 organizations responded to the survey, for a response rate of 12.5 percent. Figure 1 shows that these organizations are divided among manufacturing (45 percent), service (30 percent), and government and education (9 percent), with the remaining 16 percent selecting "other" as a response.


Figure 1: Respondents by Industry

As displayed in Figure 2, the majority of the survey respondents are at the manager level or higher within their organization. According to Figure 3, most of the respondents' organizations have an annual spend in the range of $10 million to $50 million dollars, although 12 percent of responding organizations are in the $1 billion and over categories, and 19 percent are in the under $10

Figure 2: Respondents' Position in Their Organization

million category. Finally, over one third of respondents have five or fewer purchasing employees in their organizations, although over 15 percent of responding organizations have 100 or more purchasing employees (Figure 4).

Figure 3: Spend
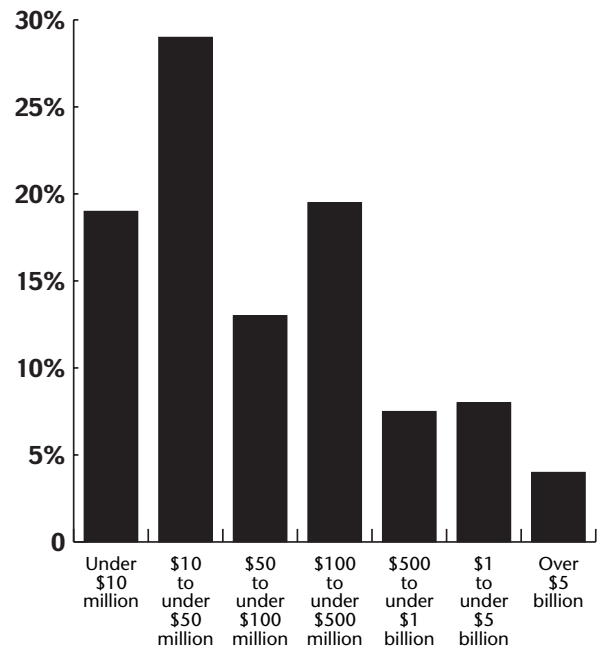
Together, these figures suggest that the sample represents a mix of small, medium, and large-size organizations across a fairly broad range of manufacturing, service, and government and education sectors. As shown in Figure 5, 70 percent of the responding organizations do business in the United States and at least one foreign country.
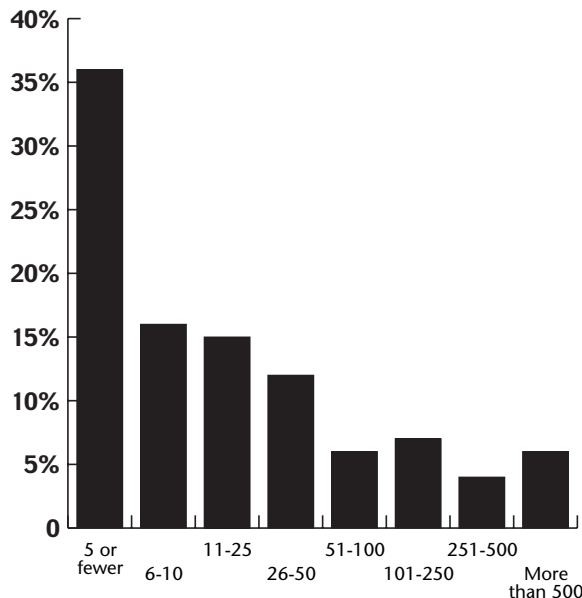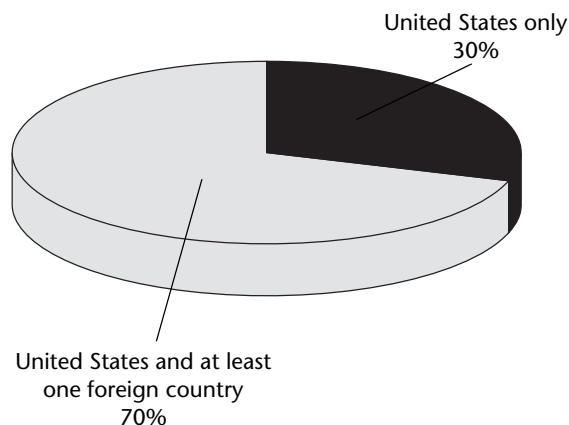
Figure 4: Number of Supply Management Employees

THE SEVEN PRINCIPLES OF SUPPLY SOCIAL RESPONSIBILITY (SSR)

The first column of Table 1 shows the seven principles — community, diversity, environment, ethics, financial responsibility, human rights, and safety — followed by survey statements used to assess each principle. These statements were measured on a seven-point scale: A response of 1 was equivalent to the response "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"; and 7 signified, "to a very great extent."

