

Business Ethics

Purchasing and supply management professionals are increasingly required to demonstrate that the supply chains they manage take ethical and social responsibility issues into consideration. The main reasons for ensuring that supply chains meet these criteria should be professionalism and moral and legal obligations.

Other drivers include:

- **media or consumer pressure**
- **the need to comply with a particular code of conduct or legal imperative**
- **a requirement to include such issues in annual financial or social accounts**
- **social audits**
- **ethical investors**
- **supply chains that include sources in a particular country or for a particular product which may be perceived to be high risk**

'Ethics' in purchasing and supply management can relate to a wide range of issues from doubts about suppliers' business procedures and practices to corruption. The vocabulary associated with this field can, in itself, be confusing, and includes such terms as:

- fairtrade
- ethical trading
- ethical sourcing
- social accountability
- social auditing
- corporate social responsibility
- corporate citizenship
- codes of conduct
- reputation assurance

This Knowledge Byte provides guidelines for purchasing and supply management professionals in dealing with business to business ethical issues in their supply chains. The CIPS Personal Ethical Code is a good starting point for business to business ethics.

Those in the public sector must be aware of the compliance criteria they must meet; others may need to satisfy standards of ethical practice and look to organisational reputation.

Purchasing and supply management professionals in some industries face complex problems in addressing ethical and social responsibility issues and may lack codes or standards of practice. Many of these issues are extremely sensitive.

CIPS encourages purchasing and supply management professionals to consider the long term implications of their actions and to question objectives that may unintentionally have negative ethical consequences. An example may be an immediate objective to create savings by rationalising the supply base - this may then result in smaller suppliers failing to be developed and a monopoly situation beginning to emerge.

Purchasing and supply management professionals should seek appropriate guidance, be open about concerns, and engage positively with suppliers and internal customers or peers, however difficult that may be. The resource implications of addressing these issues must be balanced against the potential risk to the reputation of the organisation and, in the public sector, the organisation's requirement to comply with the EC procurement rules.

Everyone involved in purchasing and supply management in an organisation should be aware of the organisation's ethical policy and be actively encouraged to embrace its principles.

Purchasing and supply management professionals have a responsibility for the supply chains from which goods, services and works come into their organisation or directly to their customers. Best practice purchasing and supply management includes developing and understanding suppliers' operations and offering guidance and support when improvement is necessary or appropriate. CIPS believes this should include ethical as well as commercial and technical guidance and support.

Encouraging suppliers to comply with an organisation's ethical policy can take place in parallel with the development of monitoring procedures, and may need to take place over a period of time, or be introduced in phases. Purchasing and supply management professionals should consider the effect on suppliers of compliance costs, and seek guidance about existing codes that may be applicable to their business so that new codes are not unnecessarily created. This may well require helping the organisation confront long-standing custom and practice which is of dubious ethical standing but which has the appearance of being a sectoral norm.

Transparency, Confidentiality and Fairness

The purchasing and supply management process should be as transparent as possible, within commercial and legal constraints. This means being open with all those involved so that everyone, especially suppliers, understands the elements of the process, that is, the procedures, timescales, expectations, requirements, criteria for selection and so on.

Suppliers' confidential information must not be disclosed to any third party or used in any way without the consent of the supplier. In particular, it must not be shared with

other suppliers. This is particularly important when an output-based specification is being developed. Although it is acceptable business practice to share ideas amongst suppliers in order to develop the most appropriate solution, suppliers' confidence should be respected. Everybody involved in purchasing and supply management should understand the implications of commercial confidentiality and it is the responsibility of the purchasing and supply management professional to reiterate this to colleagues at the start of each new project.

No relevant information should deliberately be withheld by either party (unless it has been obtained from another supplier in commercial confidence), nor should any misleading information be given.

In general, when a supplier asks for clarification during the procurement process the purchasing and supply management professional should give all suppliers involved the information requested. However, if a supplier asks an insightful question the answer should not be circulated to the other suppliers as to do so may remove the competitive advantage the supplier is seeking to provide. The purchasing and supply management professional is obliged to use best judgement in every case, seek advice if in doubt and act in an appropriate and professional manner.

Unsuccessful suppliers should be debriefed with as much transparency about the procurement process as can be provided, e.g. on the weaker aspects of their tender.

All suppliers should be treated fairly and even handedly at all stages of the procurement process. Suppliers who are known to have no prospect of winning the business

should not be invited to tender (unless there is an obligation to invite all suppliers who have expressed an interest in tendering, as in the case of the Open Procedure in the EC procurement rules). Unless they are aware of all the circumstances, suppliers should not be required or encouraged to undertake activities or incur costs when there is little chance of their obtaining business within a reasonable period.

Use of Power

Power is a key element in supply relationships. Purchasing and supply management professionals should understand how to use the purchasing power of their organisation appropriately. For instance, it is common practice to aggregate requirements as a means of leverage to secure greater value for money.

Purchasing and supply management professionals are responsible for determining the extent to which power should be used in relationships with suppliers. The exertion of undue influence or the abuse of power, as well as being unprofessional, may contravene relevant legislation and is unlikely to achieve long-term best value for money. Purchasing and supply management professionals should discourage the arbitrary or unfair use of purchasing power or influence.

Purchasing and supply management professionals should ensure compliance with all applicable legislation such as restraint of trade and anti-trust legislation, the Competition Act 1998 (in particular Chapter II, Abuse of Dominant Position), and the Treaty of Amsterdam (Articles 81 and 82, which address anti-competitive practices and abuse of dominant position).

Corruption

Purchasing and supply management professionals should seek to encourage the application of both the word and the intention of the CIPS Personal Ethical Code.

Purchasing and supply management professionals must not tolerate corruption in any form. CIPS believes that there is no excuse for corruption and it can never be blamed on naïveté, lack of professional knowledge or poor management. Purchasing and supply management professionals aware of any corrupt activity have a duty to the profession and to their employing organisations to alert their senior management.

Bribery is a criminal offence in the UK (and in most other countries).

CIPS fully supports the Organisation for Economic Co-operation and Development (OECD) convention on combating bribery of foreign public officials in international business transactions. In the UK, legislation now makes it a criminal offence for UK citizens to do this, thus outlawing practices common in some international markets for example facilitation payments.

Purchasing and supply management professionals have a responsibility to determine what is acceptable behaviour between suppliers and colleagues, irrespective of their role or status in the organisation and to influence policy makers to define standards.

Suppliers often liaise directly with end users and other internal customers. The purchasing and supply management professional should not necessarily discourage such liaison, indeed maintaining product development awareness amongst users may well make it essential, but should develop organisation-wide policies and educate colleagues about unacceptable or unethical relationships with suppliers.