EMERGING ECONOMY CONSUMER PERCEPTION: A SOCIAL CAPITAL EXPLANATION

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Abstract. *The perception of product quality is an important means for consumers to make purchasing decisions based on intangible criteria, particularly when they do not have access to decisional factors available to manufacturers and supply chain members. Consumer decisions in emerging economies are further biased by perceptions regarding the intentions these manufacturers and distributors. Members of emerging economies distrust other societal members to a larger degree than found in developed countries. Distrust of other societal members is an indicator of low social capital. Social capital is considered as the accrual of trust at a social level, has no tangible value, but it generates productive activities. Social capital enables economic transactions that are impossible in its absence. In the inverse, low social capital societies do not accrue much trust and productive activities are not constrained by it its relative absence. In our paper we propose a social capital explanation of emerging economy consumer perception toward product quality. We will use a social capital framework developed by Nahapiet and Ghoshal (1998) based on: 1) cognitive capital, 2) structural capital, and 3) relational* *capital. We will also provide propositions that consider the following ideas. Consumers in emerging economies perceive that products made specifically for their country are low quality and these low-quality goods enter their markets from domestic and foreign manufacturers. Consumers in emerging economies perceive that high-quality products made in their country are exported to developed countries and lower quality products stay in the country for domestic consumption. Consumers in emerging economies perceive that domestic manufacturers mislead them by using foreign sounding product names and false statements on labels. They also prefer products made for developed countries. When making purchase decisions, they rely on family and friends for information. Consumers from emerging economies do not trust that manufacturer or their representatives will be honor product warranties and, by extension, they do not trust their government to protect their interests. We also will discuss why a similar concept, country of origin effect, does not address the emerging economy consumer perception deliberated in our paper. This paper contributes to the field of operations and supply chain management by focusing on perceptions of product quality in emerging economies using a social capital explanation and by developing a framework of eight propositions meant to explain in more depth certain particularities.*

Keywords: *social capital; emerging economy; consumer; perception; quality.*

Introduction

The perception of product quality in emerging economies is often that of poor quality. The consumers in these countries frequently feel that the products made for consumption in their countries are inferior to those of the developed countries (LeBarre, 1994) and there is a distinct preference for foreign global brands over local products (Atsmon, Child, Dobbs & Narasimhan., 2012; Guo, 2013; Zhang, 2015). Clearly, there is a sense that citizens of other countries, particularly those in the developed world, are receiving better quality products.

While the developed countries do enjoy quality goods, it was not always the case, at least not in the US. In the 1980s a resurgent focus on product quality evolved to counter a decline that began after the end of WWII. One important cornerstone of the new quality movement involved creating a more comprehensive definition of product quality. Garvin's (1987), broad definition of quality in which he listed eight major classifications for product quality was an example of this movement. His classification listed: 1) performance; 2) features; 3) reliability; 4) conformance to specifications; 5) durability; 6) serviceability; 7) aesthetics; and 8) perception of quality as a new approach to assessing quality. His classification was an advance when compared to the prior narrow definition of quality that served as a hygiene approach to quality problems from the manufacturer's point of view. Garvin's (1987) last classification, the perception of quality, was important because it was one of the new dimensions that brought the voice of the consumer into the quality discussion. Perception of quality is based on indirect measures, in which consumers make their purchasing decisions based on reputation and intangible criteria, as they are constrained by their lack of knowledge to infer conformance to specifications, durability, reliability and other product quality traits. Sparks and Legault (1993) further defined product quality as a multistep process based largely on Garvin's (1987) quality classifications. In their definition, the various steps were undergirded by perceived quality. Similarly, Reeves and Bednar (1994) also provided a multidimensional definition and listed four quality factors. One of these, meeting or exceeding expectations, was listed as a perceptual measure based on the consumer's perspective. Hansen (2001) also used multiple components to define quality along with a continuum ranging from the consumer's perspective to the producer's perspective. The consumer's perspective of quality was characterized by a deficiency of objective criteria. This study defines the perception of product quality as the subjective interpretations of indirect measures used by consumers and these are formed or influenced by the consumer's personal experience.

