Global Sourcing – An Indispensable Element in Worldwide Competition

Procurement Policy is being Neglected by International Management

An investigation of the reasons which lead to foreign investments shows a clear dominance of market-oriented goals. Results from several empirical studies support this conclusion (see, for instance, the research done by the IFO-Institute (1979) or Pausenberger’s study on “motives of German companies to invest directly in developing countries” (Pausenberger, 1980). Reasons connected with procurement, however, seem to be only of secondary importance (see Table 1):

<table>
<thead>
<tr>
<th>Study</th>
<th>Frequency</th>
<th>Rank</th>
<th>Factors Considered Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIHT-Study (1982)</td>
<td>25</td>
<td>9</td>
<td>low wages, securing the supply level</td>
</tr>
<tr>
<td>IFO-Study (1981)</td>
<td>10</td>
<td>2</td>
<td>low wages, raw materials close at hand</td>
</tr>
<tr>
<td>Pausenberger's study (1980)</td>
<td>9</td>
<td>6</td>
<td>input cost advantages</td>
</tr>
<tr>
<td>Study by Briemann/Lawson (1984, p. 465)</td>
<td>24</td>
<td>24</td>
<td>input costs (materials &amp; energy)</td>
</tr>
</tbody>
</table>

This emphasis on output-related factors fits well with the explanation the “monopolistic advantage approach” gives for foreign investments (an overview is given by Macharzina, 1982, p. 113): Enterprises are said to employ strategies of internationalization because they try to maximize their achievement level by playing off their assets against the local competitors in the new market (Hymer, 1960). Assets can result from

- technological superiority and better management know-how (Johnson, 1970);
- superior marketing know-how (Caves, 1971);
- economies of scale (Kindleberger, 1969).
The “oligopolistic” approach, which was developed from Knickerbocker’s research on foreign investment, also provides a plausible explanation for the above findings (Knickerbocker, 1973). It is assumed that all major consumer and industrial goods markets (automobiles, computer hardware, mineral oil, chemicals) have oligopolistic structures, nationally and internationally. As oligopol theory presumes a general interdependence between market reactions of competitors, all market participants will have to follow suit if one competitor decides to open up a strategic target market by investing into production abroad.

These approaches, however, have only a limited explanatory power. The monopolistic advantage hypothesis, for instance, emphasizes the notion that strategies of internationalization are aimed only at the utilization of assets; it is neglected that activities in foreign markets can help to acquire assets in the first place, e.g.

- securing raw materials sources,
- securing cost advantages (wages and materials),
- access to specific market information.

Procurement policy has been rated a relatively unimportant reason for investment. This is surprising for two reasons:

a) There is a vast amount of literature dealing with present instabilities in the supply of raw materials; for some materials, worldwide shortages are forecasted (“Crises in Supply Markets”, Taylor, 1975; see also Malpas, 1984).

b) The international market scenarios which are used to develop strategies of internationalization more and more often assume stagnating markets, especially in the advanced industrial countries. If this is so, measures of procurement policy should contribute to a competitive cost level and take up innovative impulses from the source markets.

References to procurement policy in the international management literature are strikingly rare; Pausenberger (1982, p. 123) can be named as an exception. The keyword “global sourcing” has been introduced by Hefler (1981). We understand global sourcing as a general strategic orientation towards international supply markets. The first step should be a systematic extension of sourcing activities to foreign markets, possibly worldwide (strategy of “going international”). This should be followed by an increase in intensity – similar to the shift from export activities to direct investment a procurement infrastructure should be established, with buying offices, trade companies, logistic facilities, information systems and the like.

Importance of Procurement Policy within Concepts of Market Globalisation

Theodore Levitt’s approach

Levitt’s article on “The Globalization of Markets” (1983) is undoubtedly a very precise and articulate summary of the controversy about competitive strategies suitable for multinational or international companies. It has stimulated or even provoked many contributions by other authors in the field. The proposed “Global Marketing Strategy”
is based on the following assumptions:

1. The most important markets are subject to the “law of convergence”. They are driven towards “global commonality”. Levitt even assumes a “general drift towards the homogenization of the world” (p. 93).

