Forker, Laura B.; Janson, Robert L.

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Ethical Practices in Purchasing

By Laura B. Forker and Robert L. Janson

Laura B. Forker is a Doctoral candidate in Logistics at Arizona State University. She received her B.A. degree from Cornell University and her M.A. in Economics from Indiana University.

Robert L. Janson is a senior manager at Ernst & Whinney in Cleveland, Ohio. He received his B.S. degree from Purdue University and has earned the C.P.M. and C.P.I.M. designations. He is the author of three books and numerous articles on various aspects of materials management and purchasing.

Uncertainty about what constitutes ethical conduct has increased markedly for purchasing people in recent years. This article reports the results of a study that was conducted jointly by Ernst & Whinney and NAPM's Center for Advanced Purchasing Studies, with support from *Purchasing World* magazine. Thirty-nine states, the District of Columbia, and Canada were represented among the survey respondents. The questionnaire utilized in the study requested detailed information in the following areas: (1) ethical practices, (2) buying experience, (3) acceptance of favors, (4) narrative comments, (5) organizational profile, and (6) personal data about the respondent. The results of the study were compared with those from a similar regional study conducted in 1975 by Ernst & Whinney and also with the results of a 1978 purchasing ethics study conducted by the Illionis Institute of Technology.

The current study indicates that the vast majority of purchasing personnel conduct their business affairs in an ethical manner; however, they do not agree on how ethical standards can be enforced. Adoption of a formal ethics policy is considered helpful in preventing dubious practices, but respondents report that today top management is issuing fewer policy statements concerning ethical standards of conduct than it did twelve years ago.

Significant trust and responsibility are placed with purchasing personnel. Not only do these people spend millions of dollars of a company's resources, their departments serve as a key communication link with the external business community—they function prominently as a window through which the outside world views the firm's operations. Yet, many buyers are subject to ambiguous directives from management about how to conduct business with suppliers. Additionally, as all seasoned buyers know, they frequently are subject to considerable external pressure from various vendors.

While earlier studies have examined the ethical perceptions of buyers and the related dilemmas they face in purchasing

work, there has been no empirical study since the 1970s dealing with the ethical nature of the business practices of purchasing professionals. Hence, the present study was conducted on a national basis to update two similar studies—one performed in 1975 by Ernst & Whinney, and the other done in 1978 by the Illinois Institute of Technology—concerning the ethical practices of professional buyers and purchasing managers.[1]

PREVIOUS STUDIES

One of the first studies that focused on ethics in purchasing was conducted in 1966 by Carlton Guertler.[2] His work explored the existence, breadth, and depth of written policies that explained what a company expects of its employees in the area of ethical conduct. The responses received in Guertler's survey indicated that half of the participating firms had written standards of ethics for purchasing personnel and, of these, 92 percent believed that having such standards was beneficial. All respondents from firms with written policies reported prohibitions on the acceptance of gifts. Although some firms made exceptions for advertising souvenirs and business lunches, approximately half of them required buyers to report any offers of gratuities to their managers. The study concluded that written policies were very helpful to purchasing people in shaping their beliefs and in guiding their behavior.

A 1975 survey of purchasers in Ohio, West Virginia, western Pennsylvania, and northern Kentucky, directed by Ernst & Whinney (E&W), was one of the first attempts to study in depth the ethics of industrial purchasing practices.[3] The 192 responses indicated that the vast majority of purchasing personnel adhered to high ethical standards and practices. Even those individuals, however, reported that certain practices involving a close semisocial relationship with vendor representatives appeared to be essential to effective conduct of a firm's buying activities. The authors of the study, Robert Janson and Kathleen Warner, concluded that higher ethical practices were likely to occur when a firm's management promulgated a written ethics policy, enforced it in practice, and periodically audited the behavior pattern of purchasing personnel. It was suggested that NAPM's "Standards of Purchasing Practice" be used as a foundation for the definition and measurement of ethical practices in purchasing.

