GLOBAL SOURCING AND PURCHASING STRATEGY AS DECISION-MAKING PROCESS

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ABSTRACT

As reported extensively in academic literature, companies have been forced by increasing global competition to devise and pursue international purchasing strategies that hinge on reducing prices and optimising quality, fulfilment, production cycle times, responsiveness and financial conditions. As a result, purchase management has turned to improve internationalisation to support companies’ globalisation processes.

Specifically, research studies focusing on Multinational Companies’ (MNC) corporate purchasing strategy influence on affiliates’ global supply strategy (GSS) development reveal a strong link between two key dimensions: a) supply source – i.e., the level of supply globalisation as related to MNC’s worldwide operating needs - and b) purchase location – i.e., the level of centralisation in relevant purchasing decisions.

In this research, a sample of seven Italian MNCs operating in Latin America’s MERCOSUR (Southern Common Market) region have been studied in an attempt to analyse their purchasing strategy definition and development processes. The focus of this study has zeroed in on the interactions between both dimensions and the variables used for definitions in each of them, reviewing also their impact on companies’ decision-making processes.

Keywords: Global Supply Strategy, Sourcing, Purchasing, Multinational Companies

INTRODUCTION AND LITERATURE BACKGROUND

The undertaken literature survey reveals the significance of international purchasing strategy as a key competitive factor for companies seeking globalisation, considering such strategy to be a purchasing management approach focusing on supplies from vendors in the world market, rather than restricted exclusively to domestic offerings (Petersen, et al., 2000; Trent and Monczka 1998, Steven, 1995; and Fagan, 1991). Thus, the notion of “international purchasing” mentioned by these authors describes the level of supply globalisation in
companies’ purchasing strategy, as related to supplier source (Levy; 1995; Giunipero, 2000; Trent and Monczka, 2003).

Our literary analysis also considers the limitations in international purchasing strategy application when companies lack an integrated and coordinated management of all transactions between subsidiaries and supply sources around the world. Depending on their level of globalised activities, companies need to develop a global sourcing strategy based on the integration and coordination among materials, processes, designs, technologies, and suppliers across worldwide purchasing, engineering, and operating locations (Monczka and Trent, 1991; Stevens, 1995; Arnold, 1989). Therefore, although both purchasing management strategies (international purchasing and global sourcing) entail foreign supply, they differ in the extent to which global resources (supplied materials, technologies and know-how) are effectively coordinated and integrated to respond to global demands (Johnson and Wood, 1996; Dobler and Burt, 1996; Spekman, 1991).

Thus, the evolution from local to global sourcing is described in the literature as a process entailing different levels of involvement in internationalisation, as well as different types of perceived advantages. Many authors, however, couple this process with an increasing level of centralisation of purchasing decisions within the company (Birkinshaw & Morrison; 1995, Gates & Egelhoff, 1986; Yang & Kang, 2005). Purchasing location strategies refer to this dimension and can vary from central purchases - involving key decisions made by headquarters - to local purchases, where key decisions are made by subsidiaries. Thus, in a centralised purchasing strategy, key decisions are made by headquarters (associated with suppliers’ certification and selection, price negotiations and agreements, and long-term contract design and elaboration), while operative decisions and follow-up actions in purchasing and sourcing management are handled locally. Conversely, in a decentralised purchasing strategy framework, key decisions are made by subsidiaries or other regional divisions.
Although these two dimensions are separate in nature and refer to different strategic aspects, they are discussed together in many models which can be found in the relevant literature. Thus, according to the models developed by Monczka and Trent (1991; 2003a) and Rajagopal and Bernard (1993), it seems that, as companies move towards globalisation in response to greater competitive pressures, global supply strategies evolve through several phases or stages (from a domestic purchasing scenario to global sourcing, through an intermediate international purchasing stage) featuring different purchasing strategies.

In this context, Rajagopal et al. (1993) describes four stages that build purchasing management internationalisation processes combining the level of international involvement, and the types of perceived advantages entailed by global supply standardization. Each of these stages also involves a clearly-defined strategy related to purchasing management centralisation, going from buyers at subsidiaries to worldwide business units.

