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CIPS L5M5

Managing Ethical Procurement and Supply (L5M5)

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Question: 1

Company X's CSR initiatives focus on community support through profit donations to local charities, organizing employee volunteer days, and providing scholarships for underprivileged students. In contrast, its ESG practices prioritize environmental sustainability by reducing its carbon footprint with renewable energy, cutting waste by 20% in five years, and promoting leadership diversity. What distinguishes Company X's CSR initiatives from its ESG practices?

- A. CSR initiatives emphasize community support, while ESG practices target environmental sustainability and governance improvements
- B. CSR initiatives are mandatory for compliance, while ESG practices are optional
- C. CSR initiatives only involve philanthropic activities, whereas ESG practices focus solely on environmental sustainability
- D. There is no distinction; both CSR and ESG are the same

Answer: A

Explanation:

Choice A- Correct Answer. This option accurately reflects the difference between CSR and ESG. The CSR initiatives are centered on community support and philanthropic efforts (like donations and volunteer programs) which are basically factors at a top level, while the ESG practices focus on quantifiable goals related to environmental impact and governance structures (such as reducing carbon emissions and ensuring diversity in leadership).

Incorrect Answer:

Choice B- This option is misleading. CSR initiatives are generally voluntary efforts that companies undertake to demonstrate social responsibility, while ESG practices can be driven by regulatory requirements in some sectors, but they are often also voluntary. Many companies adopt ESG standards to attract investors and manage risk, but it's not accurate to categorize CSR as mandatory.

Choice C- This option oversimplifies both concepts. While CSR often includes philanthropic activities, it can also involve ethical labor practices, community engagement, and more. Similarly, ESG encompasses environmental, social, and governance factors, not just environmental sustainability. Therefore, this option doesn't capture the full scope of either concept.

Choice D- This option is incorrect. While CSR and ESG are related and can overlap, they are distinct concepts. CSR focuses more on a company's ethical obligations and contributions to society, while ESG refers to specific metrics like KPI's to assess a company's impact on environmental and social issues and its governance practices.

Reference:

LO-1.1; Page 5, Analyze the application of ethical and ESG (Environmental, Social and Governance) factors in supply chains

Question: 2

Abed, the CEO of a manufacturing firm, plans to introduce an ESG policy. During a board meeting, concerns were raised about potential employee resistance to the initiative. What could be the most likely cause of this resistance?

- A. Negative publicity
- B. ESG policies require extra resources in both time and money
- C. A good ESG strategy promotes innovation
- D. ESG policies require change which the employees are afraid of

Answer: D

Explanation:

Choice D- ESG policies require change and many employees are worried by change. Thus D is the correct answer!

Incorrect Answer:

Choice A- ESG agendas increases business reputation and does not negatively publicize.

Choice B- Requiring extra resources is a matter of the management and does not concern the employees.

Choice C- Promoting innovation is a positive effect of ESG policies and leads to more engaged employees.

Reference:

LO-1.1; Page 7; Analyze the application of ethical and ESG (Environmental, Social and Governance) factors in supply chains

Question: 3

Ms. Nabila plans to create a CSR plan by involving all internal and external stakeholders of the company. Which TWO key components should she prioritize for the CSR plan?

- A. Introduction
- B. Refinement
- C. Financial Analysis
- D. Philanthropic responsibility
- E. CSR Strategy

Answer: B,E

Explanation:

Key components of a CSR plan

- ♣ CSR assessment
- ♣ CSR strategy
- ♣ CSR commitment to stakeholder engagement
- ♣ Implementation plan and activities
- ♣ Verification and evaluation of results
- ♣ Refinement

Reference:

LO-1.1; Page 8; Analyze the application of ethical and ESG (Environmental, Social and Governance) factors in supply chains

Question: 4

Which of the following are regarded as potential benefits of responsible procurement?