Results of the 1975 survey encouraged NAPM to sponsor a nationwide ethics review in 1978; the study was performed by the Center for the Study of Ethics in the Professions at the Illinois Institute of Technology (IIT).[4] The IIT survey, which was modeled after the 1975 E&W study, yielded 1,184 usable responses from all 50 states. Although 59 percent of the respondents stated that their firms had a written ethics policy, a substantial minority of those surveyed reported ethics problems or purchasing practices that might be considered questionable. For instance, more than 30 percent said that they were sometimes expected to buy from certain suppliers on the basis of reciprocal purchasing arrangements between their firm and selected suppliers.[5]

Another study, published in 1979, was conducted by William Rudelius and Rogene Buchholz. This study asked purchasing managers (1) if they believed any of their practices generated significant ethical questions, (2) which practices they already covered with a stated policy, and (3) which practices they would like to handle with a new policy.[6] The survey was sent to senior purchasing managers and to buyers in the Minneapolis-St. Paul area; 66 out of 75 managers contacted participated, while 136 of 460 buyers participated. The study revealed that offers of gifts, entertainment, and trips constituted the major ethical concerns of all buying personnel within the organization, regardless of the firm's size.[7] It was not surprising, then, that approximately 80 percent of the responding managers reported having company ethics policies that covered these issues. The largest firms had the most extensive array of policies. Many covered additional areas, such as:

- Showing partiality toward suppliers preferred by upper management.
- Exaggerating the severity of a problem in order to extract concessions from a supplier.
- Using the firm's purchasing clout to gain concessions.
- Asking suppliers for information about competing firms.

The authors concluded that written policies dealing with ethical matters are necessary for purchasing personnel. They believe that they prevent misunderstandings, which can occur when word-of-mouth directives are passed through the organization, and that they provide guidelines that facilitate consistent decision making throughout the organization which, in turn, contributes to the achievement of organizational goals.

A study comparing the perceptions of buyers and salespeople with respect to eleven specific ethical questions was undertaken in the Midwest by Alan Dubinsky and Don Gwin; the results were published in 1981.[8] The authors found eight situations to be particularly troubling for purchasing personnel:

1. Exaggerating a buyer's or a supplier's problem to achieve a desired action.
2. Giving preferential treatment to purchasers or suppliers that top management prefers.
3. Allowing personalities to influence buying/selling transactions.
4. Engaging in the practice of reciprocity.
5. Offer/acceptance of free gifts, meals, and trips.
6. Seeking/giving information on competitors' quotes.
7. Gaining competitive information unfairly.
8. Showing bias against salespeople who circumvent the purchasing department.[9]

This study, too, concluded that written policies regarding ethical practices would help guide employees toward the appropriate actions to take in a given situation.

The latest empirical study of ethics in purchasing, conducted by *Purchasing* magazine in 1986, covered only the acceptance of gifts.[10] Sixty-six percent of this survey's respondents reported that their companies have a formal policy regarding the acceptance of gifts. In most instances, particularly in the larger firms, the acceptance of gifts was strictly prohibited. Thirty-five percent of the companies participating in this survey periodically notified suppliers of their policy on gifts. Interestingly, three-quarters of the respondents stated that their ethics policy was not audited or formally checked. Only 18 percent indicated that their company's policy on accepting gifts had been updated in the last five years.

DESIGN OF THE PRESENT STUDY

This study was designed to achieve the following objectives:

1. To determine what ethical practices purchasing personnel currently pursue, and how often they exercise these practices.
2. To broaden public awareness of purchasing ethics on the presumption that greater knowledge about questionable practices will assist the profession in handling the problems.
3. To determine the possible existence of relationships between certain characteristics of the purchaser (individual or company) and the frequency or magnitude of problematic practices.
4. To discover if any major shifts in ethical practices have occurred between the 1975 Ernst & Whinney study and the current study.
5. To encourage companies and purchasing professionals to examine their own practices, and to establish more definitive guidelines regarding ethical behavior.

The Sample

To obtain data for the study, a 14-page questionnaire was mailed in January 1988 to individuals selected randomly from three mailing lists: *Purchasing World* magazine's subscription list, Sales and Marketing Executives of Cleveland's membership roster, and the National Association of Educational Buyers' membership directory.

The questionnaire was composed of six sections that dealt with the following topics: (1) ethical practices, (2) buying experience, (3) acceptance of favors, (4) narrative comments, (5) the organization profile, and (6) personal information.

Approximately 1,700 questionnaires were mailed; 236 usable responses were received, yielding a 14 percent response rate. No follow-up of the initial mailing was made. Respondents were promised confidentiality—hence, the questionnaire did not request personal or company names.

