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THE CONVERGENCE OF ETHICS AND FRAUD: CHALLENGES FACING PROCUREMENT FUNCTIONS IN FOOD SUPPLY CHAINS

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Introduction

The food sector has witnessed a number of high profile contamination events in the near past. These are generally spread across the world and are caused sometimes by negligence but in many cases have been intentional fraud. The global nature of food supply chains presents major challenges as any contamination in one part of the chain will flow rapidly through the supply chain. The recent horsemeat contamination scandal in Europe has sparked off a wide debate with regards to the food we eat (Earley, 2013). This case brought forth two important challenges of the food industry: the complexity of their supply chain and the issues with visibility. The milk contamination scandal in China (2008) depicted the responsibility and accountability for limiting the contamination (Dani and Deep, 2010). In the UK, post the Horsemeat case, food fraud is one the most discussed topic in regards to the food supply chain. However it is also important to understand the aspects of ethical behaviour within this discussion both from the aspect of buyers and suppliers. This paper presents a view in this discussion, from the perspective of procurement functions within food supply chains.

Fraud and Unethical behaviour in the food Supply Chain

According to Spink et al. (2011), food fraud is: *“the deliberate and intentional substitution, addition, tampering or misrepresentation of food, food ingredients, or food packaging, or false or misleading statement made about a product, for economic gain”*. Lotta and Bogue (2015) suggest that the definition encompasses activities of food adulteration and food misrepresentation including incorrect or misleading labelling.

Unethical activities can take various forms in buyer–supplier relationships. These can be derivations of opportunistic behaviour to gain control and power within the relationship or just plainly a monetary gain. In respect to social factors, unethical behaviour can also represent activities conducted by the supply chain for a monetary gain that harms society (pollution, child labour, slavery, etc). Some of the unethical activities conducted by supply chain partners are represented by (Dubinsky and Gwin (1981); Felch (1985); Husted, et. al. (1996); Van den Hengel (1995); Trevisan (1986); Rudelius and Buchholz (1979)):

- * Supplier lock-in
- * Using inventory to gain control over the other party
- * Price volatility
- * Using influence to affect decisions
- * Cancelling purchase orders in progress and trying to avoid cancellation charges;

Considering the activities depicted as unethical, it will seem as if these activities are normal and that a company may have to follow any or all of them in order to make profit and stay in business. But these are deemed unethical as they hurt the other party and create a regressive relationship.

Methodology

When considering the recent cases of food fraud and UK governments' report post the Horsemeat scandal, the research questions that arose for this study were:

- RQ1. What are the fraudulent and unethical behaviour practices within food supply chains?
 RQ2. What are the tools, methods, processes that can reduce fraudulent and unethical behaviour in food supply chains?

In order to explore the research questions a literature review was conducted on fraud and ethical concerns within food supply chains. Recent food fraud cases were analysed to identify fraudulent behaviours and processes.

Discussion

RQ1. What are the fraudulent and unethical behaviour practices within food supply chains?

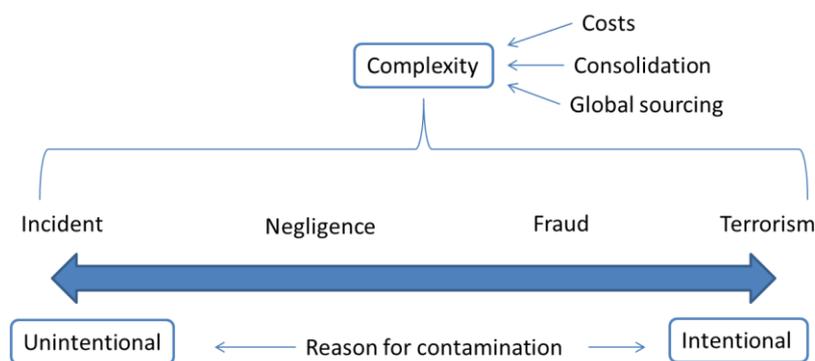


Fig 1: Reasons for food contamination (Dani, 2014)

Fig 1, depicts the reasons for food contamination as revealed by the cases. The two ends of the spectrum and as also identified by Agiwal and Mohatadi (2008) are intentional causes and unintentional causes. Under intentional causes, Terrorism is at the farthest end of this spectrum and relates to contamination with the intention of causing harm and fatality to the final consumer. As seen in the recent cases (Horsemeat, Chinese Milk Scare) the intention for the contamination was to commit fraud for monetary gains.

