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Managing the global supply base through purchasing portfolio management

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Abstract

'How to source globally' has become a critical strategic decision for companies competing on a global basis. Despite an increased focus on global sourcing and supply chain management, little is known about the challenges and solutions surrounding such sourcing practices. Extant literature points at the critical importance of developing and sharing knowledge in multinational companies (MNCs). However, little work has been undertaken to examine the organizational mechanisms used by MNC headquarters for knowledge leveraging across subsidiaries, especially in the area of purchasing and supply management. Based on an in-depth case study, focusing on a chemical company, the actual buying systems for managing the global supply base are explored. Kraljic's purchasing portfolio approach appears useful, both for developing effective purchasing strategies as well as for managing a global supply base.
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Keywords: Purchasing portfolio; Global sourcing; Supply base management; Purchasing synergy

1. Introduction

Global sourcing was identified as a field of interest for practitioners and as a separate research topic in the late 1980s (Kotabe and Omura, 1989). The catalyst for global sourcing has been the worldwide competitive pressure forcing firms to reduce costs and to improve quality and responsiveness (Birou and Fawcett, 1993). According to many authors (e.g. Womack and Jones, 1996) the ability to move production and sourcing around the globe is a key source of competitive advantage. However, it should be noted that for instance Mol (2002) could not find empirical evidence for a direct relation between global sourcing and economic performance. Nevertheless, many firms are striving for higher levels of global sourcing, although different researchers (e.g. Mol, 2002; Trent and Monczka, 2003) argue that the actual degree of real global sourcing is relatively low. Real global sourcing refers to the integration and coordination of procurement requirements across worldwide business units (Monczka and Trent, 1991; Rozemeijer, 2000; Faes et al., 2000) and with other functional groups, particularly R&D, manufacturing and marketing, within business units (Kotabe, 1992; Trent and Monczka, 2003). We will refer to these coordination issues as *external* and *internal interfaces*, respectively.

Especially the larger, multinational firms are engaged in global sourcing (e.g. Bozarth et al, 1998). These firms are more likely to have worldwide production facilities, design centres, and marketing and sales activities (Trent and Monczka, 2003). However, the integration and coordination of procurement requirements across business units (external interfaces) is challenging and difficult to master (e.g. Rozemeijer et al., 2003). The same can be said about the internal interfaces within individual business units. Close cooperation inside the firm between purchasing and other departments is needed to facilitate foreign outsourcing (Mol et al., 2004; Quintens et al., 2006). To achieve maximum procurement benefit, firms often have to challenge entrenched systems and behaviours that work against collaborative efforts *between* and *within*

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business units (Ohmae, 1989; Kotabe, 1992). This context raises a variety of questions concerning the nature, the organization and the impact of global sourcing. *How* to source globally and *how* to manage a global supply base (i.e. how to develop effective business relationships with suppliers who are located worldwide) have become critical competences (cf. Kotabe and Murray, 2004). Managing suppliers form a wide range of countries implies operational complexity (Mol et al., 2004) and relatively high learning cost on how to manage intercultural relationships (Andersen and Buvik, 2001).

The critical importance of developing and sharing knowledge in multinational companies (MNCs) has been acknowledged by many researchers (e.g. Adenfelt and Lagerström, 2006; Buckley and Carter, 2004). A related topic is the selection and impact of different control mechanisms on knowledge development and sharing in MNC subsidiaries (e.g. Ghoshal and Bartlett, 1988). We agree with Adenfelt and Lagerström (2006) that little attention has been devoted to examining the organizational mechanisms used by MNC headquarters for knowledge leveraging across subsidiaries. Foss and Pedersen (2004, p. 341) stressed as well, that little work has been undertaken on "how MNC managers could orchestrate knowledge processes by means of designing and implementing mechanisms of organizational control".

Research findings indicate that successful supply chain management requires the effective and efficient management of a portfolio of relationships (e.g. Bensaou, 1999; Frohlich and Westbrook, 2001). Portfolio models are widely used for management problems in various fields and disciplines, including the management of buyer–supplier relationships. The basic idea is the simplification of a complex problem. A *portfolio model* is "a tool that combines two or more dimensions into a set of heterogeneous categories for which different (strategic) recommendations are provided" (Gelderman and Van Weele, 2003). Evidence from practice (e.g. Gelderman and Van Weele, 2005) supports the use of portfolio models in international settings, while its coverage in the literature is still limited.

Research on the development and sharing of knowledge in the area of purchasing and supply management has been limited. Our study explores the case of an MNC where headquarters share knowledge and expertise using a purchasing portfolio approach for the development of differentiated purchasing and supplier strategies.

The organization of the paper is as follows. First, we will discuss the issues, concerned with organizing for global sourcing and knowledge development and sharing in MNCs, and give a brief overview of the Kraljic portfolio approach (Section 2). In Section 3, we will present the case study design and the case company. The results of the case study are presented in Section 4. Section 5 relates the findings to the literature, while Sections 6 and 7 provide the implications, limitations and suggestions for further research, respectively.

2. Conceptual background

2.1. Organizing for global supply base management

In an increasingly competitive business world, global competition puts high demand on the flexibility of industrial companies. In many industries, an increased level of outsourcing is a prevailing trend (Monczka et al., 2001). As a result of worldwide competition, firms are combining domestic and international sourcing as a means of achieving a sustainable competitive advantage (e.g. Kotabe and Murray, 1990). Organizations have realized that a world-class global supply base is required in order to meet world-class competition (Hanfield and Nichols, 2004). It is generally agreed that 'how to source globally' has become a critical strategic decision for companies competing on a global basis. Real global sourcing refers to the *integration* and *coordination* of procurement requirements across worldwide business units (Monczka and Trent, 1991; Rozemeijer, 2000; Faes et al., 2000) and with other functional groups, particularly R&D, manufacturing and marketing, within business units (Kotabe, 1992; Trent and Monczka, 2003).

Many multiplant and MNCs are faced with the challenging and difficult task of achieving purchasing synergy (Rozemeijer, 2000) and global efficiency and effectiveness (Faes et al., 2000) across worldwide operating business units. One of the main issues is how to manage and organize for purchasing synergy on a corporate level, without losing the benefits of decentralized purchasing. Companies could strive for purchasing synergies from economies of scale, scope, process and learning (Faes et al., 2000; Rozemeijer, 2000). Johnson and Leenders (2004, p. 195) found that former head office purchasers, "once decentralized, saw no need to coordinate their supply initiatives with those of their counterparts with similar requirements in other business units". Arnold (1999) compared the companies's pursuit of an optimal organization for purchasing with the swing of a pendulum between full centralization and full decentralization. The traditional debate regarding centralized and decentralized purchasing has been supplemented by the potential benefits of mixed forms (Quintens et al., 2006) and hybrid organizational structures (Leenders and Johnson, 2000). Quintens et al. (2006) introduced the concept of a *Global purchasing strategy* (GPS) which refers to the organizational alignment of the purchasing function. The GPS of a company is reflected by its degree of standardization and centralization of purchasing.

Quintens et al. (2005) pointed at the lack of knowledge on why organizational settings are chosen and how effective they may be. Despite an increased focus on global sourcing and global supply base management, little is known about the actual integration and coordination of procurement across worldwide business units.

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