Similarly, Trent and Monczka (1991; and 2003a) identified four phases, in which companies evolve from domestic purchasing to a global procurement strategy, also supported by five purchasing strategies to streamline their progress towards integrated, coordinated worldwide procurement activities. These strategies span from decentralised, local buying organizations to more centralised purchasing management units, such as IPOs and headquarters. In addition, Monczka and Trent (1991) described four phases of supply sourcing that companies undergo in their transition from domestic purchasing to global procurement.

Thus, the models drawn from literature seem to indicate that the supply source globalisation required by the world competition faced by expanding companies is closely related to a purchasing strategy evolution based on centralisation (from largely autonomous subsidiaries to highly centralised corporate buying units). This is clearly seen in the fact that the greater resource coordination, alignment, and integration capabilities required by global sourcing processes (world suppliers) become more effective when purchasing management and planning matches worldwide suppliers and global needs. In turn, when local supply conditions
are competitive enough to warrant domestic purchasing strategies, companies choose to award greater autonomy to local buyers, exploiting the significant advantages of proximity, knowledge, and adjustment to the local environment and supply.

However, certain limitations could derive from unforeseen situations in which, although relevant conditions do determine supply source (foreign or domestic), they fail to define purchasing location. Such would be the case of materials provided by external suppliers due to local supply shortage or unreliability but rather irrelevant in total purchases, or, even, requiring critical local adjustments. In these scenarios, centralised management would not yield the typical benefits resulting from resource management synergies or economies of scale. Similarly, materials provided by domestic suppliers - due to adequate local supply conditions and having a significant impact on purchase volume or on final product quality - could also be subject to centralised purchasing.

Accordingly, our research work attempts to discuss the key influential criteria and how they shape MNCs’ global sourcing and purchasing strategies, analysing their behaviour on supply source globalisation and purchase management centralisation, in order to spot the differences and interrelations among both dimensions.

**RESEARCH AIMS**

This research project, based on the study of a sample of seven Italian MNCs expanding to the MERCOSUR area, intends to explore the process of global supply strategy process definition and development, focusing on the relationship between its two key dimensions: a) supply sourcing –i.e., the level of supply globalization as related to MNC’s worldwide operating needs - and b) location purchase –i.e., the level of centralisation of relevant purchasing decisions.

Specifically, *Supply Source* for a given product or service is considered to take into account suppliers’ globalisation level as related to MNC’s supply. Hence, it refers to global or
regional supply when suppliers provide products or services to subsidiaries located in a specific region or throughout the world, and, in turn, it refers to local supply when suppliers provide products or services exclusively to a single subsidiary.

Accordingly, this research work will analyse global supply strategies (GSS) focusing on the relationship between two key dimensions:

- Sourcing strategies (i.e., the strategy chosen for selecting global supplier networks; supply source)
- Purchasing location strategies (i.e., the strategy pursued to distribute key purchasing responsibilities in global organisations; purchasing location)

Drawing from an analysis of sample companies’ strategic pursuits, this study explores these research topics:

*RQ1. Which is the companies’ globalisation process evolution impact on the Global Sourcing and Purchasing Strategies?*

*RQ2. Which relevant variables can be singled out in the Global Sourcing and Purchasing Strategies definition process?*

*RQ3. How is the interaction between these variables in regard of both strategic dimensions (i.e. sourcing and purchasing location)?*

**RESEARCH METHODOLOGY**

The empirical analysis has been performed using multiple case studies. The case study method was chosen because it constitutes a research strategy seeking to understand the present dynamics of specific environments, and it is the most appropriate means to address how and why questions regarding a set of facts (Eisenhardt, 1989; Yin, 1989). According to the authors, qualitative research approaches through multiple case studies have traditionally
been favoured when the main research objective is to improve our understanding of a phenomenon, especially when this phenomenon is complex and deeply embedded in its context.

The study sample included Italian MNCs operating in the MERCOSUR area, varying in size and industry. The geographic location considered for this research matches a single region chosen by companies for their expansion, in order to allow for a comparative analysis of different cases in the same environmental and market conditions. The companies selected for the research sample were manufacturing MNCs, with upstream supply chain development and global expansion plans, to enable an adequate analysis for research purposes, and with the same country of origin, which determines the existence of similar cultural patterns for their global organisations.

