



Business Ethics Briefing

PROCUREMENT & BUSINESS ETHICS

How can a business ensure that its procurement practices are in line with its core values? This IBE Briefing considers ethical issues relevant to procurement/purchasing. It provides guidance to those responsible for procurement, suggests examples of good practice and links to corporate purchasing policies.

Why is Ethical Procurement Practice Important?

There are compelling arguments for treating your suppliers fairly and for being concerned about the source of your supplies, whether from the UK or overseas.

First is the need for sustainable supplier relationships. Mutually beneficial terms, fair practice and trust should improve the reliability of your supplies.

Second is reputation risk. Good ethical practice can enhance the organisation's integrity and reputation. Would you feel comfortable if the press spoke to your suppliers about your relationship with them or about their own employment practices or operations?

Ethical Hotspots

Research by the IBE suggests that approaches to 'ethical procurement' often concentrate on supplier standards and practices rather than the organisation's own policies and practices. However, ethical issues arise mainly in the following areas of procurement practice and all three should be considered.

The selection of suppliers In addition to value for money, will you seek to further your corporate responsibility objectives through your purchasing activity and supplier relationships? For example, will ethical criteria be used to exclude or positively discriminate in favor of certain suppliers? Will you support initiatives that aim to increase the number of diverse (e.g. ethnic-minority owned, women-owned) businesses that supply goods and services to your organisation? You may wish to consider measures to ensure that small businesses are given fair consideration.

Procurement conduct This refers to the way your staff do business – the way procurement is carried out. Are they encouraged and supported to act with integrity and in line with your organisation's ethical values when establishing and maintaining supplier relationships. Do you insist that your suppliers' bills are paid on time, or that offers of gifts and hospitality are registered? How do you prevent conflicts of interest? If you are a large company, are you concerned to be judged as a fair customer of your small suppliers? Do you have policies on dependency, or on transparency regarding tendering, or on engagement when contract terms are not met, changed or are being wound down?

Your supplier's practice Are you clear about the extent of your organisation's responsibility down and across the supply chain? What do you expect of your suppliers? Do you impose social (eg labour rights, health and safety) and environmental standards on suppliers, seek to influence their policies and practices or offer them assistance?

How to Link Ethical Values and Procurement

Organisations usually express their core ethical values and responsibilities through an ethics policy. A code of ethics then sets out the way the organisation intends to conduct its business, including commitments to stakeholders and guidance for staff. In addition, a specific code or standard of ethics may cover issues not covered by law concerning a particular function - such as procurement.

Once commitments and expectations have been established, it will be important to ensure that they are met and continue to be appropriate. Procurement staff will need training, particularly in how to resolve dilemmas and competing priorities. Useful monitoring and due diligence tools include Supplier Engagement Forums and supplier questionnaires during tendering and at other stages of the relationship such as contract renewal.

... Doing business ethically

... makes for better business

Examples of Good Practice

- Be aware of ethical standards and good practice in your sector
- Identify how ethics is relevant to your business
- Formulate a transparent and clear procurement policy addressing ethical considerations and commitments
- Formulate clear supplier selection principles with regards to social, ethical and environmental criteria. They should be in line with your own code of ethics, and corporate responsibility and sustainability objectives.
- Introduce a code of conduct outlining how procurement staff are expected to behave in line with your organisation's ethical values
- Train procurement staff regarding the specific relevance of business ethics in their work and how they can obtain guidance when facing dilemmas
- Emphasise values of honesty and openness in the supplier relationship and the disadvantage of adversarial relationships
- Regularly enforce and monitor standards regarding gifts and entertainment
- Inform suppliers of changes in your organisation that might affect them
- Publish your performance targets and figures regarding paying bills on time
- Avoid contracting for more than 20% of a suppliers' business. Work with suppliers to reduce the risk of overdependence on you.
- Decide how far down your supply chain you need to impose your ethical standards and why
- Ask how you can be sure that your ethical commitments are being lived up to – for example, consider ethical audits of your supply chains and including ethical practice in staff performance reviews.

Finally, recognise the right of your suppliers to make money too!

Examples of Procurement/Supply Chain Policies

This Briefing and these links are available electronically on the IBE website.

Diageo's Supplier Standard: partnering with suppliers

<http://www.diageo.com/en-row/Investors/CorporateGovernance/CodesandPolicies/SupplierStandards/>

KPMG: Sustainable Procurement

<http://www.kpmg.co.uk/about/csr/procure/index.cfm>

Sony Ericsson: Supplier Social Responsibility Code

http://www.sonyericsson.com/spg.jsp?cc=global&lc=en&ver=4001&template=pc1_5_1&zone=pc&lm=pc1

Camelot: Supply Chain Engagement

<http://www.camelotgroup.co.uk/socialreport2005/supply-chain-engagement.htm>

Rolls Royce: Supplier Diversity

<http://www.rolls-royce.com/northamerica/supplier/default.htm>

Dell: Supplier Principles

http://www1.us.dell.com/content/topics/global.aspx/corp/sup_prince/en/index?c=us&l=en&s=corp

Central Office of Information

<http://www.coi.gov.uk/aboutcoi.php?page=64>

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Further sources:

- L.Spence (2006) *Ethics and UK Supplier Relationships*, IBE forthcoming.
- The Chartered Institute of Purchasing & Supply: www.cips.org.uk
- The Ethical Trading Initiative: www.ethicaltrade.org
- Office of Government Commerce: www.ogc.gov.uk