Profile of Respondents

In terms of size, the responding firms ranged from very small to very large, although nearly 60 percent of them had sales in excess of $20 million in 1987. As would be expected in multiplant firms, sales revenue at the respondent's location was substantially less than the corporate total.

More than 70 percent of the respondents bought from fewer than 500 vendors in 1987; only 18 percent used 1,000 or more suppliers.

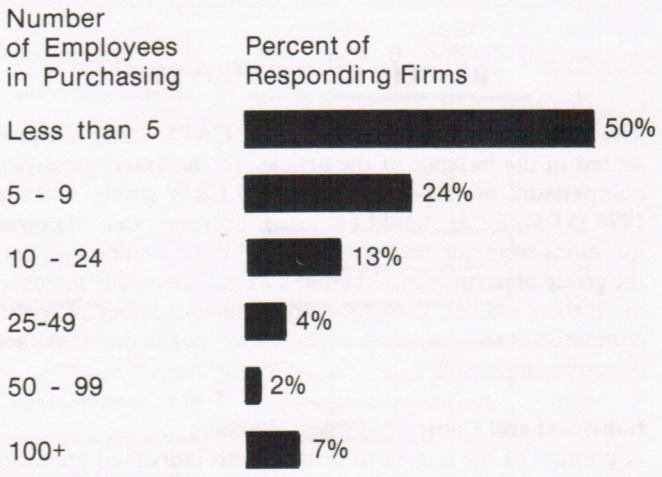
Thirty-nine states, plus the District of Columbia and Canada, were represented in the respondent group. Because one of the three mailing lists targeted the state of Ohio, almost 15 percent of the respondents were from Ohio-based firms.

Fifty percent of the respondents held the title of manager, while 20 percent were buyers. Additional respondents included vice presidents, presidents, owners, and support personnel who did their own purchasing (approximately 22 percent).

Figure 1 shows the distribution of the size of participants' purchasing departments. It is interesting to note that half of the departments employed fewer than five people, and three-quarters less than ten people.

Figure 1

SIZE OF RESPONDENTS' PURCHASING DEPARTMENT



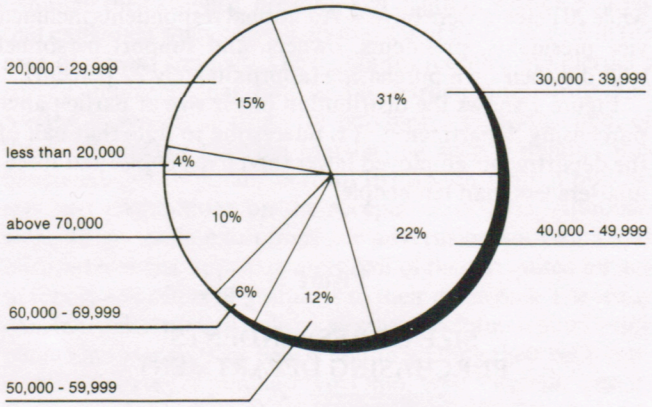
Sixty-six percent of the respondents were age 40 or older, and only 1 percent was over age 65. Forty-one percent of the participants worked for manufacturing firms, while 34 percent were employed in the service sector. The remaining 25 percent came from a variety of other types of organizations. The group had extensive experience in purchasing—65 percent had worked for ten or more years in the field. Seventy-one percent were college graduates, and 16 percent held master's degrees.

Only 5 percent had completed no college work. Fourteen percent were certified purchasing managers, while another 8 percent held other professional designations.

In terms of salary, only 19 percent of the respondents earned less than $30,000 a year, while 50 percent earned $40,000 or more, and 10 percent earned more than $70,000 per year. Figure 2 portrays a salary distribution for the participants.

Figure 2

1987 SALARY RANGE FOR PARTICIPANTS ($)



RESULTS OF THE SURVEY

The principal findings of this E&W/CAPS study are presented in the balance of the article. To the extent possible, comparisons are made with the 1975 E&W survey and the 1978 IIT study. It should be noted, however, that identical questions were not always asked in all three studies, and that the group of participants likewise was not identically matched in all three studies. Consequently, while a number of useful comparisons and contrasts can be drawn, not all the results are directly comparable.

