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Impact of firms' policies on Chinese industrial purchasers' ethical decision making

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ABSTRACT

This article investigates the impact of firms' policies with respect to procurement, sales, and interfirm personal relationship (*guanxi*) on industrial purchasers' inclination to adopt gray procurement (a particular type of unethical behaviors in industrial purchasing) using data from industrial purchaser's in China. The effect of a firm's purchasing policy on purchasers' behavioral intention towards gray procurement was, in addition to the direct effect, mediated by the purchasers' ethical judgment of the practice. The application of double standards (i.e., a firm forbids gray procurement by its own purchasers but tolerates its salespersons offering inducements to its customers' industrial purchasers) had both main effects and moderating effect on the purchasers' ethical judgment of the practice, which increases the purchasers' behavioral intention towards the practice. The two moderating effects of *guanxi* policy counteracted each other in direction, so jointly the effect of *guanxi* policy on the purchasers' intention may depend on the relative strength of the two moderating effects.

1. Introduction

This article investigates the impact of firms' policies on industrial purchasers' inclination to adopt a particular type of unethical behaviors, named "gray procurement" in this article, so that we may fill some gaps in the literature of purchasing ethics related to the practice. Performing the procurement function for their firms, industrial purchasers (also referred to as business-to-business or B2B purchasers in the literature) spend a large percentage of firm funds (Badenhorst, 1994; Haynes and Helms, 1991; Razzaque and Hwee, 2002). They are frequently tempted to succumb to a particular type of unethical behaviors such as accepting or asking for business meals, entertainment, gifts, and/or kickbacks (Dempsey et al., 1980; Dubinsky and Gwin, 1981; Rudelius and Buchholz, 1979). Tian considers these to be "common practices of doing business in China" (2008, p. 437), the location of our study, while Millington et al. (2005) report that gift giving is a significant problem for United Kingdom-owned companies doing business in China.

This type of behavior is special in that the ethical problems in the practice are dyadic – for it to work, both a purchaser and a seller must be involved in the same process and the behavior of both is ethically problematic. As Wood states, "If salespeople [*in a firm*] are tempted to offer bribes or other inducements, they do so in the anticipation that the purchasing people [*in another firm*] will be equally unethical in accepting them" (1995, p. 21, with clarification in brackets added by the authors).

To differentiate this behavior from other types of unethical behaviors in industrial purchasing, we name it "gray procurement". This is in line with the extended definition of "gray marketing" as previously developed by Zhuang and Tsang (2008), that is, the unethical selling methods adopted by salespersons to sell products or services by providing purchasers with some sort of inducements such as meals, entertainment, expensive gifts, and/or kickbacks. Therefore, gray procurement is actually the practice of gray marketing on the purchaser's side of the purchaser-seller dyad.

Based on a number of conceptual models of business ethics (e.g., Ferrell et al., 1989; Hunt and Vitell, 1986; Kohlberg, 1984; Trevino, 1986), researchers have tested a wide variety of constructs that may impact purchasers' ethical judgment and decision-making about unethical behaviors, including individual factors (e.g., Plank et al., 1994; Razzaque and Hwee, 2002), organizational factors (e.g., Badenhorst, 1994; Dempsey et al., 1980; Forker and Janson, 1990; Nel et al., 1989; Razzaque and Hwee, 2002; Robertson and Rymon, 2001), and other factors such as interpersonal influence and culture (e.g., Millington et al., 2005; Razzaque and Hwee, 2002). However, some important issues related to the roles of firms' policies in

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purchasers' decisions to adopt “gray procurement” are unexplored or inadequately addressed.

For example, a firm's purchasing policy is an important factor that could directly reduce the frequency or intention of purchasers' unethical behaviors including gray procurement (e.g., Forker and Janson, 1990; Turner et al., 1994, 1995). However, based on the mechanism suggested by widely accepted models of business ethics (e.g., Ferrell et al., 1989; Hunt and Vitell, 1986), a firm's policy may also indirectly affect its purchasers' behavior or intention through their ethical judgment. In other words, ethical judgment may play a mediating role. Nonetheless, previous studies have not been found testing this mediated process from firms' policy to the purchasers' unethical behaviors.

In addition, despite both gray procurement and gray marketing being exposed to similar ethical issues (Wood, 1995; Zhuang and Tsang, 2008), firms are usually motivated to formulate and implement more rigorous ethical policies for their purchasers than for their salespersons (Dubinsky and Gwin, 1981; Gegez et al., 2005). Perhaps at one end of the production stream it is to the firm's advantage to buy at a low cost and capture as many economic efficiencies as possible for the firm, while at the other end it is to the firm's advantage to sell as much product as possible profitably and so capture as many sales and as much market share as possible for the firm. This leads the firm to apply “double standards”: the firm does not allow its own purchasers to accept meals, entertainment, gifts, and/or kickbacks from the salespersons of suppliers, but tolerates or even encourages its own salespersons to offer such inducements to its customers' industrial purchasers (Badenhorst, 1994; Wood, 1995).

