

## Chapter 2

# Procurement Misconduct and the Dynamics of Unethical Behavior in Organizations

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### **ABSTRACT**

*Procurement is a complex organizational role encompassing supplier selection, contract definition, and ensuring competitive pricing, quality, and delivery. However, these responsibilities often lead to diverse managerial stereotypes, ranging from passive followers of market dynamics to self-serving negotiators prioritizing personal gain over organizational interests. This chapter presents a unique single-case study on procurement fraud and misconduct, leveraging publicly available data. It explores the intricate nature and consequences of misconduct, including legal penalties, contract losses, and erosion of stakeholder trust. The study identifies control gaps that enable personal gain, and value of integrity-driven culture. Managers play a pivotal role as ethical exemplars, upholding standards, and mitigating risks. In response to misconduct, organizations take decisive action by terminating involved individuals and implementing new procedures, controls, and training programs. The findings underscore the need for continuous vigilance in promoting ethical practices within procurement.*

### **INTRODUCTION**

No organization is an island, and all require suppliers to some extent, whether for raw materials, components, indirect products, or services. The organizations spend

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their resources judiciously, to ensure they are buying the right product, from the right source for a fair price. Unsurprisingly, the competitiveness of one organization is based on the quality of these decisions. As one of the most important activities of any organization, Procurement agents are commonly the primary spenders of company funds (Badenhorst, 1994). However, this concentration of power can lead to the exploitation of suppliers' limited options and dependence, as many agents perceive themselves to be more powerful than they actually are. This dynamic is reminiscent of the Foucauldian view of power imbalances, which can perpetuate unequal relationships between agents and suppliers. As the power of the buyer organization over suppliers increases, so does the pressure to negotiate lower prices and protect the buyer's profit margins, even if it means being opportunistic (Rousseau & McLean Parks, 1993; Zhu, Lam, Liu & Jiang, 2022) and tough on suppliers (Porter, 1985; Webb and King, 2017; Gelderman, Semejin & Verhappen., 2020).

On the other side, Procurement agents are also subject to significant organizational pressure to respond to current market challenges, shortages, customer satisfaction, and budgetary and investment freezes. While Sales executives can justify a loss of profitability or reduction in sales volumes to the increase in market competitiveness or recession, Procurement executives' voices are weaker. Most of their activities are surrounded by the pressure of achieving superior negotiation results, avoiding inflation impact on the organization, mitigating any kind of supply disruptions, attend to quality and sustainability requirements, to cite a few. The perception among procurement agents they are under continuous pressure to over-perform and the potential negative outcomes can often result in unconscious mistakes, frustration, career change, and job resignation. In severe cases, such circumstances may even lead to self-protective misconduct (Van Hoek & Mitchell, 2006; Ingersoll, Li, Cook, & Glass, 2023; Atkins, Sener, Drake, & Marley, 2023).

The objective of this study is to explore some of the potential causes of misconduct in procurement and reporting and to identify ways to prevent and control such incidents. By doing so, it starts by briefly presenting the concepts of misconduct, followed by the presentation of a real incident that occurred in 2019. The case aims to illustrate the concepts and explore the possible origins of misconduct. Further, based on the current literature, discuss the reliability of some of the ways adopted by organizations to avoid such incidence, identify their occurrence in their early phases, react to and control them.

## **CONCEPTS OF MISCONDUCT**

Organizations have the responsibility of conducting their business activities in a manner that is accountable to a diverse range of stakeholders, as neglecting to

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