However, there is also a perception among some emerging economy consumers that products sold by foreign producers and home country manufacturers are deliberately made low-quality products. For example, cheap, low quality, hazardous Mattel toys rejected for sale in the US were sold in China and these toys were a reflection of a US manufacturer sending shoddy quality products to an emerging economy, which was not Mattel's intention (Canaves, Spencer & Casey, 2008). Food products from China and other emerging economies containing carcinogens, pollutants, microbes, and other hazardous elements were also rejected by US inspectors and these were resold in emerging economies still under a US label creating uncertainty about the quality coming from foreign manufacturers (Roth, Tsay, Pullman & Gray, 2008). The combination of selling poor quality products alongside good quality from both domestic and international producers creates distrust among emerging economy consumers.

The perception by emerging economy consumers of purposefully low-quality products made for their country by international and domestic producers could have been attributed to the country of origin (COO) effect. The country of origin effect is a highly researched theory that declares that consumers base their intention to buy or reject products based on the reputation of the COO. The COO effect construct, however, suffers from a case of viewpoint. That is, most COO research is conducted in developed countries and focuses on products made in emerging economies while scant research is conducted from the perspective of an emerging economy (Bayraktar, 2015). In addition to a problem of viewpoint in using COO in the context of consumers of emerging economies, the COO effect is not based on any causal relationship for the perception. That is, the COO effect provides no antecedent explanation of what causes the poor perception of products made in the emerging economies beyond prior experience. Due to limitations of perspective and no explanation of intention, the COO effect is an ineffective tool to understand the emerging economy consumer perception of product quality. What is needed is a framework that takes the perspective of the emerging economy consumer that incorporates an explanation of why or how members of these countries feel that quality is purposively low.

The emerging economy consumer perception (EECP) is a framework introduced here that attempts to explain why consumers sense that low product quality is intentional. The EECP of low quality is defined here in terms of social capital and is a social level structure (Tsai & Ghoshal, 1998) that facilitates the understanding of perceptions of consumers in emerging economies. Social capital is regarded as the accrual of trust at a social level (Dasgupta, 1988) has no tangible value, but it generates productive activities (Coleman, 1990). Social capital covers many aspects of social life including relationships, trust and cooperation (Tsai & Ghoshal, 1998). It enables economic transactions that are impossible in its absence. In the inverse, low social capital societies do not accrue much trust and productive activities are constrained by its relative inadequacy.

Consumers in emerging economies tend to distrust other societal members (Fukuyama, 1995) and this distrust is an indicator of low social capital. EECP is characterized as social level distrust of the intentions of manufacturers, domestic and international, to produce, distribute, and sell inferior quality products within the domestic supply chain. Social capital has been used at various theoretical levels, including at the social level as a social good (Putnam, 1993) and also as a cautionary explanation of low social capital among a society's members (Fukuyama, 1995). Social capital frameworks have also been used to study interfirm relationships (Baker, 1990), innovation (an element of improving product quality) between firms (Smart, Bessant & Gupta, 2007), reducing opportunistic behavior among supply chain members (Adler & Kwon, 2002), improvement of product quality through supplier development activities between buyers and suppliers (Krause, Handfield & Tyler, 2007), among others. There is a dearth of research, however, using a social capital framework to explain the perception of product quality among consumers in emerging economies. Most often, the research in the field is used to confirm what is currently known than to develop a new theory. In addition, the research in this field promotes the positive aspect of social capital (Matthews & Marzec, 2012). The opposing view of the difficulties encountered in societies possessing low social capital, as found in emerging economies (Benson 2001), has not been researched to a significant degree and deserves consideration (Matthews & Marzec, 2012). This study has a twofold aim, which is to study social capital in the perception of quality, an operations, and supply chain topic, and to do so in an emerging economy setting. In the ensuing sections, we will introduce a definition of social capital as expressed by Nahapiet and Ghoshal (1998). This definition will be followed by a discussion of the framework of Emerging Economy Consumer Perception model founded through eight propositions.

Social capital

The study of social capital has evolved over the years and has been used in numerous fields of study. It is considered a stable model (Kwon & Adler, 2014). Social capital was first introduced in the mid-1960s to frame relationships and trust among individuals, that is, social members leading to collective and cooperative work (Jacobs, 1965). Most recently, the field of operations and supply management has used the social capital framework in a number of studies that have covered continuous improvement, project management, new product development supply chain, and quality management (Matthews & Marzec, 2012).