2. Globalization tendencies do not only apply to raw materials and “high tech” products markets; the demand structures in “high touch” markets (as cosmetics, home electronics, jeans, rock music, Coca Cola) also become more and more alike throughout the world. Therefore, Levitt recommends a general standardization of products.

3. Globalization also affects the methods and processes of marketing: Companies sell “the same thing in the same way everywhere” (p. 93).

4. Successful competitors are able to offer superior quality and reliability at a competitive cost level on account of scale effects. The well-known conflict between quality and price is thus declared solvable or even solved by Levitt: “High quality and low costs are not opposing postures. They are compatible, twin identities of superior practice.”

5. Conclusions drawn for marketing policy are as follows:
   - Offer products of high quality and reliability worldwide at low prices;
   - Operate as if the world were one large market.

This is not the place for a detailed analysis of Levitt’s remarks (For detailed critique see Meffert, 1986). They can be seen as a stimulating, creative speculation whose undisputable value lies in pointing out two strategic essentials for competition:

1. Levitt emphasizes the fact that success – at least in international markets – requires a clear picture of a company’s specific competitive advantages. Porter (1986) has made this aspect the center of his approach.

2. Levitt claims a right for corporate resp. marketing strategies to engage in active shaping of the environment. Oversubtly, he states: “The global competitor will seek constantly to standardize his offering everywhere. . . . He will never assume that the customer is a king who knows his own wishes” (p. 94).

The core feature of a global strategy is cost leadership. All activities are subordinate to this strategic goal. Explicitly, Levitt mentions the necessity to standardize products and processes as far as possible, and the subgoal of reaching economies of scale by maximizing the production volume. Interestingly, there is no mention of possible contributions by purchasing, even though in process oriented production, as in the chemical industry, the cost structure is mainly determined by material costs – up to 70 per cent. In assembly-orientated production (as in the automobile industry), the costs of materials (raw materials, units, accessories) make up more than 50 per cent of total costs. A possible explanation for this deficit could be that Levitt takes an output-orientated perspective: he is concerned with the utilization of the specific advantages of a corporation. The prerequisites for his strategy – how these advantages can be developed – are not discussed. Not all of the elements of the strategic triangle proposed by Ohmae (1982) are covered. It is in line with marketing tradition to formulate competitive strategies with respect to the consumers. However, if consumers are largely satisfied with the range of alternatives offered, as this is the case in many markets throughout the world, the critical point is to develop and defend specific competitive advantages (Coyne, 1986; also Porter, 1987). In order to survive, a company must have a sustainable strategic advantage at least in one domain (see Henderson, 1983).
Strategic Competitive Advantages in Stagnating Markets

Contrary to Levitt’s hypothesis of general shortage most economists assume the exact opposite – a worldwide decrease in market growth. In stagnating markets, strategic deficits are immediately discovered and sanctioned by severe economical consequences. In growing, expanding markets, even mistakes in strategic management can sometimes go unnoticed, or, if discovered, are easily forgiven. In stagnating markets, competition is generally stronger than in growing markets. Gains of one competitor mean losses of another, who will, of course, not accept this decrease in importance without responsive action. Stronger competition seems to be a major force to trigger innovations. Studies by Utterback/Abernathy (1975) show that the number of product and process-related innovations increase in the latest stages of the product life cycle.

Hamermesh/Silk (1979) have analyzed the strategic features of successful businesses in stagnating markets. These are

- discovering new and potentially growing market segments,
- increasing product quality,
- increasing profitability.

