

The firm's sourcing strategy
Disclosing firms' sourcing activities

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Abstract

According to new theories on sourcing (Gadde & Håkansson, 2001; Burt, Dobbler & Starling, 2003; Momme, 2001), the firm's supply strategy is becoming more and more important for its survival and success in many industries. As modern information technology is gaining ground and markets become more liberalized and international, the structure of firms' supply chains is becoming increasingly important, and the supply chains are used proactively as a means to the firm's development and market adaptation (Coviello et al., 2002). Therefore, the individual firm continuously has to harmonize its sourcing and purchasing strategy.

The increasing liberalization and internationalization put pressure on most networks and most western countries. On the other hand, external influence is not always perceived in the same way. Factors determined by culture and differences in networks are bound to lead to a varied perception and interpretation of this pressure.

This study is based on the network culture of which the individual firm is a part. To analyze this, a frame of reference has been prepared and six case studies have been carried out – three in Danish firms and three in Australian firms. The objective is to clarify to what extent cultural conditional factors influence how firms prepare their sourcing and purchasing strategy.

1. Introduction

Within the past 10-15 years, the individual firm has been subject to considerable changes in the competitive conditions. Many markets have been liberalized (Andersen & Christensen, 1998) in the form of reduced or abolished tariff barriers or monopolies have been terminated. Also, modern information technology has now made a far more high-speed information spread possible. Further, new approaches and concepts have turned up that have influenced the practise of corporate management. One example is the quality management concept which has had a major impact (Kolarik, 1999).

The individual firm is under considerable pressure both as regards quality and costs. The quality wave in the 90s meant a codification of a number of skills and an increasing quality level because of much focus on this particular field. However, the codification also meant that it was much easier to copy production processes and products. Therefore, one might say that firms are in a tight spot, because many of them are still under pressure from their customers' demands for both lower prices and better quality. In order to meet the demands, a number of firms have chosen to outsource their tasks to e.g. Asia. On the one hand this initiative may ease the pressure of the individual firm but it does not solve the problem, since every firm will do just the same. The problem resembles the dilemma of the prisoners, where the individual's best alternative is synonymous with the worst alternative for all of the prisoners. In other words, if all firms decide to outsource, the pressure on the individual firm will increase.

Many subsuppliers increasingly experience that their customers decide to turn to East Asia for suppliers. Outsourcing is not a new phenomenon. It leads, however, not only to increased pressure on cost minimization, but also to firms having to focus on own strengths and match their strategies to these to a much larger extent than in the past. Also, it may be difficult for the individual firm to stay competitive if it does not find new ways of meeting their customers' demands.

In this connection, supplier cooperation is a phenomenon that has attracted growing interest. Through different forms of cooperation, the individual firm has been able to strengthen its position. Supplier cooperation holds some possibilities because it offers the customer fully-fledged solutions and thus reduces the customer's needs for handling a number of tasks himself. On the other hand this implies that there is a need for a number of tasks being handled and adjusted within the framework of the supplier association. Therefore, the individual firm must get better at handling a number of complex tasks in cooperation with other firms.

However, customer and supplier cooperation and supplier organizations must be regarded in a broader perspective. From a portfolio perspective (Freytag et al., 2001; Turnbull & Zolkewski, 1997), it is important continuously to consider what types of relations to build, develop/change or end. Sometimes an arms length relation is appropriate and sometimes it is more appropriate to lean on the supplier or the customer. Central for these portfolio considerations is, however, the customers' alternating wants and demands.

In other words, the firms' way of acting is assumably a consequence of the pressure on cost minimization, quality and competence development being dependent on the character of the tasks to be solved for the customer.

This will be disclosed by analysing the sourcing situation of different companies. In order to show how different firms act, cases from three different industries that are assumed to have different backgrounds have been chosen: the iron and metal industries, the food industry and the building industry. Management style and cultural conditional conditions may also influence firms' actions. Therefore, cases from two different countries (Denmark and Australia) that experience a considerable pressure as described above have been chosen. Thus, at total of 6 case enterprises are part of the study.

The aim of this study is to disclose the importance of the various elements of a firm's sourcing and how these elements are perceived:

Buyer behavior:

- * What characterizes sourcing and purchasing strategies in manufacturing companies?
- * How important are different market conditions and cultures with regard to effects on sourcing and purchasing strategies in Australia and Denmark?

Seller behavior:

- * How can suppliers detect differences in corporate culture?
- * How can suppliers react to different sourcing and purchasing strategies?

This paper will use the cases to explain theoretical and managerial aspects in connection with a firm's sourcing. Finally, it will suggest a number of theoretical and managerial implications of the analysis.

