



Is local sourcing out of fashion in the globalization era? Evidence from Italian mechanical industry

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ABSTRACT

The paper concerns a study on the changes affecting leading cluster companies' supplier relationships. In particular, the paper aims at investigating under which conditions and how industrial cluster companies rely on local suppliers in the current context of international competitive pressure and easier access to international supply sources. The research methodology is qualitative and based on a long-term longitudinal research of three case studies of Italian industrial cluster companies that are leading firms in specific niches of the mechanical industry. Two main questions are debated: under which conditions have industrial cluster companies relied on local suppliers? What has been the evolution of relationships between industrial cluster companies and their local suppliers? The empirical analysis shows that local suppliers have been playing strategic roles in different ways in distinct historical phases, contributing actively in terms of knowledge and competence development, production flexibility, delivery performance and cost efficiency.

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1. Introduction

This paper is based on long-term longitudinal research on Italian industrial cluster companies that are international leaders in specific niches of the mechanical industry. The study concerns changes affecting these companies' supplier relationships as they have had to face fast global economic change. In particular, the paper investigates under which conditions and how industrial cluster companies have relied on local suppliers in the face of international competitive pressure and easier access to international supply sources.

It is widely recognized that suppliers represent a strategic asset for the competitiveness of their customer firms (Christopher, 2005; Cox & Lamming, 1995; Womack, Jones, & Roos, 1990). Companies increasingly perceive suppliers as providers of various types of advantages and benefits, in the light of their contribution in terms of efficiency and valuable knowledge (Cox & Hines, 1997; Gattorna, 2009). Thus buyers are ready to develop long-term partnerships with selected suppliers based on interdependence, trust and intensive knowledge flows (Gadde, Håkansson, & Persson, 2010). This kind of supply relationship is common in industrial clusters, where geographical and social proximity enhances interaction among local firms (Becattini, 1990; Pyke, Becattini, & Sengerberger, 1990). Within this scenario fast growing industrial cluster

firms have the opportunity to rely on valuable local suppliers while pursuing their expansion plans (Varaldo & Ferrucci, 1996).

In recent years great attention has been paid to the globalization of markets and supply chains. In particular, a recent stream of management research highlights the growing adoption of international sourcing strategies, based on the search, selection and integrated management of supply networks on an international scale (Axelsson, Rozemeijer, & Wynstra, 2005; Hines, 1994; Quintens, Pauwels, & Mathysens, 2006; Trent & Monczka, 2003). Companies engaged in such behavior pursue mainly cost and innovation advantages (Gadde & Håkansson, 2001) in gaining access to components, materials, knowledge and capabilities of globally-dispersed providers.

Empirical studies are mainly concerned with the sourcing behavior by large-sized firms, which are able to deal with various supply sources in different markets worldwide and develop organizational capabilities to engage in such activities. Only a few studies detail the forces affecting industrial cluster companies and changes in their sourcing strategies (Camuffo, 2003; Furlan, Grandinetti, & Campagnolo, 2009). Within this stream of literature it has been observed that these companies are increasingly involved in supply relationships with foreign partners, in relation to the increasing pressure in mature manufacturing sectors (textile, clothing and footwear, mechanical) by emerging economies, such as China and India (Camuffo, Furlan, Romano, & Vinelli, 2006; Chiarvesio & Di Maria, 2009).

However, it could be argued that pursuing an international sourcing strategy might not be the only option to organize production activities for mid-sized cluster companies. Most of the literature is concerned with analyzing the opening of international sourcing relationships and the connected advantages, and pays limited attention to the main features

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of the changing role of local suppliers that have been historically linked to these companies (Håkansson, Tunisini, & Waluszewski, 2006; Tunisini & Bocconcelli, 2009). In this respect we think that further research is needed and particular attention should be devoted to the renewed role of local supplier relationships when companies “open” their supply side to the international supply market. Thus the paper is concerned with assessing whether and how the “local” dimension of business supplier relationships is still a feasible and effective path for leading cluster companies. Specifically, this paper debates the following two research questions: i) under which conditions have industrial cluster companies relied on local suppliers? ii) What has been the evolution of relationships between industrial cluster companies and their local suppliers?

Therefore the main goal of this paper is to investigate whether leading cluster companies might choose to remain closely integrated within the local supply network and which are the main conditions – both internal and external – influencing their approach. The research methodology is qualitative and based on a limited number of case-studies: the empirical investigation concerns three companies selected among the leading firms in specific sub-sectors of the mechanical industry in the light of their size and international profile.

The empirical analysis shows that local suppliers have been playing strategic roles in different ways in distinct historical phases, contributing actively in terms of knowledge and competence development, production flexibility, delivery performance and cost efficiency. The three companies under examination have been pursuing a gradual and balanced approach toward international sourcing opportunities, which are exploited mainly for commercial parts and only to a limited extent for customized parts and components.

