Long WORKSHOP REPORT FORM

Number and title of workshop: Special Session: Ethics in the Supply Chain: Managing Risk and Building Trust through Supply Chain Ethics

Coordinators: Michael Hershman

Date and time: Thurs. Nov 11, 2010, 1500 - 1730

Moderator: Michael Hershman, The Fairfax Group

Rapporteur: Michel Girodo, Interpol Group of Experts on Corruption

Panellists (Name, institution, title)

Michael Hershman, The Fairfax Group, President
Alexander Brigham, The Ethisphere Institute, Executive Director
Stephan Linssen, The Ethisphere Institute, Editor-in-Chief

Summary

The reputations of multinational and smaller corporations can depend on how their suppliers conduct themselves. When one of your supply chain partners is caught breaking the law you stand a real chance of suffering negative publicity. There can also be financial penalties for you if your suppliers or sub-contractors paid bribes.

How can you encourage your own suppliers to stay in line? They probably have their own complex code of conduct/ethics and are not usually interested in aligning them with anything new you might propose. They could see it as costly and requiring new training and adjustments to the way they do business. With this kind of thinking we might think that there is probably little incentive for them to change. Not so. Suppliers will conform to a code of ethics if you make it attractive enough for them. Make it profitable for them to do so. How?

1. Develop a common standard of conduct for all companies to subscribe to. Start with not too demanding standards and then raise the bar down the road.
2. Don’t make it too expensive for them to implement or they will bow out.
3. Collect measurable evidence of the extent to which they are complying with the standards. First, get them to describe their programs and put this into a benchmarking data base. Second, examine policies, reporting, training, monitoring, ethical culture, leadership etc that we know are linked to detecting and preventing bribery and corruption. Third, arrange your findings in the form of ratings received, rankings with other corporations.

Now, as with TI and the CPI publish your findings widely and award certifications, logos and designations: (I) World Class programs (limited); (II) Industry Leading Programs, and (III) Best Practices in Anti-corruption Programs. This has been tried and this Workshop reports on its hurdles and successes

Summary of presentations

Composite Presentations of the Three Panelists

Today, the reputation of multinational companies are linked to the how their suppliers and third party business conduct their own affairs. It is more than negative publicity that can come
your way if one of your suppliers is caught in a bribery scandal, you can be held liable as well and pay penalties if your sub-contractors break the law.

The usual solution centers on adopting a code of conduct and ethical standards. But these by themselves may not be enough to ensure the proper conduct of those you deal with. Codes come in all sizes and shapes and may not address the essentials to truly protect connected firms. You may try to develop a common code but not everyone will sign on. These external measures seeking compliance can be costly and disruptive and there will always be resistance to having a system imposed on one. Moreover, some companies may take offense at the suggestion that their ethics system or compliance mechanisms should be replaced by yours.

If companies cannot approach their suppliers and insist they follow a code of ethics then what strategies can be used to encourage suppliers to conduct themselves ethically? And these strategies come at what costs? And are they effective? Controlling human behaviour is typically done by a stick and carrot approach. Here, controlling corporate conduct through the same methods of influence has been tried. For it to work heavy emphasis must be placed on the “carrot”. In other words, you have to make it attractive for your suppliers to get on board with a program. Financial gain and profits are the bottom line and whatever drives this variable is likely to garner attention.

Good public perceptions and reputation. These are driving forces. They are hard to acquire and easily destroyed. Transparency Internal (TI) through its Corruption Perception Index (CPI) has over the years acquired the capacity to mobilize the will and resources of many governments around the world who thought they could manage their integrity on their own terms. Today, the CPI has become a recognized index of a country’s ethical and anti-corruption standing among peers. The CPI is a proxy measure of perceived integrity but it accomplishes its objective anyway - making the world aware of who can be trusted and who can’t when it comes to good governance and rule of law.

This is the incentive and compliance model that needs to be applied to corporations of all sizes around the world.

The Ethisphere Institute, - a well recognized name in business ethics and anti-corruption has developed a very similar model and applied it with more than 2,000 corporations around the world. The Ethisphere Institute invited firms to supply them with information on the extent to which they comply with anti-corruption standards for prevention corruption. “What are the measures you have to ensure you prevent corruption?”

The data were collected and analyzed and summarized in a quarterly magazine sent to more than 30,000 subscribers. This appears also in the Daily GRC Digest with more than 65,000 readers. Everyone, large and small corporations, suppliers, and competitors alike can see where they stand in relation to everyone else on the index and the World’ Most Ethical corporations. What is important is that everyone else can also see where you stand in relation to others.

