

Principles of Purchasing

Lecture 9

Ethical Issues in Purchasing

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Lecture Learning outcomes

At the end of the lecture, you will be able to:

1. Analyse common ethical pitfalls in procurement
2. Understand the strategies to promote ethical procurement practices
3. Describe the impact of unethical procurement practices on organisation procurement

Introduction

The term Procurement ethics discusses the principles and standards that guide the behaviour of individuals and organizations involved in the procurement process. It emphasizes fairness, transparency, integrity, and accountability in the acquisition of goods and services. Ethical procurement ensures that decisions are made objectively, without conflicts of interest or undue influence, and that suppliers are treated equitably.

Ethical Issues in Procurement Management

For many organizations, the process of procurement, or the purchase of goods and services, is the process that offers the most potential for ethical abuses or violations. Good procurement management practices should identify areas of potential ethics pitfall and address them ahead of time so procurement officer should know what practices to avoid.

a. Conflicts of Interest

In most organizations, the largest ethical issue in the procurement process is the potential for conflict of interest. Employees who purchase goods or services from individuals or companies with whom they have a personal or familial relationship leave the organization open to fraud at the worst or overpayment for the items or services procured at least. A good procurement management policy should outline what constitutes a conflict of interest, and forbid procurement where a conflict exists.

b. Kickbacks

Even when a conflict of interest is not evident, relationships between employees and vendors can result in ethical concerns during the procurement process if the employee is receiving kickbacks, either in the form of cash or gifts, from the vendor. A policy that forbids procurement officer from receiving gifts or other rewards from vendors can reduce the potential for this concern in the procurement process and protect the organization from receiving substandard goods or services due to kickbacks.

c. Discrimination

Discriminating against vendors for reasons of nationality or other factors not related to the quality of the product or service can create ethical concerns for private organizations, and legal problems for organizations that are wholly or partly financed by public money. Any policy, stated or unstated, that allows discrimination against vendors due to nationality, gender, race or other factor should be abolished, especially in organizations that rely on public funds, as state and federal laws often prohibit discrimination against vendors for these reasons.

c. Substandard of Products and Services

The procurement of products and/or services that are known to be unsafe untested or of substandard quality is perhaps the least addressed ethical concern when it comes to procurement management. However, the deliberate purchase of goods or services for use by employees or the public that have the potential for harm should be avoided at all costs, and not just because the result could be personal injury litigation. Procurement management should have policies forbidding the purchase of goods or services that raise safety concerns.

d. Confidentiality in purchasing

Handle confidential information belonging to the employers or supplier with due care and proper consideration of ethical and legal aspects

The purchasing staff should therefore avoid realizing information to other parties until assured that they understand and accept the responsibility of maintaining the confidentiality of the information

Examples of information that may be considered confidential

- i) Pricing and cost data

- ii) Bids or quotation
- iii) Designs information i.e. drawing blueprint.
- iv) Formulas and process information
- v) Personal information and customer lists
- vi) Computer software programs
- vii) Supply sources and supplier information

e. Conflict of interest

Procurement officers should also avoid any professional activities that will create a conflict between personal interest and the interest of the employer. Whenever a potential conflict of interest arises a purchasing professional should notify his supervisions

f. Treatment of suppliers

- Procurement officers should promote positive supplies relationship through courtesy and impartiality in all phases of the purchasing cycle.
- It is desirable to build long term relationship with suppliers based upon a history trust and respect. However, this should not cut of establishing similar relationship with potential or previously indented suppliers

g. Reciprocity

- The procurement officer should avoid any reciprocal agreement that retrains competition
- Transaction which favours a specific customer as a supplier or influence a supplier to become a customer constitute reciprocity.
- A company is said to be engaging in reciprocity when it deals with a supplier because of the customer relationship. A professional purchaser relationship must be able to recognize reciprocity and its ethical and legal implications.

Ethical practices in purchasing

1. Hospitality and business gifts

2. Procurement officers should renounce from soliciting or accepting money loans credit or prejudicial discount favors' or services from present or potential suppliers that might influence or appear to influence purchasing decision
3. Those in position to influence the purchasing process must be dedicated to the best in terms of their employers
4. They should avoid any activity which may diminish or appear to diminish the objectivity of the purchasing decision makers

Common policies on handling business gifts and hospitality

- Purchasing staff are forbidden to accept gifts of any kind and those received must be returned.
- Purchasing staff may retain gift that are clearly of advertising nature e.g. T-shirts pencil.
- Purchasing staff are allowed to decide for themselves whether a gift of hospitality is an appreciated of cordial business relationship or an attempt at commercial bribery

Factors to consider when receiving gift or offer of hospitality

- a. The motive of the donor i.e. whether the gift is taken or appreciated or a bribe
- b. The value of the gift or hospitality
- c. The type of nature of gift or hospitality
- d. The way the offer is made whether openly or secretly
- e. What tonic attached if any
- f. What impression the gift will make to the superior colleague's subordinates
- g. What would be the employer reaction if the matter was brought to his attention?
- h. Whether the buyer can honestly be satisfied that the gift will not interfere with the objective in dealing with suppliers.

