Case Discussion: Purchasing Ethics

The four ethics scenarios in this case highlight various moral and ethical dilemmas that buyers may encounter. Ethics play an important role within the purchasing profession. This is due partly to purchasing's authority to control and award large dollar contracts. The temptation for ethical abuses by the buyer or seller, unfortunately, is always present.

Ethics are the set of moral principles guiding our behavior. In a business setting, ethical behavior is the use of recognized social principles involving justice and fairness throughout our business relationships. Ethics have their basis in the field of philosophy, and identify common principles associated with appropriate versus inappropriate actions, moral duty, and obligation.

Purchasing professionals have an ethical responsibility to many groups:

- To the firm for which they work
- To fellow purchasing professionals
- To employees
- To customers and shareholders
- To the community and others in society

When confronting a situation or considering a behavior that may involve ethical issues, several general criteria should govern our judgment and actions:

- Would this behavior or action be acceptable to people and other purchasing professional whom I respect? (This assumes the purchasing professional respects ethical people)
- What are the consequences of this behavior for myself, other employees, customers, and society?
- Does this behavior conform to my company’s established ethical standards?
- Is the behavior illegal?
- Does the behavior conform to my profession’s established ethical standards?
- Will I be proud of my action or behavior?

Because purchasing is a profession, purchasers should follow the professional standards of ethical purchasing behavior. A purchaser must commit his or her energies toward the organization’s benefit rather than personal enrichment at the expense of the organization. A professional purchaser must also act ethically toward suppliers or potential suppliers, treating each professionally and with respect. Finally, a purchaser must uphold the ethical standards set forth by the ISM code of ethics.

A purchaser who practices unethical behavior exposes him or herself to various types of risk. Some unethical behavior is also illegal. (We can assume that illegal behavior is also unethical). Illegal behavior can lead to fines and/or imprisonment. Unethical behavior can also tarnish an
individual’s professional reputation. This can result in discharge and difficulty finding future employment. Unethical behavior also jeopardizes the integrity of a purchaser’s entire firm. Purchasers have the authority to act as the legal agent of a firm. As such, they must be careful in their business dealings.

Scenario 1 Discussion

1. What should Bryan do about the clock?

Bryan must determine if accepting this clock violates his personal ethics and moral judgment. Remember, even if Bryan feels he is entitled to keep the clock, he may still be violating company policy or professional codes of conduct. He must determine if his company has a policy on accepting presents or favors from suppliers. If his company prohibits accepting presents such as this clock, then Bryan is at personal risk if accepts the supplier’s favor. Bryan should also notify his manager of this situation. This shows that Bryan is being open and honest about this situation and it also allow Bryan’s manager to provide guidance. In all likelihood, Bryan should return this clock to the supplier.

2. What does the ISM Code of Ethics say about accepting supplier favors and gifts?

The ISM Code of Ethics is clear about accepting gifts from suppliers. The ISM Standards of Conduct states:

“Nothing can undermine respect for the purchasing profession more than improper action on the part of its members with regard to gifts, gratuities, or favors. People engaged in purchasing should not accept from any supplier or prospective supplier any money, gift, or favor that might influence, or suspected of influencing their buying decisions. We must decline to accept or must return any such gift or favor offered us or members of our immediate family. The declination of these gifts of favors must be done discreetly and courteously. Possible embarrassment resulting from refusals does not constitute a basis for exception.”

If Bryan chooses to consult the ISM Code for guidance, then he must clearly, and politely, return the clock.

3. Why do you think the supplier sent the clock to Bryan’s home and to his wife?

This salesperson is clearly trying to influence Bryan’s future purchase decisions. The salesperson would probably maintain, however, that he was merely trying to establish a relationship with Bryan. Mr. McEnroe’s company does not have a contract with Bryan’s company, so assuming he is trying to influence Bryan’s purchase decision is safe.

Interestingly, many companies with strict codes that buyers must follow are often not as strict when it comes to the marketing side of their business.
Buyers should base purchase decisions based on sound business fundamentals or else place the performance of an entire firm at risk. Suppliers who must give gifts and favors to win business probably cannot deliver world-class cost, quality, and delivery performance. If the supplier excelled in the performance areas that are critical to the buyer, then gift giving would be a non issue.

4. Does the mere act of sending the clock to Bryan mean that Mr. McEnroe is an unethical salesperson?

Mr. McEnroe did not commit an illegal act, so giving the clock is not unethical from that perspective. He may work for a company where this is a commonly expected practice among salespeople. If this is the case, Mr. McEnroe was merely exhibiting behavior expected of him by his company. However, if his company prohibits this type of marketing, then he was acting unethically.

Scenario 2 Discussion

1. The buyer at Sealgood, Troy Smyrna, is practicing a certain type of unethical behavior. What is the term for this behavior? Why is it considered unethical?

Troy, the buyer at Sealgood, wants Assurance to remove a competitor’s equipment as a condition of awarding a purchase contract. *Reciprocity* is the practice of linking contracts together. This deals with giving preferential treatment to suppliers who are also customers of the buying organization. It refers to a purchasing arrangement that dictates that “I buy from you if you buy from me.”

The practice is unethical for several reasons. First, and foremost, the Federal Trade Commission has ruled it illegal “to abusively use large buying power to restrict competitive market opportunities.” Reciprocity can easily take on a coercive nature, particularly when large firms force reciprocal agreements onto smaller firms. This practice can also undermine the moral of buyers, since buyers must select suppliers based on factors other than performance.

