

**ISM Sustainability and Social Responsibility Conference**  
November 4, 2010

Who Cares About Ethics?

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## ISM Principles of Sustainability and Social Responsibility

### **5. Ethics and Business Conduct**

Ethical behavior and business conduct is a critical element impacting personal, business (public and private), supplier and governmental relationships and governance.

## An Ethical Problem



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## Ethics

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“What You Do When No One Is Watching”

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## Investors and NGOs Are Watching

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**Bloomberg.com**



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## Consumers and Employees Are Watching



Two-thirds of respondents in worldwide survey believe that the current economic crisis is a crisis of ethics and values



Most important factors to corporate reputation

2006

Quality products & services  
Attentiveness to customer needs  
Strong financial performance

2010

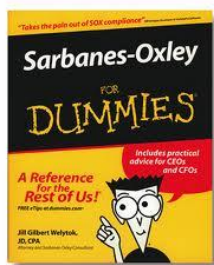
Transparent & honest practices  
Company I can trust  
Quality products & services



97% of MBAs would forego significant financial benefits – an average of 14% of their income – to work for an organization with a better reputation for ethics and corporate social responsibility

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## Governments Are Watching



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## The World Is Watching

1. China

2. India

3. Facebook.com

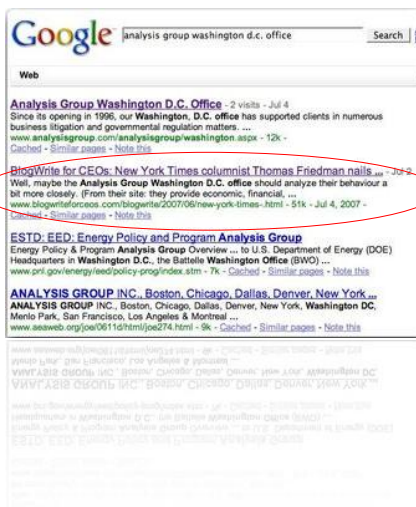
Can You Name the Most Populous Countries in the World?

Hyper-connected  
Hyper-transparent  
Globally Interconnected  
Ethically Interdependent

**“The moral imagination  
diminishes with distance.”**

– David Hume

## Tossing Away a Reputation



**debbieweil**

**>>> BlogWrite for CEOs**

“... Not a word of apology did I get...”

... Well, maybe the Analysis Group Washington D.C office should analyze their behavior a bit more closely.”

## ISM Principles and Standards of Ethical Supply Management Conduct

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“All organizations are subject to internal and external forces and pressures. Internal forces and pressures result from an organization’s culture. External forces and pressures result from economic conditions, laws, regulations, public opinion, special interest groups and political entities. The negative influence of internal and external forces and pressures on supply management can be minimized when the organization adopts, communicates, and behaves based on, ethical principles and standards.”

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## An Ethical Dilemma

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A supplier produces widgets for a customer. The contract specifies certain deadlines by which the widgets must be delivered, and imposes substantial penalties for late delivery. The supplier orders certain component parts for the widgets from outside the country. These parts arrive in port, but are held up in customs, where a local customs official demands a payment from the supplier before he will release the goods. The supplier will incur significant penalties under the contract with its customer if the parts are not received immediately for the production of widgets.

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## Rules and Standards

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Necessary, but not sufficient.

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## Are Rules Enough?

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A customer regularly receives bids for raw materials from multiple overseas suppliers. Prior to submitting its bid, one of the suppliers offers a kickback to one of the customer's procurement managers, asking for information on bids already submitted by other suppliers.

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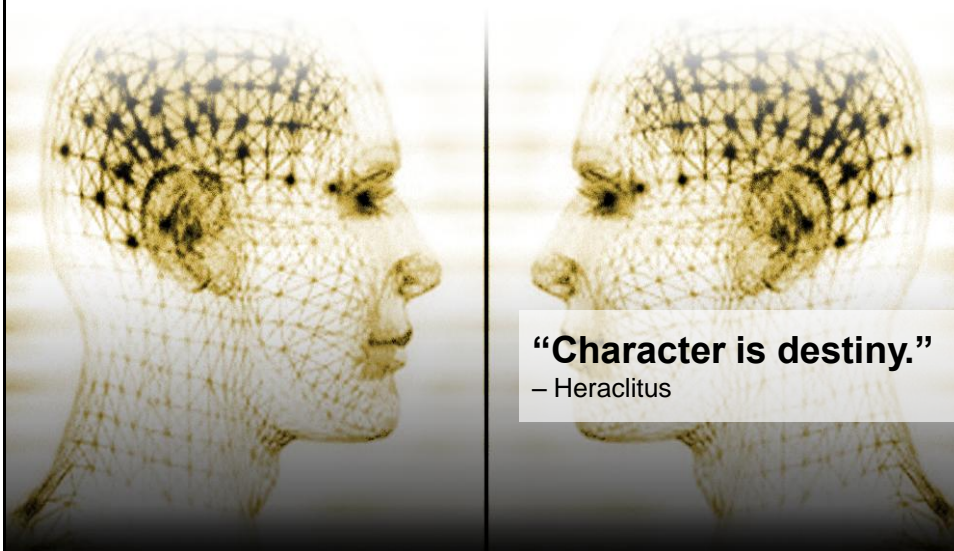


