

# Ethical Business Practices in Purchasing and Supply Management



"The best and most successful organisations recognise that they will only prosper in the long term if they satisfy the aspirations of their stakeholders; including customers, suppliers, employees, local communities, investors, governments, public interest and environment groups. Source: The Institute of Social and Ethical Accountability



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### INTRODUCTION

*“The best and most successful organisations recognise that they will only prosper in the long term if they satisfy the aspirations of their stakeholders; including customers, suppliers, employees, local communities, investors, governments, public interest and environment groups. To satisfy this intense scrutiny and the demands for greater accountability in society, businesses and other organisations are increasingly recognising the need to measure, track and report on their social and ethical performance.”*

Source: The Institute of Social and Ethical Accountability

### BACKGROUND

The Chartered Institute of Purchasing & Supply (CIPS) has a Code of Conduct with which members undertake to comply. This Code sets out principles of:

- integrity
- professionalism
- high standards

Optimal use of resources and compliance with legal and other obligations and offers guidance in relation to:

- declaration of interest
- confidentiality and accuracy of information
- fair competition
- business gifts and hospitality and seeking advice

The Code is the basis of best conduct in the purchasing and supply profession and is reproduced as Appendix 1 to this document. The CIPS position on Ethical Business Practices in Purchasing and Supply Management (P&SM) expands on the principles in the Code and addresses business to business ethical issues and social responsibility issues within supply chains. It also takes into account issues that have arisen throughout business regarding social responsibility, personal accountability, corporate governance and so on, which have in turn been addressed in reports produced in recent years; Turnbull, Nolan and Higgs to name but a few. [CIPS Code of Conduct](#)

P&SM 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 but 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:

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

### AUDIENCE, OBJECTIVE AND SCOPE

The CIPS position on Ethical Business Practices in P&SM is intended primarily for purchasing and supply management professionals but it applies equally to anyone who has responsibility for managing the supply of goods or services from an external source. The purchasing and supply management professional has a responsibility to at least be aware, if not have a thorough understanding, of ethical issues in purchasing and supply management and to endeavour to address problem areas in a positive manner.

The objective of this practice document is to identify the major ethical issues in purchasing and supply management and to offer some guidance. However, its coverage cannot be exhaustive. Purchasing and supply management professionals work in a wide range of environments, and different industries and sectors will interpret these issues in different ways. Purchasing and supply management professionals should identify the values that are specific to their own employing organisation and its stakeholders in order to incorporate these into their policy on ethical purchasing and supply management.

Every organisation requires an ethical policy or code of conduct. CIPS believes that purchasing and supply management professionals should universally apply the practice set out in this document and should encourage their own organisations to include good ethical business practices in all areas of their work.

Purchasing and supply management professionals should also involve all stakeholders in this process. It is vital that an organisation's chief executive officer visibly endorses the organisation's ethical policy. This CIPS practice document provides a basis which purchasing and supply management professionals may find of use in initiating a change of culture within their employing organisation, where appropriate.

UK public sector purchasers are reminded that the Government's policy is that all public procurement of goods, services and works is to be based on value for money. Public sector purchasers also have to comply with the EC procurement rules.

CIPS has produced guidance notes to help purchasing and supply management professionals understand and address the issues covered in this practice document.

These guidance documents will continue to be updated or added to from time to time.

P&SM professionals are invited and encouraged to contribute to this process by providing comments or case study material.

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CIPS has also addressed additional social responsibility issues such as sourcing from countries with oppressive regimes or poor human rights records.

### **Business to Business Ethics**

The CIPS Code of Conduct is the starting point for business to business ethics. This section provides guidelines for P&SM professionals in dealing with business to business ethical issues in their supply chains.

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.

P&SM 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 P&SM 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 - but this may then result in smaller suppliers failing to be developed and a monopoly situation beginning to emerge.

P&SM 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. P&SM 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 P&SM 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 procurement 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.



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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 P&SM 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 equally 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 cost when there is little chance of their obtaining business within a reasonable period.

### Use of Power

#### Power is a key element in supply relationships

P&SM 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.

P&SM 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. P&SM professionals should discourage the arbitrary or unfair use of purchasing power or influence.

P&SM 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

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Dominant Position), and the Treaty of Amsterdam (Articles 81 and 82, which address anti-competitive practices and abuse of dominant position).

### **Corruption**

Practitioners should seek to encourage the application of both the word and the intention of the CIPS Code of Conduct and 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. They should also be 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) and you can find further information on this on our website.