1. Reduction of staff retention for the organization
2. Enhanced business reputation and social improvements
3. Increased operational risks due to supplier diversity
4. Cost savings due to the application of lifecycle costing

- A. 1 and 2
B. 2 and 3
C. 2 and 4
D. 4 and 1

Answer: A

Explanation:

Choice 2- Selecting sustainable good and services from responsible suppliers creates a positive reputation, and social improvements increase therefore a business attracts new customers.

Choice 4- Responsible procurement uses life cycle costing which considers the whole life span of a product rather than the initial purchase cost only. Thus is more cost effective because costs that arise throughout the product's life are also taken into account.

Incorrect Answer:

Choice 1- Responsible procurement shows commitment to long term environmental and social issues which helps to retain employees and attract new employees. Employees want to be associated with such business which are investing in the future and makes employees more motivated. Therefore choice 1 is the wrong choice.

Choice 3- This is not a benefit. While engaging a diverse supplier base can introduce complexity, it typically enhances resilience rather than increasing risks.

Reference:

LO-1.1; Page 10; Analyze the application of ethical and ESG (Environmental, Social and Governance) factors in supply chains

Question: 5

Automation Avenue, a manufacturing company, is struggling with production defects and high waste levels, affecting both quality and costs. To tackle these issues, they aim to adopt a systematic approach to enhance processes and reduce variability. Which methodology would be most effective in addressing defects and improving process quality?

- A. Six Sigma
B. ISO 14001
C. Both Six Sigma and ISO 14001
D. WEEE Certificate

Answer: A

Explanation:

Choice A- Six Sigma is specifically designed to improve process quality, reduce defects and enhance efficiency. Thus this is the answer.

Incorrect Answer:

Choice B- While ISO 14001 focuses on environmental management and sustainability, it does not directly address process improvement or defect reduction in the same way that Six Sigma does.

Choice C- Integrating both methodologies could provide comprehensive benefits, as Six Sigma can directly address process improvement and defect reduction, while ISO 14001 can enhance environmental performance and compliance. However, if the primary goal is to tackle defects and improve quality, Six Sigma would be the more immediate choice. Using both together can be beneficial for a holistic approach to quality and sustainability.

Choice D- WEEE (Waste Electrical and Electronic Equipment) certification pertains to the recycling and management of electronic waste. It focuses on environmental compliance regarding e-waste and does not address process quality or defect reduction directly. While important for environmental responsibilities, it is not relevant to the company's current challenges related to production defects.

Reference:

LO-1.1; Page 14-15; The role of environmental considerations in securing ethical and sustainable procurement and supply arrangements

Question: 6

Several UK-based companies operate in diverse production industries, each facing unique market structures and supplier dynamics when sourcing raw materials and negotiating contracts. The power balance between buyers and suppliers varies based on market conditions, supplier availability, and industry-specific factors.

Case A: GreenPasture Feeds Ltd

GreenPasture Feeds Ltd is one of many manufacturers producing cattle feed, with soybean meal as a key ingredient. However, the supply of soybean meal is controlled by a small number of vendors, giving them significant bargaining power. As a result, GreenPasture Feeds Ltd faces higher procurement costs due to supplier dominance in the market.

Case B: MedTech Biologics Ltd

MedTech Biologics Ltd develops a specialized vaccine that relies on a crucial active ingredient supplied by a single biotechnology firm in Germany. This exclusive dependency creates a strategic interdependence between MedTech Biologics Ltd and its sole supplier, requiring close collaboration to maintain an uninterrupted supply chain.

Case C: PlayMax Toy Manufacturing

PlayMax Toy Manufacturing produces plastic toys using a specialized food-grade plastic sourced from a few manufacturers. However, the plastic resin needed for production is widely available from numerous global suppliers. This abundance of supply options strengthens PlayMax's bargaining position, allowing the company to negotiate favorable procurement terms.

