

Ethical Purchasing/Ethical Procurement



Ethical procurement doesn't always have to cost more. In fact, the current drive to create greater efficiencies in public spending may actually create more opportunities for it (Martin Cooke, ETI Deputy Director).



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Introduction

Ethics originates from philosophy and refers to common principles associated with appropriate and inappropriate actions, moral duty and behaviour. In a business context, ethics refers to the use of recognised social principles that involve justice and fairness throughout the business relationship and being ethical means following a behaviour perceived as fair by the business community and wider society. For example, being ethical means treating suppliers in a just, fair, honest and fitting manner and preferential treatment or personal buying can be considered unethical. Procurement functions are in control of large budgets, hence it is expected to behave ethically more often than other parts of the organisational group (Monczka et al., 2008).

There are three general rules of ethical behaviour: (1) buyers must act in the interests of their organisation, rather than personal enrichment and should not accept outside gifts or favours that violate their firm's ethics policy; (2) buyers must act ethically toward suppliers or potential suppliers by treating them professionally and with respect; (3) buyers must uphold ethical standards set out for their profession which are often formalised in the form of a code of conduct or statement communicated to employees and suppliers (Monczka et al., 2008).

Lately, there has been substantial interest in ethical supply chain issues: stakeholders question company records and business practices and society has developed high expectations in relation to corporate social responsibility and ethical manufacturing practices (CIPS: Ethical Business Practices in Purchasing and Supply Chain Management). Ethical purchasing and compliance of suppliers to labour and environmental regulations has become particularly important for global organisations in light of a number of recent scandals that have impacted many global companies including Apple, GAP, Next and M&S. In 2010, following an investigation by The Observer examining work regulation abuses by Indian suppliers where staff worked for up to 16 hours a day, some British high street names found themselves at the centre of a major sweatshop scandal (Chamberlain, 2010). Similarly, throughout 2011 and 2012 controversy swirled over working conditions at a Chinese plant that makes Apple Inc.'s iPhones and iPads (Blanchard, 2012).

Definition

'Ethics' in purchasing and supply management can relate to a wide range of issues from supplier business procedures and practices to corruption. The common areas relate to ethics and ethical behaviour in companies include fair-trade, ethical trading, ethical sourcing, social accountability, social auditing, corporate social responsibility, corporate citizenship, codes of conduct and reputation assurance (CIPS: Ethical Business Practices in Purchasing and Supply Chain Management).

Successful Application

It is important to establish consistent behaviour across the entire organisation and to create an atmosphere that supports the reporting of unethical behaviour. While there is a thin line between legal and ethical behaviour, managers need to develop a good understanding of purchasing law and have a good working knowledge of legal issues (Monczka et al., 2008).

Steps to Successful Application

- Map supplier, identify strategic suppliers.
- Identify specific high risks in the supply chain: e.g. risks associated with specific countries, human rights abuses or production processes.
- Conduct initial analysis of working conditions in supply chain: this can be done through supplier visits, questionnaires and investigation by NGOs.
- Research other companies in the sector.
- Consult with local and international experts (including NGOs).
- Construct ethical sourcing policy and identify for which issues it can take responsibility.
- Issue a public statement of intent/code of conduct that will help suppliers and the general public to understand your position.
- Begin implementing the policy.

CIPS: Ethical Purchasing Practices

Hints and Tips

- It is important to pursue a socially responsible differentiation strategy and promote the fact that products are ethically sourced: recent research findings suggest that consumers will pay a premium for ethically produced and sourced products as long as they are made aware of it (Trudel and Cotte, 2009).
- The company must train procurement staff regarding the specific relevance of business ethics in their work and how they can obtain guidance when facing dilemmas (Dando and Werner, 2006).
- Formulating a transparent and clear procurement policy addressing ethical considerations and commitments and clear supplier selection principles with regards to social, ethical and environmental criteria is very important (Dando and Werner, 2006).
- Sometimes it can be enough to select the most highly visible products, making them the 'flagship' ethically produced goods (Trudel and Cotte, 2009).
- The company should inform suppliers of changes that might affect them (Dando and Werner, 2006).