The MERCOSUR area embodies the largest Latin American economy (54%) and the fourth economic region in the world, totalling a GDP of US$ 1,100 billion in 1999 and registering sustained growth since 1990. MERCOSUR has become the second FDI (Foreign Direct Investment) recipient among emerging markets, with a total foreign investment of US$ 55 billion, accounting for a notable example of renewed world-wide interest in regional trade agreements (Eichengreen, 2004). In this context, Italian investments account for a high FDI share, which also responds to a strong cultural influence in the region due to significant immigration flows dating back to the 1940's and 1990's. Thus, after mapping cultural similarities, it can find that nations like Argentina and Brazil (the most economically relevant countries in the MERCOSUR area) are, in general terms, close to the Italian cultural profile (Hofstede, 1986).

Specific data were collected through personal, in-depth interviews with members of the top management team in each firm, including key company officials in charge of international supply management areas, as well as subsidiaries’ general managers and supply and purchasing area managers, ensuring interviewers’ control, instant feedback and clarification
of specific issues. The same group of researchers conducted all the interviews, at both participating MNC headquarters and subsidiaries, over a period spanning from early 2002 to mid 2004.

Collected data was analysed through qualitative methods, using cross-case comparisons and explanation building techniques to analyse data. On the basis of Eisenhardt’s work (1989), a unique methodology was developed to structure this type of analysis. The organisations were then paired within their group and iteratively compared to each other in order to identify similarities and differences among them. These comparisons were used to identify characteristics or practices shared by all or some firms. These bundle of dimensions were aimed to form a configuration of relationships exposing the research activity of sample companies. Then, these configurations were compared to determine the specific characteristics of strategic activities. Because there was a circular relationship between the theoretical and the empirical analysis, the results of the analysis provided further information for framework refinement.

RESEARCH SAMPLE

The following section describes major specific developments in each case (see Chart 1):

**INSERT CHART 1**

*Case 1*

This family-owned business company operates in 90 countries, with a total of 15 production plants. The company manufactures and markets supermarket refrigerating equipment and accessories, adjusting to local markets’ requirements with standard products and customized equipment. Its constant expansion turned it into a medium-size conglomerate that pursued internationalisation as its global strategy. The group’s international expansion plan provides a rather decentralised framework, although certain corporate controls are applied according to the nature, term, and risk of some decisions.
Case 2

The company is an Italian family-owned business managed, since its origins, by its owners. It manufactures and markets chocolate products and candies, leading the Italian market and holding the second position in the overall European market. The group owns 28 operating units, 31 marketing locations, and 17 manufacturing plants. A privately owned company, it relies on a highly professional management team that is fully involved in international decisions.

Case 3

This Italian family-owned company ranks among top European manufacturers in the wood panel and furniture industries. It also manufactures other products for the furniture production and decoration industries, such as plywood boards, resins, and wallpaper. It owns three manufacturing plants in Italy for panels and furniture, a plant in the MERCOSUR area for panels, and, a plant in Belgium exclusively for resins. Its expansion strategy has been based on the search for international marketplaces offering top natural resources and potential consumer segments. Subsidiaries’ technical and professional consultations with Italy constitute an ongoing activity in the company.

Case 4

This MNC focuses on the production and marketing of cable, accessories, and systems for electricity generation, transportation, and distribution, and it holds leading market positions throughout the world. The company has 54 manufacturing plants in 22 countries. As a multinational corporation, it has diversified its activities into other businesses, such as tire manufacturing and marketing, large-scale real estate developments, and an interest in telecommunications. The company’s sustained international growth has been supported by explicit operation policies as well as by fluent headquarters-subsidies communications. Centralised decisions are based on several criteria, such as cases involving relevant raw materials or supply products with negotiation leverage and restricted world offer.
Case 5

This MNC manufactures and markets tires for all kinds of vehicles, ranking sixth among top world producers in its industry. The organization originated in Italy as a family business managed by its founder. It owns 21 manufacturing plants in 10 countries. Although its policy focuses on global products, some products are regionally designed to adjust to the specific requirements of individual, highly profitable markets. The company offers several technological solutions for each market segment. Although the basic technology for tire manufacturing and design is managed by headquarters, the company tends to grant leeway to its local subsidiaries for universal operative processes involving raw materials that do not compromise final product safety.

