

## Conference Paper

# Ethics in Procurement: A Case Study in a Logistic Company

Nor Rokiah Hanum Md. Haron and Iman Haddad Qaisara Dhia Mohd Mahzan

Faculty of Industrial Management, Universiti Malaysia Pahang, Lebuhraya Tun Razak, 26300 Gambang, Pahang, Malaysia

## Abstract

This paper is part of a preliminary study for the awareness of ethical behaviors in procurement process specifically in a logistic company in Malaysia. Ethic is a critical behavior in a business transaction where most of the people misconduct the behavior unintentionally. The objective of this preliminary study is to get an insight view of a logistic case company, where it is found that ethics is being implemented in the daily procurement process. A structured interview question with various research of past problems concerning ethical behavior addresses the responsiveness of employees behaving ethically by following the ethical guidelines set by the company. This paper proposes that the company need to emphasize the importance of implementation of ethics and also create more awareness by having an official ethical guidelines of the company, despite the fact that the company is small and has a small number of employees. The company has gained many benefits such as cost reduction and maintaining a company-supplier relationship through the implementation of ethics in procurement.

**Keywords:** ethics, procurement, survey.

Corresponding Author:

Nor Rokiah Hanum Md. Haron  
rokiahhanum@ump.edu.my

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## 1. Introduction

In this globalized world, many companies or organizations have finally realized the importance of portraying ethical behaviors in business practices, and it is becoming increasingly difficult to ignore the unethical behaviors of employees in an organization because of the scandals that have arisen previously due to ethical issues in business practices. As a result, these scandals have given a great shock and impact to the whole world, such as the Enron Scandal. Besides that, Enron Corp., which is one of America's largest company deteriorates after the scandal. There is also a new law regulated to prevent such misfortune from happening again in the future, which is the Sarbanes-Oxley Act (Segal, 2019). Thus, it is certain that the ethical behavior of employees and managers is important in ensuring the success of the organization.

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In recent years, companies are eventually aware of the importance of implementing ethical behavior in procurement. However, some companies are still unaware of the importance of ethics and its benefits in procurement. Therefore, in ensuring that companies can implement ethical practices in procurement, the employees and managers must follow the company rules and regulations first besides having high integrity in the workplace. Law-abiding workers will give advantages to the organizations because they are working in an environment which priorities integrity and honesty. Hence, increasing the productivity of a company. By acting ethically, a company can also increase its competitive advantage (Schulze et al., 2014) because they are trusted by the customers, suppliers, and other stakeholders.

Nevertheless, the question is, why do the employees or managers portray ethical practices? Is it because of individual awareness or because they are influenced by the organization culture? Also, if they do behave ethically, is it benefiting the organizations? So far there has been little discussion about implementation of ethical behaviors in procurement in Malaysia because some companies refuse to disclose any information regarding ethics and procurement since they consider that it is a sensitive issue for them. Therefore, this paper will focus on the ethical behaviors implemented in a logistic company and their procurement process in Malaysia.

## 1.1. Research Objectives

The first objective of this paper is to determine the motivation a company implement ethical behaviour in procurement. Implementing ethical behaviours in the procurement process can be because of many reasons. For example, a company implements ethical behaviours in the procurement process because they want to avoid getting involved in any financial or accounting scandals that can ruin the company image. An organisation may also implement ethics in procurement because the leaders have nurtured the importance of portraying ethical behaviours into the organisation's culture. As a result, the people in the organisation are aware that they are not allowed to behave unethically during the procurement process, such as accepting gifts or bribery from the suppliers or business partners. Besides that, the rules or regulations or awareness campaigns made by the government or non-government organisation may be the reason a company implements ethics in procurement. When a company or any individuals in the company commit a white-collar crime, they can be punished by the law according to the severity of their crimes. Therefore, the awareness campaign is vital in order to promote the importance of promoting ethical behaviours in the procurement process.

The second objective of this paper is to determine the methodology used by a company in order to implement ethical behaviours in procurement. Whether they follow the rules or regulations made by the government or they create a new set of rules based on the rules and regulations made by the government. Either way, an organization follows the rules and regulations or any procedures regarding ethical behaviours in procurement in order to avoid themselves from getting caught in any bribery scandals. Without rules and regulations, which is a medium to define how an individual should act, society cannot survive (Brecher, 2014). Any poor individuals or groups can be the victim of oppression by any organisations if the law does not exist. For example, without law, an organisation can easily exploit their workers by denying their rights in getting the wages even though they have worked hard.