Case D: BrewMaster Coffee Company

BrewMaster Coffee Company specializes in premium instant coffee production. Since high-quality Arabica coffee beans are grown and supplied by producers across various regions worldwide, the

company benefits from an extensive supplier base. This widespread availability gives BrewMaster a competitive edge in securing cost-effective and high-quality raw materials.

Using the provided options, complete the table by identifying the **market structure** for each case and determining the **buyer-supplier power dynamic** based on their level of dominance.

Case	Market Structure	Position of Buyer/Supplier as per power/dominance model
A	Oligopoly (Few suppliers of soybean meal)	Buyer is dominant over supplier
B	Monopoly (Single supplier of the key ingredient)	Supplier is dominant over buyer
C	Oligopsony (Few buyers of unique food-grade plastic)	Buyer and supplier are independent
D	Perfect Competition (Many global suppliers of Arabica coffee beans)	Buyer and supplier are interdependent

A. Oligopoly (Few suppliers of soybean meal): Supplier is dominant over buyer

B. Monopoly (Single supplier of the key ingredient): Buyer and supplier are interdependent

Answer: A,B

Explanation:

Case	Market Structure	Position of Buyer/Supplier as per power/dominance model
A	Oligopoly (Few suppliers of soybean meal)	Supplier is dominant over buyer
B	Monopoly (Single supplier of the key ingredient)	Buyer and supplier are interdependent
C	Oligopsony (Few buyers of unique food-grade plastic)	Buyer is dominant over supplier
D	Perfect Competition (Many global suppliers of Arabica coffee beans)	Buyer and supplier are independent

In the competitive world of production and supply chain management, companies must navigate diverse market structures and power dynamics when sourcing raw materials. The availability of suppliers, the number of buyers, and the overall industry landscape influence the negotiation power between buyers and suppliers. Below, we analyze four UK-based companies, exploring their market structures and the inherent power dynamics that shape their procurement strategies.

Case A: GreenPasture Feeds Ltd – Supplier Dominance in an Oligopoly

GreenPasture Feeds Ltd operates in the cattle feed manufacturing industry, where soybean meal is a critical raw material. Despite the presence of multiple cattle feed producers, the supply of soybean meal is controlled by a **limited number of suppliers**, creating an **oligopoly** on the supplier side.

Market Structure: Oligopoly (Few suppliers controlling the market)

Power Dynamic: Supplier is Dominant Over Buyer

Due to the **scarcity of suppliers** and the high demand for soybean meal, GreenPasture Feeds Ltd has little leverage in price negotiations. Suppliers **dictate procurement terms**, leading to higher costs for

buyers like GreenPasture Feeds Ltd. The limited choice in suppliers forces the company to comply with set conditions, highlighting the **imbalance of power in favor of suppliers**.

Case B: MedTech Biologics Ltd – Mutual Dependence in a Monopoly

MedTech Biologics Ltd specializes in manufacturing a rare vaccine, relying on a **single biotechnology firm in Germany** for a crucial active ingredient. Since this supplier is the **sole producer** of the required material, it operates as a **monopoly on the supplier side**.

Market Structure: Monopoly (A single supplier dominates the market)

Power Dynamic: Buyer and Supplier are Interdependent

While the supplier holds significant power by being the **only source** of the ingredient, MedTech Biologics Ltd is also the **exclusive manufacturer** of this particular vaccine. This mutual exclusivity fosters **interdependence**, requiring both parties to collaborate strategically to ensure consistent supply and stable production. The relationship must be **carefully managed** to maintain operational continuity and mitigate supply chain risks.

Case C: PlayMax Toy Manufacturing – Buyer’s Advantage in an Oligopsony

PlayMax Toy Manufacturing produces children’s toys using a specialized food-grade plastic, available from only a few manufacturers. However, **there are even fewer buyers** for this specialized plastic, giving companies like PlayMax a **strong bargaining position**. This scenario creates an **oligopsony**, where a **small number of buyers** influence supplier behavior.