Case 6

This automotive MNC operates through wholly owned production plants—located in Italy, Poland, and MERCOSUR—and joint venture or licence agreements for other plants—located in Europe and Asia. The group’s growth strategy intends to develop competitiveness through regional specialisation, in order to satisfy global demand through either production plants, licensing agreements, or joint ventures. Thus, the company assesses not only local political and economic conditions but also cultural variables affecting supply strategy and individual partnerships. It tries to reduce costs by standardising processes through the production of a single final product for the whole world. Under this generic strategy, the definition of the types of vehicles to be manufactured by each plant responds to individual market demands and needs and to cultural and geographic variables.

Case 7

This MNC specialises in industrial plant infrastructure and architectural design, engineering, and construction. Its expertise focuses on five business areas: the steel industry, infrastructure projects, industrial process and plant exploitation, the power industry, and utilities. This group includes more than 100 companies operating in over 30 countries around the world. This
organisation is based on specialised product-region units. Its global purchasing strategy is strongly centralised through a corporate business unit, except for some categories of goods or services traditionally acquired at the local level.

RESEARCH DEVELOPMENT AND FINDINGS

The following section presents the sourcing and purchasing strategies of the companies in the research sample:

Case 1

The company’s strategy tended towards local supply to seize pricing advantages and to exploit local availability, unless quality or competitive issues arose. Thus, certain critical products were procured centrally on account of quality or availability concerns. The criteria used to determine supply source were the following: a) offer availability; b) price or freight costs; and c) specificity or labour-intensity. As regards purchase location policies, the company afforded affiliates remarkable autonomy, although, in some cases, prices and terms were negotiated from headquarters. The criteria used to determine purchase location included: a) leverage (price and terms); b) supply source (usually central if supply was global, and vice versa; and c) material relevance.

Case 2

Supply sourcing tended to be local, except for commodities unavailable in the domestic market or for global purchases involving large volumes that could fetch better prices through central negotiations. Summing up, the company’s criteria to determine supply included: a) availability; b) price and logistic costs (usually associated with purchase size for centrally negotiated global supplies). Accordingly, company policy promoted subsidiaries’ autonomy, except when global supplies afforded better price conditions through central negotiations. The criteria used to determine purchase location were: a) better price conditions due to scale economies in negotiations; and b) quality requirements for critical materials or components.
Case 3

The company’s corporate supply policy was local, depending on domestic availability and convenience, while critical products were supplied externally. As regards purchasing strategy, although subsidiaries were granted ample leeway, headquarters monitored purchasing management operations. Usually, subsidiaries informed headquarters about prices quoted by suppliers for evaluation and possible global, more accessible alternatives. For regular raw materials, purchases were centralised to exploit economies of scale. Nonetheless, product selection, production and launching schedules were decided at country level.

Case 4

The corporate policy was based on local supply, except in cases of supply shortage and inconvenient prices that forced the company to resort to regional supply. The criteria used to determine supply source included: a) offer availability; and b) overall cost convenience (price and logistic costs). The company’s global purchasing strategy focused on local autonomy, although, in many cases, a regional approach was implemented through regional lead buyers. In turn, the company granted subsidiaries great freedom for local purchases, under central control for purchasing procedures, global suppliers’ certification and price benchmarking. The criteria used to determine purchase location were: a) supply source (usually central if supply was global, and vice versa), and b) economically relevant materials.

Case 5

The company based its corporate supply source policy on multinational companies, since materials were standard and highly relevant to final product quality. However, in some cases, the company resorted to regional or local suppliers. It offered subsidiaries ample autonomy for local negotiations, except in the case of specific products purchased by headquarters, which then applied transference prices. The criteria used to determine supply source included: a) offer availability; and b) local cost convenience. As regards purchase strategy, the company granted autonomy to affiliates, enabling supply decisions to focus on the most competitive
alternatives for subsidiaries. The criteria used to determine purchase location were: a) supply source (global supplies entailing scale economies or leverage were handled centrally); and b) economically relevant materials

Case 6
Corporate policies regarding supply source definition were combined, tending towards greater global-regional supply due to the existence of proprietary production units. As a result, the company was forced to develop global standardisation in order to assure greater exchangeability and efficiency through adequate coordination provided by the Central Purchasing Office, responsible for monitoring and coordinating part exchanges among affiliates by recommending the most convenient sources and destinations. In general, relevant criteria followed to determine supply source included: a) offer availability; and b) price and logistic costs. As a result, purchases were subject to strict central control, executed by the Central Purchasing Office, responsible for global purchasing information management.