The second and third feature are closely related to input and enhance the significance of procurement policy:

a) Increasing product quality/promoting innovative ideas: superior products allow a competitor to avoid at least part of the “price-only” competition. Innovations lead to additional costs or even technical problems for mere imitators. Hamermesh/Silk provide data from the PIMS data base (Profit Impact of Marketing Strategies) to support their view. From Table 2, it can easily be seen that an increases in ROI (return-on-investment) are closely connected to improvements in product quality. This is especially true for stagnating markets.

Table 2: Return-on-Investment as a Function of Market Growth, Product Quality and R&D Turnover (in per cent)

<table>
<thead>
<tr>
<th>Market Growth</th>
<th>Product Quality</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Low</td>
<td>15</td>
<td>14</td>
<td>31</td>
</tr>
<tr>
<td>Medium</td>
<td>16</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>High</td>
<td>21</td>
<td>23</td>
<td>28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Growth</th>
<th>R&amp;D Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>14</td>
</tr>
<tr>
<td>Medium</td>
<td>22</td>
</tr>
<tr>
<td>High</td>
<td>21</td>
</tr>
</tbody>
</table>

b) Profitability has also been identified as a critical strategic element. Successful companies in stagnating markets seem to be constantly working at methods to increase the efficiency of their production and distribution. This means cost reductions at all stages of production, including the costs of materials. The results from Hall's study (1980) can also be analyzed from this perspective. Hall examined eight major lines of industry in the United States, who can all be characterized as having little potential for growth.

| Table 3: Financial returns and revenue growth rates, 1975–1979 (Eight basic industries) |
|----------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                        | Return on equity (%) | Return on capital (%) | EPS growth (%) | Revenue growth (%) |
| Steel                                 | 7.1              | 5.7              | 5.5            | 10.4            |
| Tire and rubber                       | 7.4              | 5.9              | 3.9            | 9.6             |
| Heavy-duty-trucks*                    | 15.4             | 11.6             | 13.8           | 13.8            |
| Construction and materials handling equipment | 15.4             | 10.7             | 16.8           | 13.0            |
| Automotive*                           | 15.4             | 11.6             | 13.8           | 13.8            |
| Major home appliances                 | 10.1             | 9.0              | 3.2            | 6.8             |
| Beer                                  | 14.1             | 10.2             | 6.2            | 12.4            |
| Cigarettes                            | 18.2             | 10.5             | 8.9            | 12.2            |
| Average – eight industries            | 12.9             | 9.4              | 9.0            | 11.5            |
| Average Fortune “1,000” company       | 15.1             | 11.0             | 13.1           | 13.1            |

* All vehicle manufacturers

<table>
<thead>
<tr>
<th>Table 4: Financial returns and growth rates, 1975–1979 (Leading companies in eight basic industries*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average return on equity (%)</td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>Goodyear</td>
</tr>
<tr>
<td>Inland Steel</td>
</tr>
<tr>
<td>Paccar</td>
</tr>
<tr>
<td>Caterpillar</td>
</tr>
<tr>
<td>General Motors</td>
</tr>
<tr>
<td>Maytag</td>
</tr>
<tr>
<td>G. Heileman Brewing</td>
</tr>
<tr>
<td>Philip Morris</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Median Fortune “1,000” company (same time period)</td>
</tr>
</tbody>
</table>

* Excluding those companies which gained a majority of their returns from diversification efforts.
From this sample, Hall selected those enterprises who have been named the market leaders of their industry. Indicators of success often lie far above average for these companies. They were apparently even more "successful" than average leading enterprises in growing markets (see Table 4). The "industry leaders'" success can be attributed to their continuous efforts to attain and maintain one of the following competitive positions:

a) lowest production costs of all competitors and acceptable product quality and prices which guarantee profitable production volumes;  
b) the most widely differentiated range of products, service and quality of all competitors.

That procurement policy can effectively support these strategies, and how this could be done, will be discussed in the next chapter.

