



Internal integration as a pre-condition for external integration in global sourcing: A social capital perspective



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ABSTRACT

The purpose of this study is to explore the link between integration and global sourcing success in international operations and by doing so, to clarify the ambiguous picture that prevails in the existing literature. Specifically, this quantitative study aims at identifying the role of the buying companies' internal and external integration with suppliers using a social capital lens. Data were collected from the central purchasing department of a multinational automotive OEM located in Germany. A sample of 82 purchasers was surveyed about their assessment of global sourcing projects, focusing on internal cross-functional integration, external supplier integration and project success. The data were analyzed with structural equation modeling procedures, using SmartPLS. The findings indicate that internal integration is a precondition for external integration with suppliers, which accordingly has a strong positive influence on global sourcing success. Surprisingly, the direct relationship between internal and external integration was not significant, indicating a mediating role of social capital within this relationship. The theoretical originality lies in the use of the social capital theory and its three dimensions: cognitive, structural and relational capital for both internal and external integration, and in the connection between integration and global sourcing success. From a practical perspective, it can be recommended that managers distinguish between an internal and an external perspective. Internally, the focus should lie on the clear communication of common goals and norms, whereas externally, the definition of mutual contact points between organizations is of higher importance.

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1. Introduction

Following the idea of lower factor costs in certain supply markets, there seems to be a strong consensus, in particular among practitioners, that international sourcing is either inevitable and/or beneficial for firms (Kotabe and Mudambi, 2009; Nassimbeni, 2006; Schiele et al., 2011a; Steinle and Schiele, 2008). Global sourcing has been called “an automatic expectation to respond to competition” (Carter et al., 2008, p. 225). However, previous findings concerning the results of global sourcing initiatives are somewhat contradictory; they show effects that range from negative to neutral (Kotabe and Omura, 1989; Murray et al., 1995; Schiele et al., 2011a) to 20% savings (Petersen et al., 2000; Trent and Monczka, 2003b; Weber et al., 2010). Some scholars argue that global sourcing is primarily a means of generating short-term cost advantages on a unit price level (Petersen et al., 2000; Schiele et al., 2011a), omitting a longer-term total cost perspective (Holweg et al., 2011; Murray, 2001; Trent and Monczka, 2003b).

It has been argued that the success of global sourcing is based on the “worldwide integration of engineering, operations, and procurement centers within the upstream portion of a firm's supply chain” (Trent and Monczka, 2003b, p. 608). Thus, organizations face the challenge of integrating their internal functions with the entire supply chain (Golini and Kalchschmidt, 2011; Pagell, 2004). Apart from internal integration, recent research has investigated the link between external supplier integration and performance; the results suggest a positive effect of supplier integration on the buying firm's performance (Golini and Kalchschmidt, 2011; Lawson et al., 2008; Leana and Pil, 2006; Villena et al., 2011; Zhao et al., 2011) as well as a positive effect in the global sourcing context (Zhao et al., 2011).

Dyadic success factors for global sourcing, such as external integration between companies, have been widely researched, e.g., under a transaction cost economics view (Kotabe, 1994; Murray, 2001; Murray et al., 1995; Schneider et al., 2013) or the resource-based view (Espino-Rodríguez and Padrón-Robaina, 2006). This research has employed case studies (Forza, 2009), surveys (Frohlich and Westbrook, 2001) and simulations. However, despite a call for research from various scholars (Petersen et al., 2000; Trent and Monczka, 2003b; Weber et al., 2010), the internal prerequisites for a firm's global sourcing success have been largely

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under-researched (Hartmann et al., 2008), although the importance of the integration of various functions within the firm for knowledge transfer and cooperation, e.g., for new product development (Kahn, 1996), make-or-buy decisions (Moses and Ahlstrom, 2009), and the general performance of the firm (Maltz and Kohli, 1996) has been shown.

Previous studies have also explored the interplay of internal and external integration in contexts such as product development (Koufteros et al., 2005) and general corporate performance outcomes (Droge et al., 2004). The results of these studies suggest that there may be a positive link between the two types of integration. However, it has not yet been shown how the joint effects of internal and external integration influence global sourcing success. Based on the prevailing literature, it cannot be stated a priori that internal and external integration also contribute to global sourcing success because global sourcing often incorporates special needs and particular firm characteristics (Trent and Monczka, 2003b, 2005).

This research paper aims to demonstrate that global sourcing is more than simply a set of tools designed to provide short-term cost savings. Specifically, the influence of intensified integration efforts is of interest. At the core of this research is the question of whether a high level of internal cross-functional integration contributes to a higher level of external integration (Koufteros et al., 2005) in a global sourcing context. Consequently, this work explores whether internal and external integration can serve as antecedents for successful global sourcing.