Case 7
The company pursued a strongly centralised purchasing strategy through an independent business unit, that enabled it to achieve purchase efficiency, to secure supply availability and to ensure require quality levels. The first criterion used to determine supply source focused on materials’ demand and supply structure. A product was considered global when all plants required it, and it was provided internationally. In the case of global supplies, the company pursued a global supply strategy, trying to select suppliers that were able to supply worldwide plants. Thus, strategic materials and general operation materials were purchased through the Central Office, whereas irrelevant (not critical and reduced in volume) materials were procured locally, if available.
DISCUSSION

RQ1. Companies’ globalisation process evolution impact on Global Sourcing and Purchasing Strategies.

As regards supply sourcing, sample companies have pursued different strategies according to their individual profiles. The research sample revealed that companies in earlier globalisation stages (such as, Case 1, Case 2 and Case 3) have evolved towards an international supply substitution strategy by developing local suppliers, whereas more fully globalised companies (such as, Case 4, Case 5, Case 6 and Case 7) have gradually focused their supply strategies towards the development of global solutions (see Figure 1).

A possible explanation for this could be that more internationalised companies seek global solutions that enable them to ensure greater GSM alignment and coordination.

Concerning purchase management and key decision-making, except for Case 7, which pursues a highly centralised corporate strategy, companies prefer an approach that highlights local autonomy, although headquarters provide their support through central pricing negotiations or benchmark information. Although this behaviour does not seem to match the trend towards centralisation in less globalised companies (such as Case 1, Case 2 and Case 3), it may respond to a need for greater flexibility in supplies and increased effectiveness in monitoring.

In turn, in general, both decisions are interrelated when it comes to defining global purchasing strategy. Thus, more globalised MNCs have been found to handle their global requirements through centralised purchasing management, accomplishing greater efficiency and competitiveness through global sourcing strategies. On the other hand, less globalized MNCs exhibit essentially local needs preferably satisfied through local purchasing management, achieving more effective and agile relationships with suppliers. Nevertheless, this apparent connection between global purchasing strategy definition processes for both dimensions is
limited by the existence of several variables that differ in both decisions. Depending on their significance, these variables could actually determine ultimate strategy choices for both supply sourcing and purchasing location.

**RQ2. Relevant variables in the Global Sourcing and Purchasing Strategies definition process.**

As drawn from our previous analysis, when companies need to define their global sourcing and purchasing strategies, they resort to explicit and different criteria for each strategy. These criteria influence MNCs’ decision-making processes significantly. Our research has revealed the following variables associated with Purchasing Characteristics bear a relevant influence on supply sourcing strategies (see Tables 1 to 7):

**INSERT TABLES 1 TO 7**

- Local and global supply availability

- Economic convenience, considering prices, taxes, and logistic costs. It strictly focuses on total product costs as compared to other alternatives having the same requirement compliance levels.

- Specialisation level, as regards adjustments to suit subsidiaries’ needs and requirements.

In turn, the common variables that determined purchase location strategies have been found to be the following:

- Product relevance, as regards its impact on final product quality and/or purchase value.

- Negotiation leverage, both to secure economic benefits drawn from economies of scale and to seek global agreements, having an impact on prices and general purchase conditions.

In addition, the study has shown that MNCs’ global policies (particularly centralisation and organisational structure) are also a significant variable in the definition of both dimensions (supply sourcing and purchase location). Indeed, highly centralised companies (seeking to ensure greater worldwide alignment and competitiveness) preferred global sourcing and purchasing strategies with highly centralised purchasing management (e.g., Case 7).
Finally, although explicit criteria have been found to affect the definition of these strategies, our research analysis has also indicated that other implicit variables complementarily influence these strategies. An implicit variable identified as having a strong influence was the role and relevance of individual subsidiaries within each MNC organisation, as well as local management expertise and capabilities. More relevant subsidiaries having sounder management are subject to decentralisation-oriented policies. The environmental conditions (critical or beneficial) and company management performance (either globally or at subsidiaries) have also been found to influence both decision dimensions. Usually in critical or low-performance situations, companies tend towards greater centralisation and to stress economic convenience in supply origin definitions.