Individual and Company Ethical Practices

A number of the questions dealing with individual practices concerned the acceptance of favors from vendors. Of the 236 respondents, 230 indicated that they had accepted one or a small number of favors offered to them by vendors; the total number of favors accepted was 717. The value of the favor ranged from $3 to $5,000, with a mean value of approximately $132 per favor. Table I lists the favors respondents were offered. The percentage of respondents that thought the offer was within the bounds of propriety, and the percentage that actually accepted the favor are also given. Table II details the data on the number and value of favors actually accepted.

Table I

FAVORS OFFERED BY VENDORS; FAVORS CONSIDERED BY BUYERS TO BE ACCEPTABLE; FAVORS ACTUALLY ACCEPTED*

	Percentage of Respondents		
Favor Description	Offered To Buyers Yes	Acceptable To Buyers Yes	Actually Accepted Yes
Advertising souvenirs	26%	72%	25%
Lunches	83	68	75
Tickets (sports, theater, etc.)	57	37	38
Dinners	67	48	51
Golf outings	43	28	25
Food and liquor	46	28	30
Holiday gifts	67	43	47
Trips to vendors' plants	51	31	30
Small value appliances	19	6	7
Discounts on personal purchases	24	11	9
Clothing	11	7	6
Loans of money	3	1	0
Vacation trips	10	2	2
Large appliances	4	1	0.4
Automobiles	2	1	0.4
Other	2	0.4	0.4

*Based on 236 respondents

Table II

ACTUAL ACCEPTANCES OF FAVORS

	Number of Respondents				1987	1975
Category	PW*	SMEC*	NAEB*	Total	Percentage	Percentage
None at all accepted	3	1	2	6	3%	17%
Accept but no value given	21	4	17	42	18	28
Questions not answered						4
Subtotal	24	5	19	48	21	49
Annual Values Given:						
Less than $100	18	5	30	53	22	11
$ 100 - 199	24	3	9	36	15	11
200 - 349	20	4	9	33	14	14
350 - 499	13	1	1	15	6	6
500 - 999	21	0	4	25	11	6
$1,000 and greater	19	2	5	26	11	3
Total Number of Respondents	139	20	77	236	100	100

*Key: PW - Purchasing World
SMEC - Sales and Marketing Executives of Cleveland
NAEB - National Association of Education Buyers

The last two columns in Table II list the percentages of respondents in the current and the 1975 study who were involved in the various actions noted. A comparison of these percentage figures provides an interesting insight into the behavior patterns of buyers at these two points in time. Clearly, a greater proportion of respondents accepted favors in 1987 than did in 1975 (97 percent vs. 79 percent). Only 3 percent of the participating purchasing personnel were unwilling to accept any gift in 1987; 17 percent turned down every gift in 1975.

Relation to Salary and Position Title

The average value of favors accepted was calculated for each of the eight salary categories and for each of the six position titles of the respondent group. The purpose of these calculations was to examine what relationships, if any, existed between the value of favors accepted by a respondent and his or her salary level or professional position. Table III presents these data.

Table III

DOLLAR VALUE OF FAVORS ACCEPTED, COMPARED WITH SALARY AND POSITION

Salary vs. Average Annual Value of Favors Accepted

Salary Range	Number of Respondents	Dollar Range of Favors	Mean Value
*$10,000-$14,999	1	Only 1	$ 35/1 = $ 35
* 15,000- 19,999	6	$ 10- 385	803/6 = 134
20,000- 29,999	22	10-1,550	6,069/22 = 276
30,000- 39,999	51	10-3,950	24,757/51 = 485
40,000- 49,999	37	30-1,900	17,967/37 = 486
50,000- 59,999	23	5-3,275	17,250/23 = 750
60,000- 69,999	10	24-2,700	7,564/10 = 756
70,000+	20	15-6,150	12,725/20 = 636
Not indicated	18	10-5,750	9,844/18 = 547
TOTAL	188	$ 5-6,150	$97,014/188 = 516

Position vs. Average Annual Value of Favors Accepted

Buyer	35	$10-2,700	$12,539/35 = 358
Manager	91	5-5,750	54,831/91 = 603
VP	14	10-6,150	11,545/14 = 825
*President	4	100-2,900	3,805/4 = 951
Owner	35	20-1,900	11,110/35 = 317
*Support/Clerical	1	Only 1	800/1 = 800
SUBTOTAL	180	5-6,150	94,630/180 = 526
Title not indicated	8	45-1,125	2,384/8 = 298
TOTAL	188	$ 5-6,150	$97,014/188 = 516

