

The effect of controversial global sourcing practices on the ethical judgments and intentions of U.S. consumers



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ABSTRACT

Global sourcing has led to lower cost and more effective supply chains for many companies. However, when the cost-driven practices of many suppliers in these chains come to light there is often considerable debate over the ethics of these practices. This research uses the well-known Hunt–Vitell framework as the theoretical foundation for a structural equation model of the deontological and teleological evaluations used by consumers when making ethical judgments of a firm's controversial cost-driven global sourcing practices. Data from a large-scale U.S. consumer survey show the importance of deontological and teleological evaluations in forming consumers' ethical judgments of global sourcing practices, and establish a strong relationship between ethical judgment and the intention of consumers to alter consumption of a firm's products. Extensions to the framework and demographic analyses for age, gender, and income provide insights as to how perceptions of these practices affect consumer evaluations of a company involved in global sourcing and how consumers actualize their resultant intentions.

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1. Introduction

As corporations have become larger and more global in scope they have become better positioned to take advantage of temporary imbalances in wealth and political institutions to create advantageous global economic models. These imbalances are further enhanced by competition among governments using currency devaluations, free-trade and enterprise zones, and other incentives to attract foreign corporations. At the epicenter of these new economic models are cost-driven global sourcing practices designed to use the leverage of these large corporations to reduce the prices charged by potential suppliers for materials and components. The resultant competition among suppliers vying to participate in these supply chains often leads to sourcing from underdeveloped economies offering little or no institutional regulation, low wages, and poor working conditions. While the exploitation of imbalances is central to the idea of economic globalization, responses to recent media revelations of unfair treatment of employees (Musgrove, 2006), worker suicides (Barboza, 2010), and unsafe working conditions (Power and Devnath, 2012) suggest a growing uneasiness

among consumers as to the degree of exploitation in global supply chains.

Firms have implemented strong corporate public relations efforts (e.g., Ngak, 2012; Johnson, 2013) in response to media revelations of these controversial cost-driven global sourcing practices (*global sourcing practices* for short) or consequences of the practices (such as layoffs, workplace injuries, pollution, and worker suicides). This suggests that companies believe that negative consumer perceptions of these practices may have an adverse effect on their firms. However, little is known about how knowledge of a firm's use of these practices affects consumers' ethical judgment of the firm and whether consumers' ethical judgment affects their intention to alter consumption of the firm's products (*consumer intention* for short). Although ethical consumption currently represents a relatively small segment of the overall consumer market, it is growing and has the potential to be much larger (Newholm and Shaw, 2007). However, to our knowledge there has been no research on ethical consumption related to the global sourcing practices covered in this paper.

Consumer perceptions of global supply chains and the ethical reasoning processes used by consumers to form those perceptions are particularly important to operations managers in the consumer products sector because the purpose of global supply chains is to better drive and support sales to consumers. The cost-driven global sourcing practices covered in this research are a result of firms trying to meet consumer preferences for better value. Since

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these supply chains are designed to ultimately satisfy consumer preferences, it is important to link the preferences of consumers directly to the design and management of these supply chains. As an important part of the overall consumer preference mix, consumers' ethical perceptions of supply chain practices have not been previously addressed in the literature. Toward that end, we focus this research on the perceptions of U.S. consumers and adopt and extend the well-known Hunt–Vitell (H–V) framework as the theoretical foundation for our study. Limiting this research to U.S. consumers allows us to reduce potential cultural and locational effects, and keep the overall size of the study manageable.

The H–V framework suggests that a consumer's ethical judgment results not only from an evaluation of the rightness or wrongness of a practice (a deontological evaluation) but also from an evaluation of the consequences of the practice (a teleological evaluation). These two evaluations collectively determine overall ethical judgment which then affects consumer intention. Although the H–V framework has not been used to study issues related to global sourcing, it has been shown to be robust when used to study ethical judgment in a variety of consumer settings. Adopting the H–V framework and extending the core elements to our evaluation of global sourcing practices allows us to examine how U.S. consumers form their ethical judgments and consumption intentions for a firm that uses the global sourcing practices covered in this research.

