



Global purchasing strategy and International Purchasing Offices: Evidence from case studies

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ABSTRACT

Setting up an international purchasing office (IPO) is one of the key steps for firms doing global sourcing. This paper aims to explore the relationship between strategy and structure in a contemporary global purchasing context. We build a theory of IPOs, employing a case study method to address two research questions—what types of IPOs exist in China? And how may an IPO become strategic to its parent's global purchasing? We identify three types or clusters of IPOs along four dimensions: motives for sourcing from China; global purchasing strategy for China; IPO structure and IPO followership. We present a causal model and associated propositions to explain how an IPO may become more strategic for its parent company. In the model we identify that, in addition to the direct link of 'structure follows strategy', IPO followership can be an underlying construct, linking IPO structure and global purchasing strategy for China. The paper opens up new avenues for global sourcing research and provides new insights for managers on global purchasing strategy, specifically with respect to IPO organisational design and capabilities.

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1. Introduction

International purchasing offices⁴ (IPOs) of multinational corporations (MNCs) now play important roles in the growth of international sourcing activities in developed and emerging economies. They are considered a part of, or a major step in, an MNC's global purchasing (GP) process (Rajagopal and Bernard, 1993; Giunipero and Monczka, 1997; Matthyssens and Faes, 1997; Trent and Monczka, 2002). Monczka et al. (2008) observed that formal establishment of an IPO is a critical success factor in the management of integrated global sourcing and that it has become one of the most frequently adopted strategies for managing international sourcing activities.

Despite the increasing relevance of IPOs within international sourcing strategy, a recent literature review shows that few significant studies have been devoted to this topic. Current research is mainly descriptive, focusing on issues such as IPO definitions, activities, advantages, and challenges; very few researchers link IPOs to global purchasing strategy (Sartor et al., *in press*). Since the most recent, comprehensive, and significant study on IPOs was performed seven years ago (Nassimbeni and Sartor, 2006), we conjectured at the beginning of our research that the existing definitions of IPO were out of date; the roles and related activities of IPOs, and the relative importance of them, have probably changed in recent years, with economic developments in China and Asia.

This study—part of an international research project jointly developed by European and Chinese scholars—examines IPOs in relation to global purchasing by MNCs (specifically European and North American) in China, still one of the most rapidly developing centres of production and global sourcing destinations in the world (Biggemann and Fam, 2011; Kang et al., 2012).

Since the 2008 global financial crisis, the costs of raw materials and labour have rebounded considerably. China's current five year plan, incorporating factors such as significant welfare levies, will render it the second most expensive Asian country in which to manufacture (behind Malaysia) by 2015 (China Briefing, 2011). The Chinese Renminbi has steadily appreciated against the US dollar. Inevitably, some MNCs have transferred production to lower cost

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⁴ Goh and Lau (1998, p. 120) provide the only comprehensive definition of international purchasing office: "...an offshore buying office or buying house set up by an OEM [original equipment manufacturer] to procure components, parts, sub-assemblies, materials and other industrial inputs at competitive prices for use by manufacturing plants globally".

regions of China (e.g., Central/Western) or to other countries (e.g., Vietnam, India, and Bangladesh). Others have started to relocate a share of the production to their home country or in countries close by (e.g., Eastern Europe or Mexico). These trends have been labelled *backshoring* or *nearshoring* (Kinkel, 2012). It is unclear how this will affect Chinese IPOs in the long term.

Furthermore, several operations management (OM) scholars (e.g., Salmi, 2006; Nassimbeni and Sartor, 2007; Schoenherr, 2009; Hultman et al., 2012; Horn et al., 2013) have called for research studying global purchasing in the Chinese context.

Drawing on these empirical findings and building on a Resource Based View (RBV) of the firm and leadership/follower-ship theories, we attempt to answer the following two research questions:

- (1) What types of IPO exist in China?
- (2) How may an IPO become strategic for its parent's global purchasing?

In the first research question, we attempt to identify a typology of IPOs currently existing in China. We are aware that the theoretical contribution of typologies has been a debated topic. However, Doty and Glick (1994) in an Academy of Management Review (AMR) article state that “...when typologies are properly developed and fully specified, they are complex theories” (p. 1), since they “...meet three important criteria of theories: they have constructs and predict relationships among the constructs and these predictions are falsifiable” (p. 243). In the second research question we intend to explore the chain of causal links (if any) between motives of sourcing from China, GP strategy and IPO structure.