Market Structure: Oligopsony (Few buyers exert influence over suppliers)

Power Dynamic: Buyer is Dominant Over Supplier

Since there are multiple suppliers but limited buyers for this specific type of plastic, PlayMax can **dictate favorable procurement terms, negotiate better prices, and even switch suppliers if needed**. The suppliers, reliant on a small customer base, have **limited pricing power**, placing them at a disadvantage in negotiations. This gives PlayMax a strong **upper hand in procurement decisions**.

Case D: BrewMaster Coffee Company – Balanced Competition in a Perfect Market

BrewMaster Coffee Company produces premium instant coffee, sourcing high-quality **Arabica coffee beans from multiple global suppliers**. With numerous buyers and suppliers operating in this market, **no single entity can dominate pricing or supply**, making it an example of **perfect competition**.

Market Structure: Perfect Competition (Many buyers and sellers, no market control)

Power Dynamic: Buyer and Supplier are Independent

Due to the abundance of coffee producers, BrewMaster Coffee Company has **flexibility in choosing suppliers** based on quality, price, and ethical sourcing. Similarly, coffee bean producers are **not reliant on a single buyer**, as they can sell their beans to multiple companies. This results in a **balanced and competitive relationship**, where neither side holds significant power over the other.

Question:7

When a major garments factory faces adverse publicity due to alleged child labor, which of the following recognized techniques would be most effective in identifying the root cause of the issue?

- A. Whole life costs
- B. Value engineering
- C. Supply chain mapping
- D. Six sigma

Answer: C

Explanation:

Choice C – Supply chain mapping is a technique that enables a comprehensive analysis of the entire supply chain involved in the production and distribution of garment products. It helps identify the origin of the issue and how it spread. Therefore, it is the correct answer.

Incorrect Answer:

Choice A – WLC is used to assess the total cost of an asset over its whole life, taking account of its initial cost and the cost of operation, maintenance, upgrade and disposal. It does not help in identifying the child labor issue.

Choice B – Value engineering is a method used to improve the value of a product or process, not primarily focused on issue identification.

Choice D – Six sigma is a methodology aimed at process improvement and reducing defects, not specifically tailored for issue identification.

Reference:

LO-2.1; Page 145; Mapping supply chains to achieve supply chain transparency

Question:8

In an effort to enhance sustainability and ethical business practices, four companies have embedded Environmental, Social, and Governance (ESG) performance measures into their supplier agreements. Each organization has identified specific ESG challenges and established contractual requirements that suppliers must meet to align with corporate sustainability objectives.

Below is an overview of the ESG priorities for each company and the corresponding contractual terms:

Company 1:

This company has pledged to cut its carbon footprint by 40% by 2030. To achieve this target, it mandates that its suppliers actively contribute to emission reduction efforts. Suppliers are required to meet defined, measurable benchmarks related to carbon emissions and submit periodic reports detailing their progress on sustainability initiatives.

Company 2:

With a strong emphasis on fostering fairness and inclusivity, this company requires suppliers to align their payment structures and financial strategies with its commitment to equity. Suppliers must implement fair compensation policies, ensure timely salary disbursements via banking channels, and adopt ethical pricing structures that support inclusive hiring practices, particularly for underrepresented groups.

Company 3

Operating in industries prone to unethical practices, this company enforces stringent anti-corruption policies and financial transparency requirements for its suppliers. Suppliers must uphold rigorous governance standards, establish transparent reporting mechanisms, and comply with all anti-corruption regulations to ensure ethical business operations.

Company 4

This company is committed to making a meaningful impact on the communities in which its suppliers operate. As part of its contractual obligations, suppliers must actively participate in local initiatives that drive social and economic development. This includes contributing to community projects, generating employment opportunities, and supporting social welfare programs.