*Note: Very small number of respondents

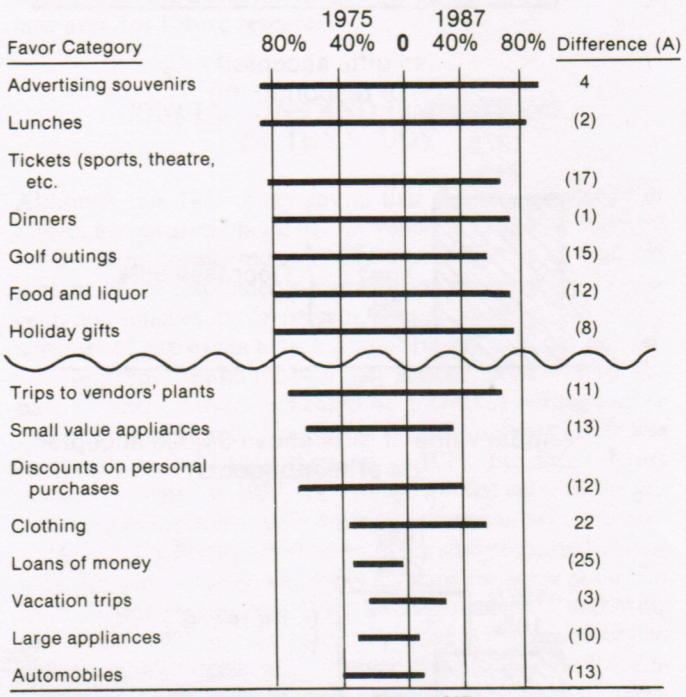
The average annual value of favors accepted in 1987 appears to increase as salary increases, with the exception of those individuals in the $70,000 and over range. For those in the $60,000 to $69,999 salary range, the average annual value of favors accepted ($756) was over 5.6 times greater than the $134 average value for the $15,000 to $19,999 range. Likewise, as an individual's title increased in importance, the average annual value of favors that a person accepted also rose. The exceptions to this pattern were owners (who had the lowest average value for favors accepted), and support/clerical personnel (who had the third highest value for favors accepted!). Clearly, however, this latter number may well be an exception, since only one support/clerical person provided data for this question.

Personal Ethical Practices

The frequency with which buyers accept favors from vendors was calculated to provide another measure of how ethical practices have changed over the past 12 years. The "reaction percent," as used in Figure 3, is defined as the percentage of favors offered by sales representatives that are actually accepted by purchasing personnel. It is calculated by dividing the "actually accepted" percent on each favor item in Table I by the "offered by vendor" percent. Figure 3 presents this relationship and compares it with the 1975 study.

Figure 3

REACTION PERCENT
Favors Accepted Compared with Favors Offered:
Comparison Between 1975 and 1987

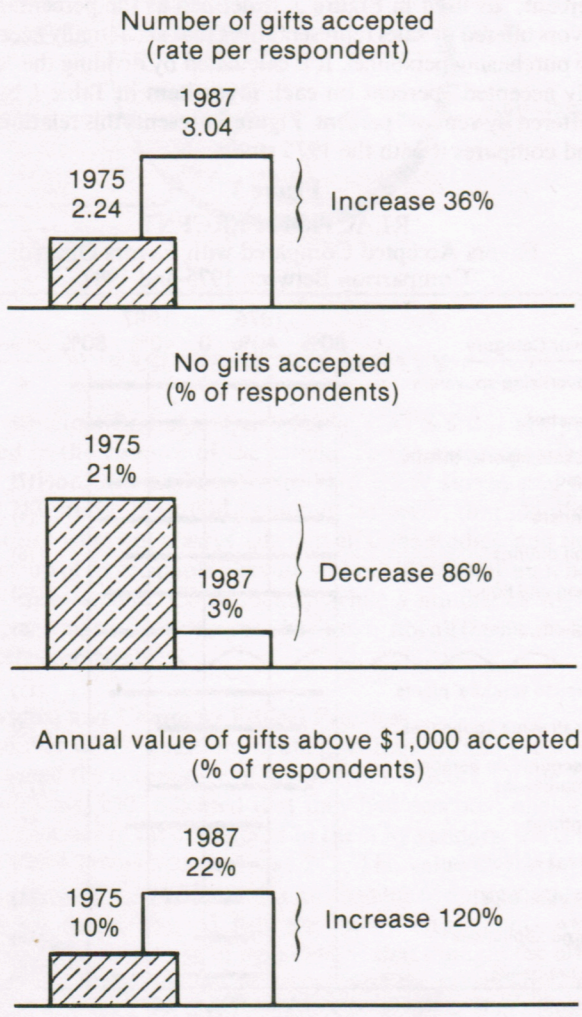


(A) Brackets ( ) denote decrease from 1975 to 1987
(B) Favors above wavy line are the generally accepted standard, while those below this line are not generally considered acceptable.

