



# International purchasing offices in China: A dynamic evolution model



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## ABSTRACT

The salience of the international purchasing office (IPO) in the management of international sourcing activities of multinational corporations (MNCs) has steadily increased, in developed and emerging economies, since the first adoption of this supply chain strategy in the 1980s. The aim of this paper is to develop an activity/role-based evolution model for IPOs, employing multiple case studies: 14 MNCs' IPOs in China, studied by British, Italian, and Chinese scholars. Applying role theory in a global purchasing context, we identify eight routine roles and four strategic roles played by IPOs and propose that IPOs could lead an MNC's global sourcing in a geographical region. We challenge the unilinear and sequential nature of existing global sourcing process models and propose a dynamic evolution model, consisting of five stages differentiated by number, depth, and breadth of roles, in which IPOs could leapfrog some stages, re-trench (move back to lower stages) and be potentially withdrawn. Finally, we conclude that the stage of an IPO is determined by the strategic importance of China to its parent company.

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## 1. Introduction

Global sourcing has increasingly attracted the attention of International Business (IB) researchers since 1980s. A recent special issue of *International Business Review* was devoted to global sourcing of business services (Lewin & Volberda, 2011). The first papers on global sourcing in IB literature were published in the late 1980s and early 1990s and focused on a taxonomy of global sourcing strategies of multinational corporations (MNCs) in the developed world (Kotabe & Murray, 1990; Kotabe & Scott, 1994; Murray, Kotabe, & Wildt, 1995). In the past decade, the focus of global sourcing research has shifted from physical products to services (Murray, Kotabe, & Westjohn, 2009; Nassimbeni, Sartor, & Dus, 2012), to sourcing from “low-cost countries,” e.g., China or India (Grandinetti, Nassimbeni, & Sartor, 2009; Kotabe & Zhao, 2002), to the potential demerits of global sourcing (Kotabe, Mol, & Murray, 2008; Kotabe & Murray, 2004), and to organizational structures for global sourcing (Trautmann, Bals, & Hartmann, 2009). In this paper we engage with the last of these IB research

streams, i.e., organizational structure for global sourcing, and investigate the international purchasing offices (IPOs).

The salience of IPOs in the management of global sourcing activities of MNCs has steadily increased, in both developed and emerging economies, since the first adoption of this supply chain strategy in the 1980s (Nassimbeni & Sartor, 2006). It is expected that the establishment of IPOs will continue to be a success factor in integrated global sourcing (Monczka, Trent, & Petersen, 2008).

Having established the significance of this strategy for global sourcing in MNCs, we turn to the roles played and activities carried out by IPOs. The *activities* (i.e., what they do) have attracted the attention of many authors (Humphreys, Mak, & McIvor, 1998; Nassimbeni & Sartor, 2006). However, little is yet known about the *roles* of IPOs (i.e., what part they play within the overall sourcing and supply chain strategy).

An IPO is formally defined by Goh and Lau (1998, p. 120) “as an offshore buying office or buying house set up by an OEM to procure components, parts, materials and other industrial inputs [...] for use by manufacturing plants globally.” Caution should be given in that this definition was based on research on the IPOs of Western and Japanese electronics companies in Singapore in the middle of 1990s. Given its geography and stability, Singapore was a popular IPO location at that time.

Other definitions of IPOs consider them “intermediaries” (Humphreys et al., 1998, p. 181), “shared service entities” (Mulani, 2008, p. 23), “full-service procurement centres” (Monczka et al., 2008, p. 50), and “procurement service centres” (Kumar, Rehme, &

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Andersson, 2011, p. 1). These definitions and descriptions of IPOs only capture one or two aspects of the roles played by an IPO at a surface level and do not capture what roles exactly an IPO plays in a host country as it grows over time.

In the two decades since this development, it may be expected that the activities and roles of IPOs have expanded and changed. Hemerling and Lee (2007), in their BCG report of “Sourcing from China”, found that China sourcing itself is evolving; the approaches that were best practice a few years ago are now standard operating procedure in most China sourcing offices. In this period, China has risen to become the world’s prominent region for manufacturing and market (Biggemann & Fam, 2011; Kang, Wu, Hong, & Park, 2012; Lee & Humphreys, 2006; Salmi, 2006).

At the best of our knowledge, there is to date no research that differentiates between the types of IPO, based upon the activities/roles carried out in a host country. In this paper we attempt to develop an activity/role-based classification and a process model of IPOs based on the role assumed. To do this, we have conducted interviews with the IPOs of 14 Western MNCs in China.

