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A Framework for Understanding Ethical Supply Chain Decision Making

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The purpose of this article is to review the domain of ethical decision making in supply chain management for the purpose of suggesting how further research in this area may be developed. We examine the evolving nature of supply chain management and current efforts to include ethical decision making in supply chain management decision making. We show that, while there is growing concern with ethics, corporate social responsibility, and sustainability, the current state of the field is fragmented with the majority of articles reviewed focusing on specific issues rather than a more holistic approach. We then review ethical decision making models from Ferrell and Gresham (1985) and Hunt and Vitell (1986) widely used in analyzing marketing ethics and use these models to suggest a framework for ethical decision making in supply chain management.

KEYWORDS *marketing ethics, supply chain ethics, supply chain management*

INTRODUCTION

Ethical decision making occurs in organizations when employees make decisions that can be judged as right or wrong, ethical or unethical. The terms *social responsibility* and *ethics* are often used interchangeably by marketing scholars (Schwartz & Carroll, 2008). However, the two have different

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meanings. Organizational ethics relates to managerial decisions that involve individual ethics, organizational factors (i.e., organizational culture, compliance, and codes of ethics), and situational factors. Organizations practicing social responsibility believe they have an obligation to maximize the positive effect of ethical decisions while minimizing the negative effect of those decisions on stakeholders and society (Ferrell, Fraedrich, & Ferrell, 2013). While ethics and social responsibility have been addressed in both marketing channels and supply chain management (SCM) research, it is often done from a narrow perspective dealing with specific issues such as conflict of interest, sustainability, product safety, fair labor practices, and other issues that relate to socially desirable outcomes.

Although marketing ethics and social responsibility are different concepts, they are complementary. An organization's ethical decisions are often evaluated based on how they affect stakeholders or society at large. It is our purpose in this paper to examine the domain of ethical decision making and social responsibility within the particular context of SCM. Our approach will be to take a more holistic view of ethical decision making and provide a review of current knowledge that could advance our knowledge of marketing ethics in SCM theory and practices.

THE NATURE OF SUPPLY CHAIN MANAGEMENT

This section will define SCM, the various relationships between participants, and some of the traditional concerns related to trust, cooperation, and the need to have common goals and objectives. The following overview describes the environment of SCM with some of the issues and requirements for ethical performance.

SCM is a broader and more comprehensive concept than either marketing channels or logistics. A marketing channel is "a set of intermediaries involved in the process of making a product or service available for consumption" (Coughlan, Anderson, Stern, & El-Ansary, 2006, p. 2) and involve the management of resources that deliver value in the flow of market offerings in exchange relationships. Management of the channel requires the management of relationships among manufacturers, intermediaries, and end-users and provides a means of developing competitive advantage and positioning strategy (Wise & Baumgartner, 1999). Logistics is the functional area of the supply chain that "plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, service, and related information between the point of origin and the point of consumption in order to meet customers' requirements" (Council of Supply Chain Management Professionals, 2010).

SCM encompasses the management of both relationships among intermediaries and logistics activities but also includes numerous businesses and

numerous marketing functional areas, including product decisions, promotion, pricing, procurement, and strategic alignment among organizational members (Lambert & Cooper, 2000). The cross-functional nature of SCM results in the use of decision tools to create efficiency and effectiveness while, at the same time, focusing on channel relationships. Mentzer et al. (2001) defined SCM as

the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole. (p. 18)

The idea of integration across business functions, both within and between organizations, from sourcing to manufacturing and on through distribution to the final customer, has been viewed as a necessity for effective competition (Bowersox, Closs, & Cooper, 2010; Grubic, Bastl, Fan, Harrison, & Templar, 2010). Numerous authors have identified strong links between high levels of supply chain integration, strong operational performance, and competitive advantage (Cagliano, Caniato, & Spina, 2004; Maloni & Benton, 2000; Rosenzweig, Roth, & Dean, 2003). Understanding the need for integration across organizations has brought the traditional customer-centric focus of logistics to the broader management of the supply chain through the use of relationship marketing practices (Frankel, Bolumole, Eltantawy, Paulraj, & Gundlach, 2008; Grönroos, 1994). As noted by Lambert, García-Dastugue, and Croxton (2005), relationships with key suppliers should be based on the same key elements of mutuality and promise fulfillment as relationships on the customer side. Trust is a key variable in developing relationships and ethical marketing decisions.

The Council of Supply Chain Management Professionals has acknowledged the need to integrate and coordinate a wide variety of business functions in its definition.

Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across

marketing, sales, product design, finance and information technology. (Council of Supply Chain Management Professionals, 2010)

However, despite a growing understanding of SCM, there continues to be a great deal of debate about its theoretical parameters, specifically which functional areas should be included or excluded and even the definition of SCM (Burgess & Singh, 2006; Gibson, Mentzer, & Cook, 2005; Giunipero, Hooker, Joseph-Matthews, Yoon, & Brudvig, 2008; Larson & Halldorsson, 2004). Stock and Boyer (2009) reviewed SCM definitions across numerous journals and books and found 173 definitions. Within these numerous definitions, they were able to isolate three widely agreed-upon themes in SCM as well as activities, benefits, and components and incorporate them into the following consensus definition of SCM as

the management of a network of relationships within a firm and between interdependent organizations and business units consisting of material suppliers, purchasing, production facilities, logistics, marketing, and related systems that facilitate the forward and reverse flow of materials, services, finances and information from the original producer to final customer with the benefits of adding value, maximizing profitability through efficiencies, and achieving customer satisfaction. (Stock & Boyer, 2009, p. 708)

Note the key concepts of “maximizing profit” through efficiency in achieving consumer satisfaction. This definition seems to ignore the importance of various stakeholders such as regulatory agencies, communities, shareholders, and society at large. The ability of various supply chain participants to affect many aspects of social and economic outcomes requires appropriate responsibility in how profit is maximized and consumers are satisfied. However the debate about the definition and domain of SCM has resulted in increased attention to value-chain management (for example, Cheung, Myers, & Mentzer, 2010; Closs, Speier, & Meachan, 2010; Jüttner, Christopher, & Godsell, 2010) and its recognition of multi-directional value delivery.

