



Principles and Standards of Ethical Supply Chain Conduct with Guidelines



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PRINCIPLES AND STANDARDS OF ETHICAL SUPPLY CHAIN CONDUCT WITH GUIDELINES

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PRINCIPLES

Integrity in Your Decisions

Actions Value for Your Employer

Loyalty to Your Profession

These principles are the foundation for ISM's standards of supply chain conduct:

GUIDELINES

1. **IMPROPRIETY:** Prevent the intent and appearance of unethical or compromising conduct in relationships, actions and communications.
2. **CONFLICT OF INTEREST:** Ensure that any personal, business and other activities do not conflict with the lawful interests of your employer.
3. **INFLUENCE:** Avoid behaviors or actions that may negatively influence, or appear to influence, supply chain decisions.
4. **RESPONSIBILITIES TO YOUR EMPLOYER:** Uphold fiduciary and other responsibilities using reasonable care and granted authority to deliver value to your employer.
5. **SUPPLIER AND CUSTOMER RELATIONSHIPS:** Promote positive supplier and customer relationships.
6. **SUSTAINABILITY AND SOCIAL RESPONSIBILITY:** Champion social responsibility and sustainability practices in supply chain.
7. **CONFIDENTIAL AND PROPRIETARY INFORMATION:** Protect confidential and proprietary information.
8. **RECIPROCITY:** Avoid improper reciprocal agreements.
9. **APPLICABLE LAWS, REGULATIONS AND TRADE AGREEMENTS:** Know and obey the letter and spirit of laws, regulations and trade agreements applicable to supply chain.
10. **PROFESSIONAL COMPETENCE:** Develop skills, expand knowledge and conduct business that demonstrates competence and promotes the supply chain profession.

STANDARDS AND GUIDELINES

Executive Summary

Ethical companies are more profitable, create better brand and shareholder value, attract top innovative talent, build customer and supplier loyalty, and experience fewer expensive lawsuits. As the supply chain profession has become a strategic influencer, every action within the supply chain has consequences. Given that, supply chain professionals have the opportunity and obligation to model and communicate ethical behavior across the entire supply chain. This document is intended to offer a compass for supply chain ethics.

Institute for Supply Management® (ISM®) recognizes 10 foundational principles of ethical behavior. From these principles, guidelines are established to (1) encourage adherence to uncompromising ethical behavior, (2) increase awareness and acceptance of ethical conduct and (3) emphasize the role of ethics when formulating decisions. A distinguishing characteristic of a profession is that practitioners combine ethical standards with the performance of technical skills.

A set of 10 ethical principles and standards exists within the supply chain field to guide individual and group decisions and actions. These principles can be categorized into four different areas: Personal Behavior; Interactions with Others; Laws, Regulations and Standards; and Leadership. The supply chain professional has the unique position within and across organizations and cultures to model exemplary ethical behavior, as follows:

PERSONAL BEHAVIORS:

Conflict of Interest, Influence, Reciprocity, Impropriety

Within a supply chain, individuals confront multiple situations with potentially grave consequences. As these situations occur, the supply chain professional will be equipped to recognize ethical dilemmas, and have an effective way to deal with them. When these complex situations arise, this document offers suggestions for supply chain professionals to avoid conflict of interest, impropriety, reciprocity and issues of influence.

Interactions With Others

Supply chain involves effective, value-driven interactions between practitioners and their employers, management, suppliers, customers and other stakeholders. Often, these relationships involve highly complex matters and multiple cultures, which creates even more room for opportunities and misunderstanding. In these situations, the supply chain professional will navigate a range of ethical considerations and should ensure that collaborations and expectations are balanced and fair.

Regulatory Compliance & Standards

Most supply chain professionals are aware that adherence to all applicable laws, regulations and standards is a critical part of their job. Given the increasing globalization of the supply chain, it is imperative for the supply chain professional to stay current and knowledgeable of laws and regulations. Additional emphasis must be placed on social responsibility and sustainability within the supply chain.

Professional competency

Today, supply chain leadership encompasses at least two components. The first is continuous development — leveraging skills, experiences and education to become a forward-thinking, value-driven professional. The second component is that supply chain managers must do more with less for their organizations and the global marketplace. This kind of leadership helps increase value to organizations through cost savings, brand strengthening and customer engagement.

Every supply chain professional should accept and adhere to these ethical standards. Organizations are encouraged to develop, publish and enforce an ethics policy that supports these principles and standards. Policies and procedures must be clear, transparent and enforceable. The ethics policy should be shared with stakeholders throughout the supply chain. Training must be ongoing and comprehensive.