Our findings suggest that the core processes of the H–V model can be used to explain consumer perceptions of the ethics of global sourcing. We found that deontological and teleological evaluations both significantly impact the overall ethical judgment of global sourcing practices. In other words, consumers tend to perceive a firm's sourcing practices as "ethical" when they believe such practices are morally right and lead to beneficial consequences. As expected, when consumers perceive a firm's global sourcing practices to be ethical they are less likely to switch to similar products from other companies or boycott the firm's products. In addition, our results suggest that our variant of the H–V model for global sourcing is robust across various demographic groups, but the strengths of specific relationships vary considerably between groups.

Our research makes several important contributions. First, our study extends the very limited base of ethics and consumer literature in the supply chain area. Prior literature on global supply chains (e.g., Flynn et al., 2010; Cao and Zhang, 2011) has largely focused on firm-level operations and the financial/operating impact of those practices. To our knowledge, no study has related global sourcing practices to consumer perceptions of those practices and subsequently their consumption intentions. As such, our research fills a gap between firm-level global sourcing decisions and the broader effects of those decisions on the perceived ethics of the firm by consumers. Second, relevant studies tend to focus on actions that are clearly "wrong" (e.g., misrepresent facts). We believe our study is the first to target the gray area of ethics in supply chains. This focus of our study is important because there are no overarching moral principles to define ethical behavior for the global sourcing practices we investigate and therefore it is unclear how consumers may ethically perceive such practices. Third, this research provides the first extension of the H–V model of ethics from its original focus in macromarketing to the management of supply chains. Our extension of the H–V framework involves identifying representative controversial global sourcing practices and their perceived consequences, establishing consumer ethical norms relative to these practices, and integrating these norms and consequences into the core elements of the H–V framework. Our results strongly support our conceptual model based on the H–V framework, suggesting its applicability to the analysis of ethics in global supply chains. Finally, our analyses of our extended version of the H–V model and demographic analyses of the ethical processes within that model provide a number of valuable insights about consumer perceptions of controversial global sourcing practices.

2. Theoretical foundation and research hypotheses

2.1. Conceptual framework

We adopt the H–V model as our main theoretical foundation, as shown in Fig. 1. The H–V model (Hunt and Vitell, 1986, 2006; Hunt, 1990) represents a combination of deontological and teleological moral philosophies. In essence, the model assumes that the

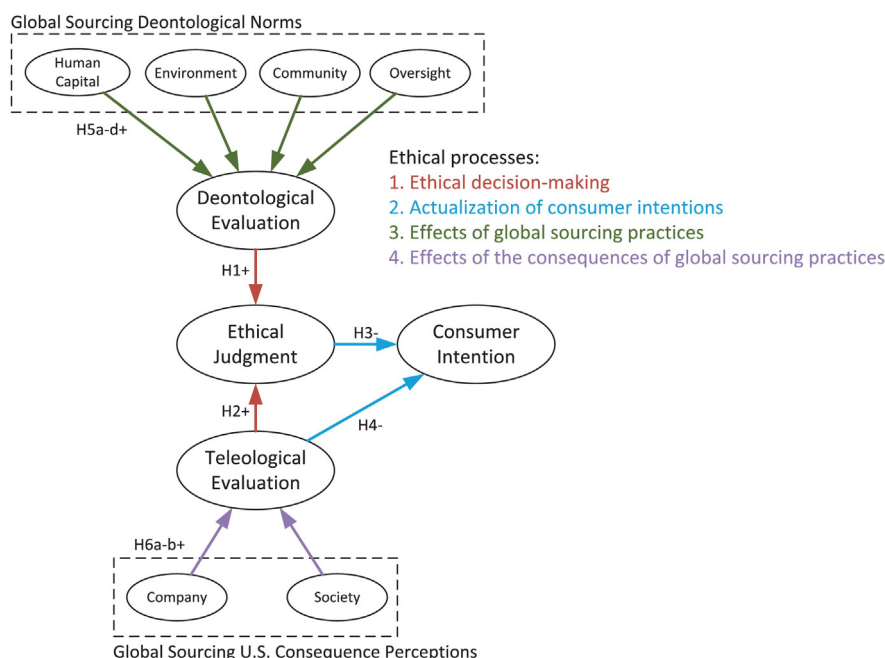


Fig. 1. Conceptual model.

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