

# Chapter 7

## Ethics, Ethical Leadership, and Supply Chain Management

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### ABSTRACT

*To analyze ethics and sustainability in supply chain management: ethics, business ethics and ethical leadership are briefly explained. Ethics is important for the business in 4 aspects: customers, suppliers, competitors and employees. In this chapter, supply management will be given a more detailed examination with sustainability and an ethical point of view. Besides the governmental regulations, big companies also feel social responsibility and take action for the procurement of their supplier's conditions. Sustainability, ethics, ethical leadership are the main problems for a successful supply chain management system.*

### INTRODUCTION

Ethical and sustainable supply chain management in a global context forced companies to re- think their behaviors in accordance with their suppliers. Nowadays organizations, even the NGOs apply ethical codes from board members to stakeholders. In addition to this, sustainability issues forced companies to reorganize their relations with suppliers and way of doing business. Importance of ethics and sustainability in supply chain management encourage companies behave with moral values than price sensitive. Studies claim that consumers ready to pay more over settled price if they sure about the product is ethically produced. Companies tend to produce values rather than end products.

Economic, political, even religion-based conflicts over the world forced people to think and behave more ethical on featured issues. Usually developed countries have laws governing ethical business practices but immoral companies attempt to have benefits over the suppliers from developing countries. On the other side, moral companies forced suppliers to have ethical features.

Suppliers who refuse to the new policy risk losing their supply contracts all together.

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Clearly there are other reasons for implementing an ethical supply chain, many of which produce recognizable utility for a company's balance book. Furthermore, if one of your suppliers has a problem whether it's a problem of ethics or a problem of quality, consumers will hold you responsible for that defect. End users do not need to know the source of the problem. Brand management is another major subject for the companies. Their dignity, credibility and respectability could be affected by a supplier in anytime, anywhere. Therefore, companies should take precautions before the eruption comes. Openness and accountability are very important for every company which takes part in the supply chain. In this chapter, importance of ethics and sustainability in supply chain management discussed in accordance with business ethics, ethical leadership, sustainability and ethical standards.

## **MATTER OF ETHICS AND ETHICAL LEADERSHIP**

### **What Is Ethics?**

Ethics, defined as the discipline dealing with what is good and bad and with moral duty and obligation in Webster Dictionary (<https://www.merriam-webster.com/dictionary/ethics>) is becoming more important in every aspect of our life. Also, in another definition, the Oxford English Dictionary, the science of morals; the department of study concerned with the principles of human duty. Ethics is the evaluative study of what actors ought to do, rather than the descriptive study of what they have done, or are doing (Baylis, Smith & Owens, 2008). Although every single human has his or her own moral values however doing the right thing for the goodness of the entire universe is the core point of the ethics. In spite of globalization brings similarities in ethical codes different cultures have different ethical values.

The FLA, Fair Labor Association, aims to implement core labor standards of the International Labor Organization in firms operating in developing and newly industrializing countries. The FLA was founded in 1997 and grew out of the Apparel Industry Partnership (AIP) initiative of the Clinton administration to protect workers worldwide and to provide public information to consumers. The Partnership was composed of apparel and footwear companies, human rights groups, labor and religious organizations, and consumer advocates. The FLA now represents a multi-stakeholder coalition of industrial companies, colleges and universities, and NGOs. Its mission is to combine the efforts of these stakeholders to promote adherence to international labor standards and improve working conditions. In order to achieve this mission, the FLA developed a code of conduct which addresses core labor issues such as forced labor, child labor, harassment or abuse, discrimination, health and safety concerns, freedom of association and collective bargaining, wages and benefits, hours of work, and overtime compensation. Several companies from the apparel and footwear industries sourcing from more than 3,000 suppliers in 80 countries have signed up to the FLA and implemented the code. The FLA is governed by a multi-stakeholder board of directors (Marx, 2008).

### **Business Ethics**

Business ethics is a collection of principles and rules of conduct based on beliefs about what is right and wrong business behavior, a system of "ought" based on written laws and unwritten laws as moral codes of a society (Reinecke, Gary, & William, 1990). Ethical codes, formal, published collection of

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