With only two exceptions (advertising souvenirs and clothing), the frequency of accepting favors has decreased during the 12-year interval. In most cases, the figure has declined by ten or more percentage points. Thus, although more purchasing personnel were *willing* to accept favors in 1987 than in 1975, those buyers who were actually *offered* favors accepted the gifts less frequently in 1987 than did those in 1975. Nevertheless, the number of favors accepted, and their annual value (even allowing for inflation), both increased between 1975 and 1988. Figure 4 depicts these trends.

Figure 4

TRENDS BETWEEN 1975 AND 1988 IN NUMBER OF GIFTS ACCEPTED, NO GIFTS ACCEPTED, AND VALUE OF GIFTS ABOVE $1,000 ACCEPTED



Company Ethics Policy

Four of the previous six surveys on ethical practices in purchasing concluded that a formal company ethics policy is helpful in deterring questionable practices by employees. An important issue for this study, then, was to determine how many firms today have a written policy on ethical behavior, and to identify what the trend has been between 1975 and 1988 regarding the adoption of a formal ethics policy.

The results of the E&W/CAPS study show that between 1975 and 1988 the percentage of companies that promulgate an ethics policy for their purchasing personnel actually declined. In 1975, 78 percent of the firms had such a policy, while only 72 percent of the firms reported having such a policy in 1987. Among those firms utilizing an ethics policy, 63 percent of the 1975 respondents said that their company's policy was stated in writing; by 1987, this figure had declined to 58 percent. In 1975, 92 percent of the respondents studied said they agreed in general with the major contents of their firm's policy; in 1987, only 81 percent of those surveyed made this same statement. Clearly, these trends are not encouraging.

On the brighter side, in 1987 when firms were formulating an ethics policy, input was obtained from a significantly larger percentage of purchasing employees than was the case in 1975. Whereas 57 percent of a firm's employees were asked to be a part of the effort in 1975, this figure rose to 69 percent in 1987. Another positive shift discerned by the study involves the use of an identical ethics policy by both the purchasing and the sales departments. In 1975 only 55 percent of the firms applied the same ethical performance standards to both departments; in 1987 this figure had increased to 71 percent of the firms.

In an analysis of the cross-tabulated data, the 1988 study also found that the establishment of a formal ethics policy reduced the frequency of occurrence of what generally are considered to be unethical practices. For example, among the firms that do not have an established ethics policy, 31 percent disclose vendor bid prices; only 10 percent of the firms with a formal policy do this. The study also determined that companies with no ethics policy are more likely to make discounted purchases for company personnel; 22 percent of their respondents admitted doing this, while only 14 percent of the respondents from firms with an established policy engaged in this practice. It is interesting to observe also that 61 percent of the firms with a formal policy periodically reviewed their purchasing departments' actions for ethical practices; only 22 percent of the firms with no policy made such a review. These cross-tabulations provide further evidence in support of a written company policy on ethical practices.

Companies appeared to be ambivalent, however, about bringing in standards from the outside. One of the questions posed to the respondents concerned the possible establishment of formal disciplinary procedures that would allow

NAPM to investigate and act on ethical problems involving its own members when these situations were brought to its attention. Ironically, only 53 percent of the respondents were in favor of adopting such an enforcement practice.

COMPARISONS ACROSS THE THREE STUDIES

Comparisons across the 1975, 1978, and 1988 ethics studies were possible for nine of the questions asked. Table IV presents these comparisons with comments regarding trends over the 12-year period. The trends are generally in a positive direction.