Expanding procurement into "Global Sourcing"

Adopting a "global perspective" in procurement

Shifting from procurement policy towards global sourcing needs a radical change in perspective: "from purchasing to supply management" (Kraljic, 1983). The traditional notion is that the purpose of procurement (buying) is to make sure that well-defined demands for materials are properly met. This view is too short-sighted as it is only limited to the operative level. The proposed strategic orientation towards "supply management" assumes that procurement policy can and must make primary contributions to a company's success. As the Ford-Werke AG's board member who is responsible for materials procurement puts it: "Today, purchasing has become a central task in the realization of our company's goals ... We have a major influence on costs, quality and terms of delivery" (Heismann, 1987, p. 266).

Global sourcing as a procurement strategy is characterized by two features:

1. Operating in international markets: here, globalization means systematically extending procurement policy towards sources in foreign markets. Procurement goals may even give the first impulse for a company to "go international" (see Pausenberger, 1984, p. 246; Meissner, 1987, p. 155).
2. Strategic orientation: here, globalization means an overall orientation in order to secure the company's potentials for success. One task for procurement is to develop new purchase opportunities in heterogeneous environments, another is to discover and master all specific difficulties ("threats") encountered in these new markets: "In many cases, sourcing activities will play the dominant role in a company's global strategy" (Davidson, 1982, p. 214). This strategic task requires a thorough integration of procurement into the general business policy (vertically) and a close (horizontal) coordination with the other sections' policies (production, marketing, etc.).

With reference to the global marketing model by Keegan/McMasters (1983, p. 101), Figure 1 combines both dimensions. The four sectors of the chart correspond to four distinct procurement policies with entirely different goals and practices.

a) The goal of "International Purchasing" ("going international", see Stark, 1986) is to supply the company's materials demands at lowest possible costs. Therefore, the
primary task is systematic investigation of sources in foreign target markets. Continuous presence in important foreign supply markets can be extremely useful, as the practice of large-scale trade organizations shows. Some of these have established so-called “buying offices” in Tokyo and Hong Kong, they employ buying agents etc. Producers who depend on certain natural products also prefer this type of institutionalized solution. A study published in 1980 by the “National Association of Purchasing” names the following goals as main reasons for international purchasing:

- attainment of price or cost advantages,
- quality of purchased goods,
- service of delivery, availability.

Monczka/Giunipero’s (1984) study of the procurement goals of 26 multinational US companies produced similar results: “There is a pronounced tendency among multinational corporations to develop a world wide perspective”.

b) **Strategic Procurement Policy** should not only secure the supply of materials, it should also enhance the company’s capability to deal with problems of all kinds. As we have seen, there is a especially urgent need for innovations of products and technology in stagnating markets. In a way, procurement policy changes into the company’s “turntable for innovations” (Fieten, 1986, p. 14). Münzner, board member of the Volkswagen Corporation, speaks of purchasing as the “know-how-turntable”, whose task it is to carry research and development tasks out into the source markets, and to bring new product ideas and developments in from outside (Münzner, 1985, p. 252).

c) **Global Sourcing**, finally, transfers the strategic procurement tasks to the framework of international transactions and operates on a worldwide level. In other words: “Global sourcing” is seen as a (partial) corporate strategy aimed at the worldwide utilization of materials resources. The question whether to formulate global types of strategy, as Levitt suggests, or to differentiate according to market segments, can remain open.

**Organization of global sourcing – options and problems**

At present, internationally orientated procurement activities have only received little attention in the literature. Not only is there the well-known deficit of scientific discussion of the topic; practicing managers have also failed to recognize its importance. Numerous studies have found purchasing managers to lack strategic orientation and innovative ideas (for instance, the delphi study carried out by Winand/Welters in 1982 for the Schmalenbach Gesellschaft).

Designing a global sourcing strategy requires general decisions about

- potential action targets in the source markets,
- organizational processes, particularly the organization of coordination and control.

**Selecting Targets**

Monczka/Giunipero’s study shows that multinational corporations practise global sourcing not only to realize immediate supply goals. They often named access to new technologies, influencing the structure of competition and supporting their own output activities at least as minor goals (Monczka/Giunipero, 1984, p. 7).

