

# Ethical issues in international buyer–supplier relationships: a dyadic examination

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## Abstract

The author combines extant literature with findings from focus group interviews and a set of surveys to identify the ethical issues involved in relationships of US purchasing managers and their non-US suppliers. Survey data from matched sets (dyads) of buyers and suppliers is then used to examine the influence of unethical behavior on the satisfaction with the relationship and on supplier performance. © 2000 Elsevier Science B.V. All rights reserved.

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## 1. Introduction

From Watergate through Irangate to Whitewater in government, and from Lopez at Volkswagen to ADM in private industry, the presence of unethical behavior appears to be a perennial topic of media coverage. Ethical behavior can have a positive effect on a firm's image and reputation. For example, Ben and Jerry's prominent contributions to social causes have helped the start-up company's annual sales grow to over US\$174 million in 1997.

On the other hand, there are costs associated with unethical activity, including fines, liability and negative publicity. Consider the following quotes, which recently appeared on the front page of the *Wall Street Journal* (August 6, 1997, p. A1) from a single day.

Igene filed suit against ADM, alleging the big grain processor stole secrets regarding the biotech firm's process for producing a pigment to turn farm-raised salmon pink.

Columbia/HCA faces a separate investigation by Florida officials to determine whether the firm committed Medicaid fraud, state officials said.

Picking through a fat legal bill, auditors for the Citadel found something that really bugged their client, the Citadel's nemesis, the American Civil Liberties Union, had included the US\$524 cost of a going-away party for an ACLU staffer who had worked on the high-profile case against the military academy.

Purchasing managers in particular can significantly affect a firm's reputation. These individuals

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sit at the firm's boundary and interact frequently with suppliers and other upstream channel members. Their behavior can and does influence how the firm is viewed by suppliers and other outside organizations (Dobler and Burt, 1996). The purchasing function controls over 60% of a firm's costs in some industries; considerable temptation can exist when such large amounts of money are involved (Leenders and Fearon, 1993). Like marketing and sales, purchasing is a boundary spanning function (Webster, 1992; Williams et al., 1994) that, because it does interact with other members of the supply chain and is thus exposed to a firm's external environment, may be under considerable pressure to depart from accepted norms of behavior and ethics set by the firm (Osborn and Hunt, 1974; Ferrell and Gresham, 1985). Further, unethical practices by purchasing managers might influence production performance and ultimately a firm's overall competitiveness if, for example, buyers purchase substandard inputs from suppliers in exchange for kickbacks (Turner et al., 1994).

Temptation to deviate from acceptable norms may be even greater for purchasing managers who deal with foreign suppliers, where a supplier's perception of which actions constitute unethical behavior might differ due to variances in business practices, managerial attitudes, and cultural mores (Hofstede, 1980; Donaldson, 1996; Husted et al., 1996). While ethical issues facing purchasing managers have been frequently examined in the past within a domestic context (see for example Dubinsky and Gwin, 1981; Felch, 1985; Turner et al., 1994), there is relatively little research on ethical issues surrounding the relationships of US buyers and their foreign suppliers (Wood, 1995). It is suggested that unethical behavior by salespeople results in dissatisfied customers, ultimately leading to decreased sales and lower profits for suppliers (Levy and Dubinsky, 1983). Similarly, if suppliers perceive buyers to be acting in an unethical manner, such conduct might negatively affect supplier performance.

This paper presents the results from a larger study examining the ethical issues surrounding global buyer-supplier relationships which was sponsored by the Center for Advanced Purchasing Studies, the research arm of the National Association of Purchasing Management (NAPM). Specifically, the objec-

tives of this paper are to: (1) develop a scale that measures unethical behavior between US purchasing managers and their non-US suppliers, and (2) examine how differences in perceptions of unethical behavior between US buyers and their non-US suppliers can influence the buyer-supplier relationship.

Here, non-US suppliers are defined as suppliers who are located outside of the US or Canada. For the purpose of this study, unethical behavior is defined as: the specific set of actions taken within the buyer-supplier relationship that are considered unethical by purchasing managers.

By presenting this definition, the author admittedly takes an ethnocentric viewpoint by allowing US purchasing managers to define which actions are ethical and which are not. The survey findings will show, however, that the actions that were identified as unethical by US buyers are viewed in a similar fashion by their international suppliers.

The remainder of the paper is organized as follows. Section 2 provides a broad overview of the relevant literature and introduces a series of hypotheses that are based on an integration of literature from business ethics, marketing channels and exchange theory. Section 3 describes the design of the study, while the results from the focus group interviews and responses to the surveys are reported in Sections 4 and 5. A description of the development of the scales used to assess unethical buyer and supplier behavior is provided in Section 6, and the results from the hypothesis testing are presented in Section 7. The study's implications and conclusions are discussed in Section 8. The paper ends with a summary of its contributions and limitations, and suggestions for future research in Section 9.

## 2. Prior research and hypotheses

This section first provides a brief overview of the literature dealing with ethical issues in business-to-business transactions, including an examination of the ethical issues in purchasing and sales management that occur within both a domestic and international context. Afterwards, literature from the areas of business ethics, exchange theory and marketing channels is integrated to develop a series of hypothe-

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