Because integration usually involves various elements of social interaction (Rabbiosi and Santangelo, 2013) and in line with prior research on integration in supply chain management, social capital theory has been chosen as the theoretical framework of the present research (Krause et al., 2007; Villena et al., 2011; Zhang and Huo, 2013). This leads, finally, to the main research question: Are internal integration of the functions within the buying firm and the accumulation of social capital prerequisites for external supplier integration, ultimately leading to increased global sourcing success?

The paper is structured as follows. After a brief literature review, our hypotheses regarding the relationship between social capital and internal and external integration, as well as the role of integration in the success of global sourcing, are presented. The chosen method of empirical analysis, which involves a sample of 82 global sourcing purchasing projects, is explained, and the results of our survey are discussed. The paper concludes with a discussion of the limitations of the research setting and some suggestions for further research.

2. Theoretical considerations

2.1. Global sourcing and the internal – external integration link

Since the 1990s, global business transactions have been growing considerably faster than domestic economies (Bowersox and Calantone, 1998), and multinational business has received increasing attention (Schiele et al., 2011a). The clear focus for firms on traditional western purchasing markets has been shown to lie in the cost-saving aspects of global sourcing (Alguire et al., 1994; Monczka and Giunipero, 1985; Spekman, 1991). While many terms, some of which have been precisely defined and some of which have been used interchangeably, have been used to describe global sourcing (Schiele et al., 2011a), the term “global sourcing” is herein employed as an umbrella term for cross-border sourcing aiming at cost savings.

As suggested in the literature, integrated global sourcing activities are usually more successful than sourcing activities that

focus on arm's-length transactions (Horn et al., 2013; Pagell, 2004; Trent and Monczka, 2003a, b). As a consequence, integration has recently received increased attention in the context of operations management. In addition to pioneering publications such as that of Trent and Monczka (2003b), which elaborates on integrated global sourcing, a growing number of researchers have discussed the beneficial effects of internal integration (e.g. Foerstl et al., 2013; Pagell, 2004; Quintens et al., 2006; Trautmann et al., 2009) and external integration (e.g. Cousins and Menguc, 2006; Das et al., 2006; Fabbe-Costes and Jahre, 2007; Wiengarten et al., 2014) on operational performance. In contrast to publications that focus on internal cross-functional integration or on integration with external supply chain members, there has been a shift to research settings that examine both types of integration (e.g. Droge et al., 2004; Flynn et al., 2010; Kim, 2006; Koufteros et al., 2005; Wiengarten et al., 2014; Yang et al., 2013; Zhao et al., 2013). Nevertheless, despite the fact that the number of studies addressing internal and external integration has increased considerably, the proposed relationships among the effects and their moderators and mediators remain undefined, and a well-developed suitable theoretical framework is lacking.

In the reviewed literature, Schoenherr and Swink (2012) provide evidence concerning the moderating effect of internal integration on external integration, whereas Zhao et al. (2011) show a moderating role of supplier integration in customer integration. Gimenez and Ventura (2005) investigated Spanish companies and found evidence for the existence of a positive relationship between internal integration of the logistics function with the functions of other departments such as marketing and production and with external inter-organizational integration. However, Gimenez and Ventura (2005) assumed a bidirectional effect, meaning that internal integration facilitates external integration and vice versa. In contrast, Schoenherr and Swink (2012) emphasized the positive effect of internal integration on the relationship between external integration and delivery/flexibility performance. Their work broadly supports the findings of Droge et al. (2004), who analyzed a sample of first-tier suppliers from North American automotive OEMs. Their results indicate that “(...) the joint use of external and internal integration has synergistic effects on firm performance outcomes” (Droge et al., 2004, p. 570), implying that both types of integration deserve managerial attention. Still, Droge et al. (2004) conclude that the effects of interaction between internal and external integration has to a large extent been left unnoted, calling for further research. In a more recent study, Zhao et al. (2011) argued that external integration with market partners is positively influenced by internal functional integration and relationship commitment.

The results cited above indicate that internal integration is likely to exert an influence on external integration and on various measures of performance. However, the relationship between internal and external integration in purchasing and the mechanisms underlying this relationship are still ambiguous. In an attempt to close this gap, the present paper focuses on the link between the two types of integration.

2.2. Social capital theory

Within a supply chain management context, the importance of integration is emphasized in the literature (e.g. Fabbe-Costes and Jahre, 2007; Hamprecht et al., 2005; Pagell, 2004). The view of the positive effects of integration is not limited to an internal perspective (Pagell, 2004) but also covers external integration with suppliers (Krause et al., 2007; Lawson et al., 2008). Because integration refers to the process of interaction and collaboration to achieve mutually acceptable outcomes (Pagell, 2004), we posit a close linkage between social interaction and social capital and

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