Table 1 shows the literature sources studies to understand the various fraudulent activities within Food supply chains.

Meat (Horsemeat Scandal)	Addy (2014), Lawrence (2013), Press Association (2013)
Dairy (Chinese Milk Scare)	Coghlan, 2008; Reuters, 2008; Fairclough, 2008).
Wine	Gallagher, Thomas (2010)
Fish	Gallagher, Thomas (2010)
Wheat (Bread)	Barling, et al. (2009)
Types of fraudulent activities across various products	Shears (2010), FSA(2016)

Table 1: Literature sources for fraud cases

Unethical Behaviour can manifest in various forms within the food supply chain. These may extend from poor buying practices (such as opportunistic behaviour or driving down supplier prices to unmanageable levels) to social issues (such as employing child labour in manufacturing activity, slavery, unfair prices, dispensing toxic effluents within the local water streams, animal welfare issues (Maloni and Brown, 2006). A breach of trust on behalf of a supplier will constitute unethical behaviour. Committing fraud and crime for monetary gains through food substitution, mislabeling, misrepresentation, inappropriate contracting is an act of unethical behaviour.

It is important to note that a breach of trust is the common thread converging the perspectives of unethical behaviour and fraud.

RQ2. What are the tools, methods, processes that can reduce fraudulent and unethical behaviour in food supply chains?

The Role of Procurement

Purchasing managers can have a significant influence over a firm's reputation. Because these individuals interact frequently with suppliers and other upstream channel members, their behaviour can and does affect how the firm is viewed by suppliers and other outside organizations. The human factor has thus a very important part to play in keeping the perceptions right and thus maintaining the relationship.

1. Visibility beyond the 1st tier

The Horsemeat case and the Chinese Milk scare case have shown the importance of visibility in the upstream supply chain. In both cases the focal companies were caught out with the contracted supplier tiers beyond the first tier. Tang and Zimmerman (2013) discuss the challenge of visibility within supply chains (including food) and suggest the use of recent Information and communication technologies to increase visibility and coordination amongst supply chain partners. Although Addy (2014) suggests that 'trust' should play a lesser role and the role of sampling and traceability should be increased, trust within the contractual agreement will still play a focal role. Supply chain relationships have been seen to be an important aspect of managing supply chains (Lamming, et. al. 1996). Long- term relationships may encourage trust within supply chains. This can be facilitated through effective communication, information sharing and joint pay-offs (Dwyer, et. al., 1987; Ring and Van den Ven, 1992).

2. Adherence to ethical codes of conduct

Most large multinational food companies now follow a supplier code of conduct on the principles of the UN Global Compact (UNGC, online). The intention is to work with suppliers who follow responsible social and environmental practices. However, the challenge is maintaining the code of conduct upstream, beyond this relationship. The UN Global Compact's ten principles focus on areas of human rights, labour, environment and anti-corruption. The principles are derived from the following Acts:

- * The Universal Declaration of Human Rights;
- * The International Labour Organization's Declaration on Fundamental Principles and Rights at Work;
- *The Rio Declaration on Environment and Development;
- *The United Nations Convention against Corruption.

'Sustainable procurement is a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization, but also to society and the economy, whilst minimizing damage to the environment' (DEFRA, 2006). The purchasing process should consider environmental and social factors as much as economic ones thus fulfilling the Triple Bottom Line. Procurement

professionals within food supply chains should consider the following variables under ethical practices: carbon emissions, energy consumption, water consumption, child labour, living wage, effluent treatment, packaging waste, etc. when considering supply contracts. The Chartered Institute of Procurement and Supply (CIPS) have promoted an Ethical Code of Conduct for procurement personnel. It is important that procurement personnel do not involve into unethical activities which support fraudulent activities across the upstream supply chain within the food sector.

3. Responsibility for the downstream

As seen in multiple cases (in table 1) a fraudulent issue at an entity (if not identified earlier on) will move rapidly through the downstream chain reaching the consumer, leading to crisis and recall situations involving the FSA and other governmental entities. The fallout from the crisis will affect the supply chain both in terms of brand value and monetary value. The suggestion under this variable is for procurement functions to think responsibly of the downstream and act as gatekeepers for restricting the flow of fraudulent and unethical activity downstream from their position in the supply chain. However, as in any supply chain even if the procurement function acts as a gatekeeper for entry to the entity's operations, fraud may get conducted in the entity's operation thus making it important for the procurement functions downstream to hold the same responsibility.