This research contributes to the global sourcing literature in a number of significant ways. *First*, this is the first paper to apply role theory and study the roles played by an IPO at different stages of evolution and the change of roles over time. We also supported the existence and discovered four strategic roles assumed only by the advanced IPOs and eight routine roles. *Second*, existing literature takes a headquarter-centric view on global sourcing; this paper is one of the first to show that IPOs could assume a proactive, or even a leading, role represented by assuming the four strategic roles in global sourcing of MNCs in a geographical region (e.g., China). This is a point of departure from previous research. *Third*, this paper provides detailed stages (e.g., five types of IPOs) after an MNC started sourcing from a low-cost country, however we also challenge the strictly sequential and unilinear nature of the existing models and propose our model a dynamic one in which an IPO could ‘leapfrog’, ‘downgrade’, or ‘be withdrawn’ depending on contingent factors and internal strategic change.

The structure of the paper is as follows. First, we provide a literature review on IPO as a stage of global sourcing and on IPO activities and roles. Second, we describe the case study method used for this research. Third, the results of an activities-based classification are showed. Fourth, a dynamic evolution model of IPOs is presented and two propositions are put forward. Finally, we

conclude the paper with implications for research and practice, limitations, and future research directions.

## 2. Literature review

### 2.1. The IPO as one stage of global sourcing

International sourcing, or offshore sourcing, has been characterized by some scholars as an evolutionary process. Table 1 summarizes seven process models for international sourcing. These identify a number of sequential stages, characterized by one of the two dimensions: an increasing involvement in the foreign supply market (Hemerling & Lee, 2007; Matthyssens & Faes, 1997; Monczka & Trent, 1992; Rajagopal & Bernard, 1993) and development from transactional to strategic (Giunipero & Monczka, 1997; Swamidass, 1993; Trent & Monczka, 2003). These sequential process models present the establishment of IPOs as a necessary step that firms need to consider after the initial stage of international sourcing.

Three models show that there is a tendency for global purchasing to evolve from transactional to strategic. Trent and Monczka (2003) claim that firms at level 3 of their model often allocate certain buyers to manage international purchasing or rely on international purchasing offices to support purchasing activities, and that IPOs play a more crucial role in the next two levels (4 and 5). Giunipero and Monczka (1997, p. 323) argue that, during phase 2 (planning and managing stage), firms often establish international purchasing offices and, at some time, this growth reaches a point when the firm should decide “*what role various subsidiaries, divisions, and plants should play vis-à-vis corporate headquarters in international sourcing.*” Swamidass (1993) argues that this sequence is not only the most commonly observable one but it is also the most logical, since development of a foreign market and suppliers takes place over a long period.

Another four models identify different levels of involvement in the foreign supply market, with implications for global purchasing organizational structure. Monczka and Trent (1992) argue that international purchasing is initially carried out by designate domestic buyer(s) (stage 1). Then, this activity is managed by subsidiaries or other corporate units (stage 2) and companies establish international purchasing offices (stage 3). In the final two stages (4 and 5) IPOs continue to play a crucial role in managing

**Table 1**  
Process models for international sourcing.

Studies	Phases
<i>An increasing involvement in the foreign supply market</i> Monczka and Trent (1992)	(1) Designate domestic buyer(s) for international purchasing; (2) use of subsidiaries or other corporate units for international assistance; (3) establish international purchasing offices; (4) assign design, build, and sourcing to specific worldwide business unit(s); and (5) integrate and coordinate worldwide sourcing strategy.
Rajagopal and Bernard (1993)	(1) Local sourcing; (2) import via agents or distributors; (3) import through subsidiaries/own representatives; (4) establish international purchasing offices; and (5) integrate and co-ordinate global sourcing through direct investment.
Matthyssens and Faes (1997)	(1) Purchasing issues are coordinated by the largest user of a specific product or product group or by the user that is located in the supplier’s country of origin; (2) headquarters coordinate the purchasing activities; (3) the company establish regional purchasing groups to coordinate the purchasing activities; and (4) the company sets up profit-oriented purchasing centres, which sell their services to various customers within the company.
Hemerling and Lee (2007)	(1) Testing the water; (2) early engagement; (3) full integration; and (4) making China a centre.
<i>International sourcing shifting from transactional to strategic</i> Swamidass (1993)	(1) No import sourcing; (2) import sourcing for cost minimization; (3) import sourcing for competitive advantage; and (4) import sourcing is a strategic asset
Giunipero and Monczka (1997)	(1) Operational/transactional stage, in which the focus is on minimization of purchasing costs (in general, purchased items are relatively standard and labour intensive) and (2) planning/managing stage, in which the focus is on how to best manage international purchasing efforts, even improving supplier relations and signing long-term contracts (in general, purchased items are more complex).
Trent and Monczka (2003)	(1) Domestic purchasing only; (2) international purchasing as-needed; (3) international purchasing as part of sourcing strategy; (4) integration and coordination of global sourcing strategies across worldwide buying locations; and (5) integration and coordination of global sourcing strategies with other functional groups.

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