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.

P&SM 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.

### **Declaring Interest**

P&SM professionals should encourage colleagues to declare any material personal interest which may affect, or be seen to affect, their impartiality or judgement in respect of their duties. Examples include owning a significant shareholding in a supplier or close family members being employed by a key supplier.

### **Business gifts, hospitality and undue influence**

Organisations should have a clear policy on accepting business gifts. Procurement professionals should encourage colleagues to comply with any such policy. CIPS believes that normally the only acceptable gifts are items of small intrinsic value, such as desk diaries.

Also, others involved in the supply chain should not accept hospitality which may be perceived as influencing their judgement or impartiality in any way. Hospitality accepted should never be excessive or frequent, should be managed openly and carefully, and be capable of being reciprocated. The same rules apply in relation to gifts or hospitality offered to close family members. It is generally unethical to accept travel or subsistence payments from suppliers during product familiarisation visits.

Acceptance of equipment, samples and demonstration models from suppliers without contractual protection can be dangerous eg. due to a lack of clarification on liability and

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indemnity. In particular, the ethical implications of appearing to accept these offers without full transparency can be damaging to both the buyer and the buying organisation.

Staff should not accept anything that their taxation authorities would consider to be a taxable benefit. Free issues from the buying organisation eg. of items for incorporation in rigs, products etc are, in most cases, acceptable business practice.

### **Payment of be an approved supplier**

P&SM professionals should not request payment from suppliers as a condition of being placed on an approved or preferred supplier list. Suppliers should be selected on the basis of meeting appropriate and fair criteria. See section on Supplier Imposition.

### **Payment towards joint projects**

P&SM professionals may invite suppliers to contribute towards the costs of joint projects or initiatives such as sector-wide supplier databases, marketing a new product range or investing in a new IT system, provided there are clear and tangible business benefits to the supplier.

This process should be undertaken carefully and fairly and must not discriminate against suppliers, for example small and medium-sized enterprises (SMEs). Suppliers should not be selected solely on the basis of their financial contribution.

### **Payment to agreed terms**

P&SM professionals should ensure that their suppliers understand and agree to the negotiated payment terms. Payment terms are the subject of EU legislation Late Payment of Commercial Debts (Interest) Act 1998. Late payment undermines the organisation's credibility.

Buying organisations should try to ensure that valid invoices are paid in accordance with the agreed terms and in the agreed way. P&SM professionals should work with colleagues to ensure that their employer's business processes enable payments to be made promptly. Any problem with an invoice should be addressed and resolved appropriately in order that the invoice can be processed.

### **Barter**

Barter is trade by exchange of goods or services for other goods or services. There is no exchange of money and, as barter is not usually a condition of contract between two parties, coercion is not an issue. Where is it appropriate, barter is acceptable business practice, provided both parties have a current business need for the goods/services of the other party.

### **Reciprocal Trading**

Reciprocal trading (countertrade) which makes being a customer of an organisation a condition for being a supplier is generally unacceptable business practice. CIPS has a separate position on practice document which details the CIPS view on this matter. In essence CIPS believes reciprocal trading to be only acceptable when:

- there is no coercion
- both parties are in agreement and
- there is mutual benefit and transparency

### Supplier relationships and competition

Most organisations purchase some commodities and services tactically, using short-term contracts, and others, for reasons of strategy, security or leverage, by means of longer-term arrangements. From time to time, longer-term agreements with suppliers should be subject to open and transparent competition:

- to provide new or alternative suppliers with an opportunity to win the business and
- to enable the buying organisation to access and obtain the best current market offering

### Supplier Mistakes

Supplier imposition is the situation in which a customer or end user stipulates that a particular supplier should be used. In many cases there is a valid reason for this. However, purchasing and supply management professionals should always challenge such a situation since it can lead to established internal business controls being ignored and the quest for the best value for money solution being compromised.

P&SM professionals should, through act or influence, only use or permit supplier imposition where there are transparent and objective reasons for it. An example is when there is only one supplier with the capability to ensure the required level of quality required by the customer, and where existing contractual relationships can be respected. There are sometimes cases where supplier imposition appears to have happened but in reality there has been a misunderstanding eg. where end users are asked to use framework contracts without fully appreciating the procurement process that was undertaken to create the contract.

P&SM professionals must ensure that the decision making process for appointing suppliers is visible and transparent.