Thus, the definition of these two global sourcing and purchasing strategy dimensions involves a decision-making process supported by implicit and explicit criteria. Its implementation dynamics includes constant revisions and readjustments to respond to internal and environmental conditions.

**RQ3 Interaction between these variables in regard of both strategic dimensions**

The present study reveals that, depending on purchase market features and global strategies, there is a mix of potential alternatives for purchasing global strategies that responds to a behavioural pattern related to above mentioned criteria. The following situations are identified: *Centralised purchase through global supply*. The most common cases are: a) commodity requirements shared by plants, registering a highly concentrated world offer, with significant economic advantages provided by economies of scale drawn from purchase volumes, which drove companies to implement a global supply strategy with centralised price and purchasing negotiations; b) materials required by affiliates and relevant to final product quality registering local shortage at expected quality levels, which drove companies to resort to consolidated global supply and centralised purchase management handled by headquarters.
Local purchase with local supply. In this scenario, the most frequent cases include: a) standard, locally available materials (domestic production or locally-based representatives for non-global MNCs) with required quality and competitive pricing and registering relevant freight cost incidence, allowing companies to prefer locally managed domestic supply; b) customised or highly adjusted materials involving close buyer-supplier interaction; c) labour-intensive materials and general services, which require local supply and follow-up.

Centralised purchases with local. This is the least common case, and it involves standard materials relevant to final product quality and purchase value. These materials registered local (or regional) availability at required quality and price levels. Their significant freight component drives companies to prefer local supply, with corporate intervention for supplier selection and price negotiations to ensure quality standard compliance and to exploit volume leverage.

Local purchase with global supply. This scenario includes: a) rather irrelevant materials (mostly commodities) required by all subsidiaries, with highly concentrated global suppliers having local affiliates or representatives, thus allowing for local supply through a direct relationship with domestic representatives, handled by local buyers with centrally negotiated benchmark prices; b) components involving high quality and complexity requirements, though irrelevant as to purchase volumes, which have required global suppliers but do not justify centralised intervention, thus allowing for greater flexibility and swiftness through local direct imports.

Thus, our study has found that both strategies (supply source and purchase location) are defined according to specific behaviour patterns, as shown in the following table (see Table 8):

**INSERT TABLE 8**

It seems evident, then, that global sourcing-central purchasing and local sourcing-local purchasing situations are commonly exploited for purchasing strategies. Companies
purchasing relevant supplies required by subsidiaries tend to prefer global supply alternatives featuring corporate purchasing intervention when they find a global supply base offering better quality and cost conditions, due to obvious negotiating leverage advantages resulting from large purchased volumes. In turn, when companies purchase non-critical supplies, locally available at competitive prices and quality levels, they usually resort to locally-managed domestic supply to ensure greater responsiveness and flexibility through closer buyer-supplier relationships.

However, on occasion, local sourcing-central purchasing and global sourcing-local purchasing alternatives are preferred. Such is the case of strategic supplies featuring local availability at competitive price and quality levels. Then, companies benefit from local supply on account of physical proximity. Nevertheless, central intervention in purchase management is justified when savings are obtained through negotiating leverage. Also, if companies have a strongly centralised global strategy, key material supply management is included in their global strategy, while purchasing management is also centralised to reduce control risks.

MNCs also prefer a global sourcing-local purchasing approach for supplies required by all affiliates, thus obtaining cost and quality competitive advantages from global suppliers. Unusually the materials involved in this approach are irrelevant, both in terms of purchase amount and impact on final product quality, and offer no significant advantages through economies of scale. Additionally, in many a case, there is a local representation from international suppliers.