Much of the difficulty in reaching an agreement about the scope of SCM comes from its cross-functional nature and the differing perspectives that depend on who is in charge (Mentzer, Stank, & Esper, 2008). Operations managers and researchers tend to focus on mathematical algorithms and decision tools while marketers focus on channel relationships. Logisticians view SCM as having roots in the logistics function, part of the marketing mix, with a strong focus on customer satisfaction.

Managing a convergence of functions throughout the supply chain requires integration of concepts from an increasing variety of disciplines such as business ethics, marketing, industrial economics, operations management, logistics, international business, organizational management, and

information technology (Frankel et al., 2008; Giunipero et al., 2008; Gundlach, Bolumole, Eltantawy, & Frankel, 2006). As a result, successful management of the supply chain requires traditional functional areas give up formal control and develop relationships across organizations (Burgess & Singh, 2006). This provides the opportunity to decrease decision making in silos and consider the consequences to various stakeholders.

This subordination of control to the development of relationships sets the stage for supply chain members to be responsible for ethical decisions, compliance, and social responsibility. Unfortunately, most conceptualizations of SCM do not make ethical decisions priorities for the system. SCM is focused on creating high performance, cost efficiency, and maximum profit operations. Supply chain members such as manufacturers, wholesalers, and retailers may not have full access to decisions or understand how to control some aspects of ethical decision making in the supply chain.

ETHICAL SUPPLY CHAIN MANAGEMENT

Most conceptualizations of SCM focus on the creation of value for customers to improve profitability and generate competitive advantages. As noted by Mentzer (2004), competitive advantage can be created through cost leadership or differentiation. One means of differentiation for supply chains may be greater efforts to understand the ethical consequences of supply chain activities as part of the co-creation of value (Vargo & Lusch, 2004). Abela and Murphy (2008) view ethics as an important part of marketing decision making and believe that the service-dominant logic helps overcome the tendency to compartmentalize ethics issues.

Similarly, Lusch (2011) has called for SCM to adopt a service-dominant logic approach as a means of greater supply chain integration. This can improve the amount of accountability in ethical decision making as SCM has the potential to compartmentalize various activities due to a dense network of relationships.

There is also a need for SCM to move from transactions that are more efficient and effective and toward relationship building efforts that develop satisfying inter-organizational relationships throughout the supply chain (Lambert et al., 2005; Mentzer et al., 2001). Relational marketing throughout the supply chain must develop trust and integrity and result in functional operations and processes that meet strategic and stakeholder goals (Wong, Skipworth, Godsell, & Achimugu, 2012). A relationship marketing orientation will have an effect on the exercise of power and relational governance in the supply chain. In fact, it has been found that a relationship marketing orientation has a positive effect on the exercise of non-coercive power over manufacturers and distributors (Zhuang & Zhang, 2011). Research on franchisors and franchisees has also demonstrated that effective communication and strong

relationships between channel members helps to promote a system of shared values (Watson & Johnson, 2010).

A detailed literature review by Burgess and Singh (2006) shows that efforts to improve SCM have an overwhelming and unbalanced focus on technological innovations. They argue this “has resulted in the ignorance of potential innovations that could result from understanding the complex social and political issues that are an integral part of any supply chain” (p. 337). However, there appears to be a growing concern with alliances/relationships (Giunipero et al., 2008) and an emphasis on supply chain restructuring to focus on financial, social, and environmental performance—the triple bottom line (Carter & Rogers, 2008; Frankel et al., 2008).

As progress advances in restructuring SCM, marketers must consider ethical conduct and social responsibility as key concerns and challenges. The unbalanced focus on technological innovations requires oversight by supply chain members to develop programs that inform about mutual ethical risks and to address solutions to ethical and social issues. This makes it necessary to have communication and coordination about ethical decisions throughout the supply chain.

Resolving Ethical Challenges in Supply Chain Management

The need for strategic coordination of ethical decision making in the supply chain is evolving, and the importance of ethical issues in SCM grows from multiple factors. The first is the extent of cross-functional integration within, between, and among organizations required to successfully manage supply chains. Such integration requires that (a) all members of the supply chain have the same objectives and be aligned to deliver customer value; (b) the relinquishment of control by traditional functional areas; and (c) increased emphasis on relationship management (Burgess & Singh, 2006; van Hoek, 2001), which may be less formal and more reliant on trust and willingness to collaborate. However, the development of the necessary relationships to achieve integration is difficult, and many organizations are unaware of how power structures throughout the supply chain may influence performance (Maloni & Benton, 2000).

Failure to achieve strong integration may result in individual members of the supply chain optimizing local decisions to the detriment of other supply chain members (Lee, 2004; Wong et al., 2012). This local compartmentalization of decision making without channel member oversight creates the possibility of decisions that may have negative ethical outcomes and poor social performance. With many supply chain participants focusing on technology and cost effectiveness, the risks of failing to recognize ethical and social issues increase.

The movement toward relationship marketing and the service-dominant logic of co-creation provides a foundation for integrating an ethical culture

throughout the supply chain. As new integrative relationships develop, focus may shift from redesigning business processes to improve efficiency and effectiveness (Hammer & Mangurian, 1987) to improved management of relationships. As this occurs, ethical considerations must be included. If they are not, other operational objectives may take priority; “if ethics are not part of those priorities and if the priorities are followed when tough decisions are made, unethical decisions will occur” (Hollingworth, 2012).