The second column of the table shows the average response rate for each of the statements. The next set of columns shows the average response by each of the three major industry groups: manufacturing, service, and government/education. The final two columns in Table 1 show the average response to each survey statement for organizations doing business in the U.S. only and organizations doing business in the U.S and at least one foreign country.

The numbers in Table 1 tell an interesting story. Most of the survey statements measure activities that occur internally. It is possible 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. The highest-rated activities are those relating to ethics and financial responsibility. In addition, the last statement in the table, "Ensur(ing) the safe incoming movement of product to our facilities" also received a high score. Further, the ethics, financial responsibility, and safety principles are well established in business while the other principles are newer dimensions of social responsibility.

Next, we looked for individual differences across industry and level of global activity for each of the seven principles. For community and financial responsibility, we did not find significant differences across industries

Figure 5: Where Business Is Conducted

Table 1: Seven Principles of SSR						
Currently, our purchasing and supply management function*:	Average	Mfg.	Svcs.	Govt./ Educ.	U.S. Only	U.S. and at least one foreign country
I. Community						
a. Has volunteers supporting local charities	3.70	3.55	3.80	3.85	3.82	3.62
b. Donates to community organizations	3.93	3.82	3.97	3.99	3.99	3.86
II. Diversity						
a. Purchases from diversity-owned suppliers	3.77	3.49	3.89	4.22	3.86	3.67
b. Has a formal supplier diversity purchase program	3.09	2.75	3.27	3.81	3.22	3.01
c. Proactively develops diversity-owned suppliers	2.93	2.62	3.11	3.57	2.99	2.89

Table 1: Seven Principles of SSR

Currently, our purchasing and supply management function*:	Average	Mfg.	Svcs.	Govt./ Educ.	U.S. Only	U.S. and at least one foreign country
III. Environment						
a. Reduces packaging materials	3.69	4.13	3.31	2.86	3.33	3.81
b. Challenges suppliers to commit to waste reduction goals	2.84	3.04	2.59	2.64	2.59	2.91
c. Participates in the design of products for recycling or reuse	2.84	3.22	2.47	2.41	2.49	2.98
d. Assesses the environmental responsibility of suppliers	2.88	3.02	2.69	2.50	2.54	2.96
IV. Ethics						
a. Abides by a formally endorsed set of principles and standards of ethical conduct	5.70	5.49	5.76	6.25	5.75	5.64
b. Ensures awareness of our organization's code of conduct by all employees	5.39	5.17	5.49	5.80	5.36	5.36
c. Requires suppliers to comply with our organization's code of conduct	4.29	4.11	4.30	4.52	4.22	4.23
V. Financial Responsibility						
a. Is knowledgeable of, and follows generally accepted financial standards and requirements	5.79	5.67	5.85	5.90	5.80	5.75
b. Actively promotes responsible financial behavior throughout the supply chain	5.42	5.44	5.34	5.24	5.41	5.36
VI. Human Rights						
a. Conducts supplier visits to ensure that suppliers are not using sweatshop labor	3.11	3.56	2.86	2.01	2.61	3.34
b. Ensures that suppliers comply with child labor laws	3.08	3.29	2.91	2.44	2.62	3.24
c. Requires suppliers to provide fair compensation (a living wage) to workers	2.78	2.69	2.74	3.19	2.83	2.73
VII. Safety						
a. Ensures that suppliers' locations are operated in a safe manner	3.58	4.02	3.29	2.52	2.97	3.84
b. Ensures the safe incoming movement of product to our facilities	5.02	5.26	4.77	4.56	4.56	5.17

* 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

or in terms of global business activity (Table 2). We also found no difference in the level of supplier diversity programs or the presence and overall awareness of an ethical or financial code of conduct for organizations that do business only in the U.S. versus those organizations that do business both in the U.S. and globally. We found that organizations that do business globally have significantly higher levels of activities in the areas of the environment, human rights and safety than do organizations that operate only in the U.S.