1. IMPROPRIETY

Interaction between supply professionals and stakeholders must be honest, transparent and equitable. Avoid any action or appearance of unethical or compromising behavior in all relationships and communications. Consequences of a perceived impropriety can be the same as consequences of an actual impropriety.

Guidelines for avoiding and preventing impropriety:

- Maintain business professionalism in all communications — written, verbal and social media.
- Identify situations which, even through unanticipated circumstances, may negatively impact business and/or stakeholders.
- Discuss any actual or potential impropriety with management. Determine a course of action.
- Encourage behaviors that help to create a culture of integrity throughout the supply chain.
- Understand and adapt all communications to adhere to industry and organizational standards, as well as cultural considerations. Carefully consider discussions of personal matters with business colleagues, customers and suppliers.

2. CONFLICT OF INTEREST

Avoid using your position as a supply chain professional for personal gain or in a manner that places your employer in legal or reputational jeopardy.

Supply chain professionals must not use their positions to influence another person or to provide inappropriate benefits to themselves or others. Potential conflicts can arise from family, business, personal or financial relationships. Even though a conflict may not technically exist, supply chain professionals must avoid the appearance of a conflict of interest.

Guidelines for avoiding and preventing conflicts of interest:

- Safeguard information that you have access to as supply chain professional. Do not use information for your own gain or to provide an unfair advantage to a supplier or stakeholder.
- Discuss any actual or potential conflict of interest with management. Determine a course of action. Reassign supply chain responsibilities as warranted.
- Proactively disclose to your employer any potential conflict of interest or financial interest involving any project, supplier, contractor or business related to your official position.
- Encourage employers and suppliers to adopt conflict-of-interest procedures that requires employees to disclose any potential conflict of interest upon employment and annually thereafter.
- Do not engage in inappropriate personal business (which includes investment, equities and other financial interests) with your employer, employer's competitors or suppliers. For example, lending money to, or borrowing money from, any customer or supplier.

3. INFLUENCE

Influence is a factor in almost all business decisions, especially in the supply chain. Use care to evaluate the intent and perception of influence on supply chain decisions. Avoid behaviors or actions that are unfair or unbalanced or appear to influence supply chain decisions

Influence can be both internal and external:

- 1) Influence that the supply chain professional has over suppliers, customers and other stakeholders
- 2) Influence toward the supply chain professional from suppliers, customers and other stakeholders.

Every person that influences a supply decision must avoid all activity that may diminish, or even appear to diminish, decision-making objectivity. Interests of the employer must be served by those who are a part of the supply process. Guidelines cannot cover every situation and do not take the place of good judgment or sensitivity to other cultures, laws, customs and practices. Sources

of influence can be introduced into relationships between buyers and sellers. This can occur as a singular event or over time. Supply chain professionals must be aware of their organization's position (for example, economic size) in the supplier base and ensure that market power is not abused.

Clarity can often be gained by asking such questions as:

- Does it meet all laws and regulations, industry standards, and employer requirements?
- Is the business activity in the best interest of the employer?
- Is the business and activity fair and balanced for all concerned (including suppliers and customers)?
- How will the business activity be perceived by peers and others?

Guidelines for avoiding and preventing matters of influence:

- Implement policies that establish criteria to prevent inappropriate influence on the supply process.
- The exchange of gifts, gratuities or entertainment have the potential to influence buying decisions. These may be offered to a supply professional, others involved with a buying decision or a family member.
 - 1) Do not accept monies, loans, credits and preferential discounts.
 - 2) Evaluate carefully the acceptance of gifts, gratuities or entertainment, even if the value is small.
 - 3) Consider the frequency of giving or receiving gifts, gratuities or entertainment and measure the "collective impact."
 - 4) Seek direction from management if there is concern that a business relationship may be impaired or appear to be impaired by refusal of a gift, gratuity or entertainment.
- **Meals** are occasionally required when conducting business and are often a part of building business relationships.
 - 1) Use care to ensure a meal is for a specific business purpose.
 - 2) Limit meal frequency and cost with suppliers.
- **Product samples, advertising and or promotional items** may be offered by suppliers or requested by the buying organization when necessary for testing or other purposes. Document transactions covering the acceptance and use of product samples.
- Supply chain professionals must ensure that **specifications and standards** are objectively developed and communicated.

4. RESPONSIBILITIES TO THE EMPLOYER

The supply chain professional must serve the legal interests of the employer. This requires application of sound judgment and consideration of both legal and ethical implications. Align reasonable care and granted authority to deliver value to the employer.