Problems resulting from the failure to consider ethical issues in the design of business processes may be further complicated by the repetitive nature of many transactions. While the negative consequences of one transaction may be viewed as tolerable, the cumulative effect of numerous transactions may be significant yet treated as unimportant (Hollingworth, 2012). This is further exacerbated by pressure for efficiency in transactions (Valentine & Hollingworth, 2012) and a failure to view an emphasis on ethical considerations as a differentiating, value-added, competitive advantage.

While there is not yet extensive literature on ethical issues in supply chains, (e.g., Carter, 2000a; Carter & Jennings, 2002; Carter & Rogers, 2008; Eltantawy, Fox, & Giunipero, 2009), there is reason to believe that supply chain managers and researchers are willing to accept inclusion of these issues. First, as discussed above, the development and management of ethical relationships throughout supply chains is an area of continuing and growing concern. Second, the transportation sector of supply chains has long been concerned with the negative externalities generated by supply chains related to the sustainable use of resources, and it is very positive that SCM literature shows increasing concern with sustainability and social responsibility issues (Cooling, 2007; Linton, Klassen, & Jayaraman, 2007; Plambeck & Denend, 2011; Seuring & Müller, 2008). Third, a hallmark of SCM has been “the willingness to embrace continuous forward thinking and evolution rather than accepting the ‘status quo’” (Frankel et al., 2008, p. 19).

As the focus of SCM moves from only considering efficiency and effectiveness to co-creation of value, considering the ethical consequences of decisions provides new benefits to stakeholders. Such a focus falls under a stakeholder orientation, which views all stakeholders as being important although not necessarily equal. A stakeholder orientation places an emphasis on learning about stakeholders, meeting their needs, and creating value for different stakeholder groups (Ferrell, Gonzalez-Padron, Hult, & Maignan, 2010). A stakeholder orientation, therefore, has a strong association with the co-creation of value concept as well as corporate social responsibility in SCM.

Research and Thought on Ethics and Social Responsibility in Supply Chains

In this section, we examine existing SCM literature to determine the extent of studies and investigations into supply chain ethics. Because social

responsibility and sustainability decisions are often made as firms go through their ethical decision-making process, we have included these as major categories. Ethics relates to the decisions of individuals and organizations regarding acceptable or unacceptable behavior in decisions, while social responsibility relates more to the external impact of those decisions on stakeholders and society. Sustainability is one of the more popular concerns in the social responsibility domain but, because there is so much concern today with sustainability issues, especially in supply chains, we have made it into a separate category.

We reviewed the last 10 years of the *Journal of Marketing Channels* to assess the number of articles that were directly or indirectly related to the field of marketing ethics, social responsibility, and sustainability. The review indicated that few articles deal directly with marketing channel or supply chain ethics from a holistic perspective. On the other hand, there were a number of articles that relate to ethical issues or marketing practices that could diminish ethical conflict. Approximately 22% of articles at least indirectly related to ethics. The general categories of ethics-related topics included trust, managing conflict, relationship marketing, product recalls, and opportunism. Very few related to sustainability issues.

We next examined articles from the last 10 years of the *Journal of Supply Chain Management*. While there are multiple high-quality journals in the field of SCM, this journal was chosen for detailed review for several reasons. First, it is oriented toward the development of supply chain theory and practice rather than work in functional areas of the supply chain such as logistics or transportation. Second, while it has been in publication for almost a half century, it has seen recent advances in quality and impact. Finally, it publishes behavioral research that builds theory and has practical relevance.

Of 226 articles, we found 6 dealing with ethics topics in the supply chain, 5 on the topic of social responsibility, and 10 regarding sustainability issues in SCM. Topics in ethical SCM varied from trust and relationship building to conflicts of interest. We then expanded our review to journals in transportation, logistics, and distribution, including *Transportation Quarterly*, *Journal of Business Logistics*, and *International Journal of Retail & Distribution Management*. These articles provided important insights into global supply chain ethics, sustainable practices, transportation ethics, and socially responsible purchasing practices.

Because trust is the glue that holds organizations together, it is no surprise that much ethical SCM literature focuses on trust and power relationships. Wagner, Coley, and Lindemann (2011) suggest that trust developed during a business relationship has a stronger impact on the future relationship than favorable economic outcomes or reputation. Moberg and Speh's (2003) study of logistics managers found that reducing questionable behaviors increases trust, commitment, and relationship building. The type of

power used in supply chain relationships influences trust, which in turn indirectly affects perceptions of cooperation and satisfaction on the part of the agent (Duarte & Davies, 2004). Coercive power has been found to have a negative relationship with different dimensions of supplier performance, while referent and legitimate power are positively related (Terpend & Ashenbaum, 2012).

Opportunism and inter-channel conflict are major topics in supply chain and marketing channel literature. Opportunism occurs when supply chain members attempt to take advantage of the relationship to pursue their own interests. Perceptions of fairness and unfairness between supply chain members appear to affect the use of opportunism (Paswan, 2009). Additionally, with multiple stakeholders involved in supply chains, it is inevitable that conflict will arise between different members. Using stakeholder theory, Mooi and Frambach (2009) found that greater supplier power tends to reduce conflict between suppliers and stakeholders, while greater stakeholder power tends to increase conflict between buyers and sellers. While conflict is not always disadvantageous, it can become an ethical issue when not resolved appropriately. Hence, negotiation and conflict resolution in complex relationships have become important areas of research for marketing scholars. Liu and Dheeraj (2011) found that two variables, substantive gain and relationship outcome, should be considered in negotiation situations and suggest a framework for appropriate negotiation strategies.

