Why Business Leaders Must Make Supply Chain Ethics a Priority

ASSOCIATION FOR
SUPPLY CHAIN
MANAGEMENT

Ethics in supply chain can cover a number of categories. Workplace discrimination, labor conditions, upholding environmental responsibility – they all fall under the scope of supply chain ethics. With supply chain becoming a more forward-facing part of how businesses function, your supply chain professionals and your organization as a whole must prioritize operational ethics.

The Association for Supply Chain Management (ACSM), Supply Chain Management Review (SCMR) and Loyola University surveyed more than 700 supply chain professionals to discover how their organizations are addressing key issues related to supply chain ethics. The findings: **Operating a responsible supply chain is becoming a higher priority, but there's still a divide between beliefs and actually achieving ethical supply chain goals.**

The impact of supply chain ethics on business

It can be easy to forget the impact supply chain ethics has on a company. Unethical behavior – even just a one-time lapse – can harm both reputation and the bottom line. Today's consumers demand to know that the products they purchase are made in socially, ethically and environmentally conscious ways. Businesses will find themselves in trouble with their customers if they're exposed for not implementing the tactics they claim to be.
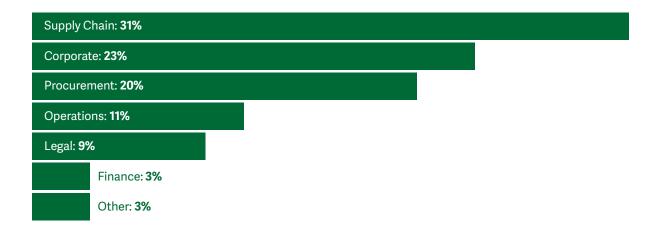
Fortunately, most supply chain professionals acknowledge this, with 83 percent of respondents considering supply chain ethics either extremely or very important. However, there is a disconnect between this understanding and action.

Avoiding this pitfall requires greater leadership and communication within an organization. However, ASCM CEO Abe Eshkenazi, CSCP, CPA, CAE, doesn't see this as an obstacle and encourages businesses to embrace ethical supply chains: "Building ethical supply chains isn't just a requirement; it's an opportunity. And to make the most of that opportunity, business leaders need to be in tune with their company's supply chain."

Taking responsibility

Over the past decade, supply chain has taken on a more critical role in the corporate world. It's no longer a back-office function that often flies under the radar. Today, supply chain management is a strategic imperative and a competitive differentiator that has become part of the corporate business model.

Although most people in an organization support the idea of an ethical supply chain, there is confusion as to who is responsible for upholding it. When asking respondents to name which department is responsible for ethical supply chain compliance, their answers varied wildly:

- Supply Chain: **31%**
- Corporate: **23%**
- Procurement: **20%**
- Operations: **11%**
- Legal: **9%**
- Finance: **3%**
- Other: **3%**

This highlights the significant gap between supply chain professionals' understanding and action, as 83 percent of respondents believe supply chain ethics are important, yet only 31 percent believe it's their responsibility. And when there isn't clear and consistent communication across business functions, accountability can fall through the cracks.

Top-level executives can step in to help fix this breakdown in communication. From the corporate, legal and finance levels to all points across the supply chain, organizations need to align their ethics strategy and goals. Start by defining those goals and mapping out actionable ways to reach them, then designate responsibility and implement a system that ensures accountability. To keep initiatives moving forward, it's essential to constantly share updates, insights and progress, both inside and outside the company.

Monitoring suppliers

Beyond increasing organizational alignment, many companies need to focus on taking real action to improve their ethical supply chain practices. When respondents were asked how much progress their company has made in creating an ethical supply chain over the past two years, less than a third – 31 percent – said they had advanced their initiative. And despite supply chain ethics being stated as important, nearly four in 10 organizations (38 percent) aren't actively monitoring their supply chains for ethical practices. Again, the gap between theory and practice must be closed.

When evaluating and enforcing ethical standards, one's suppliers must not be an exception. While 71 percent of respondents said their organization has a code of conduct for their suppliers, one in five claim they don't enforce it. These principles can include a wide array of important requirements, such as meeting certification codes; local regulations; environment, health and safety policies; and sustainable practices. To implement a successful ethics initiative, the end-to-end supply chain has to be involved.

Businesses can improve enforcement by gaining visibility into their supply chains. Only 43 percent of respondents have an initiative to better understand how their suppliers operate, and 47 percent are using software to monitor supplier compliance. With deeper insight into supplier operations, supply chain professionals can keep them accountable and better uphold their organization's ethics policies.

Ensuring success with a standard framework

Business leaders must understand that a reactive approach will be unsuccessful. It only takes one crisis to damage an organization's reputation, in turn affecting its overall bottom line, from sales to stock prices. To be proactive, C-suite leaders can coordinate across business functions to implement a standard framework for monitoring supply chain ethics throughout their organizations.

A cross-industry global standard is necessary to effectively measure ethics initiatives and benchmark progress against other organizations. The ASCM Enterprise Certification is the first corporate supply chain designation that evaluates supply chain across three dimensions: ethical, economic and ecological. This framework is the tool that decision-makers should be using to ensure their organizations are adhering to ethical supply chain standards.

An ethical supply chain not only has a positive impact on the world, but also is simply a smart business decision. For more information on ASCM Enterprise Certification, visit ascm.org/enterprise.

Research Methodology, Field and Response

Sample: Supply chain professionals and subscribers to Supply Chain Management Review
Method: All sample members were sent an e-mail asking for their participation in this study. The e-mail invitation included a URL linked to the questionnaire.
Incentive: Opportunity to enter a raffle for a $200 amazon.com e-card
Field: August and September 2018
Response: Results are based on 710 respondents
Margin of error: At the 95 percent confidence level, results are projectable at a margin of error of +/- 3.7 percent.

ABOUT ASCM

The Association for Supply Chain Management (ASCM) is the global leader in supply chain organizational transformation, innovation and leadership. As the largest nonprofit association for supply chain, ASCM is an unbiased partner, connecting companies around the world to the newest thought leadership on all aspects of supply chain. ASCM is built on a foundation of APICS certification and training spanning 60 years. Now, ASCM is driving innovation in the industry with new products, services and partnerships that enable companies to further optimize their supply chains, secure their competitive advantage and positively influence their bottom lines. For more information, visit ascm.org.

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