

Michael Davis' Commentary on "Conflicts within a Manufacturing Firm"

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Conflicts within a Manufacturing Firm

[Michael Davis has modified the case somewhat in order to make it more a problem of engineering ethics than of business or purchasing ethics.]

You have been put on the spot. You are an engineer in Purchasing. The head of your in-house shop has called to ask the prices obtained from outside suppliers bidding on a certain job. He wants those prices to help him prepare his own bid on the same job. What should you do?

Such requests are likely to occur when a company begins to make its "inside supplier" more efficient by forcing it to compete with outside suppliers by making them compete with an insider. Unless a company has been careful to make clear to everyone involved what the point of the new practice is and how it is supposed to work, certain misunderstandings are inevitable. Insiders, for example, are likely to assume that they have an "inside track". Outsiders are likely to worry about that too.

Generally, competition between inside and outside suppliers will benefit the company only if the competition is fair. If the insider has an inside track, outsiders will not take the trouble to bid. Preparing a bid costs money. Would-be suppliers are not likely to spend their money on preparing a bid unless they have a good chance of getting the contract. Once it is clear that inside suppliers have the inside track, an outside supplier has only two options, to charge for preparing its bid or to decline to bid. The company will then have to pay the cost of the outside bid or see the outside competition disappear. Doing a favor for the shop head has a large hidden cost.

The head of the shop probably did not think of things this way. He probably thought of the situation as "us against them", where "us" is the company and "them" is the outsiders. It is "us" against "them". But "us" is only his shop. The rest of the company is the umpire. The old friendships, the hello in the hall, the same centrex, none of that matters anymore. You and the shop are no longer on the same team.

The company has ceased to exist as a competitive unit. While every part has the same objective in one respect, maximizing return on investment for the owners, each part has a different objective in another. Each seeks to maximize return on what has been invested in it, whatever the effect on other parts of the company. The owners are supposed to benefit overall, even if some parts of the company suffer as a result. This is a coherent strategy. Whether it will work in a particular company is, of course, another matter.

What then should you do? Probably the best thing would be to suggest a meeting of appropriate department heads to discuss bidding procedures. That would get you off the hook for now. It would allow the issue to be aired in a relatively friendly environment. And it would probably help everyone to understand better what the rules really are (or should be).

One should certainly not begin with the assumption that the shop head is trying to obtain an unfair advantage. If, however, he declines to discuss his request with other department heads, you will have reason to believe that he knows he is doing something shady. You can then tell him to put his request in writing and you'll clear it with your boss. That should be the last you hear of it. You should probably also mention the incident to your superior, accompanying it with the suggestion that there may be a need for further training in Purchasing and elsewhere on the new relationship between department.