Social capital has also transformed beyond a study of relationships to include underlying norms and the structure of the social networks or systems. Nahapiet and Ghoshal (1998) introduced these additional elements in a three-part model that incorporated social capital's principal dimensions to explain trust-forming behaviors and accrued relationships among social groups: 1) cognitive, 2) structural, and 3) relational dimensions. They defined social capital as, "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit (Nahapiet & Ghoshal, 1998, p.243). Cognitive capital expedites shared comprehension through common norms and language. The structural dimension consists of the network of group member relationships and is defined by the potency of the intragroup links. Finally, the relational dimension reflects the theoretical underpinnings of trust among group members. These three principal interrelated elements are described in more detail in this section and related to EECP.

Cognitive Social Capital. Cognitive social capital is considered as the primary source of social capital (Kwon & Adler, 2014). These norms are considered shared 'code,' 'paradigms' and signs of a 'collectivity' (Tsai & Ghoshal, 1998). Cognitive social capital refers to the social group consciousness and is based on cultural embeddedness and norms. Embeddedness refers to a course of action that often runs independently and, possibly, in opposition to the economic determination found in cost and benefit analysis, as used in neoclassical economics (Putnam, 1993). Collective norms create a 'we-feeling' of social identity. These norms are often recorded in the groups by past members who no longer reside there and continue as to exert influence on group membership. These ties add a historical dimension to cognitive capita (Kilduff, Tsai & Hanke, 2006).

In an emerging economy, individuals tend to identify with other in-group members and are suspicious of the intent of outgroups. An in-group is defined as a network of individuals who share similar norms (Triandis, 1994; Turner, 1982). Further, in emerging economies, norms are strong are among consumers in the group but are weak between consumers and the companies that provide them products. These weak links are indicative of distrust. That is, cognitive social capital is not aligned for perceptions of positive outcomes in economic transactions, rather, they are defensive and constrain social capital and efficient transactions (Benson, 2001).

Structural Capital. Structural capital characterizes the system of relationships (Nahapiet & Ghosahal, 1998) and is a secondary source of social capital (Mouw, 2006). Tsai and Ghoshal (1998) include social interactions as part of this source of social capital. Structural capital is based on membership in in-groups. The structure of emerging economy in-groups is generally by ascription, such as familial, tribal, and racial ties. Out-groups are assemblies of individuals to which a person does not belong, in this case, they may be seen as national and foreign companies. Further, out-groups may compete for resources or supremacy of ideology with an individual's in-group (Turner, 1982). That is, the social structure in emerging economies creates an "us-versus-them" mentality, particularly when distrust has been engendered between the consumer in-groups and the manufacturers who supply them. In our framework, structural capital refers to the emerging economy consumers and the supply chain members who provide products.

Adler (2014) stated that in addition to a conceptual understanding of structure, physical space determines structural capital. In this sense, the location and proximity of in-group members establish the in-group's boundaries. The consumer in an emerging economy knows the general location and conditions of life of fellow in-group members but may vaguely know the location and condition of the national manufacturer's place of business and, even more remotely, know about the foreign manufacturer. In addition, much of the work of social capital has emphasized 'horizontal' or peer relationships. Little has been discussed in extant research about the inequality from 'vertical' or asymmetrical power relationships. The structure of developed and domestic firms delivering products, some of them low quality, hazardous or defective, is a powerful narrative to separate them from the consumers in emerging economies (Kwon & Adler, 2014). Finally, in the context of emerging economies, social structure aggregates at the national level (Xiao & Tsui 2007).

Relational Capital. Relational capital refers to the nature of the relationships among members in the system (Nahapiet & Ghosahal, 1998). Among the emerging economy consumers, these relationships would be understood as communal links to other in-group members who behave and share like-minded buttress the actions and norms of fellow members (Kwon & Adler, 2014; Vaisey & Lizardo, 2010). Moody (2001) uses the term 'homophily' to refer to the attraction of like-minded people who share the same values as well as other criteria such as ethnicity and race. In this sense, consumers in emerging economies see their group consisting of similar consumer peers.