Some of the articles reviewed took a more holistic approach to ethics in SCM. Gonzalez-Padron, Hult, and Calatone (2008) researched the relationship between innovativeness, organizational ethical climate, and relationships in global purchasing. They found that entrepreneurial innovation was more effective in developing strong purchasing relationships when the firm operated within a positive organizational ethical climate. In a study concerning the ethics of United States general freight carriers, Murphy, Smith, and Daley (1991) found that organizational objectives have a moderate impact on behavior when faced with ethical issues but a strong impact on how truckload carriers evaluate the importance of these issues. In a study of leadership styles in the retail industry, individual values have been found to influence leadership, which subsequently affects job satisfaction (Shim, Lusch, & O'Brien, 2003). To improve relationships between stakeholders and supply chain members, Herndon (2006) recommends an ethics framework that uses tools from ethical decision making and corporate social responsibility research to increase positive perceptions and decrease negative perceptions among stakeholders.

However, other studies on supply chain ethics examine more specific issues. Handfield and Baumer (2006) examined the conflict of interest policies of various large companies as well as their methods for enforcing ethical behavior. Their research identified conflict of interest as being a prime concern of ethical purchasing. Kaikati and Kaikati (2006) found evidence that

relying too much on slotting and promotional allowances indicates supply chain weaknesses that should act as red flags to investors. While it would appear that fewer than 3% of *Journal of Supply Chain Management* articles in the last 10 years dealt specifically with business ethics issues (excluding social responsibility topics), demonstrating perhaps a gap in ethical supply chain literature, the variety of ethical topics discussed in articles in supply chain and logistics journals provides major opportunities for additional research.

Emphases on social responsibility and sustainability in SCM have been steadily increasing in the past decade. In a literature review of nine SCM journals between 1997 and 2006, Giunipero et al. (2008) found that only 3% of articles focused on environmental/social responsibility issues. In our literature review of the *Journal of Supply Chain Management* in the past decade, we found that nearly 7% of articles focused on ethics and social responsibility, most of which were written in the past 5 years.

As we described earlier, social responsibility involves maximizing a business's positive impact on society while minimizing its negative impact. Although the majority of social responsibility articles were written in the last few decades, concern for social issues has been a part of marketing literature for the past 75 years. One of the issues discussed in the earliest business ethics textbook was how companies could use anticompetitive distribution and marketing channel tactics for their own gain. Sharp and Fox (1937) discuss different ethical misconduct scenarios, including wholesalers who become retailers in order to drive competitors out of business, sabotaging the transportation facilities of the competition, and using coercive power to compel suppliers to cut off materials for rival products. Although many of these practices are illegal, these underhanded issues continue to represent major concerns in marketing channel and distribution ethics.

In his 1969 article "Problems of Tomorrow's World" published in *Transportation Journal*, T. R. Brannan identified the increasing challenges and the responsibility that business practitioners face in finding a way to balance their own needs with those of society. As the concept of socially responsible business practices evolved, stakeholders began to view the concept as a duty for all business practitioners—including those in the supply chain. For instance, Carter and Jennings (2002, 2004) have revealed that social responsibility concerns are affecting the behaviors of managers in the logistics and purchasing departments.

At the same time, much of the social responsibility literature in SCM has focused on specific social issues pertaining to SCM. Product safety has long been the focus of much marketing research, as sellers can often find themselves held liable if an injury occurs. Even suppliers of component parts could be held liable for product defects. Because the concept of enterprise liability focuses less on culpability and more on recompensing the injured stakeholder, multiple channel members including the component parts

supplier could be held liable for damages. Used-good sellers, companies employing independent third parties, and franchisors have all been held liable in past cases for product safety defects (Morgan, 1999).

Product recalls have become a very important issue, particularly in places such as China, where product safety is not as readily monitored. In the melamine contamination milk tragedy, channel member Sanlu Group was held accountable for product issues as well as ineffective crisis management. Research into the disaster revealed that the firm took an accommodating stance with government authorities and an advocacy stance with the media and consumers (Ye & Pang, 2011). This disconnect revealed serious flaws in the system.

However, many other countries in the global supply chain are also at risk for product quality issues, a risk that SCM scholars and regulators are trying to address. Roth, Tsay, Pullman, and Gray (2008) investigated safety issues in the global food supply chain after the 2007 China recalls and developed a framework with six concepts—traceability, transparency, testability, time, trust, and training—for improving the safety of global food supply chains. Similarly, Copeland, Jackson, and Morgan (2004) maintain that strong planning systems and quality control mechanisms can help prevent product recalls, while quick response and action can increase the effectiveness of and recovery from a recall should it occur.

Many other social issues have become important in recent years. Whitfield and Landeros (2006) examine the impact of corporate culture on supplier diversity and found that more positive cultures (specifically affiliative and achievement-oriented corporate cultures) have more supplier diversity than companies characterized by defensive and passive-defensive cultures.

Attempts have also been made to investigate issues in global SCM. In response to concerns over sweatshop labor, Emmelhainz and Adams (1999) found that the global codes of conduct from major manufacturers and retailers tended to lack uniformity, detailed content, and strong enforcement. While these articles stress that social responsibility is the right thing to do, other researchers have also investigated how socially responsible SCM can contribute to the bottom line. Cruz (2011) found that socially responsible global supply chains not only are more efficient but can lead to lower prices for consumers.

The rise in sustainable SCM research coincides with a growing corporate interest in sustainability. Patagonia, Walmart, and many other companies are investigating ways to “green” their supply chains through the use of more sustainable materials, conservation of resources, and closed loop systems (Schwartz, 2011). Published articles in this field have increased in frequency. In a literature review of SCM articles between 1994 and 2007, Seuring and Müller (2008) identified two sustainability themes: (a) supplier management for risks and performance, and (b) supplier management for sustainable

products. They found that an emphasis on green products and environmental practices was much more common in the sustainability literature.