The four companies must establish contractual terms aligned with their respective ESG considerations, including a Community Benefit Clause, Key Performance Indicators (KPIs), Commercial Clause, and Governance Clause.

Match Column A with Column B from the following table:

Performance Measures relating to ESG	Contractual Terms
Carbon Emissions	Governance Clause
Equality, Diversity, and Inclusion (EDI)	Community Benefit Clause
Governance	Commercial Clause
Social Value	KPI as Performance Measure

A. Carbon Emissions: KPI as Performance Measure

B. Equality, Diversity, and Inclusion (EDI): Commercial Clause

Answer: A,B

Explanation:

Performance Measures relating to ESG	Contractual Terms
Carbon Emissions	KPI as Performance Measure
Equality, Diversity, and Inclusion (EDI)	Commercial Clause
Governance	Governance Clause
Social Value	Community Benefit Clause

Company 1: Carbon Emissions + KPI as a Performance Measure

To achieve its goal of reducing carbon emissions, the company mandates that suppliers meet specific sustainability targets. By incorporating **Key Performance Indicators (KPIs)** into contracts, progress becomes measurable, ensuring accountability and continuous improvement in environmental performance.

Company 2: Equality, Diversity, and Inclusion (EDI) + Commercial Clause

The company's commitment to inclusivity is reinforced through a **Commercial Clause**, requiring suppliers to align financial practices with ethical standards. This includes fair payment structures, equitable pricing models, and hiring policies that support underrepresented groups, ensuring diversity and inclusion within the supply chain.

Company 3: Governance + Governance Clause

Operating in a high-risk industry, the company prioritizes **governance and transparency** by enforcing strict anti-corruption policies. The **Governance Clause** mandates adherence to ethical business practices, requiring suppliers to implement robust compliance frameworks, transparent financial reporting, and regulatory alignment.

Company 4: Social Value + Community Benefit Clause

The company's dedication to creating positive community impact is embedded within a **Community Benefit Clause**. This contractual requirement ensures that suppliers actively contribute to local social and economic development, participate in community projects, and provide employment opportunities, fostering long-term sustainability in the regions they operate.

Question:9

Which of the following is NOT one of the four fundamental principles and rights at work recognized by the International Labor Organization (ILO)?

- A. Freedom of association and the right to collective bargaining
- B. Elimination of forced or compulsory labor
- C. Equal pay for equal work
- D. Abolition of child labor

Answer: C

Explanation:

Choice C – Equal pay for equal work is important but is not one of the four fundamental principles of ILO. Thus is the correct answer.

All the other options are core categories of ILO.

Reference:

LO-3.1; Page 249; Standards set by the United Nations (UN) and the International Labor Organization (ILO)

Question:10

The Payra 1320MW Thermal Power Plant, one of the largest power producers in Bangladesh, recently halted production due to worker strikes over poor working conditions. This situation is a consequence of which of the following?

- A. Human rights
- B. Corruption
- C. Fraud
- D. Bribery

Answer: A

Explanation:

Some of the consequences of ignoring abuse of human rights are outlined in table 1.9.

Violation of law	Companies and executives can face sanctions, financial penalties and even imprisonment.
Legal actions	Workers can take legal action against businesses for poor working conditions causing injuries, illness and death.
Interruption of supply chain	Production can be shut down by local authorities or unhappy employees can take labour action such as strikes.
Conflicts with company values	The business' actions can come into conflict with its mission and values and thus undermine stakeholder trust.
Brand reputation	Media coverage can cause reputational damage, resulting in financial losses, the loss of business and the loss of customers.

Table 1.9 Consequences of ignoring human rights abuses within the supply chain

Choice A is the answer as we can see from above interruption of supply chain is a consequence of human rights abuse.

The other factors are not directly related to production stoppage due to poor working conditions.

Reference:

LO-1.1; Page 52; Issues impacting ethical and sustainable procurement and supply: modern slavery, bribery, corruption, fraud and human rights infringements



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