ETHICAL ISSUES RELATING TO SUPPLIERS

These are the provision of practical help and advice, prompt payment, honest and openness, ethics and courtesy to supplier respective

i. Provision of practical help and advice

These can take such forms as

- Helping suppliers to procure their own supplies more effectively and economically

- Assistance in finding alternative customers to prevent too great a reliance on a single source
- Provision of feedback on unsuccessful tenders
- Collaboration on design and production
- Supplier development
- Placing a proportion of orders with a local suppliers, thus assisting the prosperity of the community in which the purchasing company is located

ii. Prompt payment

The company should help the suppliers maintain their cash flow by

- Paying invoices on time
- Ensuring that both finance and purchasing departments are aware of the companies' prompt payment policy and adhere to it
- Dealing with complains expeditiously as possible so that payment is not needlessly deferred

HOW TO DEAL WITH UNETHICAL PRACTICE IN PROCUREMENT

Once the procurement processes have been faced with ethical issues the following will be a clear guideline to know the problem.

- i) Identify possible causes
- ii) Identify possible effects
- iii) Identify components of procurement cycle
- iv) Identify how each component of procurement cycle could be corrupted
- v) Who corrupts who and when

The following are some of result of unethical practice in procurement

- ❖ Undermines development (funds intended for public utilities diverted to individuals)
- ❖ Increased costs of goods, works and services
- ❖ Supply of poor-quality goods
- ❖ Loss of integrity
- ❖ Reduced credibility
- ❖ Negative corporate image

- ❖ Low stakeholders confidence
- ❖ Reduced investment
- ❖ Stalled projects
- ❖ Poverty

How to prevent unethical practices

This can only be achieved by practicing the following.

- Simplify procurement laws and procedures hence improve efficiency
- Expose procurement by creating awareness e.g. through seminars, publish laws, rules
- Depersonalize procurement by rotating personnel
- Increase accountability
- Disclosure of gifts as contained in the code of regulations
- Improved ethical standard
- Disclosing of conflicts of interest
- Strengthen the bid review mechanism
- Automation of procurement processes
- Placing procurement unit in a strategic position in the organization structure

How to fight the corruption in procurement section

This will be achieved through Institute linkages by liaising with other anticorruption agencies.

Again the following can be done:-

- i) Change management
- ii) Regional cooperation
- iii) Professional development
- iv) Partnership
- v) Involve non-state actors
- vi) Benchmarking

For the best practice to be achieved in procurement the following needs to be done.

- i. Procurement professionals should have a code of ethics
- ii. There must be Amendment of the procurement act to cover all issues affecting the procurement issues
- iii. There must be public education on the corruption and its effects

- iv. There must be harmonization of the anti-corruption measures
- v. Inclusion of other stakeholders in procurement processes e.g. in evaluation
- vi. Make users, evaluation and tender committees culpable of their actions
- vii. Training on public procurement
- viii. Hiring of procurement experts for Investigation

Importance of ethics in purchasing

- Purchasing staff are the representation of their organization in dealing with suppliers.
- Sound ethics contract in dealing with suppliers is essential in creating long term relationship and establishment of partnerships.
- Purchasing staff are probably more exposed to the temptation to act unethically compared to other employees
- It is impossible to claim profession status for purchasing without reference to a consideration of its ethical aspects

Conclusion

In conclusion, procurement ethics are essential for maintaining integrity and fairness in the procurement process. By adhering to ethical principles such as transparency, impartiality, and accountability, organizations can avoid conflicts of interest and corrupt practices. Ensuring ethical behavior in procurement not only protects organizational reputation but also fosters trust with suppliers and stakeholders. Ultimately, ethical procurement practices contribute to long-term success and sustainability. Organizations must prioritize these values to achieve responsible and effective procurement management.

Revision questions

1. What are the key ethical principles that guide the procurement process?
2. How can conflicts of interest impact the integrity of procurement, and what measures can organizations take to avoid them?
3. Why is transparency important in supplier relationships, and how does it contribute to ethical procurement?
4. What are some common unethical practices in procurement, and what are their potential consequences for an organization?
5. How can organizations promote accountability and ensure adherence to procurement ethics within their teams and processes?