As indicated in Table 2, we found significant industry effects for diversity, the environment, ethics, human

rights, and safety. The level of diversity support is greater in government and education and in service organizations than in organizations in manufacturing industries. Conversely, manufacturing organizations are much more involved in environmental and safety activities than are their counterparts in service and government and education. Finally, manufacturing organizations are considerably more involved in the human rights activities measured in our survey than are government and education organizations.

Table 2: Differences across Industries and Level of Global Operations

Principle	Global Effects?	Industry Effects?
Community	No	No
Diversity	No	Yes. The level of diversity support is significantly higher for service and government and education organizations than for manufacturing organizations.
Environment	Yes. The level of environmental activities is significantly higher for organizations that do business both in the U.S. and globally.	Yes. The level of environmental support is significantly higher for manufacturing organizations than for service and government and education organizations.
Ethics	No	Yes. The level of ethics support is significantly higher for government and education organizations than for manufacturing organizations.
Financial	No	No
Human Rights	Yes. The level of human rights activities is significantly higher for organizations that do business both in the U.S. and globally.	Yes. The level of human rights activities is significantly higher for manufacturing organizations than for government and education organizations.
Safety	Yes. The level of safety activities is significantly higher for organizations that do business both in the U.S. and globally.	Yes. The level of safety activities is significantly higher for manufacturing organizations than for service and government and education organizations.

DRIVERS AND FACILITATORS OF SSR

Table 3 shows the relationship between three broad sets of factors – policies, goals, and performance measurement – and the seven principles of social responsibility. In the case of ethics, having policies in place (for the organization, the purchasing and supply functions, and suppliers) appears to be a key driver of ethical activities measured by the survey. An organization's "laws" must be clearly spelled out through policies. It is not entirely surprising that goals are not related to ethics; in most organizations, ethics are measured in the negative (e.g., not engaging in unethical practices) rather than the positive. It is common for organizations to have an

annual review process in place requiring employees to sign a document acknowledging their receipt and understanding of the organization's ethical policies and practices. It is possible that ethical behavior expectations are so pervasive they transcend the need to be identified in a person's goals and objectives.

For financial responsibility, rather than having a supplier policy or goal, it is instead important to have an organization-wide policy and goal, in tandem with a policy for the purchasing and supply functions.

Diversity activities are significantly related to policies, goals, and performance measurements at the level of both the organization and the purchasing and supply

Table 3: Relationship between Social Responsibility and Policies, Goals, and Performance Measurement

	Ethics	Community	Diversity - Employee	Diversity - Supplier	Environment	Finance	Human Rights	Safety
Policy — All Employees	X	X	X	X	X	X	X	X
Policy — Supply Management	X			X	X	X	X	X
Policy — Suppliers	X		X	X	X		X	X
Goals — All Employees		X		X		X		X
Goals — Supply Management		X	X	X				
Goals — Suppliers				X			X	X
Performance — All Employees		X		X	X			
Performance — Supply Management				X				
Performance — Suppliers								

functions. In addition, supplier policies and goals are significantly related to these diversity activities.

Performance measurement for suppliers is not significantly related to any of the principles of social responsibility. This result in some way parallels our earlier finding that supply managers are more engaged in social responsibility activities within their own organization than outside of their organization. As organizations evolve over time, and "get their own house in order," it is likely that the use of goal setting and performance measurement for suppliers will increase.

The findings presented in Table 3 provide management with a guide for developing the most effective types of policies, goals, and performance measurements in order to increase the level of activities encompassed within each of the principles of social responsibility. Respondents were asked the extent to which they have (1) written policies, (2) specific goals and measurements, and (3) performance tracking systems for (a) all employees, (b) supply management employees only, and (c) suppliers. For each principle (column) in the table, the rows with an "X" tell management that that particular type of policy, goal, or performance measurement will provide them with a greater "bang for their buck" than rows without an "X." For example, management can most effectively increase the level of the activities comprising the environmental principle by having a combination of organization-wide policies and performance measurement, in tandem with purchasing- and supplier-specific policies.

In the next sections of this report, we provide the reader with selected examples of policies, goals, and performance measurement, and with additional resources relating to the seven principles of SSR.

SELECTED MEASUREMENT AND MEASUREMENT-RELATED INFORMATION PROVIDED BY RESPONDENTS

Respondents were encouraged to provide information about measurements in use in their organizations for each principle and make any other comments they wished. Community information tended to fall into three categories (a) community agencies and services, (b) ways in which community services are supported, and (c) specific measurement and reward systems.