Table IV

COMPARISON OF RESULTS FROM 1975, 1978, AND 1988 PURCHASING ETHICS STUDIES

Question		Percentage of Respondents 1975 E&W	1978 IIT	1988 E&W/ CAPS
Were you asked to provide input for the ethics policy? *Comment:* Looks like more concern for user's opinion.	YES	57%	—	69%
Have the ethical standards of your purchasing practices been reviewed within the last five years? *Comment:* In spite of more ethics awareness, still about same amount of "check and balance" attention.	YES	45	35%	50
Does your sales department give gifts to its customers? *Comment:* Appears still to be part of business practice.	YES	65	80	68
Do you practice reciprocity? *Comment:* Decreasing somewhat.	YES	21	19	14
Do you disclose one vendor's prices to another prior to award of purchase order? *Comment:* Slight downtrend.	YES	22	34	17
Do you buy items for employees' personal use? *Comment:* Definite decrease.	YES	58	—	16
Do you have different ethical standards when buying overseas? *Comment:* Buyers seem to be accepting two different standards.	YES	—	4	16
Do you have a financial interest in companies you buy from? *Comment:* Strong downward trend.	YES	28	2	3
Do you feel your purchasing and sales departments have different ethical standards regarding receiving and giving "favors?" *Comment:* Trend toward one standard.	YES	45	—	29

New 1988 Inquiries

To evaluate the extent of the influence that employees outside the purchasing department exert in the buying process, several new inquiries were included in the 1988 study. One of the questions asked respondents if they thought that material specifications frequently were prepared restrictively in order to favor one company over another as a sole supplier. Forty-seven percent of the survey respondents replied positively. Forty-three percent of the respondents indicated that management had directed them, at one time or another, to use a specific supplier. Forty-four percent reported that they do not personally select the vendors for the purchases they make. Sixty-two percent of the respondents reported that their companies experience "backdoor" vendor representative sales calls. And another 62 percent revealed that unauthorized buying by departments or individuals other than those in purchasing takes place at least occasionally in their firms.

The responses to these questions are alarming, to say the least, and support the view that the influence in purchasing decisions is spreading unreasonably to include an expanding circle of participants. Numerous written comments from respondents indicated that double standards existed for the ethical expectations of these other decision makers. Examples of several unedited comments include: "Sales tends to 'give' more; purchasing remains relatively strict" ..."We 'give' but are not allowed to receive" ..."Stop looking at purchasing and sales; look at top mangement—they need the ethics course." The ethical standards and practices of nonpurchasing department buyers appears to be an important area for future research.

CONCLUSIONS AND LIMITATIONS OF THE STUDY

Although this 1988 study found that the great majority of buyers accept some favors from vendors, only two types of favors were considered ethically acceptable by at least 50 percent of the respondents—advertising novelties, by 72 percent, and lunches, by 68 percent. It appears, therefore, that a substantial gap exists between what buyers judge to be ethically appropriate and the way they actually behave. Over the past 12 years, buyers indicated an increased *willingness* to accept vendor supplied gifts, but actually accepted gifts less frequently in 1987 than they did in 1975. For those favors actually accepted in 1987, the average annual value of the gift increased as the individual's position title and salary increased.

Most of the firms participating in the study reported having a written ethics policy, and typically used the same policy for both the purchasing and the sales departments. Purchasing personnel could not agree on the need for a procedure to enforce ethical standards; however, this study's results reinforced the conclusions of earlier studies—namely, that adoption of a formal ethics policy is a deterrent to questionable

ethical practices. Unfortunately, management guidance on ethical practices appears to have eroded somewhat over the past 12 years, even though reviews of ethical practices by management have become more frequent.

Examination of ethical practices is a sensitive topic. The relatively low response rate experienced in this study indicates possible discomfort on the part of those contacted in answering such probing questions. It is also possible that some respondents answered as they thought they "should" answer, instead of revealing their true practices. These are problems inherent in any study of ethical issues.

While a number of industries are represented in the sample, study results do not cover *all* industries. The results, therefore, should not be generalized as an all-inclusive statement about the actions of purchasing professionals. Additional more broadly based studies must be conducted to provide a more complete picture.

Participants in the study indicated that "buyers" outside the purchasing department are becoming a serious problem, since these individuals are not held accountable to the same stringent ethical standards as are purchasing personnel. Because ethics is an issue affecting every employee in a firm, regardless of departmental affiliation, it is hoped that this study of ethical practices in purchasing will stimulate simular studies in other functional areas. Data collected from such areas as sales and marketing, engineering, finance, operations, and executive management would provide a basis for cross-comparisons by functional group—and would provide additional information about ethical standards observed by all members of an organization.

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