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**CIPS Level 5 – Advanced Diploma in Procurement and Supply**

# **Managing Ethical Procurement and Supply Risk [L5M5]**

**Sample Exam Questions (Objective Response)**

**The correct answer will be listed below each question**

Q1. Which of the following is an example of where long-term availability of supplies would be more important than short term gains?

- a. Selling products that are manufactured to lower quality standards and therefore have lower unit prices
- b. Using a new supplier that is more expensive in the short term than others in the market, to expand the supply base and to develop capacity in the market
- c. Reducing quality standards in the short term accepting that customer rejects will increase in the long term
- d. Driving down costs in the short term leading in the longer term to reduced range and variety of suppliers in the market

LO: 1

AC: 1.4

Correct answer: B

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Q2. You are responsible for introducing a new ethics code into your supply chain. What is the most effective way of ensuring that this is communicated to all relevant parties?

- a. Create a series of posters that can be put up in the reception of your office
- b. Email all suppliers with a copy of the new code asking them to comply with it
- c. Develop contract change requests covering these requirements
- d. Set up meetings with suppliers to discuss expectations and actions

LO: 2

AC: 2.4

Correct answer: D

Q3. Hi-Fashion Brand (HFB) is a well-known clothing retailer. Its shops are in all major city centres and airports. Its CPO is concerned about reputational risk through the supply chain and has decided to consider only using suppliers that meet the Ethical Trading Initiative. This is because these suppliers are most likely to ...

- a. have an annual bonus scheme for staff
- b. ensure all staff have clean accommodation
- c. pay staff a living wage
- d. provide staff with regular promotions

LO: 3

AC: 3.1

Correct answer: C

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Q4. Although low-cost country sourcing can offer significant benefits to a buyer in reduction of costs and savings, there are also significant risks. Which of the following should be avoided as a potential target for low-cost country sourcing?

- 1. A country where there are established political standards and economic stability
  - 2. A country where there are incompatible legal regimes for handling contract disputes
  - 3. A country where there are no established quality or human rights standards
  - 4. A country that is remote geographically but with good transportation routes
- a. 2 and 3 only
  - b. 1 and 3 only
  - c. 2 and 4 only
  - d. 1 and 4 only

LO: 1

AC: 1.2

Correct answer: A

Q5. Which of the following are regarded as core aspects of international labour standards?

1. Freedom from casual labour
2. Freedom from untrained labour
3. Freedom from forced labour
4. Freedom from discrimination

- a. 1 and 2 only
- b. 2 and 3 only
- c. 3 and 4 only
- d. 1 and 4 only

LO:3

AC:3.1

Correct answer: C

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Q6. A Procurement Manager (PM) is seeking to improve, environmental, social and governance standards (ESG). The PM intends to start by mapping the supply chain. Is this an effective way to approach ESG improvement?

- a) Yes, it helps achieve more transparency
- b) Yes, it increases the complexity of supply chain management
- c) No, it reduces accountability
- d) No, it only adds administrative work

LO: 2

AC: 2.1

Correct answer: A

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Q7. Mapping the supply chain will improve transparency of sustainable and ethical practice compliance. Is this TRUE?

- a. Yes, it will help to identify areas of good and poor practice
- b. Yes, but only downstream activities need to be included
- c. No, supply chain mapping will only identify costs
- d. No, it will not be possible to identify these

LO: 2

AC: 2.1

Correct answer: A

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Q8. Which of the following are examples of modern slavery? Select **THREE** that apply.

- a. Forced labour
- b. Shift working
- c. Bonded labour
- d. Human trafficking
- e. Overtime working
- f. Casual labour

LO: 1

AC: 1.1

Correct answer: A, C & D

Q9. Ethical Coffee Shop (ECS) operates a large network of coffee outlets around the world. ECS has benefited from changing consumer habits as increasingly people like to use coffee shops as a place to meet friends. It has invested in more outlets and is now recognised as one of the fastest growing consumer brands in the world. With this recognition comes the challenge of maintaining the highest ethical standards. Unfortunately, a television documentary recently focused on ECS supply chains, which the media portrayed as 'being severely exploited for corporate and shareholder gain'. Applying fairtrade standards would help ECS to achieve consistency within supply chains in which of the following?