- Research in Technology
  Nixdorf Computer AG’s policy of “International Sourcing” explicitly states as a major goal that headquarters at Paderborn should be continuously informed about new technical developments. Actual as well as potential suppliers are exploited to this purpose. Nixdorf is said to be one of the few enterprises to have opened sales branches and buying offices throughout the world (“listening posts” in the technology centers of Silicon Valley, Tokyo, Singapore).

- Influence on the Structure of Competition
  This includes all measures which lead to a restructuring of the value chain. In international automobile production, for instance, there is a tendency to reduce the number of stages of production within the company, i.e. companies concentrate on construction and final assembly. Manufacture of components is limited to those areas where the company already has competitive advantages and “global potentials for rational-
ization” (Welge, 1982, p. 172). This leads to planned or inadvertent horizontal cooperation on the purchasers’ side by technical coordination and standardization of components and units. These are then cold by few suppliers to several competing companies.

“Increasingly to be globally competitive multinational corporations must be globally cooperative” (Perlmutter/Heenen, 1986, p. 136). This tendency towards global cooperation visibly manifests itself in an increasing number of joint ventures in the automobile sector:

- General Motors/Toyota/Suzuki/Daewoo
- Ford/Mazda/Kia Motors, Korea
- Chrysler/Diamont Star
- Hyundai Motors, Korea/Mitsubishi, Japan

Efforts of horizontal cooperation gain even more importance as they are explicitly introduced in order to improve the cost situation by increasing the proportion of outside-manufactured components. The extremely high proportion of subcontractors (70 per cent) is the major reason for the relatively low production costs of Japanese automobile companies (European producers: 55 per cent; GM: 30 per cent). In their so-called SATURN project, General Motors intend to cover 30 per cent of the planned cost reductions by increasing the quote of subcontractors (see Arnold, 1987, pp. 60–61). Finally, the location policy of multinational automobile producers leads to regional shifts of supply sources. Since Ford started production in Spain in 1976, they have cooperated with other automobile manufacturers to develop an efficient supply industry who, by now, serve companies in Great Britain and the F.R. of Germany as well.

Support of Marketing Activities

Success in world wide sale of a product is often impeded or even prevented by protectionist activities of the importing countries. If so-called non-tariff trade restrictions are concerned, there seem to be no limits of imagination. Direct investment in local production plants abroad may therefore be the easiest way to enter new markets. Ohmae (1982) gives a vivid illustration of possibilities to build up an insider position in order to foster acceptance by politicians, authorities and clients. Active “Global Sourcing” can serve as an instrument to build up a strategic bridgehead in an undeveloped market. By establishing a presence in the market through purchasing activities, a company can systematically and carefully prepare an entry into the sales market at a later date. Procurement creates the opportunity to gain detailed knowledge of specific marketing conditions, central values held by the market participants, structural features of the market etc. From the buyer’s position, the company can learn how to adapt their marketing strategies to their future clients’ demands. Lack of this type of knowledge has often been the reason for failures in new markets, as has been shown by Macharzina (1984, p. 78).

Local purchasing departments will fulfil their function as a corporate “intelligence system” best if they concentrate on transactional relations rather than on the physical exchange of goods: “Companies don’t make purchases, they establish relationships” (Robinson et al., 1967, p. 151).

Finally it should be mentioned that procurement policy can directly initiate sales transactions as barter and counter-trade seem to become more and more common. Hanafée writes: “It may be a company’s purchasing group that initiate counter-trade if a qualified source is located in a country that is also a potential customer” (1984, p. 7; see also Iske, 1986, pp. 236–237).
Spreading the financial risk
Utilization of international sources has mainly been discussed as a safeguard or remedy against financial transaction risks (currency risks). This can be an important problem: airline companies like British Airways, for instance, have to deal with incoming and outgoing bills in about 100 different currencies (McConville, 1985, p. 600). Transactions between affiliates of multinational corporations and their source and sales markets create a similar clearing-potential for calculations in currency policy.

