Journal of Purchasing & Supply Management 18 (2012) 270–281

Contents lists available at SciVerse ScienceDirect

Journal of Purchasing & Supply Management

journal homepage: www.elsevier.com/locate/pursup

The impact of stakeholder orientation on sustainability and cost prevalence in supplier selection decisions ☆

Carsten Reuter [a], Philipp Goebel [b,*], Kai Foerstl [c]

[a] FOM Hochschule fuer Oekonomie und Management, Essen, Germany
[b] Post-Doc at the Institute for Supply Chain Management—Procurement and Logistics (ISCM), EBS Business School, Konrad-Adenauer-Ring 15, 65187 Wiesbaden, Germany
[c] Assistant Professor of Global Sourcing at the Institute for Supply Chain Management—Procurement and Logistics (ISCM), EBS Business School, Konrad-Adenauer-Ring 15, 65187 Wiesbaden, Germany

ARTICLE INFO

Available online 5 September 2012

Keywords:
Stakeholder orientation
Formalization of ethical culture
Sustainability criteria
Supplier selection decisions
Path analysis

ABSTRACT

The stakeholder approach has taken a prominent role in the discussion of sustainability measures at varying strategic levels and corporate functions. Literature on sustainability suggests that firms have to cope with enhanced pressure from different stakeholder groups regarding their upstream supply management practices. At the same time purchasing managers face the trade-off between sustainability and cost prevalence in selecting new suppliers. Thus, it is of major concern for companies in general and purchasing organizations in particular to know and understand how purchasing managers react to the influence of specific stakeholder groups when it comes to supplier selection decisions. Following this notion we formulate six sets of hypotheses linking the adoption of ethical business culture to the prevalence of sustainability and cost criteria in supplier selection decisions to be tested in a path analytical model.

Based on the results of an empirical study conducted with purchasing managers from multinational firms located in Germany, this paper makes two major contributions: first, it sheds light on direct effects of shareholder, public, and customer orientation on the evaluation of the outlined-trade off; second, it investigates the indirect effects by introducing the formalization of ethical culture as a mediating variable to assess the impact of the three kinds of shareholder orientation on the propensity to select suppliers based on their performance in terms of social and environmental criteria as well as cost performance.

1. Introduction

Although far from being a novel subject, the interest in business ethics in its broadest sense has recently intensified. It can be observed, that especially sustainability-related activities become more strategic affecting firms' "growth, profitability and survival" (Kolk and van Tulder, 2010, p. 120). This development is driven in part by the spate of negative examples such as ENRON, Siemens, Mattel, or Nike, where infringements of accepted ethical standards at supplier locations have impaired firms' long established reputation and financial performance (Basu and Palazzo, 2008; Vachon and Mao, 2008). It appears that such incidents are necessary to allude to the fact that any 'unsustainable' behavior along the supply chain may negatively impact the economic bottom line. A fact that is easily ignored in the businesses' day-to-day pursuit of improving the organizations' (economic) bottom-line by operational and cost cutting means. "This near-term financial performance pressure has led many top executives to ignore, to a large degree, strategies that maximize the firm's longer-term value for key non-investor stakeholders" (Gilley et al., 2010, p. 32). In line with this notion, Elkington (1998) suggests a tripartite approach consisting of economic, environmental, and social aspects which is often referred to as the triple bottom line (TBL) and addresses the needs of investor- and non-investor stakeholders simultaneously.

Due to its position at the foremost frontier to suppliers and the increasing volume of purchased goods and services relative to an organizations' total expenditure, purchasing and supply management (PSM) has emerged as an important function in safeguarding organizations from tipping off the TBL (Carter and Jennings, 2004; Handfield et al., 2002). Gilley et al. (2010) propose that "to ensure long-term corporate success, it is incumbent upon senior executives to continually search for unique methods of creating

☆ We thank the two anonymous reviewers and Richard Pibernik, Christina Sichtmann and Sabine Möller for their constructive and valuable comments during the development of this manuscript.

* Corresponding author.
E-mail addresses: carsten.reuter@gmx.com (C. Reuter), philipp.goebel@ebs.edu (P. Goebel), kai.foerstl@ebs.edu (K. Foerstl).

1478-4092/$ - see front matter © 2012 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.pursup.2012.06.004

value for shareholders and non-investor stakeholders." This stakeholder-view has been followed by a number of authors in the field of sustainability in general (e.g., Garvare and Johansson, 2011; Michelon, 2011) and sustainability in supply chains especially (e.g., Ehrgott et al., 2011). Most of these works are inspired by theoretical considerations and their normative results suggest that "all stakeholders" need to be considered, thus opposing the long-dominating sole focus on shareholders. However, these reasonable, yet very general, suggestions are of little help for PSM that finds itself "in conflicts between economic, societal, and environmental aspects" (Kunsch et al., 2009, p. 1101). Hence, "an understanding of the linkages and causal relationships that exist between the various drivers of performance and an understanding of the levers that are available to managers to influence performance" (Epstein and Roy, 2001, p. 587) is required.