Potential Advantages

- Focus on ethical practices promotes a positive corporate image in society and helps build and maintain reputation (CIPS: Ethical Business Practices in Purchasing and Supply Chain Management).
- Consumers are willing to pay more for ethically produced goods than for those produced unethically. Therefore, there is a financial reward for socially responsible behaviour (Trudel and Cotte, 2009).
- Following the codes of conduct and ethical guidelines set by regulatory bodies, trade and professional associations can ensure greater compliance with legal and other obligations (CIPS: Ethical Business Practices in Purchasing and Supply Chain Management).

Potential Disadvantages

- There is a great variation of ethical standards and acceptable behaviour across countries due to cultural diversity and a single code of conduct cannot be applied universally (Wood, 1995).
- Ethical practices can impose extra costs on companies (Tallontire et al., 2001).
- Introducing codes of practice across the board is impractical and can be counter-productive in some business areas (CIPS: Ethical Purchasing Practices).

Case Studies

- Conservation International helped Starbucks to develop its buying and coffee growing guidelines, Coffee and Farmer Equity (C.A.F.E.) Practices, that address principles for ethical purchasing, supplier selection and environmentally-friendly growing practices. C.A.F.E. Practices focus on the following four areas: product quality, economic accountability/transparency, social responsibility (evaluated by third-party verifiers) and environmental leadership which is evaluated by third-party verifiers (Starbucks).
- A number of programmes have been recently initiated within British Telecom's (BT) Purchasing and Supply Management department. The aim of the programme is to demonstrate company values, promote BT business principles with its suppliers, protect and enhance BT's brand reputation, and assess and manage ethical and environmental risks and encourage diversity in BT's more than £5bln supply chain (CIPS: The Ethical Decision).
- Nestlé announced that it examines potential problems of forced child labour on cocoa farms in West Africa. The company does it on an industry-wide basis, in consultation with governments, labour organisations and Non-Governmental Organisations (NGOs), as well as with other members of the cocoa and chocolate industry. Factories are monitored for instances of child labour and suppliers who do not comply are rejected (Nestlé).

Further Reading/References

CIPS Source Downloads

- CIPS: Code of conduct
- CIPS: Ethical business practices in purchasing and supply management
- CIPS: Ethical purchasing practices
- CIPS: Ethical sourcing, organisations and brands
- ETI: Ethical trading initiative presentation
- Primark: Ethical Trade Programme
- CIPS: The ethical decision
- Traidcraft & CIPS: Win/Win. Achieving sustainable procurement with the developing world
- Traidcraft et.al.: Buying matters. Sourcing fairly from developing countries
- Traidcraft: Sourcing vegetables from developing countries
- CIPS: Promoting the Purchasing and Supply Management Function
- CIPS: A cynic's guide to sustainable procurement
- CIPS: Does PFI encourage or inhibit sustainable procurement?
- CIPS: Magic and logic. Re-defining sustainable business practices
- CIPS: Sustainable Procurement
- CIPS: The business case for sustainable procurement

Web Resources

- 2010 sweatshop scandal ://www.theguardian.com/world/2010/aug/08/gap-next-marks-spencer-sweatshops
- Ethical trade organisation and suppliers ://www.ethicaltrade.org/news-and-events/news/improving-buying-practices-benefit-business-workers
- Articles on ethical purchasing ://www.nextlevelpurchasing.com/articles/ethical-procurement.html
- Ethical trade and supplier roles http://www.naturalchoices.co.uk/Ethical-trade-champions-call-for?id_mot=10
- Guide to ethical buying from Ethical Consumer Magazine <http://www.ethicalconsumer.org/shoppingethically/topethicaltips/whybuyethically.aspx>

Books

- Taking the Temperature: Ethical Supply Chain Management, Louise Jamison & Hilary Murdoch, ISBN 978-0953951758
- The Supply Chain Imperative, Dale Neef, ISBN 978-0814407837
- Supply Chain Strategies, Tony Hines, ISBN 978-0750655514
- Fair Trade, Alex Nicholls m& Charlotte Opal, ISBN 978-1412901055
- Food Supply Chain Management, Jane Eastham, Liz Sharples & Stephen Ball, ISBN 978-0750647625

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Video

Lush cosmetics ethical buying

http://www.youtube.com/watch?v=05Z624WFRI0&feature=player_embedded

CIPS Group Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom
T +44 (0)1780 756777 F +44 (0)1780 751610 E info@cips.org

CIPS Africa Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E infosas@cips.org.za

CIPS Australasia Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E info@cipsa.com.au

CIPS Middle East & North Africa Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E mena.enquiries@cips.org



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