**CHAPTER 6 - SUSTAINABLE PURCHASING AND SUPPLY MANAGEMENT**

**THE ROLE OF PURCHASING AND SUPPLY MANAGEMENT IN CORPORATE GOVERNANCE**

Mounting corporate scandals and accounting misdeeds worldwide have given rise to new laws and regulations globally. In South Africa the King Reports (I,II,III) compel business organisations to act and report responsibly and to take precautionary measures to insure the financial well being of the organisation and the protection of the interests of all stakeholders.

King III points out that the economic value of a company can no longer be based on the balance sheet alone but it can be impacted by a range of non-financial issues; for example: Brand and reputation, stakeholder relationships and good-will, an evolving and forward-looking strategy, environmental sustainability, social responsibility and quality of governance.

Purchasing and Supply Management is the largest spender of an organisations funds so this has certain implications on the business. To comply with governance measures, purchasing and supply personnel not only have to act ethically and lawfully, they also have to ensure that the most beneficial value package is obtained with every purchasing transaction.

Purchasing and supply personnel must always:

1. Act professionally in the interests of the organisation and the stakeholders they represent

2. Be fair and honest in the awarding of contracts

3. Have an intimate knowledge of the products/service they purchase, the supply market and the market conditions

4. Keep up to date with the newest developments in the purchasing and supply field

**THE SOCIAL RESPONSIBILITIES OF PURCHASING AND SUPPLY MANAGEMENT**

Corporate Social Responsibility (CSR) can be viewed as the organisation's consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the organisation.

Purchasing and Supply Social Responsibilities (PSSR), can be defined as meeting the discretionary responsibilities expected by society. This definition encompasses the activities relating to:

1. Community

2. Diversity

3. Environment

4. Ethics

5. Financial Responsibility

6. Human rights

7. Safety

**UNETHICAL CONDUCT IN PURCHASING AND SUPPLY MANAGEMENT**

Unethical conduct is the act of enriching oneself or gaining personal favours for granting a contract, or giving preferential treatment to to a specific supplier. Personal favours include gifts, money in the form of kickbacks and even bribes.

There are subtle areas in which the purchaser can consciously or unconsciously act unethically:

1. A purchaser may put his own interests before those of his employer. Example: Is the purposeful awarding of a contract to a family member, friends and/or people with political influence.

2. A purchaser may be unethical on their part, if they do not report a colleagues or superior's unethical conduct.

3. If a purchaser places orders for himself/herself, friends and colleagues in the enterprises name in order to obtain products at a much lower price, this is a misuse of power.

4. Withholding information from a supplier may be unethical if the supplier's position is harmed in competing for a transaction.

5. Information on suppliers obtained from written quotations, tenders or sales representatives should be treated confidentially.

6. The setting of specifications by the users of the items or by the purchasers to suit one specific supplier, there by cutting out competition, is unethical.

7. Disclosure of confidential information on the purchaser's own organisation can damage the organisations financial and competitive position.

**THE ROLE OF PURCHASING AND SUPPLY MANAGEMENT IN ETHICAL CONDUCT IN THE SUPPLY CHAIN**

Businesspeople, space managers and individuals are not as concerned about ethical conduct in any other area or function of the enterprise as much as they are in purchasing and supply. The reasons for this are as follows:

1. Purchasers have more power over large sums of money.

2. Purchasers probably have the greatest say in terms of which supplier will receive an order.

3.On account of the two previously mentioned factors, a purchaser, more than any other employee, could be exposed to unethical temptations.

4.Unethical action by purchasers influence relations with suppliers.

5.Temptations influence a purchaser's objectivity and rational thinking.

**AREAS WHERE PURCHASING AND SUPPLY CHAIN MANAGEMENT CAN MAKE A CONTRIBUTION TO ENVIRONMENTAL AND SUSTAINABILITY**

Environmental or green purchasing is the integration of environmental considerations into purchasing policies, programmes and actions.

Purchasing can contribute to environmental performance in a number of ways:

1.Buying packaging materials that can be more easily recycled or re-used.

2.Participating in the design stage and suggesting alternative sources of supply.

3.Asking upstream members of the supply chain to commit to waste- reduction goals.

4.Using early supply design involvement

5.Selecting suppliers based on environmental criteria

6.Evaluating supplier environmental performance.

**RISKS INHERENT IN PURCHASING AND SUPPLY MANAGEMENT**

**Speculative purchasing and supply management risks**

These risks are risks that offer a chance of gain or loss. These can be Core business risks or incidental business risks.

Core business risks in purchasing and supply

Core business risks include all the activities, decisions and events which impact directly on the operating profit of an organisation.

Incidental business risks in purchasing and supply

Incidental risks are those risks which arise naturally from the activities of a business.

1. Interest rate risk

2. Liquidity risk

3. Currency (foreign exchange) risk

**Event risks impacting on purchasing and supply**

Event risks include only the possibility of loss with no chance of gain.

There are various risk categories under Event risks:

External downside risks

1. External suppliers that do not keep to agreed delivery dates

2. Physical security risks at warehouses where supplies are stored

3. Litigation risks pertaining to purchasing and supply contracts

4. Natural disasters delaying the delivery of purchased goods

5. Labour action risks leading to non-compliance of suppliers

6. Government regulations pertaining to purchasing and/or materials.

Operational risks impacting on purchasing and supply management

Operational risk is the exposure of an organisation to losses resulting from internal failures or short comings of people, processes and systems.

1. **People** - There is always a human factor in purchasing and supply activity.

Ex:

Inexperienced, incompetent, unsuitable staff

Human Error

Low morale, high staff turnover, poor concentration, low productivity

Unethical conduct and theft

Unauthorised or ill-informed decisions made on all levels

The inability to work as a team

2. **Processes** - Process risk is the risk of the purchasing and supply processes being insufficient and causing inefficiency and unexpected losses.

3. **Systems**- Systems risks are those resulting from system failures and are therefore primarily based upon the dependency of purchasing and supply on technology.

Ex:

System failures

Security breaches

Implementation failure

Insufficient systems capacity

Poor data integrity

**PURCHASING AND SUPPLY MANAGEMENT RISKS**

* Wrong or inadequate specifications
* Requisitions received late
* Internal and/or external fraud
* Lack of suppliers
* Pricing
* Quality
* Continued availability
* Quantities and lead times
* Technological changes
* Agreed procedures for inspections and returns to supplier
* Internal errors
* Information systems and processes
* Disasters

**STRATEGIES TO DEAL WITH OR ELIMINATE PURCHASING AND SUPPLY RISKS**

There are two specific techniques to manage supply risk proactively:

Behaviour-based management techniques,

and buffer-orientated techniques

**Behaviour-based management techniques**

This addresses the supplier processes rather then simply the outcomes. Suppliers are evaluated on their behaviours, which then have an effect on outcomes.

The following management techniques serve to align the goals of the suppliers with those of the purchasing organsation:

* Supplier certification
* Implementation of quality management programmes
* Target coasting
* Supplier development

**Buffer-orientated techniques**

Buffers are outcome-based ways of dealing with risk. Purchasing organisations use buffers to reduce the detrimental effects of supply risk events rather than reducing the likelihood of a detrimental event.

This can be done with the following techniques:

* Internal buffer inventory
* Supplier inventory
* Multiple sourcing

**Contingency plans**

It is important for purchasing organisations to establish contingency plans which could be activated if unexpected supplier and inventory risks are experienced.

Step 1: Define critical materials and services

Step 2: Identify critical materials and services and their suppliers

Step 3: Perform a risk assessment of the identified suppliers

Step 4: Develop the contingency plan

Step 5: Put the contingency plan in place