Guidelines for satisfying responsibilities to employers:

- Follow all company policy and procedures and understand that all production during work efforts belongs to the employer.
- Be transparent with the employer for all actions.
- Understand the boundaries, authorities, roles and tasks given by the employer and work within those confines.
- Create maximum value for the employer.
- Avoid activities that compromise, or create the perception of compromising, the best interests of the employer.
- Notify the employer of known or suspected unlawful or unethical activities, work with the employer to create an anonymous channel for reporting potential unethical behavior.
- Avoid using the employer's purchasing power to make purchases for non-business use. If employer-sponsored personal purchasing programs exist, make certain that the arrangements are transparent and fair to suppliers, employees and the employer.
- An executive committee on ethics that has responsibility or authority outside of the traditional company hierarchy can be valuable. It would provide a separation of duties and internal controls.
- Incorporate business codes of conduct that include ethical compliance expectations.

5. SUPPLIER AND CUSTOMER RELATIONSHIPS

Develop and maintain effective business relationships. Transparent and fair treatment of suppliers and customers enhances the reputation and good standing of the employer and the supply chain professional.

Guidelines for maintaining positive supplier and customer relationships:

- Develop and implement business processes that are fair, unbiased and consistently applied.
- Support and contribute to prompt and fair problem resolution.
- Avoid placing unreasonable demands on suppliers.
- Communicate promptly, honestly, openly and directly.
- Create and communicate a process of ethical guidelines in supplier codes

of conduct. Have a process by which the supplier accepts and adheres to these guidelines.

- Establish a process for suppliers and customers to notify the employer of known or suspected unlawful or unethical activities.
- Monitor the performance of suppliers on a regular basis and establish guidelines through terms and conditions that ethics violations could result in sanctions or termination of the contract.

6. SOCIAL RESPONSIBILITY AND SUSTAINABILITY

A critical part of being an ethical organization is to have a social responsibility platform and sustainability plan.

Supply chain professionals can lead the development and integration of sustainability and social responsibility policies and strategies into the business and supply chain. Supply professionals can also reinforce the importance of personal commitment to the success of sustainability and social responsibility initiatives and outcomes.

ISM defines sustainability as the ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental and social changes. ISM defines social responsibility as a commitment by a business to act ethically and create benefit for the workforce, the local community and society.

In 2015, the ISM Board of Directors adopted the following 11 principles of sustainability and social responsibility:

- **Anti-corruption.** Do not tolerate corruption in any form.
- **Diversity & Inclusion.** Promote diversity and inclusion throughout the organization and the supply chain.
- **Environment Support.** Environmental precaution, promote environmental responsibility and encourage environmentally friendly technologies and processes.
- **Ethics & Business Conduct.** Behave ethically always and demand ethical conduct within the organization and throughout the supply chain.
- **Financial Integrity.** Conduct all financial business dealings and decision-making with integrity.
- **Global Citizenship.** Act (in person and virtually) for the benefit of all global citizens, locally and elsewhere, fulfilling ethical and moral obligations.
- **Health & Safety.** Protect persons in the supply chain from the risk of injury, danger, failure, error, harm and/or loss of life.
- **Human Rights.** Recognize and acknowledge that human beings have universal and natural rights and status regardless of legal jurisdiction and local factors.

- **Labor Rights.** Respect, promote and protect an individual's labor rights as defined by applicable international conventions.
- **Supply Chain Sustainability.** Support supplier development of more sustainable business practices, products and services and the embedding of sustainability throughout supply chains.
- **Transparency.** Make available full and complete information necessary for collaboration, cooperation and collective decision-making. Require a corresponding level of transparency from suppliers and throughout the supply chain.

7. CONFIDENTIAL AND PROPRIETARY INFORMATION

Supply chain professionals have an obligation to ensure confidential and proprietary information is adequately protected. Access must meet employer requirements, contractual obligations, industry standards, government regulations and laws. It is the responsibility of organizations and supply chain professionals to know the current and applicable laws and standards for confidential and proprietary information.

Information that may be considered confidential or proprietary include:

- Intellectual property
- Aggregated spend price and other related elements
- Contract terms and conditions
- Bids and quotations
- Product and other costs
- Descriptions of formulas and processes
- Designs, drawings and specifications
- Organizational plans, goals, objectives, strategies and results
- Financial information, material non-public sources
- Any information not available from public sources
- Information that may impact prices of financial instruments
- Wages and salaries
- Non-public information about employees, officers and directors
- Personal demographic and other data, including background checks and investigations
- Sources of supply
- Computer software programs, languages and applications

Guidelines for confidential and proprietary information:

- Develop and communicate a policy regarding protection of confidential and proprietary information.
- Mark and identify confidential and proprietary information appropriately.
- Use nondisclosure agreements that state the terms for use of confidential and proprietary information.
- Do not accept or share confidential or proprietary information unless there is a need to know.
- Require that confidential and proprietary information given to others be protected by them.
- Use confidential and proprietary information only for its intended purpose.
- Create and follow standards in financial auditing protocols.