However, while sustainability has become virtually synonymous with “green” or “eco-friendly practices” in the United States, many researchers are taking more of a triple bottom-line approach and are investigating not only the environmental impact of “greener” supply chain practices but the social and economic impact as well. Pullman, Maloni, and Carter (2009) found that sustainability programs indirectly improve quality performance, suggesting a possible link between improved environmental performance and quality performance. In their analysis of 10 firms, Pagell and Wu (2009) found that many of the actions taken to increase the sustainability of organizational supply chains coincide with traditional accepted best practices of the industry. This suggests that many sustainability practices can enhance both the quality and the ethicalness of firms that make a commitment to sustainable SCM. Evidence indicates that sustainable supply chain development can also significantly increase a firm’s competitive advantage (Reuter, Foerstl, Hartmann, & Blome, 2010), but it is also important that a firm consider the cost investments required as well as the logistics of implementing sustainable supply chain practices such as reusable packaging (Twede & Clarke, 2005).

ETHICAL DECISION MAKING IN SUPPLY CHAIN MANAGEMENT

To truly understand the domain of ethics in SCM, we must examine how ethical decision making occurs in organizations. This can provide a foundation for advancing theory and research. Marketing scholars have played a leading role in developing ethical decision-making models for the entire business discipline (Bartels, 1967; Ferrell & Gresham, 1985; Hunt & Vitell, 1986). Marketing models such as the Hunt-Vitell general theory of marketing ethics and the Ferrell-Gresham contingency model for ethical decision making have significantly advanced the foundation of marketing ethics research. These descriptive models help us understand how decisions are made in an organizational context.

Normative guidelines, including principles, values, and norms, help establish an ethical culture defining what the organization should do when facing an ethical issue or dilemma. Distributive justice principles, including equity, need, and equality, are found to be highly significant in inter-organizational relationships, particularly in relationships in which one party perceives the other party to be stronger (Kashyap, Manolis, & Brashear, 2008). Research in SCM should consider both descriptive and normative perspectives.

With the advancement in academic knowledge of ethical decision making has come a renewed vigor in the institutionalization of ethics programs among organizations, industry groups, and governments. Scandals

over the past decade have reiterated the need for strong ethics and compliance programs to encourage an ethical culture in organizations. Such programs are no less important in the areas of SCM. In fact, the increasing globalization of business has made the ethical management of global supply chains even more complex. Supply chain managers must find a way to balance differing cultural values and beliefs while maintaining the firm's ethical culture. SCM has significant ethical risk areas associated with issues such as working conditions, treatment of employees, product safety, bribery, product quality, transportation externalities, shipment security and tracking, and reverse logistics.

Descriptive approaches developed from attempts to show relationships among the greatest influences in ethical decision making. As mentioned, two well-known descriptive frameworks include the Ferrell-Gresham model and the Hunt-Vitell model for ethical decision making. We explore these descriptive ethical decision-making models and analyze how they can contribute to a more thorough knowledge of ethical decision making in SCM.

The Ferrell-Gresham Model

Ferrell and Gresham's (1985) contingency model for ethical decision making takes a positivist approach toward ethical decision making. Rather than looking at what organizations *ought to do*, which is the main concern of a normative approach (Laczniak & Murphy, 2006), positivist approaches examine the current behavior of organizations with an emphasis on positive outcomes of ethical decision making. The Ferrell-Gresham model provides a framework to help marketers understand how ethical decision making occurs in the organization. According to the model, the ethical decision-making process begins by recognizing that an issue has ethical dimensions. External factors, including the social and cultural environment, will also affect how the issue is perceived and may place limitations on the behavior of the individual or organization. The framework then introduces three variables that influence the ethical decision-making process: individual factors, significant others, and opportunity.

Individual factors include knowledge, values, attitudes, and intentions. Individuals tend to form these personal values based upon what they learned from their families, friends, and cultures.

Significant others include organizational members such as co-workers, supervisors, and executives. According to social learning theory, individuals in an organization form role models who they will imitate when engaging in organizational decision making (Bandura, 1986). Thus, the influence of significant others, including social pressures or organizational expectations, plays a profound part in organizational ethical decision making. Although an individual's role models are often managers or executives (Bandura, 1986), Ferrell and Gresham (1985) claim that the closer an individual

works with a colleague, the more influence that colleague will have over the individual's behavior. As mentioned earlier, Ferrell and Gresham also claim that organizational pressures can sometimes create situations in which an employee might make a decision that conflicts with his or her individual values.

The third variable describes the opportunity that an individual has to take a certain action. Opportunity consists of corporate policies, codes of ethics, and positive/negative reinforcement. Thus, providing guidance for employees in the form of ethics codes and policies and limiting certain activities with the threat of punishment can encourage or restrict certain behaviors.

Research from other marketing scholars lends support to many of the propositions advanced in the Ferrell-Gresham model. Zey-Ferrell, Weaver, and Ferrell (1979) indicate that significant others have a greater impact on individuals in an organizational environment than do individual values. Weaver, Treviño, and Agle (2005) determined that individuals are more likely to base their own behavioral patterns after those they work with on a daily basis rather than on executives or managers who are more distant.

Yet, while the Ferrell-Gresham model yields important insights for the marketing discipline as a whole, it can also be used specifically for ethical SCM research. In an examination of ethics and supply chain literature, Carter (2000b) concluded that internal organizational factors as well as external variables impact ethical behavior in buyer-seller relationships—not unlike the Ferrell-Gresham variables of external environment (the social and cultural environment) and factors that influence decision making in an organizational context (individual values, significant others, and opportunities). Goebel, Reuter, Pibernick, and Sichtmann (2012) found that top executives influence the decisions of purchasing managers when choosing suppliers based upon sustainability, reinforcing the Ferrell-Gresham framework regarding the importance of significant others and ethical role models. The Ferrell-Gresham framework has also been used to lend support to variables that are believed to be important in global supply chain practices, including the impact of internal organizational pressures and cross-cultural differences in ethical behavior (Carter, 2000b; Gonzalez-Pardon et al., 2008; Walker & Phillips, 2009).