2. What should Lisa do in this situation? Formulate a response.

Lisa should make it clear that this contract has nothing to do with using a competitor’s equipment or replacing it with Sealgood’s equipment. The buyer should award this contract based on performance merits only with no reciprocal contingencies attached. She should invite a Sealgood representative to contact the appropriate equipment buyer at Assurance if Sealgood is interested in competing for a future equipment contract. Next, Lisa should inform her executive management of this situation. Lisa must make it clear that an ethical, and possibly illegal, violation is occurring. The executive management at Assurance may want to discuss this directly with the executive management at Sealgood.

Scenario 3 Discussion

1. Is Ben Gibson acting legally? Is he acting ethically? Why or why not?
When companies legitimately cannot estimate the cost of a purchased item, or are concerned they are paying too much given the condition of a market, they sometimes perform a *market test*. This involves rebidding an item in an attempt to let the competitive market identify the most efficient producer. For some items, this is a sound business practice.

In this scenario, rebidding the box contract is due to Ben’s attitude more than by legitimate business concerns. He does not like the salesperson, he feels the supplier is taking advantage of him, and he is going to teach Southeastern Corrugated a lesson.

Ben is not acting illegally. However, he and Jeff are likely acting unethically. They plan to include suppliers in the bid process who do not have a legitimate chance of winning Coastal’s business. This is a tactical ploy to drive down the quotation from Southeastern.

Specifically, the behavior exhibited by Coastal managers is a form of *sharp practice*. A sharp practice is any misrepresentation by a buyer that falls short of actual fraud. Sharp practices occur whenever a buyer uses his or her position to “play games” with a supplier and operate underhandedly. Examples of sharp practices include (1) willful use of misinformation, (2) exaggerating problems, (3) requesting bids from unqualified suppliers, (4) gaining information unfairly, (5) sharing information on confidential competitive quotations, (6) not compensating a supplier for work performed, (7) taking unfair advantage of a supplier's financial situation, and (8) lying or misleading a supplier.

2. What should Southeastern do when they receive the request for quotation from Coastal?

If Southeastern wants to maintain Coastal’s business, they should respond, in good faith, with a competitive bid. This company should assume that losing this business is a real possibility given the attitude the manager at Coastal has concerning Southeastern. Clearly, these companies do not have a good working relationship. Part of this could be a legitimate reaction to the bragging of the Southeastern salesperson. Coastal may have been paying too much for boxes and has now reached this conclusion.

(Instructors’ note: This scenario is based on a true incident. The purchaser requested bids on the boxes, including bids from “new” suppliers, to get a lower price. The existing supplier, Southeastern, came in with a new, dramatically lower price. This price allowed Southeastern to maintain the purchase contract. Relations between the companies, and the individuals representing those companies, did not improve. When the manager at Coastal first informed the salesperson at Southeastern that Coastal expected reduced pricing in the new contract, the salesperson replied that this “will probably cost him his daughter’s summer trip to Spain.” Things went downhill from there.)
Scenario 4 Discussion

1. What does the ISM Code of Ethics say about financial conflicts of interest?

The ISM Standard of Conduct is explicit about financial conflicts of interest.

“Our conduct must necessarily be subject to more restrictions and to higher standards, not only on the job, but in our outside activities as well. We should not be involved in purchasing transactions with any companies that we, our families or relatives, are owners or have a substantial financial interest. We should not engage in business and professional activities where we might derive a financial profit or other benefits resulting from our employment as a buyer.”

While this is explicit about financial conflicts of interest, Dave Cox does not seem too concerned about this issue. He is clearly trying to steer a purchase contract toward a firm where a relative has a significant financial interest. This is not acceptable behavior.

2. Of the four variables affecting a buyer’s ethical perspective, at least three suggest that Dave’s behavior is not ethical. First, the U.S. business culture does not endorse profiting from financial conflicts of interest. Our society does not support insider trading, monopolies, reciprocity, or any other unfair business practice. Business should occur based on the merits of the participants. Second, there likely is no common practice within industry to support this behavior.

A third variable in the ethical model is the organizational environment. While we do not know for sure, this company likely has a policy covering financial conflicts of interest. Even if Dave does not benefit directly by this contract, a relative of his will benefit. Often, buyers face issues where a gray area exists concerning the appropriate behavior. Examining these reveals that Dave’s behavior is clearly wrong and self-serving. Sharon must not award the contract to Micron.

Regarding Sharon personal experience, Dave’s actions trouble her. Her personal moral and ethical beliefs probably do not endorse awarding the contract on anything other than merit. Her personal beliefs are key to her behavior, however. Even if the other three variables that affect her ethical perspective suggest that financial conflicts of interest are wrong, she might award the contract to Micron if she has a similar set of morals as Ben.

3. What should Sharon do in this situation?

Sharon should discuss this situation with Dave on a professional level. She should explain her business reasons for her choice of supplier. If Dave insists that Sharon award the contract to Micron, then she should ask that a higher level of management help resolve this issue. It is unlikely that higher levels of management would endorse Dave’s financial conflict of interest.

If Sharon supports Dave, then she is a party to this unethical behavior. Assuming that Micron is not the best supplier for this contract, then awarding this contract to
Micron diminishes the ability of Visionex to satisfy its customers. This places the success of Visionex at risk. Sharon is a new buyer. She must stand firm in her ground and demand that Dave justify his choice of supplier on business fundamentals. Obviously, this places her at risk because she is dealing with an individual who displays a low level of moral behavior. Recall that Sharon is replacing a buyer who failed to endorse one of Dave’s “preferred” suppliers. If she awards the contract to Micron, then she should expect Dave to offer his “advice” on future purchase contracts.