The focus of various stakeholder groups, e.g. customers, shareholders, NGOs, on social and environmental criteria is often in conflict with traditional objectives of purchasing organizations (e.g., purchasing costs, flexibility, or short lead times) (Cousins and Lawson, 2007; Melnyk et al., 1999). Thus, purchasing managers find themselves in the dilemma between the dominating traditional economic performance measures (e.g., cost savings) and social and environmental concerns (Harwood and Humby, 2008). As "the survival and continuing profitability of the corporation depends upon its ability to fulfill its economic and social purpose, [..] to ensure that each primary stakeholder group continues as part of the corporation's stakeholder system" (Clarkson, 1995, p. 107) it is of major concern for companies in general and purchasing organizations in particular to know and understand how purchasing managers' react to the influence of specific stakeholder groups when it comes to supplier selection decisions.

Applying knowledge from general management research to supplier selection decisions, we follow Hoffmann's (2001) suggestion to investigate the effect of institutional pressure at the functional level. Therefore, we examine the effect that an organization's general orientation towards certain groups of primary stakeholders, namely shareholders, the public, and customers, has on the operational behavior of purchasing managers when it comes to make supplier selection decisions. Hence, we attempt to unambiguously express which stakeholders promote cultural values and their formalization in a company in order to create the desired behavior of all PSM employees when selecting suppliers. Additionally, we investigate the mediating role of the formalization of ethical culture in PSM on the previously introduced direct relationships. Moreover, we propose a (negative) relationship between sustainability prevalence and cost prevalence in supplier selection decisions.

Thus, one of the specific contributions of this research is the analysis of the influence of stakeholder pressure on decision-making as opposed to organizational practices in PSM. The second distinguishing asset of this paper is the differentiated examination of the impact of pressure from various stakeholders on formalization of ethical culture as well as the impact of formalized ethical culture on supplier selection decisions. Moreover, we are able to present empirical results on the direct effect of stakeholder pressure on supplier selection and compare and contrast them to a mediated model which has—to the best of our knowledge—not been discussed before in PSM research.

The remainder of this paper is organized as follows: first, we review the relevant literature on supplier selection, stakeholder orientation, and ethical culture in order to highlight our contribution. Thereupon, hypotheses are developed, which predict the relationships between stakeholder orientation, the formalization of ethical culture and the sustainability and cost prevalence in supplier selection decisions of firms. Next, we present structural equation modeling as the research method to test our hypotheses using data collected in a survey among purchasing managers from multinational companies located in Germany. Finally, we present and discuss our results and conclude in managerial implications, limitations as well as opportunities for future research.

2. Literature review

In order to highlight our contribution we review the relevant literature on sustainable supplier selection, stakeholder orientation, and ethical culture. The literature enables us to clearly delineate the research gap addressed in this paper and to provide first theoretical support for the development of our research model.

2.1. *Sustainable supplier selection*

Supplier selection is a key activity in PSM and of increasing importance for organizations because of the on-going trend to outsource non-core activities (Schiele, 2007; van der Rhee et al., 2008). Despite the growing interest in conducting business in an ethical manner, previous studies show that supplier selection in practice is dominated by a set of well-established economic criteria, which are designed to account for traditional competitive priorities, such as price, quality, flexibility, delivery, and service (Sarkis and Talluri, 2002; van der Rhee et al., 2008; Verma and Pullman, 1998). In contrast, very little research has been conducted on how non-economic criteria are incorporated into supplier selection (Drumwright, 1994). Drumwright (1994, p. 2) states that "the empirical work [...] does not examine [...] the manner in which the non-economic criterion is integrated with other considerations." This is particularly relevant for the 'dilemma' which purchasing professionals face: the trade-off between the potentially conflicting objectives of cost reduction and (supposedly costly) ethical business practice in alignment with non-economic goals of the organization. According to the concept of the triple bottom line (TBL), organizations also have to make conscious decisions concerning the extent to which they focus on being socially and environmentally sustainable.

Prior contributions on non-economic supplier selection have primarily focused on incorporating environmental aspects (Carter and Easton, 2011). According to Green et al. (1996), rigorous environmental supplier evaluation fosters better distinction and choice of compliant suppliers. Relevant evaluation criteria such as green competence, environmental efficiency, green image, and life cycle cost, are important for establishing environmental performance and compliance measurement (Noci, 1997). In the same vein, Humphreys and Chan (2003) present a green supplier selection approach, applying both quantitative and qualitative criteria.

Fewer works focus on the social dimension including ethical sourcing (Blowfield, 2000; Roberts, 2003), socially responsible buying (Maignan et al., 2002), or purchasing social responsibility (Carter, 2005; Carter and Jennings, 2004; Hutchins and Sutherland, 2008). Maignan et al. (2002, p. 642) define socially responsible buying as "the inclusion in purchasing decisions of the social issues advocated by organizational stakeholders". Specifically, they propose that purchasing managers support minority suppliers by sourcing a share of their total purchasing volume from them. Others propose that purchasing managers may also engage in social aspects such as caring for labor equity, healthcare, safety, and philanthropy at suppliers' plants (e.g., Hutchins and Sutherland, 2008).

Lately, the simultaneous consideration of environmental and social issues in PSM has received increasing attention, highlighting the synergies available from their integration (e.g., Carter and Rogers,