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Integrating global and local procurement for superior supplier working relations

Sengun Yenyurt^{a,*}, John W. Henke Jr.^b, Erin Cavusgil^c

^a School of Business, Rutgers University, Piscataway, NJ 08854, USA

^b School of Business Administration, Oakland University, Rochester, MI 49309, USA

^c School of Management, University of Michigan – Flint, Flint, MI 48502, USA

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ABSTRACT

Globalization is forcing global organizations to focus on processes that will enable them to more effectively and efficiently integrate and coordinate their activities throughout their worldwide organization. As such, global sourcing is becoming a standard practice in many global organizations. Using a dataset of 1455 observations from the suppliers of a North American-based global manufacturer of high technology products, this research evaluates how a global company can utilize a globally integrated procurement organization to achieve global and local sourcing responsiveness and superior supplier working relations. The study found that if a global procurement organization aspires to achieve exceptional supplier working relations, it should be highly integrated across its geographic regions with knowledgeable global and local procurement personnel who effectively communicate with the firm's suppliers, while working closely together in a coordinated manner to achieve a globally responsive supply chain.

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1. Introduction

While globalization is a trend present in many industries, its effect on company structure and strategies, as well as the tactics that are optimal in such an environment remain to be identified. Globalization is creating increasingly competitive markets, which in turn create the need for reduced lead times in innovation and production, both of which require global companies to manage their resources more proactively on a global basis (Kotabe & Mudambi, 2009). Today, increasingly competent local firms and fierce global competitors are challenging global companies to be globally competitive while maintaining an optimal level of responsiveness through the adaptation of the strategy to local market conditions (Townsend, Yenyurt, Deligonul, & Cavusgil, 2004; Zou & Cavusgil, 2002). A successful global marketing strategy requires companies to configure their value chain activities optimally to exploit location specific advantages and coordinate these activities across national borders to achieve global efficiency (Zou & Cavusgil, 2002). In this way, global companies can produce high quality products using components that are procured at the lowest total cost possible. Because of this, effective management of the sourcing (also referred to as procurement) function on a global and local basis is crucial to the success and long term viability of a global company.

By exploiting the comparative and competitive advantages that can be realized by integrating various value-added activities from globally disparate locations, multinational companies are moving toward increased globalization (Kogut,

* Corresponding author at: Department of SCM and Marketing Sciences, School of Business, Rutgers University, The Janice Levin Building, Room 230, 94 Rockefeller Road, Piscataway, NJ 08854, USA. Tel.: +1 732 445 4171; fax: +1 732 445 5946.

E-mail address: yenyurt@business.rutgers.edu (S. Yenyurt).

1985). Successful globalization, however, is not easily realized, as it requires the integration of processes, practices, and procedures across dispersed global organizations to achieve coordination of worldwide activities (Cavusgil, Yenyurt, & Townsend, 2004). Needless to say, the implementation of a global corporate strategy is a major challenge for corporate leadership when trying to restructure a worldwide organization (Roth, Schweiger, & Morrison, 1991; Yip, 1992; Zou & Cavusgil, 2002). As global firms adapt their organizational structures and governance of their complex organizations to the needs of the marketplace, in keeping with Buckley's global factory concept (2009), they are confronted with significant challenges.

The more significant of these challenges is the need for global integration of operational and functional activities (Buckley & Ghauri, 2004), which is changing the realities of conducting international business (Cavusgil, Knight, & Riesenberger, 2008). Organizations that aspire for globalization are required to employ radical changes in their processes and organizational structures (Cavusgil et al., 2004). Among these radical changes is the need to plan and allocate resources on a global basis to integrate and coordinate worldwide manufacturing facilities, an essential element of implementing a globally integrated strategy (Dunning, 1981; Porter, 1980). Manufacturing integration and coordination, in turn, requires global value chain coordination if a global market advantage is to be established (Yenyurt, Cavusgil, & Hult, 2005).

A key element in integrating and coordinating global manufacturing facilities is the procurement activity (Kotabe & Murray, 2004). Fortunately, in contrast to other mechanisms necessary for global integration (e.g., global product platforms, global talent pools, and global HR systems), global procurement has been enthusiastically adopted by multinationals, primarily because the benefits of uniform sourcing are more apparent. Consequently, the global procurement function is a critical integrating mechanism that supports companies striving to create a rational, global organization.

The need for increased speed to market has also caused many multinational companies to move toward increased global sourcing based on specialization and focus (Kotabe & Mudambi, 2009). The primary objective of a global sourcing approach is to enable the firm to combine its competencies and those of its suppliers with the comparative advantages of the firm's various country locations to create a competitive advantage (Mudambi, 2008). In achieving this end, many multinationals are leveraging their global sourcing benefits by moving toward hybrid purchasing organizations that encompass both global and local sourcing capabilities. A special challenge for these hybrid organizations is distinguishing between those sourced components that should be integrated globally across different locations and those components that should remain the responsibility of the local purchasing unit (Trautmann, Bals, & Hartmann, 2009). This is, of course, the classic globalization–localization integration challenge (Bartlett & Ghoshal, 1987).

Trautmann et al. (2009) added to the understanding of the principal structural drivers of global sourcing, particularly with regard to integration of global sourcing organizations, while concluding that more research is needed for further understanding of integration in the global sourcing context. This conclusion is consistent with the observation that global dynamism is forcing global organizations to focus on the processes that will enable them to more effectively and efficiently integrate and coordinate their global and local procurement activities. To contribute to an increased understanding of the role of procurement in the global company, this research explores the following questions:

- How can a global company utilize a globally integrated procurement organization to achieve global and local sourcing responsiveness?
- What is the effect of global and local sourcing practices, and global and local sourcing responsiveness on superior supplier working relations?
- What role does global and local knowledge play in facilitating global and local responsiveness?
- How important is communication with the firm's suppliers at both the global and the local level?

This paper utilizes the global market advantage (GMA) framework (Yenyurt et al., 2005) to develop a set of theoretically driven hypotheses associated with these research questions. Next, the hypotheses are tested empirically, using a dataset collected from the suppliers of a North American headquartered global manufacturer of high technology products.

2. Literature review and hypotheses

2.1. Theoretical background

To better understand the use of global and local sourcing in a global company, and the effects global and local knowledge, communication, and responsiveness have on supplier working relations we used the global market advantage (GMA) framework (Yenyurt et al., 2005). GMA is an overarching framework that explains the role of knowledge competencies in developing global market advantage and achieving superior marketing and financial performance. Since this study analyzes the role of sourcing in organizations, we focus on the global supply chain management and sourcing aspects of the GMA framework. According to GMA, the knowledge competence of the global company with respect to its suppliers is a driver of global responsiveness. Similarly, the ability to share information across a geographically dispersed value chain is an important antecedent of global company responsiveness. All these factors enable the company to develop global strategic partnerships with other supply chain members. Such strategic partnerships provide a global market advantage to the firm, having positive effects on its market performance.

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