### Supplier Mistakes

A mistake is a non-deliberate error. CIPS has a separate detailed position on practice on this subject, the essence of which is as follows:

*“P&SM professionals should adopt a professional and understanding approach to the supplier when a mistake is brought to light unless of course it becomes apparent that the mistake was not a mistake at all but a deliberate attempt to gain unfair advantage”.*

P&SM professionals should search for anything that looks odd or unusual in a supplier's offer and seek clarification prior to contract award. Mistakes identified post-contract award should be investigated impartially and ethically with a view to generating options for resolution.

### Size, Maturity and Location

It is good practice to balance the risk of awarding contracts to new or small suppliers with the opportunity of encouraging new business to flourish. It is not good practice to exclude suppliers simply because they are small or new to the market. Capability and experience are examples of relevant supplier selection criteria. P&SM professionals should consider the magnitude of business they award to a supplier, the impact on that supplier and the level of dependence that may be created. Serious consequences for the supplier can result if business is removed at a later date. It may, in certain circumstances, be wise to agree exit strategies during contract finalisation so that social and other factors can be taken into consideration.



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Purchasing and supply management professionals should, wherever possible, be aware of opportunities to support the local community and SMEs whilst maximising opportunities for global sourcing when this is appropriate.

### Social Responsibility

This CIPS position distils aspects of current developments in the area, including:

- the Ethical Trading Initiative (ETI) Base Code
- the Core Conventions of the International Labour Organisation (ILO)
- the UN Declaration on Human Rights
- SA8000 (a standard relating to social accountability developed by the Council on Economic Priorities accreditation Agency in New York - now known as Social Accountability International (SAI))

P&SM professionals should not assume, however, that compliance with the CIPS position necessarily implies compliance with any of the above codes or standards as there are some differences between them.

P&SM professionals should work with new and current suppliers to improve their status in respect of all aspects within this CIPS practice document.

The CIPS position on Social Responsibility Issues in P&SM is as follows. It forms a key part of the CIPS position on Ethical Business Practices in Purchasing and Supply Management.

#### Employment is chosen (no forced labour)

- Employees should be free to choose to work for the supplier, i.e. their employer
- Employees should be free to leave the supplier after reasonable notice is served
- Suppliers should not use forced, bonded or non-voluntary prison labour

#### Employment relationships

- Suppliers should establish recognised employment relationships with their employees that are in accordance with their national law and good practice
- Suppliers' employees should be provided with an easy to read contract of employment with particular clarity in relation to wage levels
- In the event that employees are unable to read, the contract of employment should be read and explained to them by a union representative or another appropriate third party
- Suppliers should not seek to avoid providing employees with their legal or contractual rights

#### Freedom of association

- Suppliers should not prevent or discourage employees from joining trade unions
- Suppliers' employees should be able to carry out reasonable representative functions in the workplace
- Suppliers should not discriminate against employees carrying out representative functions
- Where the law restricts freedom of association and collective bargaining, suppliers should facilitate alternative means of representation

#### Living wages are paid

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- Wages and benefits should at least meet industry benchmarks or national legal standards. As a minimum, the wages paid to suppliers' employees should meet their basic needs
- Suppliers should not make deductions from wages unless permitted by national law or with the permission (without duress) of the employee
- Suppliers should always pay in cash and not in kind, eg. goods, vouchers

### Suppliers' employees' working hours

- Working hours should comply with national laws or industry standards
- Suppliers' employees should not be expected to work more than 48 hours per week on a regular basis
- On average, suppliers' employees should be given one day off approximately every seven days
- Suppliers should not pressurise employees into working overtime; overtime should be voluntary and not be demanded on a regular basis; where overtime is requested by the employer it should be reimbursed at an appropriate rate and should not exceed 12 hours in any week

### Suppliers' treatment of employees

- Under no circumstances should suppliers abuse or intimidate, in any fashion, employees
- Any disciplinary measures should be recorded
- Suppliers should have a grievance/appeal procedure that is clear, easy to understand and should be given to the employee in writing
- In the event that suppliers' employees are unable to read, the grievance/appeal procedure should be read and explained to them by a union representative or another appropriate third party