Requirements for a Global Sourcing Policy

Corporate Size
To put global sourcing into effect, a certain potential of resources is essential. Special techniques of management and organization are needed, as well as marketing knowledge and investment capital. Presumably, smaller businesses will rarely be able to practise global sourcing. The same size restrictions which are generally discussed in relation to international activities can be said to apply to global sourcing as well (see Macharzina, 1982, p. 124).

However, this general statement must not imply that there are no ways for smaller enterprises to tap global sources. Vertical cooperations suggest themselves – in the case of joint ventures, for instance, with barter companies (see Eason, 1985, p. 189, compensators, trading firms (the advantages are outlined in Business International, 1984 and by Maher, 1984, pp. 50–56). Access to a cooperators’s so-called “evidence accounts” means an enormous facilitation of all financial transactions in joint ventures with RGW countries (see Ost-Wirtschafts-Report, 1979, pp. 47–57; Verzariu, 1985, pp. 31–33).

In some lines of business, smaller companies can only survive on account of their flexibility. Because decision processes take less time than in large businesses, they can react and adapt more quickly to changes in the market. They can utilize and enhance their reserves in foreign markets to this purpose. Hirn (1987) describes how textile companies in the Swabian Mountains employ this practise. High adaptability in production is achieved through multi-functional equipment and through vertical variation in the production range. Foreign subcontractors can serve as buffers for demand peaks (see Hirn, 1987, pp. 114–118).

Problem Awareness
A study by Ericson (1980) on unsuccessful companies in stagnating markets (Sweden’s textile industry) has found the management’s adoption of a strategic orientation of crucial importance. Global sourcing has to be embedded into the corporate philosophy and must be made an explicit guideline for management decisions. This has often been emphasized in the literature on global strategies: “A global strategy requires that managers think in new ways” (Hout/Porter/Rudden, 1982, p. 108).

A manager’s statement quoted by Monczka/Giunipero (1984): “We sell our products worldwide, therefore we must begin to buy worldwide.” Reality shows, however, that procurement is frequently seen as a merely operative function. It is institutionalized at a low level in the hierarchy (see Winand, Welters, 1982, p. 68).

Staff
Sophisticated purchasing strategies can only be developed and realized by qualified personnel. Ford’s board member responsible for materials procurement in F.R.G. gives an outline of the new tasks: “The future purchasing agent will be a technician,
businessman and salesman all in one"; he will need flexibility of mind, mobility and creativity (see Heismann, 1987). The delphi study on “Procurement and Strategic Management” (see above) shows that purchasing managers often lack these abilities. This can be attributed to the traditional restriction to operative tasks: “… strategic activities of purchasers were neither asked for nor honoured” (Winand/Welters, 1982, p. 69).

In a study on “Demand for Postgraduate Training in International Management” (Macharzina/Engelhard, 1987) experts were asked to rate the importance of 12 detailed problem areas from international management. The ratings show a basic tendency to neglect the subject of logistics which is closely connected to purchasing tasks:

- Logistics was named least frequently as most important subject.
- Apart from business languages, which had an atypically high standard deviation, logistics also had the lowest average rating.

The results obtained by Dichl et al. (1984) also indicate that a company’s readiness to practise and succeed in export marketing is determined by the managers’ international-orientation. According to them, “not internationally orientated” managers

- have an extraordinarily high psychic distance to foreign markets;
- they are older, do not speak foreign languages, hardly ever travel abroad;
- they are resistant to change, risk-averse; their thinking follows strict patterns
- they have a negative attitude towards foreign activities as an option for business policy.

A comparative study of the F.R. of Germany, Finland, Japan, Korea and South Africa also support the notion that the reasons for a company’s reluctance to enter foreign markets can often be found in individual persons (Dichl, 1986). In addition to the “standard” criteria as prices, strength of competition, cost structure etc. factors like knowledge of foreign languages, qualifications of staff, management know-how etc. play a significant role. Dichl even calls the international orientation the “key function”. Figure 2 illustrates the importance of several obstacles for export, as they are seen by German and Japanese managers.

