



Quality News Today

Being Ethical Not Enough to Win Supply Chain Blame Game

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These days, food and grocery companies are judged by the company they keep. Consumers, investors, business partners, regulators and media organizations now expect food and grocery companies and their entire supply chain to be ethical.

Sooner or later, every company is bound to find itself part of a supply chain that experiences a significant ethics or compliance violation. When this happens, chances are great the biggest brand in the chain will get stuck with most of the blame.

What is the ethics problem in the supply chain? Almost every food company (in its role as purchaser) buys unfinished inputs provided by many other companies (suppliers), before refining them and sending them downstream to grocery stores and toward their ultimate end users (consumers).

Simply put, consumers often blame purchasers for ethical lapses that were actually committed by suppliers upstream. Blame attaches to the purchasing company, even though its suppliers are legally (and factually) distinct and independent corporate entities. Essentially, they get blamed for something they didn't even do.

The blame almost always befalls the biggest brand that played any role in bringing the offending product to market. This state of affairs might not be fair, but it is how the supplier ethics and compliance game now works. This type of risk is not hypothetical, and your industry is not immune. In 2007 alone, the drama has unfolded in these eye-catching headlines:

- Del Monte Pet Products Recalls Food Items (*Washington Post*)

- Dole Pre-packaged Salads Recalled For E. coli (AP Online)
- French Retail Giant Carrefour Is Fined (AP Online)

Each of these headlines is a real-world example of a leading brand taking the hit for ethics or compliance breaches committed by suppliers. In these and many other instances, suppliers were responsible for creating the dangerous conditions that captured the public's attention, yet nowhere in the headlines could the suppliers' names be found. Consumers rightfully (and righteously) made the biggest brand pay the price.

The tide is now turning. In a recent survey of Global 2000 companies by Integrity Interactive, 78% of all companies currently fail to include suppliers in their compliance and ethics programs. But 57% of respondents say suppliers will be included within the next two years. This represents a near-seismic shift in risk management priorities, attention, and resources.

“There can be no more fundamental need than for people to know that their food has been grown, processed, packaged and delivered by a thoroughly safe and secure supply chain,” says John Kraus, vice president of corporate governance, compliance and ethics at Pittsburgh-based H.J. Heinz Co.

Undoubtedly, companies must now take more tangible steps to ensure food safety by ensuring suppliers meet their standards. How is this playing out? Compliance and legal officers are now collaborating with their procurement colleagues.

The majority of corporate legal and compliance officers have no regular contact with their colleagues who manage procurement and supplier relations. To ensure compliance in the supply chain, this must change. Savvy legal and compliance officers can proactively offer to partner with procurement colleagues in these major areas:

- Making compliance and ethics a factor in supplier selection and evaluation.
- Targeting and segmenting suppliers by commercial importance and ethical risk.
- Creating and maintaining compliance histories of important suppliers.
- Assigning compliance personnel to important supplier relationships.
- Conducting regular assessments of supplier risk-profiles.

This type of internal collaboration is inexpensive, sensible and arguably “win-win” from everyone's perspective (including suppliers). At the very least, increased procurement-compliance interaction will better position your organization to declare to the media that it is not simply enabling or ignoring potential compliance problems in the supply chain, but stands a good chance of preventing problems from actually occurring in the first place.

Finally, there is a quick and easy two-step process to shed light on supplier relationships, communicate and certify. Companies must proactively and persistently communicate their standards to suppliers and require suppliers to certify compliance with those standards. Requiring supplier certifications is a fast-growing trend.

These processes exist within your company for its own employees and with very little additional time, money or administrative effort. The same can be done among the thousands of companies in your supply chain. If and when an ethics scandal crops up in your supply chain, at the very least your company will be able to credibly say it has taken proactive steps to regulate and influence supplier conduct and behavior.