We contribute to the subtopic of global sourcing literature by identifying different types of IPO and linking global purchasing strategy and IPO structure. These findings may provide practitioners with tools for assessing their China sourcing strategy in relation to the roles assumed by their IPOs. The practices of successful IPOs may also provide a benchmark for the less developed ones.

The rest of the paper is organised as follows. Section 2 presents a literature review. Section 3 describes the case study method and Section 4 presents descriptive results. The discussion follows, identifying three clusters of IPOs and a causal model in Section 5. Section 6 concludes by presenting our contribution to theory and practice, limitations, and some future research directions.

2. Literature review

We performed a content-based literature review on ‘global sourcing’ (see Schiele et al., 2011). Seuring and Gold (2012) stated that content analysis represents an effective tool for examining a sample of research documents in a systematic way. One of the most important rules is that dimensions and related analytic categories which allow for classifying the reviewed material can be derived deductively (based on theories) or inductively (based on the reviewed materials). The content-based literature review differs from a systematic literature review (see Tranfield et al., 2003) in the sense that the latter emphasises the transparency of the review process and is an evidence based review of the literature that is open to a variety of analytical tools (meta-analysis and content/narrative analysis); while the former stresses the application of content analysis tools and may be considered a branch of a systematic literature review.

Following this approach we collected and analysed papers after 2006 and re-analysed the ones included by Quintens et al. (2006b), who provide a comprehensive literature review on global

sourcing. We adopted both inductive and deductive methods to identify themes.

In line with the themes classification of Nassimbeni (2006) and Hultman et al. (2012), we classified papers into four streams of research: processes and stages of global sourcing, motives for global sourcing, global purchasing strategy and structure, and the application of the Resource-Based View (RBV) to explain global purchasing, all related to IPOs. The construct of ‘IPO followership’ and China’s peculiarities emerged from the data, so we carried out a literature review on ‘followership and leadership’ (Section 2.5) and China’s peculiarities (Section 2.6), following an inductive approach.

2.1. IPOs as a global sourcing organisational structure

The process that leads companies to source globally has attracted the interest of many scholars. There are a number of process models for international sourcing provided by literature, which identify some sequential stages, characterised by one of the two dimensions: increasing involvement in the foreign supply market (Rajagopal and Bernard, 1993; Matthysens and Faes, 1997) and a tendency to move from transactional to strategic global sourcing (Swamidass, 1993; Giunipero and Monczka, 1997; Trent and Monczka, 2002, 2003).

The sequential process models provide an important foundation for our study since almost all reviewed works identified the establishment of IPOs as a necessary step and a form of organisational structure needed by firms to implement their GP strategy after the initial stage of international sourcing. For example, Trent and Monczka (2002) claim that firms at level 3 can often 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). Rajagopal and Bernard (1993) provide a sequential model of international sourcing entry strategies in which IPOs play a crucial role at the two final stages: (level 4) ‘establish international purchasing offices’; (level 5) ‘integrate and co-ordinate global sourcing through direct investment’. Giunipero and Monczka (1997) argue that during phase 2 (the planning and managing stage) firms often establish international purchasing offices. Finally, regional purchasing groups (stage 3) and profit-oriented purchasing centres (stage 4) of Matthysens and Faes’s (1997) model can be considered as IPOs. Therefore, we conclude that an IPO is a form of organisational structure to implement the global purchasing strategy.

2.2. Global purchasing strategy and organisational design

2.2.1. Global purchasing strategy

Within organisation literature the relationship between strategy and structure of a firm is a long-debated issue. Chandler (1962, p. 14) hypothesises a hierarchical relationship between strategy and structure (i.e., structure follows strategy) and a number of authors (e.g., Miller, 1987; Habib and Victor, 1991) empirically test this assumption. Other scholars (e.g., Hall and Saias, 1980; Grinyer and Yasai-Ardekani, 1981; Keats and Hitt, 1988) propose (and empirically test) that structure is a cause of strategy. However, Hall and Saias (1980) further point out that the relationship between strategy and structure is complex and interactive and that it may be the match between the two that is of importance rather than which one precedes the other. Mintzberg et al. (2003) agrees that this is a ‘chicken and egg’ issue, i.e., that it is a reciprocal relationship. Amburgey and Dacin (1994) synthesise different views and conclude that since causal mechanisms are different (i.e., the link from strategy to structure is based on efficiency and effectiveness while the link from structure to strategy is based on the evolution of managerial cognition and skills), strategy and

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