

## **Supply Management & Ethical Decision Making: A Behavioral Experiment**

by

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**Date: 23 January 2018 (Tuesday)**

**Time: 2:30pm - 3:30pm**

**Venue: M714, Li Ka Shing Tower**

**The Hong Kong Polytechnic University**

**(Conducted in English)**

### **Abstract:**

Supply managers and executives are under direct pressure to perform. Top management and external constituents expect supply management to reduce spend in order to bolster profitability. Thus, they may institute a compensation structure that motivates supply managers and executives to contain spend. To exacerbate the situation, supply managers and executives may get tempted to stray from ethical behavior due to the large amount of money they handle and due to lucrative but often unethical actions by sales personnel. This research uses a lab experiment approach to examine whether the reward structure (i.e., beneficiary - Mazar et al. 2008; Umphress et al. 2010; Gino et al. 2013, and timing – O'Donoghue & Rabin 2000; Strathman et al., 1994; Loewenstein & Prelec, 1992) and other salient factors (such as context, motivation, and personal characteristics) have an effect on ethical behavior. Specifically, we posit that the beneficiary of a bonus (the individual who undertakes the decision, or the group/organization), the timing (in the near future - next paycheck, or in about a year – at the anniversary of contract), and the safety of the product (low, or high probability of failure that can result in injury or even death) may impact ethical behavior. The participants included 457 subjects that completed the assignment on two different administrations, spread one week apart.

During the first administration, the subjects assumed the role of a Director of Supply Management of a supplier of the automotive industry who issued a Request for Quotations (RFQs) to purchase transmission cases. One of the bidding suppliers attempted to gain advantage by soliciting information about the competitor bids from the director. Prior to the presentation of the scenario, the subjects read the ethical standards issued by the Institute for Supply Management and were administered a quiz in order to assure that they fully understood that sharing bid information would be an unethical choice. During the second administration, the subjects had to respond to the solicitation; they could simply reply that they cannot share the information, they could share the information and note the lowest bid, or they could relate any reasonable price below the actual lowest bid. Results suggest that 47% of the subjects acted ethically and did not share the lowest bid information with the supplier. About 19% of the subjects shared the correct lowest bid information while almost 34% of the subjects reported bid information which was below the lowest bid. Further analysis is presented and examines the efficacy of the three manipulated variables to explain ethical behavior.

### **Bio:**

Xenophon Koufteros is a Professor of Supply Chain Management at the Mays Business School, Texas A & M University where he also holds the Jenna & Calvin R. Guest Professorship in Business. He currently serves as the Director of the Supply Chain Consortium at the Mays Business School. He received his Ph.D. degree from the University of Toledo and an MBA degree from Bowling Green State University. Prof. Koufteros has published over 40 articles in refereed journals including Journal of Operations Management, Production and Operations Management, Decision Sciences, Journal of Supply Chain Management, Structural Equations Modeling, IEEE Transactions on Engineering Management, International Journal of Production Research, International Journal of Production Economics, and OMEGA amongst others. Prof. Koufteros also served as associate editor of Journal of Operations Management, Journal of Supply Chain Management, Journal of Business Logistics, and Decision Sciences. He received the Best Associate Editor Award for Journal of Operations Management and for Journal of Supply Chain Management and the Best Empirical Paper Award for Decision Sciences. He is also a member of the editorial board for Production & Operations Management, Structural Equation Modeling: An Interdisciplinary Journal, Educational & Psychological Measurement, and Journal of Marketing Channels. Prof. Koufteros teaches courses across all levels and he received numerous teaching awards such as the Association of Former Students (AFS) Teaching Award at the Mays Business School. He also received several awards for his service to the profession and students, such as the Distinguished Achievement Award – Individual Student Relationships, at University level, Association of Former Students, Texas A & M University. He currently does global research in the area of ethics in purchasing via experiments and studies global supply chain security.

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**All are welcome!**