The Hunt-Vitell Model

The model of ethical decision making developed by Hunt and Vitell (1986) has a marketing perspective and incorporates factors such as organizational influences. However, it recognizes the use of normative philosophies in ethical decision making and “attempts to combine deontological and teleological philosophical ethical decision traditions found in moral philosophy into a framework that describes ethical decision making” (Ferrell, 2011, p. 267). The Hunt-Vitell model shows that both teleological and deontological aspects

of moral decision making are involved in the context of ethical decision making in organizations. This model makes an important contribution to establishing the role of normative philosophies.

Using deontological theory, the individual examines whether the actions taken to secure a particular outcome are ethical and whether they respect the rights of others and their responsibility to carry out certain duties. This process involves “comparing the behaviors with a set of predetermined deontological norms, representing personal values or behavior” (Hunt & Vitell, 1986, p. 9). The individual then evaluates the alternatives using teleological principles, in which he or she examines the outcome of each action to determine which ones will provide the most benefits to the most stakeholders. This is the utilitarian aspect of the decision. Most ethical decision making in business is based on utilitarian philosophies.

Teleological evaluations are described as examinations of the probabilities of consequences, desirability of consequences, and the importance of stakeholders. For example, if undesirable consequences of a certain decision are improbable or if the desirability of the positive consequences is greater than the negative consequences, the individual might choose to pursue the decision. Of course, because teleological theory stresses the greatest good for the greatest number of people, then teleological evaluations should determine which stakeholders will benefit from a decision, which ones might be harmed, and whether the good outweighs the harm for a greater number of stakeholders. For example, in a decision related to child labor, there are trade-offs between economic benefits and social concerns. Is a 14-year-old boy or girl who is not in school better off working in a factory for 10 hours a day for \$2 an hour or being on the street with little or no economic support from their families? Supply chain members must make a decision on whether the use of child labor is acceptable and be aware that various stakeholders will evaluate this decision.

These different evaluations help the individual form ethical judgments; however, intentions also play a major role in actual behavior. For instance, a person might decide that a certain behavior is the most ethical. Yet, from the model, we see that teleological evaluations also independently impact intentions. So a person might intend to go with a less ethical course of action despite his or her ethical judgment, perhaps because the desirability of the consequences for the less ethical decision outweighs the individual's ethical considerations. Often in an ethical dilemma, all the decision outcomes have negative consequences. All of these factors will determine actual behavior as well as social pressures and previous decisions made by others.

As with the Ferrell-Gresham model, the Hunt-Vitell ethical decision-making model is not complete without factoring in situational constraints such as opportunity. If the individual does not have the opportunity to engage in a particular action, then he or she will be unable to do so despite intentions or ethical judgments. Behavior will result in the actual consequences

(versus perceived consequences from earlier). These consequences will become part of the person's personal experiences and might be relied upon in future ethical decision-making situations.

Although the Hunt-Vitell model has received criticism for not having a solution for ethical diversity (Ferrell, 2011) as well as for being too descriptive (Laczniak & Murphy, 1993), research has validated the importance of teleological and deontological considerations in ethical decision making. Mayo and Marks (1990) found that both teleological and deontological evaluations are used in making ethical judgments. Hunt and Vasquez-Parrago's (1993) research on ethical decision making among sales managers also lends support to the Hunt-Vitell model. Another contribution of the Hunt-Vitell model is its recognition of the value of stakeholders in teleological evaluations during a time period when stakeholder theory was still relatively new (Ferrell, 2011).

The Hunt-Vitell model has also been applied to SCM. Vermillion, Lassar, and Winsor (2002) used the Hunt-Vitell model to advocate a revised approach to the theory of principle-agent relationships used to analyze distribution channels. According to the principle-agent approach, manufacturers and distributors take a zero-sum approach to their relationships, pursuing actions that will secure their greatest good even if it comes at the expense of the other partner. However, the authors allege that principles and agents can also assume a deontological stance, which could lead to greater levels of trust and impact the types of contract situations agreed upon by the two parties (Vermillion et al., 2002). Weitz and Jap (1995) found that firms prefer to partner with other organizations who share similar beliefs and value systems; this research led Vermillion et al. to set forth the proposition that manufacturers and distributors who share similar ethical evaluations will be more likely to partner with one another. Additionally, Park and Stoel (2005) used the revised Hunt-Vitell theory of marketing ethics in their own development of a model for socially responsible buying/sourcing. Much like Hunt and Vitell, the researchers concluded that individual factors—specifically cognitive processing and emotional responses—have a major influence on organizational behavior such as socially responsible buying/sourcing practices.

The majority of the research we reviewed does not use the Ferrell-Gresham or Hunt-Vitell ethical decision-making models as frameworks for understanding how ethical decisions are made and implemented. Instead, most research focuses on one or two variables in isolation without a complete understanding of how ethical decisions are made. For instance, Martin and Smith (2008) discuss ethical frameworks, but only in regard to stealth marketing, while Martin and Jones (2010) examine ethical beliefs and information asymmetries in supplier relationships.

There is also an absence of research examining how supply chain ethical decision making should be integrated into the overall operations of the business to elevate trust and integrity among participants. In managing the

ethical and legal activities of the firm, specific risks that relate to the supply chain require all participants to be fully engaged. Each participant must understand that he or she may be operating in an isolated area where decisions could have major effects on the firm. For instance, the failure to understand compliance with the U.S. Foreign Corrupt Practices Act or the United Kingdom's Bribery Act of 2010 could result in heavy penalties and reputational damage. Likewise, an organization's reputation can be seriously damaged.

DISCUSSION

To advance ethics theory and research in SCM requires new directions, the integration of existing knowledge, and the development of a framework to explain ethical decision making. Based on our review, the opportunity exists for an improved understanding of the unique inter-organizational relationships that create an environment of integrity. While it is acknowledged that the traditional concerns of trust and cooperation are important, more needs to be known about how ethical decisions are made in SCM and what should be the mutually shared principles, values, and norms.

