Outsourcing, supplier relations and internationalisation: Global sourcing strategy as a Chinese puzzle

This PhD thesis on global sourcing strategy is concerned with how firms obtain competitive advantage through managing their input side. The issue of competitive advantage is core to the field of strategic management but this study also draws significantly from the fields of international business, organisation theory, industrial marketing and purchasing & supply chain management. In chapter 1 an overview is provided of the literature on sourcing strategy. The review results in the identification of 3 research areas, which are subdivided into 5 dimensions of decision-making on sourcing. The three areas of interest are make-or-buy decisions, supplier management, and international sourcing. All three have been studied in the management literature and interest in them appears to be growing. The make-or-buy area consists of one dimension, labelled ownership. At least since the work of Williamson (1975), academics have been discussing the merits of outsourcing versus vertical integration. The supplier management area consists of two separate dimensions, supplier relations and network management. Supplier relations have been studied extensively throughout the late 1980s and 1990s, for example by Helper (1987), who frames them in terms of exit versus voice, and Dyer and Singh (1998). Issues of network management and embeddedness have also gained attention in that period, see for instance the work of Granovetter (1985) and Ford (1998). The third area, international sourcing, is subdivided in supplier internationalisation and international supply decisions. Supplier internationalisation is concerned with the extent of internationalisation of the supply base, see Kotabe and Omura (1989), who suggest a distinction between domestic versus international sourcing, and Kotabe (1992). International supply decisions is a less developed area of study, but see Faes et al (2000) or Handfield (1994). Chapter 1 then provides an extensive review of the international sourcing area, since this has not been reviewed thoroughly before. This leads to the conclusion that most sourcing is not very international in nature and that decision-making is seldom of an integrated, global nature. Thus in previous research global sourcing is the exception rather than the rule. In chapter 2 the literature is assessed further with the explicit goal of identifying holes in that literature. Several important findings emerge. First, the literature on sourcing strategy is quite fragmented, not only because of an apparent lack of communication between various fields of study, but also because the three areas of study identified above are by-and-large treated separately. Second, the geographical spread of empirical studies is uneven: there are many studies of firms in the United States and fairly few of other regions of the world, in particular Europe. As a third point of concern, it appears that there has not been a great deal of research that specified and found convincing evidence for the performance effects of various sourcing strategies. This is particularly true for the third area of study, international sourcing. Building upon these criticisms, a conceptual framework is constructed in chapter 3. This framework relates the dimensions of (1) internal versus external sourcing, (2) exit versus voice relations, and (3) domestic versus international sourcing to firm performance. Similar to previous studies (e.g. Murray et al, 1995) firm performance is seen as a two-headed phenomenon. In the short run firms strive for economic performance, which is often expressed in terms of profitability or other efficiency measures. In the longer run a firm aims at obtaining strategic performance, which is a stock variable taking the form of market positions and firm capabilities. Then, building upon existing literature, several hypotheses are formulated concerning the relation between these three dimensions of sourcing and the economic and strategic performance of a firm. These are complemented by hypotheses concerning the moderating (interaction) effect from other, related variables. Finally, a range of control variables is specified. This results in the construction of one general model, which consists of three submodels that are each constructed around one of the dimensions of sourcing. Chapter 4 is concerned with the methodological base of the study. Two methods employed sparingly in this study, interviews and case studies, are briefly discussed. Then a database consisting of around 5,000 manufacturing firms in the Netherlands is presented. This database is primarily applicable to the first dimension of internal versus external sourcing. The rest of chapter 4 is devoted to discussing a survey that was constructed and executed as a part of this study. Some 204 respondents from manufacturing firms in the Netherlands, an effective response rate of 30.4%, provided data on all three dimensions of their firms' sourcing strategies. The chapter discusses the nature of the sample and the quality of the response. The final part of chapter 4 is devoted to constructing several multidimensional scales. In chapter 5 the first of three dimensions, internal versus external sourcing, is investigated empirically using multiple regression and interesting results emerge. The most important finding is that external sourcing is strongly negatively related to firm profitability (economic performance). This counters a trend among both academics and practitioners to promote outsourcing of items as a means of improving financial results. Several moderating effects are found as well. Under conditions of high asset specificity, high R & D intensity, and high uncertainty it is even worse to outsource. There is also a moderately positive relation between external sourcing and strategic performance (market share). In chapter 6 the second dimension, exit versus voice relations, is discussed. Again there are several interesting findings. This study finds confirmation for the positive effect of voice relations on supplier satisfaction both in the short run (economic performance) and in the long run (strategic performance). Alongside with trust, a co-operative relation (voice) is needed to improve the performance of suppliers. Furthermore interesting other effects are found. It appears power is a useful tool to extract economic rents, but does not increase strategic performance. Loyalty to the supplier on the other hand is only moderately useful for economic performance but a necessity in the long run. Chapter 7 deals with the third dimension of domestic versus international sourcing. Empirical evidence is provided to support the statement that global sourcing is the exception rather than the rule in this sample of firms, although larger and more international firms do source more from abroad. Then the performance implications of international sourcing are investigated. No direct relation between international sourcing and economic performance could be established. There is a relation between international sourcing and strategic performance (market share) but this is later explained away as a "size of the firm effect", implying reversed causality. Thus there really is no evidence for any performance effect of international sourcing, contrary to parts of the literature and a widespread belief among
there really is no evidence for any performance effect of international sourcing, contrary to parts of the literature and a widespread belief among practitioners. In chapter 8 an attempt is made to look at all three dimensions of sourcing strategy simultaneously. Given limitations of the data there are severe caveats to the empirical investigation into this integrated view. However, a conceptual discussion is then offered, which shows that there is an important overlap between the three dimensions of sourcing. Chapter 9, the conclusions of this study, therefore presents as one of the recommendations for further study a more integrated view of different dimensions of sourcing strategy. Another general conclusion presented is that in the current climate managers appear to overestimate the force and efficiency of the market at the expense of organising.

Additional Metadata

Keywords  European, asset specificity, buyers, competitors, correlations, costs, country, dependent, dimensions, economic performance, economy, external sourcing, firms, foreign, global sourcing, industry, innovations, internationalization, literature, managers, marketing, moderators, networks, outsourcing, productivity, purchasing, reasons, responsiveness, sourcing, suppliers, survey, trust

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Publisher  Erasmus University Rotterdam

Sponsor  Erasmus University Rotterdam Promotor: Prof. dr. R.J.M. van Tulder, Other members: Prof. dr. M. Kotabe Prof. dr. P. Matthyssens Prof. dr. N.G. Noorderhaven, Co-promotor: Dr. P.R. Beije

ISBN  978-90-5892-014-0

Persistent URL  hdl.handle.net/1765/355

Series  ERIM Ph.D. Series Research in Management


Free Full Text  (Final Version, 1mb)
This means that the Global Sourcing and Near Sourcing are basically two sides of the same coin. Two different approaches that can help companies increase their competitiveness and to optimize their costs. The real challenge is to understand each individual situation which is really the most appropriate approach. Choose between the "Made in Italy" or "Made in China" should not be evaluated only on the possible to follow in times of crisis, but as a strategy to improve its competitiveness. Global sourcing is not only an important strategic level, but a great boost. Global sourcing is the practice of sourcing from the global market for goods and services across geopolitical boundaries. Global sourcing often aims to exploit global efficiencies in the delivery of a product or service. These efficiencies include low cost skilled labor, low cost raw material and other economic factors like tax breaks and low trade tariffs. A large number of Information Technology projects and Services, including IS Applications and Mobile Apps and database services are outsourced.