

GLOBAL SUPPLY CHAIN FOCUS

With the increased sophistication of global sourcing decisions, how much do country or regional perceptions and biases impact from which countries a company decides to source?

Perhaps more than we might think, according to new research from a quartet of supply chain academics.

The research was performed by Joseph R. Carter, Arnold Maltz and Tingting Yan, all from Arizona State University, and Elliot Maltz of Willamette University.

The research was initiated in part due to the authors finding that most research on global sourcing was related to which *companies* importers selected as suppliers – not which *countries* were the focus of the supplier selection research to begin with.

“Although the work being transferred to India and China-based suppliers has received the majority of the headlines, countries such as the Brazil, Russia, and the Czech Republic are also significant locations for outsourcing,” the researchers write. “Thus how managers perceive these potential geographies before they select specific suppliers within each area is an important unanswered question.”

Most procurement managers would probably argue that they are choosing suppliers based on factual, objective criteria, but **“The influence of managers’ perceptions on actual decisions is well-established,”** the authors say, noting a variety of research to support that conclusion.

How Much Do Country or Regional Perceptions Impact Global Sourcing Decisions?

Research Finds Often Buyer Perceptions not Equal to Reality



SCDigest Editorial Staff

In fact, the question at its core is a difficult one: how companies should really compare the perceived strengths and weaknesses of various low cost countries and geographies it is not immediately clear. Sourcing decisions are often multi-dimensional, even if **cost is “first among equals,”** and there is no accepted framework for how these other factors should be considered.

That is true even from a supply chain only perspective. Add in the potential for market penetration and top line growth in the sourcing country, and the decision becomes even more complicated.

Research Results

To conduct the research, the authors surveyed members of Arizona State’s [CAPS Research](#) group (a research organization focused on purchasing management), and received some 100 responses, across a variety of industries (the largest industry groups were **“industrial manufacturing,”** followed by aerospace/defense, chemical, consumer products, food and beverage, and financial services.)

The respondents were asked to rank a variety of global countries or regions within companies on a large number of attributes. The

Overview of Attribute Evaluation by Geography
 (all variables scored from 1 to 7, with 7 being very favorable and 1 unfavorable)

Attribute	Mean	Two Regions with Highest Scores	Two Regions with Lowest Scores
Labor Cost	5.18	Inland China (5.93) Less Developed Asia (5.90)	South America (4.60) Mexico (4.62)
Work Ethic	4.93	Coastal China (5.69) Urban India (5.50)	Africa (3.66)* Russia (4.36)
Security of Intellectual Property	3.55	Mexico (4.51) Urban India (4.39)	Inland China (2.40) Coastal China (2.63)
Attraction of Local Market	4.79	Coastal China (6.12)* Urban India (5.59)	Africa (3.41)* Russia (4.34)
Reliably Meet Customer Requirements	4.55	Coastal China (5.22) Urban India (5.18)	Africa (3.50)* Russia (4.12)
Transportation Reliability	4.29	Coastal China (5.26) Mexico (5.08)	Africa (3.23) Less Dev. Asia (3.58)
Transportation Cost	3.97	Mexico (5.00) Coastal China (4.44)	Africa (3.10) Rural India (3.37)
Government Support for Business	4.49	Coastal China (5.18) Urban India (5.06)	Africa (3.31) Russia (3.73)
Political Stability	4.41	Urban India (5.35) Mexico (5.33)	Africa (2.60)* Russia (3.71)
Flexibility	4.28	Coastal China (5.05) Urban India (4.88)	Africa (3.14)* Russia (3.84)
Predictable Border Clearance Times	4.33	Mexico (5.41) Urban India (4.92)	Africa (3.04)* Russia (3.67)
Government Corruption	3.67	Urban India (4.45) Mexico (4.18)	Africa (2.76) Russia (3.02)
Overall Attractiveness for Sourcing	4.62	China (5.80) Urban India (5.47)	Africa (2.86)* Russia (3.75)

* Indicates difference between the two regions is statistically significant.

summary results are shown in the table above.

The research showed several interesting conclusions. For example, the data **“suggests that procurement managers may consider reliability prior to the consideration of cost,”** which makes sense, but also shows the challenge in quantifying **“reliability”** as a sourcing attribute.

Or consider labor costs. For example, **“coastal China”** was rated by the respondents on this attribute as very favorable compared with Mexico, when in fact the two regions are quite similar in terms of labor costs.

The researchers cite a number of other seeming disconnects between respondent perceptions and objectively measured data.

These perceptions all told are largely accurate - but not always. **Nevertheless, “the idea that perceptions are impacted by regional stereotypes has “face validity” and supported factually by empirical comparisons,”** the authors say.

The key takeaway: Among other conclusion, the authors say it is important to map the buying team’s regional perceptions and

*Sourcing decisions are often multi-dimensional, even if **cost is “first among equals,”** and there is no accepted framework for how these other factors should be considered.*

then compare that to whatever factual evidence can be acquired. They recommend using one of several **“vision”** approaches to this perception data. At the very least, buyers or buying teams should at least explicitly acknowledge their perceptions going into the process.

For example, a company may have had experience with say corruption in a given country, and thus believes there are real problems in the region. Does that mean that country overall has a bigger issue with corruption than other choices? Maybe, or maybe not.

“Comparing managers’ perceptions with objective data of location attributes clearly demonstrates that perception is biased by cultural stereotypes,” the authors conclude. They also say low cost countries should use such insight to either make real improvements needed or to address perceptual challenges.

To what degree do you think regional perceptions might wrongly influence sourcing decisions? How do you think those perceptions can be best managed? Let us know your thoughts at the Feedback button below.

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