

Supplier Relationships in the UK

Business ethics and procurement practice

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Executive Summary

Summary

This report concentrates on the ethics of supply chain relationships in the United Kingdom. To date global labour standards have been the focus of concern, but problems and challenges exist much closer to home. This is important for many reasons, including the advantages which good customer-supplier relationships can bring and the potential multiplier effect of fostering good practice in the supply chain. **A particular focus of this report is the issue of fairness in working with small and medium sized suppliers.** The report is valuable for purchasing and supply managers, supplier companies, corporate responsibility managers and academic researchers.

Drawing on existing research and over 25 interviews, two broad categories of ethical issues were identified.

The *first* concerns the nature of the relationships between customers and suppliers in fulfilling a procurement objective. The ethical issues include: power, partnership and integration of the supply chain; negotiation of the terms of engagement and payment; honesty, openness and trust in supply relationships; supplier selection and delisting (enabling supplier diversity in terms of small and medium sized enterprises) and supplier reliability.

The *second* category is a more common focus when supply chain ethics are considered: issues of extended customer responsibility and supplier operational practices. Here the legitimacy of extended responsibility and its appropriate scope are considered. The advantages of moving towards engagement with suppliers rather than customers monitoring and auditing them are discussed.

Good practice examples are used to illustrate what can be done. These include Camelot (operator of the National Lottery), Waitrose (food retailing), and Toyota (the automotive manufacturing industry). Camelot make significant efforts to encourage a partnership approach with suppliers, characterised by open and honest dialogue. Waitrose have a particularly robust responsible sourcing policy which they apply widely in the business and which is in keeping with the organisation's traditional long-term view approach. They also have a good programme in place to attract high quality small local producers. Toyota operates in a fiercely competitive and aggressive industry characterised by adversarial customer-supplier relationships. Nevertheless, they have a reputation for fairness among suppliers and prosper financially from their strong, long-term relationships.

A set of good practice guidelines are suggested for customers seeking to improve their supplier relationships. These include the development of a clear responsible sourcing policy with accompanying training for all those involved in the procurement process. This needs to be done as part of an organisational and senior management (including Head of Procurement) commitment to corporate responsibility. Selection processes should ensure equal access to opportunities for a variety of organisations, including small and medium sized enterprises. Rather than cost-reduction alone, openness and honesty in relationships with suppliers might be built into the reward system for procurement officers. Established standards and guidelines on fair payment to suppliers are a prerequisite for good relations.

Small and medium sized enterprises benefit from seeking to understand their customers and work with them to achieve their goals, being open and honest about their own targets. Suppliers would be wise to make sure that they are familiar with any relevant legislation and guidance intended to support and protect them, such as the Better Payment Practices Campaign and the Small Business Journey.