Resumé: An excellent global sourcing strategy will lead to economical success only if the company’s procurement department has a strong position within the company and even more at their foreign location. They must take on an active role in the market.

- Institutionalization
The problem of how to design an organizational framework suitable for international strategies has been approached by many theoretically or empirically oriented researchers (see Macharzina, 1986, pp. 175–189). It is a major, possibly even the crucial issue in international management. The main task is to find the optimal degree of centralization or decentralization for a given strategy.

a) Global strategies (as Levitt defines them) align with the concept of global rationalization. They aim at economies of scale through highly standradized products and processes (competitive advantage: low costs). They often have extremely centralized decision and control systems; this affects the organizational structure. A more differentiated approach to the global sources will soon reach its limits if the organization is dominated by headquarters: in resource management, considerations of
internal utilization of capacity will have more weight than local purchasing potential. However, this must not be the case: flexibility in procurement is also possible within a worldwide integrative strategy. Still, Welge’s results show that the necessity to rationalize globally forces companies to internalize transactions of finished and semi-finished goods in order to minimize competitive pressure and to achieve an efficient global coordination of worldwide production activities (Welge, 1982, p. 180). He found that about two thirds of all US-American, Japanese and German affiliates of multinational corporations obtain more than 25 per cent of their materials input from the parent company.

b) With a strategy of local adaptation, the multicenter orientation, advantages gained from close integration are given up in favor of a better adaptation to local market conditions. To be successful, the foreign affiliates need a sufficient degree of autonomy, i.e. decision and control systems have to be decentralized. This will give them enough freedom of action to practise global sourcing. The price to be paid is a

MIR Vol. 29, 1989/4
greater demand for coordination between the various companies as the advantages of global sourcing are to be made available to the whole corporation.

c) The introduction of powerful media for data transfer and communication will lead to efficient organizational solutions. At the FORD AG, a data communication network covering the whole group is planned. All members will be able to exchange up-to-date information on available stock, specifications, terms, problems with quality and quality standards of suppliers, supply shortages etc. By 1988, this electronic network is supposed to link all purchasing agents in Europe (see Heismann, 1987, p. 267). Another example: without an electronic network, the Japanese trading company SOGO SOSHA would be unable to coordinate the purchasing and sales activities of their app. 1,050 foreign branches.

The option to resort to external data bases will further enhance the efficiency of a company’s individual purchasing information system. A prominent example are data bases in New York and London which are use to handle joint ventures (see Gray, 1985).

Summary

Our considerations concerning global sourcing can be summarized as follows:

1. Global sourcing means globalization in two respects:
   - internationalization of purchasing activities;
   - adopting a strategic orientation for all resource management.
2. The goal of global sourcing is to utilize purchasing potential on a worldwide level.
3. Global sourcing can be a critical feature in several competitive strategies:
   - supporting a global strategy by realizing economies of scale through “materials inputs”;
   - supporting a multinational strategy by developing potentials for differentiation and by taking an active influence on quality standards;
   - supporting a regionally limited strategy with respect to a general improvement of input-output relations; or preparing export activities by building up a strategic bridgehead in target markets.
4. The efficiency of global sourcing mainly depends on whether this concept is introduced as a binding “cognitive orientation” (see Macharzina, 1986, p. 186). Procurement is a boundary element within the organizational system. Therefore it is suited to reduce environment complexity and to transform tensions between heterogeneous environments and the company into new impulses (see Arnold, 1982, pp. 19–24). The way procurement is institutionalized within the formal hierarchy can indicate the extent to which this strategic orientation is obligatory.

References


Macharzina, K.: Organisatorische Gestaltung bei Internationalisierungsstrategien. In: Gaugler/