1. Decent working conditions
  2. Product quality and flavour
  3. Reduced supplier credit terms
  4. Local sustainability
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- a. 1 and 2 only
  - b. 2 and 3 only
  - c. 3 and 4 only
  - d. 1 and 4 only

LO: 3

AC: 3.3

Correct answer: D

Q10. A consumer electronics organisation (CEO) has four main products:

Product A – CEO has achieved competitive advantage in this broad customer market because it is the lowest cost producer of this type of product in the industry. It has achieved this status through adoption of state-of-the-art techniques, equipment and systems.

Product B – CEO’s products are unique in the market in respect of some elements of functionality and these elements are widely valued by consumers, especially as CEO has continually adapted the product to suit the changing age profile of target consumers.

Product C – CEO’s strategy has been to target a smaller and very specific customer segment and achieves advantage through its very low costs of manufacture. Demand for the product has been impacted in recent months because of exchange rate fluctuations.

Product D – CEO’s strategy for this product has focused on targeting a smaller specific customer segment and achieving advantage through unique product features and clear CEO branding. To meet customer demand CEO uses the strapline of ‘Caring for the planet’ on this product.

For each of the products, you are required to match the correct source of competitive advantage and the macro environmental driver.

Choose from these options and drag and drop your answers into the table below. [8]

**You can only use each option once.**

Demographics driver	Technology driver
Differentiation	Cost leadership
Environmental driver	Economic driver
Cost focus	Differentiation focus

Product	Macro Environmental Driver	Source of Competitive Advantage
A		
B		
C		
D		

LO: 1

AC: 1.2

Correct answer:

Product	Macro Environmental Driver	Source of Competitive Advantage
A	Technology driver	Cost leadership
B	Demographics driver	Differentiation
C	Economic driver	Cost focus
D	Environmental driver	Differentiation focus

Q11. A large electronics manufacturer that uses rare metals in its products has just announced it is to increase its focus on sustainability in order to safeguard its supply chain. In this context, which of the following could be seen be a main driver for this?

- a. Increased accountability
- b. Resource scarcity
- c. Financial pressures
- d. Government policy

LO: 1

AC: 1.1

Correct answer: B

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Q12. ABC is a market leading consumer products manufacturer. It has invested heavily in both sustainable practices throughout its supply chains and in its advertising materials to promote this to the market. Which of the following is most likely to be the reward for ABC of such an investment?

- a. Increased number of competitors
- b. Integrated supplier base
- c. Reduced indirect costs
- d. Improved brand reputation

LO: 1

AC: 1.3

Correct answer: D

Q13. Which of the following are likely warning signs of modern slavery?

1. Workers being forced to work
2. An organisation renting small accommodation
3. Workers and staff receiving very low pay
4. Roles requiring few qualifications

- a. 1 and 2 only
- b. 2 and 4 only
- c. 1 and 3 only
- d. 3 and 4 only

LO: 1

AC: 1.1

Correct answer: C

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Q14. Which of the following are tools that can be used by procurement professionals to evaluate the sustainability risk of contracts, their relative linkages, complexity and also help to identify potential improvements?

1. Macro environmental audit
2. Supplier preferencing
3. Portfolio analysis
4. Supply chain mapping

- a. 1 and 2 only
- b. 2 and 4 only
- c. 1 and 3 only
- d. 3 and 4 only

LO: 2

AC: 2.1

Correct answer: D

Q15. Advancements in technology have supported the drive for globalisation. Is this correct?

- a. Yes, many barriers to communication have now been removed through technology
- b. No, increased use of technology has made global trading much more expensive
- c. Yes, emerging technologies have forced some companies overseas to retain staff
- d. No, technology has created significantly increased demand for shorter supply chains

LO: 1

AC: 1.2

Correct answer: A

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Q16. A key principle of the World Fair Trade Organisation (WFTO) is to help global businesses expand into new markets to provide better products and fairer pricing for consumers. Is this correct?