Hence, our research work reveals that, although the purchase and supply strategy definition process may involve a mix of alternatives, according to the nature of the impact of explicit criteria, as mentioned before, this definition entails a dynamic decision-making process based on the behaviour of related variables and the impact of implicit variables.
CONCLUSIONS AND LIMITATIONS

Although studies focusing on MNC’s corporate purchasing strategy influence on affiliates’ GSC development reveal a strong link between two key dimensions (supply sourcing strategy and purchase location strategy), through a global sourcing trend that induced greater purchase management internationalisation and centralisation, this research work shows that these dimensions involve decision-making processes featuring distinctive criteria and influences.

On the one hand, our data analysis indicates the significant influence of companies’ evolution in their globalization processes on their global sourcing and purchasing strategies. Indeed, companies in later stages of their Globalisation Process Evolution adopted global sourcing and purchasing strategies that involved more centralised relevant decisions (especially as regards benchmark price negotiations and critical suppliers’ selection and certification). On the other hand, companies in their earlier globalisation process stages tended to pursue Global Sourcing and Purchasing Strategies based on more local autonomy and focusing on local supply solutions.

In turn, this research work seems to indicate that there are different variables at play in the definition of both strategic dimensions and that these variables depend on purchased product characteristics, market and, in some cases, companies’ global strategies. These variables include: world availability, economic convenience, and specialisation level as regards supply source strategy definition; product relevance and negotiation leverage in terms of purchase location strategy, and global management centralisation level.

Additionally, our research also has found that, although both dimensions are interrelated, relevant decision criteria differ and there is a mix of potential purchasing global strategy alternatives that respond to a specific behavioural pattern associated with these criteria. In the case of strategic or business-related supplies, companies tend to pursue a global supply strategy, whereas local supplies are preferred for all other materials, as long as external vendors do not offer substantial advantages. Also, companies are likely to rely on local
definition, regardless of supply source, as long as no relevant grounds were found for headquarters’ involvement.

Thus, although global purchasing strategy definition (both as regards supply sourcing as well as purchase location) at MNCs is part of their evolution towards globalisation, it requires a specific analysis for each type of product and market, calling for dynamic and selective revision to ensure the best global supply chain management performance.

It should be noted, however, that this research suffers from certain limitations that should be addressed explicitly. First, it does not provide the necessary grounds to deduce to what extent the above mentioned criteria are more relevant than the consistent logic between supply globalisation and purchasing management centralisation. Also, it does not shed a light on the significance or frequency of favourable conditions in cross strategy scenarios, such as global sourcing-local purchasing and vice versa. Lastly, this research does not quantify the impact of performance benefits in global sourcing management as compared to other strategies (for instance, a more aligned approach for supply globalisation and purchasing centralisation).

Finally, although the sample featured a wide range of industries and company sizes, the conclusions hereby presented are subject to the restrictions inherent to the nature of this sample, notably including the fact that it was reduced and confined to a single MNC cultural profile (Italian companies), while the study focused on their strategy in a geographical area having similar cultural characteristics. Consequently, in order to expand and deepen these conclusions, further research will be necessary to validate these findings in a more complete sample, through more quantitative methods affording a chance to test variable correlation.
REFERENCES


Chart 1 – Case Studies

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>World Operation</th>
<th>Employees</th>
<th>Annual Sales (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>Supermarket Equipment</td>
<td>15 Manufac. Plants in 12 Countries</td>
<td>-----</td>
<td>450 M</td>
</tr>
<tr>
<td>Case 2</td>
<td>Food</td>
<td>17 Manufac. Plants in 37 Countries</td>
<td>16,000</td>
<td>5.500 M</td>
</tr>
<tr>
<td>Case 3</td>
<td>Decorated Plywood Panels</td>
<td>5 Manufac. Plants</td>
<td>1300 (Group)</td>
<td>900 M (Group)</td>
</tr>
<tr>
<td>Case 4</td>
<td>Wires and Wiring Solutions</td>
<td>34 Manufac. Plants in 22 Countries</td>
<td>14,000</td>
<td>3.700 M</td>
</tr>
<tr>
<td>Case 5</td>
<td>Tires</td>
<td>21 Manufac. Plants in 10 Countries</td>
<td>20,000</td>
<td>3.400 M</td>
</tr>
<tr>
<td>Case 6</td>
<td>Automotive</td>
<td>60 Countries</td>
<td>44,500</td>
<td>50.000 M</td>
</tr>
<tr>
<td>Case 7</td>
<td>Industrial Procurement Solutions</td>
<td>30 Countries (Group)</td>
<td>42,000 (Group)</td>
<td>6.000 M (Group)</td>
</tr>
</tbody>
</table>