The last objective is to determine the impact of implementing ethics in procurement towards the organisation. There are many benefits that can be gained if an organisation decides to portray ethical behaviour in procurement. One of them is improving the company image. The stakeholders will trust the company because they believe that there will be no problem if they decide to do any business transactions with the company. As a result, the company will be preferred by the stakeholders because of their good image. Besides that, by having a good company image, a company can increase its profits because the company is trusted by the stakeholders. Workers turnover rate can also be reduced because the workers are working in a conducive environment. When they are satisfied and happy with the company, the workers will behave ethically so that they will not ruin the image of the company that they are working for. Therefore, they are less likely to quit (I/O AT WORK, 2015).

## 1.2. The Case Company

For this study, a local small maritime and logistic company, Logistic Company which was established in early 1999, has been chosen. The headquarter of Logistic Company is located in the West of Malaysia. They have three branches, and two of them are located in the East and South of Malaysia, while one of the branches is located in Singapore. Their core business is marine services and consultancy. Logistic Company is equipped with knowledgeable consultants and recent technologies. Their consultants are an expert who has more than 30 years of industrial experiences.

Besides that, Logistic Company is specialized in ship chartering, brokerage and management, and port and terminal management and consultancy. They have carried

cargoes such as the bulk of cement, bulk urea, project cargoes, and other general cargoes in the ship chartering business.

Also, Logistic Company is also an expert in cargo handling and procurement. This company has to implement ethics in their business practices and also procurement process. They also have their own ethical guidelines. Therefore, the company has been chosen in order to observe how they implement ethics and what is the impact on the company.

Logistic Company has a vision of being a reputable company in the maritime and offshore industry. Therefore, in order to be a recognized company, Logistic Company has created a mission to provide efficient yet cost-effective and reliable services to the industry. Furthermore, the company is registered with the Ministry of Finance and Petronas and their aim is to work closely with Petronas besides offering Petronas high-grade marine and consultancy services.

### **1.2.1. Ethical Guidelines in the Company**

During the site visit to the company, it is observed that the company has ethical conduct, which serves as a guideline in the procurement process. In the guideline, it is stated that all employees who are involved in the procurement process must behave according to the purchasing procedures besides portraying the following principles: Employee must portray loyalty and respect for rules and regulations. Besides that, the employee must be transparent and maintain confidentiality during the procurement process. Next, the employee must have integrity and avoid the appearance of impropriety during any business transactions. Lastly, the employee must promote impartiality and fairness besides exercising due diligence. By following these principles during the procurement processes, the company can avoid the employees from committing any white-collar crimes.

## **2. Literature Review**

### **2.1. Ethics and Business Ethics**

There are no exact definitions to define ethics and the definitions are different in each study (Sparks & Pan, 2010). Ethics is defined as the discipline which deals with what is virtuous or evil. Ethics is also the principles of conduct which governs an individual or a group of people ("Definition of Ethic," n.d.). Ethics is a study about what should be done

and what should not be done by an individual (Coscarella, 2005) which is also supported by (Velasquez, 2012) stating that ethics is the rightness or wrongness of behavior which is set by moral standards of an individual or a group. Almost all professional fields, such as legal, accounting, and medical, are embedded with ethics (Fountain, 2011).

According to Trevino and Weaver (2003), business ethics is a new concept which only appears in the early of the twentieth century (Schulze et al., 2014). However different industries and fields have their definitions and the way of implementing business ethics, and in order to determine ethical issues in an organization and find a solution to solve them, it is important to study business ethics (Dean, 1997). Business ethics is defined as the good and bad behaviors according to moral standards which are implemented in a company (Velasquez, 2012) and (Andrews, 2014) also notes that how ethics are implemented in a corporation differs between large organizations and small businesses. Top managers and employees in a company must portray good behaviors in setting their missions and objectives and accomplishing their work (Alzola, 2015). It is apparent that not only the top management are required to behave ethically but also the employees, regardless of how big or small the organization is.

## 2.2. Supply Chain Management and Procurement

Procurement is a part of the supply chain management, and supply chain management is essential in every business. Procurement is the entire procedure of acquiring goods and services (Procurement Basics, 2015), which includes activities that occurred before and after two parties reaching an agreement (Kidd, 2005). Purchasing or buying is a small part of the procurement process while procurement involves contract as well as establishing and maintaining the relationship between the company and the suppliers (Kidd, 2005). However, some people assume that procurement is a simple process which is not important. They even make an assumption that the procurement process can be done by everyone and experts are not required during the process. There are also managers who have not realized yet the importance of the procurement process in the supply chain management (Msimangira, 2003). Employees and managers need to be exposed to the significant procurement process because procurement experts are required in every procurement process. They need to come out with various purchasing plans. This is because different plans are being applied on different suppliers depending on the relationship of the company and the suppliers, the types of goods and services that will be procured and also the risks faced or might be faced by the company in order to acquire the goods and services (Wagner, Padhi, & Bode, 2013).