- a. No, the WFTO is focused on reducing the power of multinational companies
- b. Yes, the WFTO will provide grant aid to international businesses
- c. No, the WFTO aims include supporting smaller or disadvantaged producers
- d. Yes, the WFTO enforces global regulations to protect consumers

LO: 3

AC: 3.3

Correct answer: C

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Q17. Fairtrade labelling is underpinned by fair trade standards. These standards focus directly on which of the following? Select the **TWO** apply.

- a. Management training
- b. Wages
- c. Customer feedback
- d. Pensions
- e. Working conditions

LO: 3

AC: 3.3

Correct answer: B & E

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Q18. An organisation can manage reputational risk in relation to its ethical and sustainable procurement practices through which of the following? Select **THREE** that apply.

- a. Monitoring its social media profile
- b. Ensuring equipment is replaced regularly
- c. Meeting suppliers at third party locations
- d. Implementing responsible procurement policies
- e. Reducing supplier profitability
- f. Carefully selecting all supply chain partners

LO: 3

AC: 3.4

Correct answer: A, D & F

Q19. Automotive Manufacturing Group (AMG) is a global organisation. Its supply chains, both upstream and downstream, have multiple layers and involve numerous different organisations and several locations around the world. Its Chief Procurement Officer (CPO) has highlighted this as a major risk factor for AMG and has prioritised undertaking detailed supply chain mapping, in the first instance to analyse AMG's supply chain structures. The CPO believes that understanding these structures will help AMG develop more effective risk management strategies. This initial analysis will focus primarily on developing a better understanding of which of the following within AMG's supply chains?

1. Branding
  2. Tiers
  3. Complexity
  4. Innovation
- 
- a. 1 and 2 only
  - b. 2 and 3 only
  - c. 3 and 4 only
  - d. 1 and 4 only

LO: 2

AC: 2.1

Correct answer: B

Q20. Four different manufacturing companies have all developed strategies for globalisation, but their drivers for such a strategy are different. In pursuit of this goal each company has experienced a specific challenge. Relevant information is as follows:

ABC – Has aspirations to become market leader and has identified new suppliers overseas as offering it greater potential for innovation within its product range. ABC considers this would offer it something unique compared to its main rivals. However, its initial research suggests it might not be able to find any suppliers that will meet its own stringent policies on employee rights and fairness.

DEF – Has gained benefits from achieving high levels of supply chain integration and plans to extend its supply networks internationally. It has already identified suitable supply chain partners in new territories where there is existing infrastructure, and compatibility testing is underway. Whilst these businesses are aligned with DEF in terms of systems, DEF is concerned about the beliefs, attitudes and behaviours of local employees and management.

PQR – Has been under pressure to improve its profit margin, especially as it is recognised by the board that revenues are unlikely to grow in the foreseeable future. As a result, PQR has decided to explore new suppliers in overseas territories. A number of suitable partners have been identified, but PQR’s board has concerns about their record of prioritising employee wellbeing over profitability.

XYZ – Is a European company. It has started to generate revenues in American dollars (USD) but is unhappy with the exchange rate risk on conversion to euro currency (EUR) . It plans to extend its operations into the US, generating costs in USD that can be met by its USD revenue stream. XYZ’s main concern is that it is aware of some differences in approaches, codes and frameworks adopted in Europe compared with those within the US.

You are required, for each company, to determine the relevant driver and the challenge it has encountered.

**You can only use each option once.**

Cultural barriers	Competitive advantage driver
Health and safety	International standards
Technology driver	Worker inequality
Cost reduction driver	Economic driver

Company	Driver	Challenge
ABC		
DEF		
PQR		
XYZ		

**Q20 Continued ...**

LO: 1

AC: 1.2

Correct answer:

<b>Company</b>	<b>Driver</b>	<b>Challenge</b>
ABC	Competitive advantage driver	Worker inequality
DEF	Technology driver	Cultural barriers
PQR	Cost reduction driver	Health and safety
XYZ	Economic driver	International standards

SAMPLE QUESTIONS