4. Appropriate Contracting

Within a food supply chain, trust is very important as traceability and transparency are difficult to achieve without the appropriate technology and resources. Roth, et. al. (2008) state that for safeguarding quality, investment in long term relationships with trustworthy suppliers is more important rather than chasing lower prices by constantly putting contracts out for bidding (Roth, et. al., 2008). Trust is also important for supply chain partners to meet international certification standards and other auditing requirements. With closer vertical coordination, contracts could be more strategic and can span 5-10 years and will be different from traditional contracts (Young, Hobbs 2002). This entails a change in the relationship as well as interdependence between the entities. However as seen in the Horsemeat case, even though contracting was appropriate at the 1st tier, the subcontracting that took place through the upstream levels changed the requirements of the order that reached the buyer. The subcontracting within the upstream levels was not strategic but an opportunity for each upstream level to get a monetary gain by passing on the order to another entity in a different country. This led to the actual contract criss- crossing through different countries in Europe without the need for any physical movement of the food material through these contractual entities. Contracting is also important to set the terms of reference at the outset with regards to the expectation of ethical codes of conduct and relationship paradigms.

Developing a Conceptual Framework

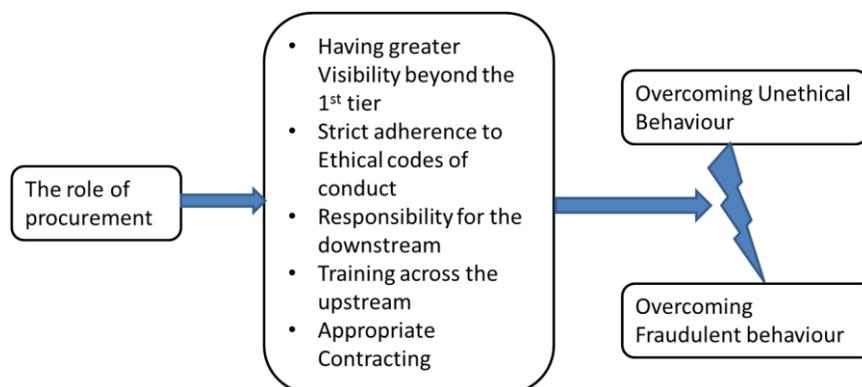


Fig 2. Conceptual framework showing the role of procurement in converging ethics and fraud

Fig. 2 depicts a conceptual framework to manage unethical behaviour and fraudulent behaviour within food supply chains. The focus is on the role of the procurement function and its ability to help curb this behaviour. The conceptual framework depicts a number of processes or factors that the procurement function can work for reducing Fraudulent and Unethical behaviour. It must be noted that the premise in this figure is to show that a convergence of both behaviours must be considered to manage the food supply chain more effectively. The idea of the convergence paradigm denotes the commonality in thought and process with regards to both behaviours. Hence, fraud is unethical behaviour and unethical behaviour may be perpetrated to commit fraud. Over the years, the focus has been to create more trust and collaboration across supply networks to minimise testing and thus keep costs down. Recent cases of food fraud and unethical behaviour have brought forth the need to have technology and testing to minimise occurrence of contamination across the supply chain along with the relevant soft factors in management. Fig 2 focusses on the role of the procurement function and identifies certain processes as important to achieve an effective food supply devoid of contamination, substitution, mislabelling and other unethical management practices. It is important to note that fraud could happen at any point in the supply chain from raw material to the consumer for example, manufacturing, logistics, warehouses, retail environments, etc. However the role of procurement within each node of the supply chain will be paramount to vet the supplier and process.

Conclusion

The paper has provided a conceptual framework for understanding fraud and ethical challenges within food supply chains. The paper provides a focus from the perspective of procurement functions within food supply chains. The research project needs further work to test out the framework and create more evidence on how the two processes can be combined to create a common process that has both aspects embedded into it. Until then, the research will help academicians and practitioners to gain insights into understanding the topic of ethics and food fraud within food supply chains which haven't been considered together within the literature. The academic work on this is limited however there is discussion regarding these areas within practitioner articles. Hence, this research will provide academics and researchers a new direction for further work.

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