### 2.3. Ethical Issues in Procurement

In supply chain management, specifically procurement, procurement officers are easily exposed to committing unethical behaviors due to the fact that they are given the trust to use the company's financial resources (Miniussi, Siegler, Csillag, 2012). In making sure that the workers are aware of the right procurement strategy, they must be educated on ethical procurement process (Lillywhite, 2004). Managers also play an important role in setting the standard of ethics that is implemented in the company (Ndolo & Njagi, 2015). However, Özlen, Tulić, & Čengić (2013) argue that some workers might overestimate their knowledge of ethics and human right issues. This is due to the fact that they might not realize that there are ethical issues happening in their company even though they have the knowledge of ethics.

In order to reduce ethical issues in the procurement process, the transparency of the process must be improved. Therefore, the company should establish policies that can improve the transparency of the procurement process to prevent any possible corruption activities (Hui, Othman, Omar, Rahman, & Haron, 2011). An organization can be transparent by disclosing information regarding the procurement strategy and its progress, such as improvements in the annual and sustainability reports (Lillywhite, 2004). Besides that, a proper record of the whole procurement process should be documented (National Public Procurement Policy Unit, 2005)

The company must also ensure that the established policies are being enforced in their company effectively. However, the company tends to implement ethical behaviors only when it gives advantages to the company, such as cost reduction (Roberts, 2003). In order to support the statement, Schulze et al. (2014) state that portraying ethical behavior in the procurement process can give an impact to the business' competitiveness because procurement and logistics activities are a significant influence to the organization's success. Ndolo & Njagi (2015) also supports that statement by arguing that one of the main elements of business success is by implementing ethics in Supply Chain Management. This is due to the fact that behaving ethically in the procurement process can help to improve the organizations' performance. Furthermore, customers are more confident to buy from a company that behaves ethically as they are trustworthy.

However, according to Lillywhite (2004), the most significant method to develop an ethical procurement process is by cooperating with the stakeholders such as government organizations, non-government organizations (NGOs), and others. For instance,

through the rules and regulation enforced by the governments and awareness campaigns done by the NGOs, employees, and companies will realize that it is essential to behave ethically not only during the procurement process but also in the workplace.

### 3. Methodology

The research methodology used in this paper is using structured interview where the respondent is interviewed and become part of a preliminary study for procurement ethics. Also, secondary research is used to explain the fundamentals of ethics in procurement as per the literature review. The chosen respondent is a Procurement and Account Executive who is actively involved in the procurement process happening in the company. He has been working for the company for several years. He has vast experiences on purchasing matters as he has undergone various training and purchasing conference. Therefore, he is quite experienced in the procurement area.

It is also said that through qualitative research, the respondent can express their experiences, thoughts, and feelings (Tiley, 2017). Qualitative research is used when a researcher wants to understand the reason behind a problem, especially in a case study basis. Besides that, when a researcher wants to investigate the reason behind the trend in thoughts and opinions, qualitative research is being used. Thus, the researcher can investigate the problem thoroughly (DeFranzo, 2011). Furthermore, a secondary research method also being used in order to get more information regarding the topic. Past academic papers, newspapers, and also articles are being used to support the research.

### 4. Results

An interview has been done during the site visit to Logistic Company. The following table records the findings during the interview.

#### 4.1. Demographic background

The respondent is a male whose age is within 25 to 30 years old. He has been working for the company for more than a year as a procurement and account executive. He was working for the company as an intern previously before finishing his studies, and he is a degree holder. Although his experiences are quite limited, he is one of the reliable workers in the company where he is in charge of the procurement and its whole cycle.

## 4.2. Awareness

Below table shows results for discussion

TABLE 1: Awareness of Ethics in Business Practices and Procurement Process.

Scope	Description
<b>Awareness</b>	
Familiarity with terms 'ethics' and 'procurement'	The respondent is familiar with the terms 'ethics' and 'procurement' because he is involved with the procurement activities directly.
Familiarity with ethical guidelines of company and procurement process	The respondent says that he is familiar with the ethical guidelines of the company and the procurement process. For example, they are not allowed to accept any gifts from the supplier.
Awareness of the importance of ethics in company and procurement process	The respondent thinks that it is important to behave ethically in both company and procurement process because it is easier to follow the rules than breaking them. Besides that, he says that procurement process can be done smoothly.
<b>Source:</b> Authors' own work	

Table 1 shows the result of awareness of the Logistic Company. The company already have their ethical guideline however the awareness of using the guideline still can be improved. The guideline is also aligned with their company mission to act accordingly with the government standard.