The paper is structured as follows. In the next section a literature review on the role of supply networks and on the relevance of local suppliers for industrial cluster companies is presented. In the third section the aim and methodology of the study are described and the companies' profiles are traced. The fourth section is devoted to the longitudinal analysis of the three case studies in relation to the main research topic. In the fifth section the main results are discussed. A final section is dedicated to conclusive remarks, further research directions and managerial implications.

2. Theoretical background

2.1. Role of supply relationships in industrial companies

Studies on strategic sourcing and supplier relationships are numerous and articulated. It is well known that companies refer to a complex set of various and interconnected supplier relationships to perform innovation and manufacturing activities (Christopher, 2005; Cox & Hines, 1997; Lamming, 1993; Womack et al., 1990). Suppliers play multiple roles for customer companies. The different roles may be connected to the fact that supplier relationships are sources both of costs and of value (Schiele, 2006). They are sources of costs because of the huge investments a customer manufacturing company makes in purchases and in handling its relations with suppliers (Ford, Håkansson, Gadde, & Snehota, 2003). They are sources of value as, by supplier relationships, the customer company gets access to new and complementary knowledge and capabilities (Gadde & Snehota, 2000; Moller & Torronen, 2003).

As source of costs, suppliers can help the customer gain cost advantages, thanks to their investments in more efficient products and delivery processes. In this respect suppliers play a rationalization role. As source of value, they can support customers in enhancing the effectiveness of their products and processes. They can promote quality, innovation, speed of delivery and customization. In this respect, suppliers can have a developmental role (Gadde & Håkansson, 2001). As many studies have highlighted, suppliers play a key role in developing new product ideas and in supporting the innovation of the customers' products (Johnsen & Ford, 2007; Van der Valk & Wynstra, 2005).

Suppliers have become an extension of the factory of many manufacturing companies that have to cope with multiple sources with different managerial approaches: from transactional to procurement approaches, focalized on the search for technical and operational integration with the supplier, to co-makership approaches, involving technological and strategic integration with the partner company (Anderson & Narus, 1998; Cammish & Keough, 1991). The greater interaction and repeated exchanges with suppliers generate an increasing interdependence between buyer and supplier with high specific investments in the relation by both parties. This enhances the exchange of knowledge and information, reciprocal learning and trust in favor of a value creating relationship (Håkansson, Ford, Gadde, Snehota, & Waluszewski, 2009; Hallen, Johanson, & Seyed, 1991; Roseira, Brito, & Hennenberg, 2010).

Moreover, many manufacturing companies have increasingly enlarged their perspectives to the search for best suppliers worldwide (Hines, 1994; Quintens et al., 2006). New manufacturing models, based on internationally dispersed sets of suppliers are variously experienced and increasingly developed by companies, especially large companies and MNCs (Ernst & Kim, 2002; Shi & Gregory, 1998).

Advantages and disadvantages of international sourcing have been discussed by many streams of literature that have especially focused on the determinants that explain companies' search for international sourcing. One main advantage is the access to highly cost-competitive suppliers, which are increasingly located in low-cost emerging and developing countries and able to provide standard level production and organizational capabilities. Lower costs might also derive from establishing partnerships with global suppliers capable of achieving economies of scale on an international level. Another major advantage is the development of relationships with foreign suppliers having valuable technological capabilities and innovative products, thus providing leading edge solutions not available in the domestic market. Moreover, in terms of supply strategy, international sourcing allows switching between different supply sources. Lastly, well-performing and trusted foreign suppliers might represent valuable resources to collect final market information and establish relationships with new customers in the local market (Arnold, 1989; Trent & Monczka, 2003; Trent & Monczka, 2005).

On the other side of the coin, international sourcing activities might be difficult and complex due to the need to deal with foreign cultures, thus leading to communication and language problems with foreign suppliers. Communication and knowledge exchanges might also be impaired by physical distance. Moreover, the predicted gains in production efficiency might be offset by quality problems, high transportation costs and supply chain uncertainty in terms of logistics and delivery performance (Axelsson et al., 2005; Birou & Fawcett, 1993; Trent & Monczka, 2005). Such difficulties might have highly negative consequences if companies are engaged in lean production and JIT approaches.

Studies have mainly analyzed companies' processes of international sourcing with attention to large MNCs. Moreover, they have been mostly focused on the determinants and advantages of international sourcing. Fewer contributions have paid attention to the role and value of long-term co-localized set of suppliers, especially for companies that, in search for growth, increasingly internationalize. This is a key issue especially for leading cluster companies, born and developed by strong relationships with a set of local suppliers.

2.2. Leading cluster companies and local supply relationships

Numerous studies on industrial clusters have highlighted the relevance of geographical proximity in supporting and enhancing social interaction and co-operation (Becattini, 1990; Iammarino & McCann, 2006; Maskell, 2001; Pyke et al., 1990). Since the mid-nineties, the Italian literature has pointed out that some cluster companies have rapidly grown and developed internationally, becoming leading actors in specific international market niches (Lazerson & Lorenzoni, 1999; Varaldo & Ferrucci, 1996). These companies, defined as “micromultinationals” (Dimitratos, Johnson, Slow, & Young, 2003; Mediobanca-Unioncamere,

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