8. RECIPROCITY

Reciprocity occurs when firms overtly or tacitly make concessions to one another to promote their own business interests. The practice can present both a legal and an ethical risk that may result in legal sanctions against the organization, its management and/or its supply chain personnel. In supply chain, reciprocity represents a risk through offering favoritism or quid pro quo through mutual benefits. This presents a risk for limiting competition and can create vulnerability because of unfair competition or antitrust laws. Reciprocity can create coercive environments where the best supplier is not selected for reasons that are not transparent.

When supply chain professionals or their organizations give preference to suppliers because they are also customers, or when the organization influences a supplier to become a customer, the professional or the organization is engaging in reciprocity. This includes agreements involving a specific commitment to buy in exchange for a specific commitment to sell.

Guidelines for avoiding and preventing reciprocity:

- Understand suppliers that are also customers may not be a problem if the customer/supplier is the best source and the transactions are transparent.
- Obtain guidance from management and legal when potential issues of reciprocity arise.
- Recognize that reciprocal relationships may be an illegal restraint of trade in some situations.
- Document sourcing decisions.

9. APPLICABLE LAWS, REGULATIONS, TRADE AGREEMENTS AND INDUSTRY STANDARDS

Supply chain professionals develop and maintain an understanding of the legal concepts that govern activities as agents of their employers in the countries in which operations occur. These include laws, regulations and trade agreements at the international, national, state, provincial and local levels. In addition, it is common for industries to have unique standards. There are also regulations and laws with which supply managers must comply.

Some examples of laws and regulations that supply chain professionals should be aware of include:

- Agency laws
- Contract and commercial laws
- Electronic commerce laws
- Antitrust laws
- Trade agreements and regulations (import/export regulations)
- Industry-specific laws and regulations
- Government procurement regulations
- Patent, copyright, trade secret and trademark laws
- Environmental laws (including conflict minerals)
- Employment laws and regulations (including diversity hiring practices)
- Worker health and safety laws (including anti-human trafficking and child labor)
- Transportation and logistics laws and regulations
- Financial laws and regulations

Guidelines for understanding and complying with applicable laws, regulations, trade agreements and industry standards:

- Involve legal counsel early in the analysis and planning to identify and avoid potential legal issues.
- Seek legal advice as conflicts occur. Interpreting the laws is the responsibility of legal counsel.
- Understand and follow laws, regulations and trade agreements that are specific to the countries where business is transacted.
- Understand and adhere to applicable industry standards on ethical sourcing.

10. PROFESSIONAL COMPETENCE

Developing business skills and increasing knowledge through continuous learning of supply chain demonstrates a commitment to the profession and positively impacts you, your employer, peers and suppliers. Professional development requires continuing education.

Recommended guidelines for achieving a high level of professional competence:

- Continue to train and develop through experience, exposure and education.
- Adopt and promote the ethical standards expected of a supply chain professional.
- Encourage, participate and track ongoing ethics training.
- Establish a self-development program designed to identify and fill gaps necessary to remain current with changes impacting the supply chain profession.
- Encourage and reward ongoing professional development of employees and suppliers.
- Become a role model in ethical behavior and mentor and teach those who want to learn.
- Become actively involved in Institute for Supply Management, ISM chapters and other professional associations.
- Treat others' opinions with respect and avoid coercive behaviors.
- Develop increasing cultural awareness to become more inclusive and sensitive to diversity opportunities.
- Develop professional skills in communication, leadership and professional etiquette.
- Be knowledgeable and prepared when engaging with suppliers, customers and stakeholders.
- Earn and maintain the Certified Professional in Supply Management® (CPSM®), Certified Professional in Supplier Diversity® (CPSD®) and other professional certifications.

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ISM ETHICAL STANDARDS COMMITTEE

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A FINAL NOTE

Information contained in this document helps the supply chain professional address important areas — including conflict of interest, reciprocity and inappropriate influence — to provide insight for handling difficult day-to-day matters. However, standards and guidelines cannot cover every situation or nuance and do not take the place of good judgment or sensitivity to other cultures, laws, customs and practices. When in doubt, consult with management and professional colleagues.