Table 2 shows the application of ethics in business practice and the procurement process. It discussed the implementation, challenges, and also issues of implementing ethical behavior in Logistic Company.

## 5. Discussion

During the interview, the researcher found out that the company decided to implement ethics in the procurement process because they want to avoid any unethical behavior of the workers. The respondent says that he is familiar with the terms 'ethics' and 'procurement.' He also says that he is also familiar with the ethical guidelines of the company and its procurement process. This is because the company implements ethics in the procurement process by having the employees to follow the procurement ethical guidelines and procedures. It is stated in the guidelines that all employees involved in the procurement process must maintain transparency, confidentiality, integrity, impartiality and fairness. However, from the observation during the site visit to the company,



TABLE 2: Application of Ethics in Business Practices and Procurement Process.

Scope	Description
<b>Application</b>	
Implementation of ethics in business practices and procurement process	The respondent says that the company does not have a department that monitor ethics but the manager is the one who monitor them since the company is a small company.
	Every job with suppliers will require a business contract which in it will be stated the ethical guidelines.
Effectiveness of ethical guidelines in the company and procurement process	The respondent thinks that the guideline is effective enough to curb the unethical behaviors happening in the company and procurement process since the company emphasizes the importance of behaving ethically.
	The respondent said that workers will be send a warning letter if they behave ethically while the suppliers will be send a reminder if they deliver bad services.
Challenges in implementing ethics in company and procurement process	The respondent says that they do not face any challenges because the company is small and the workers think that following the rules is easier than breaking them.
Unethical issues happening in the company and procurement process and ways to solve them	The respondent says that so far there is no unethical issues happening in the company. If there are any issues happening, the issues will be discussed and solved in the weekly meeting. There are no unethical issues happening between the company and the suppliers because they have worked with them for a long time. They have successfully maintained a good relationship with the suppliers so there is no problem with them
Impact of implementing ethics in company and procurement process towards the company	The respondent says that procurement process can be done smoothly, company and supplier relationship can be maintained, and company can generate profit because suppliers sell them goods at a cheaper price. This is because of the good relationship maintained between the company and suppliers
<b>Source:</b> Authors' own work	

only ethical guidelines in the procurement process are found, and no ethical guidelines of the company is found.

The reason is that the company is a small company which only has about 15 employees in the office. Since it is easy to manage a small company with a very small number of employees, the ethical guidelines are being informed verbally by the manager. It is true that the respondent is familiar with the ethical guidelines of their company, but the guidelines are not in a written form. Besides that, the employees are already aware that it is important to behave ethically at the workplace because it can make

the procurement process to run smoothly. They also personally think that following the rules is easier than breaking the rules. Therefore, there are no unethical behaviors occur in the company. The company is depending on the awareness of its employees to behave ethically, which might be the reason why the company does not create an official ethical guideline. Even though there is only a small number of employees in the company and they are aware of the importance of behaving ethically, it is vital for the company to write their official ethical guideline because there are many possibilities that could happen in the future.

Furthermore, there are many benefits gained by the company after implementing ethical behaviors in the procurement process. The benefits are that the company can experience a smooth procurement process and able to reduce the cost because the suppliers offer them goods and services at a lower price besides preserving the customer-supplier relationship. The relationship between the company and the supplier is maintained successfully based on trust. The main reason is that the company and the suppliers have worked together for a long time. That is also why the company can get goods and services at a lower price. Even though the supplier is trusted, it is better if the company always to be cautious and priorities professionalism in any business transactions because any worst scenarios can happen.

## 6. Conclusion and Implications

Through this research, it can be concluded that the company implements ethics in the procurement process because they want to avoid any unethical behaviors of the employees that could deteriorate the image of the company. Besides that, the employees in the company implement ethical behaviors in the procurement process by following the ethical guidelines in the procurement process of the company besides having the awareness that it is important to behave ethically. However, it is important for the company to create an official ethical guideline of the company even though the company only has a small number of employees. This is because the behaviors of the employees in the company could affect the procurement process since the company does not have a separate procurement department.

Through this research, it can be seen that there are several impacts gained by the company when implementing ethical behaviors in the procurement process. For instance, a smooth procurement process can be done, the company-supplier relationship can be maintained, and the cost can be reduced. Thus, gaining more profits for the company. The researcher suggests that the company must emphasize the

implementation of ethical behaviors by having an official ethical guidelines of the company. The company must always remind the employees of the importance of behaving ethically even though the employees are already aware of its importance. Lastly, the company must always remain cautious and maintain professionalism even though they trust their suppliers.

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