Figure 1 – Purchase Economic Value Mapping in Sample Global Sourcing and Purchasing Strategies
### Table 1 - Case 1
**Purchase Centralisation Level**

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
</table>
| Global        | None of significance | Some specific components, without local availability  
(Example: Electro-mechanic products in general -imported through distributors) |
| Local         | None of significance | Local economic convenience without central negotiation advantage  
Raw and indirect materials in general, with local economic convenience (from domestic or MNC supplier), outsourced activities, and general services. |

### Table 2 - Case 2
**Purchase Centralisation Level**

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
</table>
| Global        | Relevant raw materials, with purchasing scale economy, and local unavailability | Some Irrelevant materials, locally unavailable  
(Example: Special plastic packaging imported by subsidiaries) |
| Local         | None of significance | Local economic convenience, important for delivery time or service-intensive  
(Example: basic raw materials, some product of plastic materials, and services) |
### Table 3 - Case 3
**Purchase Centralisation Level**

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>None of significance</td>
<td>Some materials with specific design, imported from Italy (supply by headquarters or Italian supplier) (Example: materials with standard design and production in Italy, decorating paper for finishing panels, and some indirect materials (maintenance and spare parts))</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>None of significance</td>
<td>Raw and indirect materials in general, with local economic convenience and no central negotiation advantage, outsourced activities, and general services.</td>
</tr>
</tbody>
</table>

### Table 4 - Case 4
**Purchase Centralisation Level**

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>Some relevant raw materials, with negotiation leverage and restricted world offer</td>
<td>None of significance</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>None of significance</td>
<td>Raw and indirect materials in general, with local or regional economic convenience (from domestic or MNC supplier), and general services.</td>
</tr>
</tbody>
</table>
### Table 5 - Case 5
#### Purchase Centralization Level

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>Relevant, standard materials, with purchasing scale economy and restricted world offer (Example: strategic raw materials in general)</td>
<td>Relatively less important, with global economic convenience (including local unavailability) and local representative of global supplier (Example: some raw materials and some specific indirect materials)</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>None of significance</td>
<td>Local economic convenience without central negotiation advantage (Example: other raw materials, indirect materials, specific spare parts, maintenance, and services)</td>
</tr>
</tbody>
</table>

### Table 6 - Case 6
#### Purchase Centralisation Level

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>Relevant and standard components, imported from global supplier, with the intervention of other affiliates; productive poles for supplier selection and price definition.</td>
<td>Relevant and standard components, directly imported from global suppliers’ locally based affiliates, or from regional affiliates’ productive poles.</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>None of significance</td>
<td>Relatively less relevant materials and components (supplied by locally based MNC or MNC with local representatives, or by domestic suppliers), indirect materials, other maintenance materials, and general services</td>
</tr>
</tbody>
</table>
## Table 7 - Case 7
### Purchase Centralisation Level

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Central</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>Relevant, standard materials, with purchasing scale economy and no critical logistic costs (Example: strategic materials in general)</td>
<td>None of significance</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>Relevant, with purchasing scale economy, relevant logistic costs and delivery time, and locally available (Example: other raw materials, direct laminating materials, spare parts and maintenance materials)</td>
<td>Relatively less relevant, or plant-specific, with service or delivery time significance, and locally available (Example: indirect materials, other maintenance materials, general service and materials with service intensive)</td>
</tr>
</tbody>
</table>

## Table 8 - Global Purchasing and Supply Strategy Definition

<table>
<thead>
<tr>
<th>Supply Source</th>
<th>Global Purchasing and Supply Strategy Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>Both standard and relevant materials (due to high operative significance or purchase relative value) with purchasing scale economies and with no critical logistic costs or high delivery lead times. Relatively less important materials, with global economic convenience and low service significance, or with local representative of global supplier</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>Relevant materials with negotiation power incidence and better local economic conditions, long delivery lead times, and/or customised or service-intensive materials. Relatively less relevant materials, featuring local economic convenience, or plant-specific materials, or those with high logistic costs or service significance (delivery time).</td>
</tr>
</tbody>
</table>