The application of double standards is likely to diminish the effectiveness of the firms' ethical policies on purchasing (Forker and Janson, 1990; Rudelius and Buchholz, 1979; Wood, 1995). However, empirically, the effect of double standards has not yet been appropriately tested. Turner et al. (1994) provided evidence showing that the presence within a firm of double standards was negatively associated with the number of its purchasers who admitted acceptance of various gratuities in doing business. But a year later, in another study using a student sample, they (Turner et al., 1995) failed to obtain similar results. In addition, the supportive evidence provided by Turner et al. (1994) appears questionable. They include three indicators in the instrument for “uniformity of firms' policies”, namely “same policy for sales department”, “same policy for all departments”, and “sales department gives gifts”, with only the last one (capturing the policy of the sales function) a significant indicator.

Furthermore, purchasers play a boundary-spanning role in a firm by coordinating the flow of goods and services with the salespersons of suppliers (Gegez et al., 2005; Landeros and Plank, 1996; Rudelius and Buchholz, 1979). It is thus inferable that the firm would encourage its purchasers to build and sustain good personal relationships with the salespersons. This is especially true in *guanxi*-oriented societies such as that of China. However, no study has been found exploring conceptually or empirically how a firm's policy on this interfirm personal relationship affects its purchasers' intentions to practice gray procurement.

To help fill these gaps, we provide a conceptual framework and several hypotheses based on the theory of business ethics. We model firms' policies with regards to procurement, sales (personal selling), and interfirm personal relationship (*guanxi*) as the antecedents, the purchasers' deontological and teleological evaluation (ethical judgment) of gray procurement as mediators, and the purchasers' behavioral intention towards gray procurement as the consequence.

We collected data for this study from 137 industrial purchasers by using the scenario approach in the People's Republic of China (China, hereafter). We use hierarchical regression analysis to analyze the data and test the hypotheses. The empirical results in general support our framework and hypotheses.

In the next section, we present the conceptual framework and develop the hypotheses. We then describe the research method. After reporting the results of data analysis, we test the hypotheses. Finally, we discuss the research findings in terms of theoretical contributions, managerial implications, and limitations and directions for future studies.

2. Conceptual framework and hypotheses

Policies are “rules or guidelines that express the limits within which action should occur” (Quinn, 1980, p. 5). They set up the boundaries of decisions, approving those that can or should be made and excluding those that cannot or should not be made. Firm policies “let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully” (David, 2001, p. 242). They are generally the prerogative of top management by formal organizational intent. However, they may emerge informally from a seemingly consistent set of management decisions or a pattern of behaviors surrounding an issue, perhaps unintentionally creating a situation which tolerates or even encourages unethical behavior.

Policies vary across firms in terms of the issues that they address and the extent to which they are communicated and implemented (Hutchings and Murray, 2003; Nel et al., 1989). Therefore, purchasers among different firms would perceive their firms' policies with regard to ethics differently. As Turner et al. (1995) illustrated, purchasers may derive their perception of firm ethical policy on purchasing from organizational concern and institutionalized ethics.

Organizational concern is “the degree to which employees perceive top management to be committed to ethical behavior by members of the firm” (Turner et al., 1995, p. 752) through either top management's overt ethical behavior or their clear demonstration upholding a professional ethical posture. Institutionalizing ethics refers to the degree a firm is “incorporating ethics formally and explicitly into daily business life, and making it a regular and normal part of business” (Turner et al., 1995, p. 753).

For ethics to be truly institutionalized within a firm, the entire organization should set up a collective ethical standard for its members to follow (Marucheck and Robbins, 1988). Based upon these circumstances and following the logic of the major models explaining perceived ethicality in the business decision-making process of individuals (e.g., Ferrell et al., 1989; Hunt and Vitell, 1986), we propose Fig. 1 as our conceptual framework.

The model begins with the firm's policy perceived by their purchasers concerning procurement (PolicyP), sales (PolicyS), and interfirm personal relationship or *guanxi* (PolicyG). The effects of PolicyP and PolicyS on the purchasers' behavioral intention (Intention) are hypothesized to be mediated by the purchasers' ethical judgment, that is, deontological evaluation of gray procurement operationalized as the perceived unethicalness of the practice (Unethical) and teleological evaluation of gray procurement operationalized as the perceived harmfulness of the practice to the firm (Harm). PolicyG, on the other hand, is hypothesized to influence the purchasers' behavioral intention directly.

2.1. Ethical judgment and behavioral intention

Ethical judgment refers to “an individual's personal evaluation of the degree to which some behavior or course of action is ethical or unethical” (Sparks and Pan, 2010, p. 409). It involves a person's ethical evaluation of a behavior, indicating his/her attitude towards that behavior in terms of “rightness” or “wrongness”. Two major