Nahapiet and Ghoshal (1998) also define relational capital as the assets created through the relationships. Under conditions of high social capital, these assets would be considered as the perceived quality of products and degree of goodwill between consumers and the manufacturers. These assets are can also include trust and trustworthiness (Tsai & Ghoshal, 1998). In an emerging economy, however, the relational assets between the consumers and product providers is not as found as found in developed countries. Emerging economy consumers' relationships with the supply chain members who provide products, would not be considered in positive social capital terms of respect and friendship. On the contrary, these relationships would be seen as low-trust.

Despite the usefulness of deconstructing the social capital framework, the boundaries between the three dimensions overlap (Nahapiet & Ghoshal, 1998; Rajennd, Muniady, Al Mamun, Mohamad, Permarupan & Zainol, 2015). Tsai and Ghoshal (1998) found that the three dimensions while being distinctive, do interact with each other to explain transaction ease and value creation.

Propositions

Social capital in emerging economies is low when compared to that of developed countries. The effects of low social capital are evident in their perceptions of quality provided to them by developed and domestic supply chain members. In this section, we will provide propositions regarding the way that low social capital affects the perceptions of quality in emerging economies.

Emerging economy consumers generally have a negative history of dealing with firms from developed countries who have subjected their countries to opportunistic treatment based on asymmetric market power. In times of economic crises, developed country firms, and bankers, through the IMF, often negotiate austere debt repayment schedules and buy domestic firms at below market value (Robertson, 2016). The field of economics in Latin American countries is strongly influenced by dependency theory wherein basic resources flow from emerging countries to developed countries at low cost and the developed countries hold back financial, technological, and managerial know-how, at the expense of the emerging economies (Grosfoguel, 2000). The perception of emerging economy consumers regarding foreign firms is often tainted by distrust of intentions. If a product is made specifically for an emerging economy, then the product must be low quality and is not what a consumer in a developed country would use. Pitlik and Kouba (2015, p.355) stated, “people who do not trust unknown others also tend to mistrust government and private companies”.

Proposition 1: Consumers in emerging economies perceive that products made specifically for their country are low quality.

Proposition 2: Consumers in emerging economies perceive that low-quality goods enter their markets from domestic and foreign manufacturers.

Emerging economy consumers are now part of the global supply chain and they know that many products are manufactured in their countries for export to the developed countries. When they shop domestically, however, they perceive that the better products made in their countries are exported and the ‘seconds’ and low-quality goods are left for domestic consumption. A high percentage of products in China are inferior or contaminated (Banham, 2007) or black market counterfeits (Canaves et al., 2008). Some of the domestic companies that produce low-quality products are also corrupt in their dealings with the government. Firms that provide high-quality products, however, tend to export their products to a higher degree and are less apt to engage in corrupt practices. The emerging economy consumer has difficulty knowing the difference between a licensed quality product and a low-quality counterfeit. They often assume that the counterfeit stays in the country and the high-quality product is exported (Luo & Han, 2009).

Proposition 3: Consumers in emerging economies perceive that high-quality products made in their country are exported to developed countries and lower quality products stay in the country for domestic consumption.

Deceiving emerging economy consumers is a common practice among domestic manufacturers. These manufacturers use a variety of means to pretend to be foreign products. For example they may state that the manufactured goods are ‘Export Quality,’ when they are not intended for export, or give the product a foreign sounding name, usually in English (Zhang, 2015). Product name origin is largely associated with the language on the packaging (Samiee, Shimp & Sharma, 2005). For example, a Hungarian food chain named its bakeries “Fornetti,” an Italian sounding name for the Romanian market. Romanians value Italian products more than they do Hungarian goods. The intent of the bakery chain was to mislead the consumer who would not buy the Hungarian product.

As consumers of a globalized market, emerging economy consumers also prefer luxury items and consumer items from developed countries over products made in their own countries (Hamzaoui & Merunka, 2006). Qian, Gong, and Chen, (2014) found that some counterfeiters in China mix fake and authentic products to trick consumers. The counterfeiters adopt similar product quality traits as found on authentic products, such as stitching, logo, and appearance, but the consumer is unable to determine other quality aspects that comprise long term durability and functionality.

Proposition 4: Consumers in emerging economies perceive that domestic manufacturers mislead them by using foreign sounding product names and false statements on labels.