The best description of the current status of ethics research in marketing channels and SCM is that it is fragmented and mainly addresses issues that are not directly related to the ethical decision-making process. This parallels criticism of SCM research and is associated with the failure of scholars and practitioners to achieve a consensus definition of SCM. While there have been multiple models of SCM processes developed, there is yet no standard accepted model, and these models have made no explicit effort to include a holistic view of ethical decision making. To improve the scholarship and practice of ethics within supply chains, it is critical this fragmented approach be overcome. Failure to do so will hamper the development and understanding of ethical practices and issues.

In addition, there are very few studies from a normative perspective or attempts to develop normative statements or standards for channel and supply chain managers. Some articles use constructs such as distributive justice, opportunism, relationship orientation, and conflict management that do relate to creating an ethical culture. There are some normative standards and trade group codes of conduct that are helpful. The American Marketing Association Statement on Ethics also provides excellent values and norms to assist in ethical decision making. Trade associations' statements of ethics and professional responsibility should also be a factor.

Normative directions and a descriptive understanding of how ethics works in organizations are needed, and an integration of these two approaches would be helpful. Since an understanding of the individual is a part of the ethical decision-making process, there needs to be a way to measure the

individual's ethical perspectives and how the ethical culture of the organization and the entire supply chain affects ethical outcomes. Supply chains often operate across many cultures and institutional environments, but there needs to be shared values to achieve desired conduct.

Supply chain ethics is challenging because of the number of organizations that are involved across the supply chain. While much attention has been paid to interfaces among SCM, logistics, marketing, and other functional areas both within and among organizations (for examples, see Chen, Mattioda, & Daugherty, 2007; Coyle, Langley, Novack, & Gibson, 2013; Ellinger, Keller, & Hansen, 2006; Morash, Dröge, & Vickery, 1996; Stock & Lambert, 2001; van Hoek, Ellinger, & Johnson, 2008; Zacharia & Mentzer, 2004; Zhang & Lim, 2006), we have not discovered significant research that explicitly examines ethical ramifications of these interfaces. The framework that we provide here should provide the grounding for research that examines supply chain ethics.

Most research that we reviewed focused on specific issues such as trust, opportunism, product recalls, and conflict of interest. Some articles took a more holistic approach to supply chain ethics (e.g., Gonzalez-Padron et al., 2008; Herndon, 2006; Murphy et al., 1991; Shim et al., 2003), but these articles were not as numerous. Many specific issues covered in the journals we reviewed dealt with topics that were indirectly related to marketing channel/supply chain ethics, including a relationship orientation and negotiation, but that were not necessarily reviewed within an ethical context. While all of this research makes a contribution, we attempt to link the frameworks, issues, and knowledge to both descriptive and normative managerial decisions.

The Supply Chain Ethical Decision-Making Framework

Figure 1 provides a suggested framework of supply chain ethical decision making. The first part of the framework includes individual ethical judgment. Based on the research of Robin, Gordon, and Reidenbach (2000), the moral equity dimension predicts ethical judgment of individuals and is dominated by the concepts of fairness and justice. This is consistent with the Hunt-Vitell model of ethical decision making, with both teleological and deontological philosophical traditions entering into an ethical judgment, and recognizes ethical diversity among individuals. Additional ethical diversity exists within organizations and among participants across the supply chain.

Next, social, political, and economic institutions provide the structure for both national and global operation of supply chains. Institutions such as government, religion, and education provide regulations, values, norms, and conventions for organizations and individuals (Jepperson, 1991). Institutional theory would support the view that institutions affect the ethical culture of the organization and the supply chain member relationships. Zsidisin, Melnyk, and Ragatz (2005) have used institutional theory to

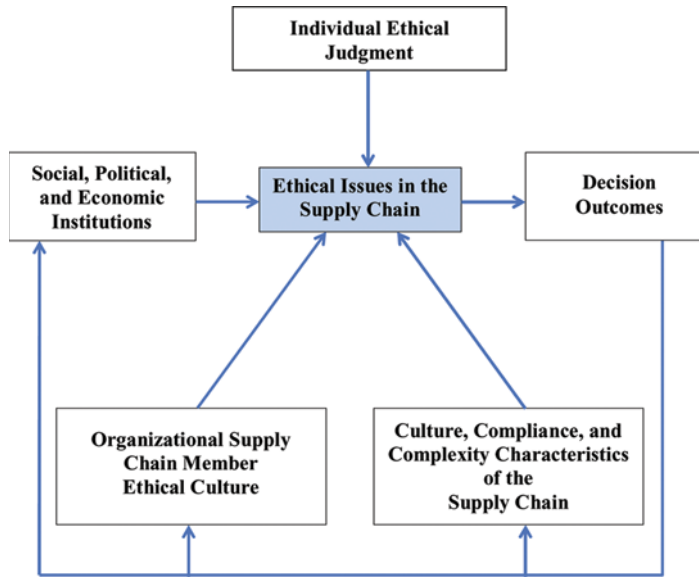


FIGURE 1 Supply chain ethical decision making framework (color figure available online).

explain how various isomorphic pressures result in certain management practices, including ethical risk management, and are embedded in supply chain practices over time. Campbell (2007) uses institutional theory to explain how social responsibility, which varies across countries and organizations and various actors, is influenced by social, political, and economic institutions to determine how stakeholders are treated. Therefore, institutions in society drive the social, political, and economic forces that help define ethical issues.

The ethical issue in the supply chain is influenced not only by individual moral judgment and institutions in society but by the culture, compliance, and complexity characteristics of the supply chain. First, some supply chains are so complex that many third-party facilitating agents are unknown to other channel members. The complex supply chain is more like a spiderweb than straight lines of horizontal and vertical relationships. This complex set of relationships influences the identification of ethical issues in the supply chain.