### Law

- Suppliers should always work within the laws of their country

### Health and safety

- Suppliers should assign responsibility for health and safety to a senior management representative
- Suppliers should have appropriate health and safety policies and procedures and these should be demonstrable in the workplace
- Suppliers' employees should be trained in health and safety policy and procedures
- Suppliers should monitor compliance with health and safety policy
- Suppliers should provide employees (at the supplier's expense) with any necessary health and safety equipment, e.g. gloves, masks, helmets
- Working conditions should be comfortable and hygienic
- Suppliers should identify specific hazards, eg. substances or equipment, and should implement processes to minimise risk
- Suppliers' employees should have access to clean toilets
- Suppliers' employees should have regular breaks and have access to water suitable for drinking and washing as a minimum

### Child labour

In principle, CIPS is against the use of child labour and believes its long-term elimination is ultimately in the best interests of children. However, the elimination of child labour must always be undertaken in a manner consistent with the best interests of the children

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concerned. Purchasing and supply management professionals should seek to ensure that their organisation's suppliers comply with the following:

- Suppliers shall develop or participate in and contribute to policies and programmes which provide for the transition of any child found to be performing child labour to enable her or him to attend and remain in quality education until no longer a child.
- Suppliers shall not employ children and young persons under 18 at night or in hazardous condition
- In any event the course of action taken shall be in the best interest of the child, conform to the provisions of ILO Convention 138 and be consistent with the United Nation's Convention on the Rights of the Child

In this context, 'child' refers to any persons less than 15 years of age, unless local legislation on the minimum age stipulates a higher age for work or mandatory schooling, in which case the higher age shall apply 'Young person' refers to any worker over the age of a child, as defined above, under the age of 18

### Discrimination

- Suppliers should have a policy of equality for all in the workplace with no discrimination on the basis of race, caste, religion, nationality, age, gender, marital status, sexual orientation, disability, union membership or political affiliation.

## **Appendix**

### **CIPS Code of Conduct**

Your commitment to the profession

#### **Introduction**

The purpose of this code of conduct is to define behaviours and actions which CIPS members must commit to maintain as long as they are members of CIPS.

#### **Use of the code**

Members of CIPS worldwide are required to uphold this code and to seek commitment to it by all the parties they engage with in their professional practice.

Members should encourage their organisation to adopt an ethical procurement and supply policy based on the principles of this code and raise any matter of concern relating to business ethics at an appropriate level within their organisation.

Members' conduct will be judged against the code and any breach may lead to action under the disciplinary rules set out in the Institute's Royal Charter. Members are expected to assist any investigation by CIPS in the event of a complaint being made against them.

#### **As a member of The Chartered Institute of Purchasing & Supply, I will:**

##### **Enhance and protect the standing of the profession, by:**

- never engaging in conduct, either professional or personal, which would bring the profession or the Chartered Institute of Purchasing & Supply into disrepute
- not accepting inducements or gifts (other than any declared gifts of nominal value which have been sanctioned by my employer)
- not allowing offers of hospitality or those with vested interests to influence, or be perceived to influence, my business decisions
- being aware that my behaviour outside my professional life may have an effect on how I am perceived as a professional.

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##### **Maintain the highest standard of integrity in all business relationships, by:**

- rejecting any business practice which might reasonably be deemed improper
- never using my authority or position for my own financial gain
- declaring to my line manager any personal interest that might affect, or be seen by others to affect, my impartiality in decision making
- ensuring that the information I give in the course of my work is accurate and not misleading
- never breaching the confidentiality of information I receive in a professional capacity
- striving for genuine, fair and transparent competition
- being truthful about my skills, experience and qualifications.

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### **Promote the eradication of unethical business practices, by:**

- fostering awareness of human rights, fraud and corruption issues in all my business relationships
- responsibly managing any business relationships where unethical practices may come to light, and taking appropriate action to report and remedy them
- undertaking due diligence on appropriate supplier relationships in relation to forced labour (modern slavery) and other human rights abuses, fraud and corruption
- continually developing my knowledge of forced labour (modern slavery), human rights, fraud and corruption issues, and applying this in my professional life

### **Enhance the proficiency and stature of the profession, by:**

- continually developing and applying knowledge to increase my personal skills and those of the organisation I work for
- fostering the highest standards of professional competence amongst those for whom I am responsible
- optimising the responsible use of resources which I have influence over for the benefit of my organisation

### **Ensure full compliance with laws and regulations, by:**

- adhering to the laws of countries in which I practise, and in countries where there is no relevant law in place I will apply the standards inherent in this Code
- fulfilling agreed contractual obligations
- following CIPS guidance on professional practice

**The new code was approved by the CIPS Global Board of Trustees in September 2013**



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