Many reported supporting community agencies like Boy Scouts, Girl Scouts, United Way, Salvation Army, March of Dimes, and Special Olympics, to name a few. Community services mentioned included blood and food drives, summer camps and reading programs, shelters, and police events. Foundations, organization sponsorships, surplus donations, fundraisers, and matching contribution policies were specific ways in which community services were supported. Measurement and reward systems in use included:

- setting annual goals to support local charities
- providing automatic payroll deduction services
- giving paid time off for employees to volunteer in the community each year
- offering matching funds for employee contributions
- donating equipment to educational institutions or other community organizations
- setting aside a percent of profits to give back to the community
- setting targets for developing and participating in a community project each year
- creating a volunteer award program to acknowledge community service activities

Some organizations indicated they set formal goals for individual employees covering community efforts. Many organizations have processes in place to capture and report the amount of time donated, money raised, and the value of community efforts. Still others said they have informal programs in place that encourage support of the community but results are not tracked, measured, or reported.

Diversity principle comments were broad ranging. The most reported business process was to establish a diversity program and set and track specific targets for dollars spent with minority and women businesses. Some reported tracking of suppliers' spending is being done below tier one suppliers. Outreach programs, benchmarking against peer organizations, and establishing and communicating a written policy for the organization and suppliers were also mentioned.

Some organizations said they focus little on diversity reporting: "our focus is on lowering costs only," or "the focus is on bottomline cost; supplier diversity has not come to the forefront," or "we are not required to have a diversity program in place, and diversity is not a formal consideration in supplier selection." Others mentioned diversity is less of an issue in Europe, diversity does not apply at all in the United Arab Emirates, and that different standards apply to the business community in Canada.

Reporting on environmental behavior ranged from "no metrics in place," to being ISO 14000 certified. One organization reported having an "…affirmative program in place whereby they procure items with reclaimed material content and earth-friendly substitutes for chemical items and paints." Specific measurements included:

- recycling programs for specific materials
- complying with state and federal regulations
- obtaining clean air and clean water certifications
- implementing waste reduction programs
- conducting site supplier visits to ensure supplier compliance

- managing and documenting disposal of waste
- evaluating supplier facilities
- reducing energy consumption

Some questioned the need for more forms and standards and asked how "…working toward environmentally friendly behaviors will make us competitive in a global marketplace."

Organizations reported it was common to have an ethics policy, or code of conduct, communicated throughout the organization and often with suppliers. Enforcement consisted of a requirement to annually execute a commitment to comply with policy, compulsory ethics training, and briefing suppliers about policies. Organizations reported performance evaluations completed quarterly, and annually, and the tracking of training given in this area as other ways to ensure ethical behavior.

This is the first ISM survey to cover financial responsibility since the passage of the Sarbanes-Oxley legislation. Not surprisingly, audits (internal and of suppliers), GAAP and IRS regulations, public regulation and scrutiny, due diligence, budgets and forecasts, and financial performance tracking and targets topped the list of ways to measure financial compliance. Documentation of on-time payments, sourcing decisions, and maintaining confidentiality were also cited.

Human rights comments segmented into sources for measurements; internal policies, procedures and training; supplier evaluation measures; and less frequently global issues. Fair Labor Standards laws, and affirmative action and equal opportunity programs, were high on the list of sources for measurements. Internal policies, procedures and training comments cited included being an equal opportunity employer, addressing human rights in the organizations' code of conduct, requiring training and education for employees, and establishing specific value systems covering concepts like respect and dignity.

Supplier measurements identified included conducting supplier assessments, visits, and implementing supplier qualification and certification processes. Annual audits, requiring suppliers to certify compliance with public laws, and inserting contract language covering regulations and compliance rounded out the list of measurements for this principle.

The following comments would suggest a number of supply professionals see human rights as a global matter: "Human rights implicit in parts of Europe," "Issues only arise in sourcing from other parts of the world, "This issue pertains to foreign sources…" and "Greater focus on non-U.S. suppliers."

Finally, some wanted to know how U.S.-centric human rights policies can be applied globally, while others professed matters of human rights were not an "issue" in their industry.

Safety comments covered specific measurements and incentives, how safety measures are enforced internally and with suppliers, and those responsible for establishing and enforcing safety policies. Some specific measures mentioned were lost time injuries, near miss accidents, injury frequency rates, contractor injury frequency rate, and motor vehicle accident rates. Incentives included programs for health and wellness, rewards for meeting or exceeding corporate metrics, competition among safety and housekeeping teams, and other safety rewards. Establishing and enforcing safety policies fell to safety committees, safety departments, safety teams, risk departments, and of course managers and supervisors.