Ethical issues and dilemmas requiring judgment were identified earlier in this review. A dilemma exists when all of the alternatives have some negative side effects, so the most desirable path should be determined. SCM ethical issues need to be identified along with issue intensity, defined as the relevance or importance of an ethical issue from the perspective of the individual (Ferrell et al., 2013). Unless supply chain members identify risk areas and ethical issues, the framework in Figure 1 will not engage the decision-making process, and ethical considerations will be ignored.

Compliance requirements in supply management refer to policies and requirements not only within organizations in the supply chain but across

the supply chain. For example, IKEA requires its suppliers to fulfill the requirements described in its “The IKEA Way on Purchasing Home Furnishing Products” code for suppliers—better known as IWAY. As part of IWAY, suppliers must adhere to certain sustainability requirements, such as completing a “Forest Tracing System” document when supplying products containing certain types of wood (Andersen & Skjoett-Larsen, 2009). Compliance requirements are mandated requirements to which every member of the supply chain must adhere. Requirements for compliance are often developed based upon regulatory rules and risk factors within the supply chain. While all firms should have requirements for compliance, companies with a compliance culture focus more upon rules and risk management (Ferrell et al., 2013).

Besides complexity and compliance, all supply chains develop a culture based on values and norms. Social relationships, power, trust, and the sharing of information are identifiable aspects of the supply chain culture. Ethical culture is an established construct and has been found to predict ethical decision making. Scales to measure ethical culture, as well as typologies of work climates, have been developed by Victor and Cullen (1988). A scale developed by Cullen, Victor, and Bronson (1993) identifies seven dimensions of ethical culture to measure the ethical work climates in different business sectors and environments and could be used in SCM ethical decision making research. Others such as Schwepker, Ferrell, and Ingram (1997) have developed their own scales for measuring ethical culture.

Finally, the box entitled “Organizational Supply Chain Member Ethical Culture” in Figure 1 indicates that while there is compliance, complexity, and an overall culture in the supply chain, each channel member and facilitating agent in the supply chain has its own organizational values, norms, and artifacts that differ from the culture of the entire supply chain. For example, there could be differences in values related to sustainability, human rights, employee safety, and consumer protection. As indicated in Figure 1, this will be a factor in defining ethical issues for the entire supply chain. If there are major conflicts between the organization and the entire supply chain culture, then the supply chain member might withdraw from the supply chain.

The dynamic relationships in identifying ethical issues and reaching decision outcomes are indicated in Figure 1. First, institutions provide the social, political, and economic foundation for identifying issues. As the arrows indicate, issue identification results not only from institutions but from individuals, organizations and the unique culture, compliance, and complexity characteristics of the supply chain. The feedback arrows in Figure 1 indicate that decision outcomes are evaluated by all organizational participants in the supply chain. While individuals’ personal moral beliefs have an impact on identifying ethical issues, their inputs are reflected through organizational decisions.

Summary

In this article, we have reviewed ethical decision-making models and progress made in understanding marketing ethics. SCM and channel researchers need to tap this rich area of knowledge in conducting future research. As discussed previously, a number of scales exist with the potential to predict behavioral intent for making an ethical decision and to measure ethical culture. Other variables, including opportunism, conflict avoidance, trust, social learning theory, significant others, and personal characteristics, could be variables important to future research.

Since ethical culture, defined as significant others and opportunity, is a key determinant of ethical behavior in the Ferrell-Gresham model, research in the supply chain area should include organizational ethical culture as a potential variable to influence decision making. Additionally, there is most likely an ethical culture in the relationships among supply chain members. If it were possible to develop some measure of shared values, norms, artifacts, and other aspects of ethical culture that various supply chain members adopt, then this would provide insights into acceptable standards of conduct. It is very likely that different industries would vary significantly in their ethical cultures and approaches to ethical decision making.

Research needs to be moved from a fragmented approach to a more complete examination of the network of relationships that exist in SCM and marketing channels. One reason that SCM is so fragmented is that there is not general agreement on the nature and scope of SCM. Various definitions take different perspectives, with some definitions of SCM attempting to incorporate the marketing function within SCM. Other definitions perceive the supply chain as a highly technical, quantifiable area that focuses strictly on efficiency and effectiveness in decision making. The management of marketing ethics in SCM requires an understanding of the inter-organizational complexity of the supply chain. The coordination and collaboration with channel partners, suppliers, intermediaries, third-party service providers, and customers require a holistic perspective.

CONCLUSIONS

This investigation into the role of ethics in SCM and marketing channels attempts to establish the domain of ethical decision making and provide a framework to facilitate future research in this area. Our approach was to integrate current knowledge into a framework for future research. Much progress has been made in understanding various indirect outcomes from ethical decision making from a social responsibility perspective. In addition, there have been a number of studies dealing with topics such as opportunism, conflict, trust, relationship orientation, and product recalls that provide

insights on issues that affect ethical decision making. Therefore, we reviewed current knowledge on ethical decision models to provide a foundation for future research.

There are many opportunities for both conceptualization and empirical research to better understand the ethical dimensions of supply chain relationships. As mentioned, understanding the ethical culture of a specific member of a supply chain as well as the entire supply chain ethical culture would be a significant start in improving understanding. More research in areas such as trust, ethical conflicts, ethical risks, and relationship marketing would be beneficial. The Vargo and Lusch (2004) service-dominant logic framework provides an excellent background for understanding how various participants in the supply chain should integrate ethics into decisions and maintain shared goals in the co-creation of value for the final customer.

Finally, we provided information on scales that could measure individual moral equity, which have been found to predict behavioral intent and decision making, and scales that can measure ethical culture. While no one study can incorporate all of the various variables and perspectives that we cover in this review, it is possible that certain components of a model of ethical decision making in SCM and marketing channels could be developed.

The next step is to develop propositions that can direct empirical studies to test our framework. Existing SCM literature provides insights for developing these testable propositions. Theory development and empirical research in marketing ethics literature also provides insights to launch SCM research in ethics. Hopefully, we can open the door for advancing knowledge on ethical decision making in the supply chain.

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