Notwithstanding that, consumers in emerging economies generally distrust the intentions of foreign firms and governments to send low-quality products specifically to their market, they do prefer global over local products, particularly if they have had exposure to the benefits of the global product (Guo, 2013). With the advent of accessible print media and later with online media, consumers in emerging economies know global products and seek these out over the local brand due in part to social consciousness and style (Yang, Zhang, Wang & Liu, 2004). Consumers in emerging economies are also aware of the difference in quality between the developed country product and the local version (Wang & Yang, 2008). What has emerged is an emerging economy consumer who is concerned about the country of design is an important trait when picking high-end products. In a survey of product attractiveness, Chinese consumers preferred products from developed countries that are high quality and are made with or include higher technology than is available in the emerging economy (Atsmon et al., 2012). In addition, emerging economy consumers will often include shopping excursions to developed countries to buy the items they are not sure are authentic products in their own countries and are also available at lower cost.

Proposition 5: Consumers in emerging economies prefer products made for developed countries.

The distrust of product manufacturers and suppliers by consumers in emerging economies is manifest when consumers need specific product quality information. They do not generally seek out print or online information when making product purchase decisions. Atsmon et al. (2012) found that Chinese and Egyptian consumers relied on family and friends for advice on buying goods to a greater degree than in the US and Great Britain. Doh (2014) found that when lay people were deficient in understanding technical and or complex decisions, they relied on people they trusted for advice. Faqih (2016) suggested that firms should work with family members and friends when products are new and unknown. Bronfman and Lopez-Vazquez (2011) found in a study of trust and acceptance of risk that Latin American consumers turn to family members and friends for advice.

Proposition 6: Consumers in emerging economies rely on family and friends for information to make purchase decisions.

When a product is defective and does not live up to the stated company warranty or its use is found to be hazardous to the consumer or hurt some other domestic stakeholder, the emerging economy consumer does not believe that the manufacturer or their representatives will live up to its obligation to 'make things right.' Nor do they believe that their government will follow up to correct problems or anticipate them through preventive quality and risk audits. In a report of distrust of government institutions in emerging and developed countries, Pitlik and Kouba (2015) found that individuals, under conditions of distrust, support government involvement in consumer affairs if there is less trust in private firms than in government institutions.

According to Doh (2014, p.105), researchers of the social capital theory have found that "countries that have high levels of social capital exhibit a higher quality of government". In the inverse that would mean that low social capital countries also have deficient weak institutions in their countries. The principal finding of Bronfman et al. (2009) in a study of social trust of government institutions in Mexico was that public trust of government institutions determines the public's approval of government intervention on to protect the public. In the inverse, the low trust of the government leads to low trust in the government's ability to help consumers with low-quality products. Chinese consumers have little support from the Chinese government in terms of enforcing stricter product quality guidelines (Banham, 2007; Qian et al., 2015).

Proposition 7: Consumers from emerging economies do not trust that manufacturer or their representatives will be honor product warranties.

Proposition 8: Consumers from emerging economies do not trust their government to protect their interests.

Conclusions and implications

Customer decisions in any economy are a leading factor in the success or failure of a business. The common perception regarding product quality in emerging economies is crucial for any business. The perception of product quality is rooted in the social fabric. Because of its limitations, we cannot use the country of origin effect to explain the perspective of the emerging economy consumer. Consequently, we rely on a framework based on social capital theory. Since social capital covers aspects of the relationship, trust and cooperation, it facilitates economic transactions. Despite its complex application, the social capital framework as found in emerging economies has not been yet researched to an extensive degree and is a starting point for future studies. The theoretical implications of our study arise from the desire to bridge this gap of knowledge.

The practical implications of our study include the fact that consumers' decisions in emerging economies are biased by their perceptions regarding the quality of the foreign and domestic products sold in their market. The eight set of propositions reflecting the perceptions of consumers are relevant to managers in understanding certain particularities of the emerging economies. Knowing that consumers in emerging markets suspect that lower quality products are designed for them, managers can find better ways to market certain products in ways to address this belief. Furthermore, managers can use the set of eight propositions to develop strategies that encourage the domestic consumption and decrease shopping tourism. The limitations of our study include the fact that our framework of eight propositions has not been tested in the emerging economies.

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