A considerable number of supply professionals are actively engaged in supporting socially responsible behavior (see Appendix). However considerable room exists for improvement based on the percent of respondents indicating little to no involvement across the principles.

RESOURCES

The survey asked respondents if they would be willing to provide copies of their organization's written policies on social behavior and standard contract language to share with others. Sixty-four provided contact information. A Web site (www.ism.ws/SR) has been established as a repository for material and is available to the public.

CONCLUSION

Social responsibility is an integral part of supply management. The seven principles affect internal policies and procedures as well as relationships with suppliers. Future ISM studies may delve more deeply into individual principles but most certainly will be conducted periodically to measure ongoing changes. ISM's commitment to this initiative will ensure supply professionals have what they need to actively engage in leading the profession.

APPENDIX

The purpose of this Appendix is to show the extremes of the spectrum of responses across each principle statement. For example, for the community principle, 1,047 persons responded to each of the statements, and of these, 273 or 26 percent indicated that "to no extent or almost no extent" do their organizations have volunteers supporting local charities, while 338 (32 percent) said that their organizations have volunteers supporting local charities to a good, great, or very great extent.

Appendix: Extremes of Spectrum of Responses Across the Seven Principles

Principle	Total Number of Responses for the Statement	To no extent or almost no extent (ratings 1 and 2)		To a good, great, or very great extent (ratings 5, 6, and 7)	
		Number	Percent	Number	Percent
I. Community					
a. Has volunteers supporting local charities	1047	273	26%	338	32%
b. Donates to community organizations	1047	244	23%	420	40%
II. Diversity					
a. Purchases from diversity-owned suppliers	995	202	20%	291	29%
b. Has a formal supplier diversity purchase program	995	489	49%	289	29%
c. Proactively develops diversity-owned suppliers	995	486	49%	215	22%
d. Requires suppliers to implement and support an active supplier diversity program	995	629	63%	146	15%
e. Proactively promotes diverse employment practices throughout the supply chain	995	533	54%	200	20%
III. Environment					
a. Evaluates the environmental friendliness of purchased products and packaging	960	273	28%	308	32%
b. Reduces packaging materials	960	255	27%	31	33%
c. Has waste reduction goals for the organization	960	339	35%	325	34%
d. Challenges suppliers to commit to waste reduction goals	960	500	52%	192	20%
e. Participates in the design of products for recycling or reuse	960	501	52%	196	20%
f. Assesses the environmental responsibility of suppliers	960	482	50%	198	21%
IV. Ethics					
a. Abides by a formally endorsed set of principles and standards of ethical conduct	952	49	5%	790	83%
b. Ensures awareness of our organization's code of conduct by all employees	952	72	8%	724	76%
c. Conducts/participates in ethics training	952	224	24%	436	46%
d. Requires suppliers to comply with our organization's code of conduct	952	237	25%	482	51%
e. Requires suppliers to demonstrate that they have an ethics policy and program in place	952	519	55%	180	19%

Appendix: Extremes of Spectrum of Responses Across the Seven Principles (cont.)

Principle	Total Number of Responses for the Statement	To no extent or almost no extent (ratings 1 and 2)		To a good, great, or very great extent (ratings 5, 6, and 7)	
		Number	Percent	Number	Percent
V. Financial Responsibility					
a. Is knowledgeable of, and follows generally accepted financial standards and requirements	951	25	3%	837	88%
b. Actively promotes responsible financial behavior throughout the supply chain	951	59	6%	738	78%
VI. Human Rights					
a. Conducts supplier visits to ensure that suppliers are not using sweatshop labor	950	447	47%	245	26%
b. Ensures that suppliers comply with child labor laws	950	480	51%	261	27%
c. Requires suppliers to provide fair compensation (a living wage) to workers	950	525	55%	201	21%
d. Treats people with dignity and respect	950	130	14%	687	72%
e. Requires suppliers to demonstrate a proactive human rights program	950	597	63%	124	13%
f. Assesses key secondary suppliers to ensure compliance with human rights policies and goals	950	643	68%	100	11%
VII. Safety					
a. Ensures that suppliers' locations are operated in a safe manner	941	340	36%	331	35%
b. Ensures the safe incoming movement of product to our facilities	941	106	11%	638	68%
c. Ensures that each employee in our organization works in a safe environment	941	50	5%	824	88%