## Are Rules Enough?

Following a review of supplier bids, a procurement manager awards the contract to a supplier owned by his brother-in-law, ignoring other bidders.

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## What Character Is to an Individual – Culture Is to an Organization



## An Ethical Culture

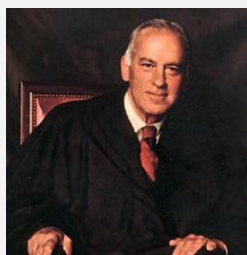
- More values-driven than rules-driven
- More self-governing than obedient

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## Think “Should” Not “Can”

“  
Laws control the  
lesser man. Right  
conduct controls the  
greater one.

– Chinese Proverb



“  
“There is a  
difference between  
that which you have  
a right to do and that  
which is right to do.

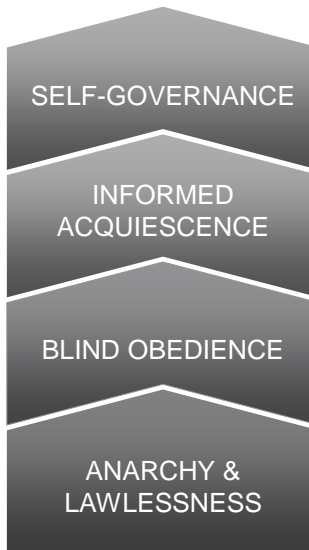
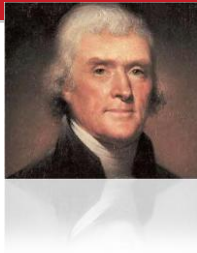
– Potter Stewart  
United States Supreme Court

“  
Rules tell you what you **can** and can't do.  
Values inspire in you what you **should** do.

## A Spectrum of Culture and Governance

“  
That government is best which  
governs the least...  
because its people  
discipline themselves.”  
”

Thomas Jefferson



## Two Key Elements of Culture

	Blind Obedience	Informed Acquiescence	Self Governance
<b>Rules v. Values</b>	<ul style="list-style-type: none"> <li>Minimal Adherence – Loopholes</li> </ul>	<ul style="list-style-type: none"> <li>Compliance and Requirements</li> </ul>	<ul style="list-style-type: none"> <li>Guided by the Right Thing to Do</li> </ul>
<b>Level of Trust</b>	<ul style="list-style-type: none"> <li>Heavy Inspection &amp; Limited Delegation</li> </ul>	<ul style="list-style-type: none"> <li>Checks &amp; Balances, Contracts</li> </ul>	<ul style="list-style-type: none"> <li>High Trust &amp; Verify</li> </ul>

## Guided by the Right Thing to Do



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## High Trust

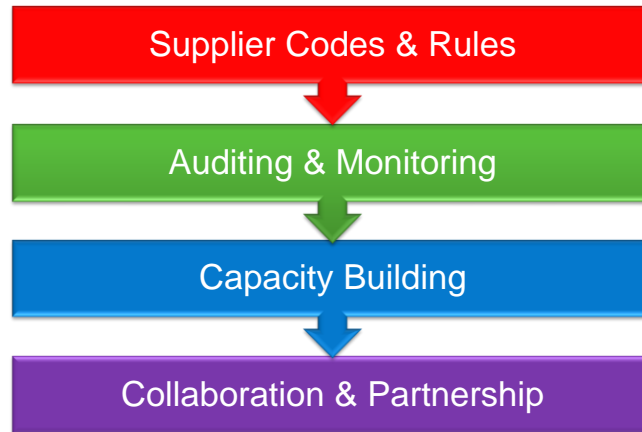


### Dyer & Chu (2003)

- Buyer/supplier relationships involving eight automakers in U.S., Japan and South Korea
- Least trusted buyer incurred procurement costs *six times* higher than most trusted
- Trust significantly correlated with increased information sharing

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## Engaging with Suppliers on Ethical Issues



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