Here, with strong data linked to reputational risk and standing you have a very powerful tool with which to influence behaviour. Corporations, like governments that feed on perceptions, want to improve their rankings.

As with the TI model the Ethisphere Institute publishes findings widely. But it goes one step further, it awards certifications, logos and designations: The top designation is : (I) World Class programs (limited); next (II) Industry Leading Programs, and (III) Best Practices in Anti-corruption Programs. These categorizations make it easy for everyone to understand. More importantly, the data are translated into labels. And it is the label the label that carries meaning and value.

Are there any empirical studies to support the effectiveness of this approach to changing corporate behaviour? There may be some supporting data:
In a study of the profits earned by the World’s Most Ethical (WME) businesses from 2005 to 2010, we see that this index is a stronger contributor to profits than is a company’s ranking on the S&P 500 or the FTSE 100.

By publishing the results of the verifications and providing labels to categories and rankings you invite a comparison process which stimulates a desire to get out of the low ranks and drive you to comply further with the standards so as to achieve world-class standing with your anti-corruption program.

Voluntary regimes for self and peer assessments are growing very rapidly in numerous areas of work. Self assessments are not the most reliable instruments if they are completed without guidance and external input. This should apply to the private sector as well. Although there is a natural aversion to being monitored by outside observers, especially if results are disseminated, peers and social pressure around complying with “soft laws” can be instrumental in gradually allowing external input into how the self-assessments are completed.

Main Outputs

This workshop proposed a concrete strategy to overcome the natural resistance corporations might have in seeing to it that actors throughout the supply chain comply more fully with codes of conduct and ethical standards. Increasingly it is being recognized that anyone who provides a service or product mediated by a third party is at risk of suffering consequences from misconduct by others with business links to you. Collecting data on the adequacy of corporate good governance and compliance mechanisms publishing the results is one way of motivating multi stake holder engagements.

The work of the Ethisphere Institute is an excellent example of how to rally corporate stakeholders around a common incentive and build collective action.

The topics and the manner the workshop was led facilitated considerable discussion and well thought-out remarks and interventions among many of the more than 70 participants. Input was provided by participants from a variety of countries and indicated that the problems faced around supply chain ethics were comparable.

The notion of trust and how to cultivate it was often brought up. Cultivating good relationships with partners and suppliers is facilitated by enlightened leaders in businesses that look at vendors and stakeholders in the supply chain as one big family, and treat each other as members of a family.

Recommendations, Follow-up Actions

While external communication strategies are essential to making this strategy effective several interveners believed having a good internal strategy for communicating ethics and for implementing the standards was just as essential. It was suggested that the actions of “whistleblowers” may signal the very fact that your company has failed in implementing standards and communicating violations using internal avenues for reporting.

Part of this internal communication strategy should include a shift in language from developing a “tone at the top” to communicating actual ethical acts and tough decisions make by the Chief Executive. Behaviours speak louder than words.

Finally, on a more critical note, we should return to the “stick and carrot” metaphor. Comparisons among rankings can drive corporations to improve their rankings. But there is a risk that accompanies these self assessments. The publication, communication medium, and
readership comprises a socially constructed universe within which the carrot might be bartered for data. Over time there is a risk that the “management of ratings and perceptions” becomes an enterprise in itself. When this happens the ratings trend to be more and more removed from the behaviours the data are aimed at measuring. We should recall that measuring behaviours and actual levels of compliance is more important than gauging the adequacy of instituted anti-corruption mechanisms through unmonitored self reports. How do you move beyond self assessments that risk being slanted in favour of good impressions.

The “stick” we refer to in a stick and carrot approach to influencing behaviour comes from the fear or threat of being found to be less than adequate, or worse to be found inadequate in adhering to a code of conduct. This threat is perceived only arise when an external body decides to monitor the assessment. Agreeing to an arrangement of this kind is unlikely among corporations that have voluntarily joined the club. However, one solution to this dilemma comes from an idea advanced in Doha, Qatar on how to implement the UNCAC Review Mechanism. Rather than letting states complete their own Self Assessments “in private” so to speak, responses to the self assessment check list should be prepared through “broad consultations with all relevant stakeholders, the private sector, individuals and groups outside the public sector.” (See Gillian Dell’s Workshop on UNCAC Self –Assessments this Conference). Applying the same approach with corporations and their partners may be the “soft stick” we are looking for. As a start it could serve as the wedge needed to get closer to the behavioural data that really measures compliance.

Signed and date submitted

Michel Girodo, November 24, 2010