2. Sourcing and purchasing strategy

Choosing the right source is a familiar problem, but this problem has recently acquired new facets. Firms have always had to relate to how important and appropriate it will be to produce a component or provide a service etc., as only few firms are able to meet their own needs for supply of components and services or to buy out. Therefore, there is nothing new under the sun. On the other hand, there have been changes that have made topical and increased the importance of appropriate choices concerning sourcing. Thus, most firms are now aware that they cannot solve every development tasks which is necessary for meeting customer needs. In some areas, the technological development is so rapid that it is difficult for the individual firm to be in front, except in a few select areas (Håkansson & Snehota, 1989; Prahalad & Hamel, 1990).

The need for a cut-throat prioritization of the firm's resources is also very important. Most firms are also becoming increasingly aware that suppliers can contribute with more than just low prices. If a firm chooses to have a close relationship with a supplier in order to develop individual services, a lower price is not necessarily excluded; it can, however, result in lower prices in the form of lower costs (production costs, goods handling cost, storage costs, capital costs, supplier handling costs, administrative costs and/or development costs) (Gadde & Håkansson, 2001, B). The development in which a firm increasingly can benefit from leaning on other firms has especially been supported by the growing codification of production etc. The TQM wave has been central for this development. The implementation of various forms of standards and certificates has a number of benefits, e.g. it becomes easier to describe and understand what the various suppliers can contribute with. Then it will be easier to decide if the supplier has lived up to his obligations.

The pace with which technologies are developing, the increasing codification of processes, and the liberalization of markets have increased the interest for and the pressure on firms' sourcing and have made clear the strategic importance of purchasing to the firms' competitiveness. Ricker (1997) defines firms' strategic sourcing as follows: "It is the application of current best practices to achieve the full potential of integrating suppliers into the long business process". I.e., sourcing is very much about finding out how a firm's sourcing needs can be met and how suppliers can be utilized in this connection. This is in line with other researchers in the field (Gadde & Håkansson, 2001; Burt, Dobler & Starling, 2003) who consider purchasing to be middlemen between the buying organization's demands and needs and the supplier's competences and adjustment possibilities.

The sourcing itself is to determine whether or not an external or an internal sourcing should happen and to design the network of relations wished for (Gadde & Håkansson, 2001). Burt, Dobler & Starling (2003) sum up the tasks as follows:

- Internal or external source
- Reviewing the supplier base
- Appropriateness of type of relationship
- Optimization of supply base

Whether to choose internal or external sourcing is partly determined by the technological development mentioned above and the costs connected to following in or to be in front in more areas at the same time. However, security of supplies and price are also important factors for the final choice.

Review of supplier base is about suppliers' capability as regards meeting the firm's demands and wants. Do the firms that are part of the supplier base continuously live up to e.g. the technological,

developmental or production demands that the firm has?

The appropriateness of the type of supplier relations concerns the contents of the supplier relations. When relations develop and/or the supplier's product service changes, relations to the supplier usually need to change.

Finally, sourcing is to consider the connections between the individual types of sourcing relations, meaning that an appropriate supplier portfolio is needed in order to ensure that the firm's various needs for sourcing can be met (see also Bensoau, 1999).

Considerations as to a firm's sourcing are very similar in the various analyses. Especially, internal versus external sourcing is very important for many firms. Typically, the following advantages of single and multiple sourcing is emphasized:

Figure 3 Single versus multiple sourcing

<i>Some advantages of single sourcing</i>	<i>Some advantages of multiple sourcing</i>
1. The supplier ought to be able to offer price advantages because of economies of scale.	1. With several sources there is insurance against failure at one plant as a result of fire, strikes, quality, delivery problems, and so on.
2. Personal relationships can be more easily established, thus making communications more effective.	2. With more than one supplier a competitive situation can be developed; no one supplier can afford to become complacent.
3. Administration work in the buyer's office is reduced.	3. In cases of standard items, no tooling cost is involved and there are often no advantages for added volume.
4. Closer relationships and a reasonable tenure can result in mutual cost reduction efforts.	4. The buyer is protecting against a monopoly and may have the advantage of two sources of new ideas or new materials.
5. Buyer-tied research can be undertaken.	5. There is no moral commitment to a supplier as when the total quantity would be a considerable proportion of the supplier's total sales.
6. Tool and pattern or fixture costs are reduced and long-run tools may be used.	6. Giving orders to a number of suppliers increases flexibility in case of large additional call-off or decreased needs.

7. Transportation costs can be lower, and where pallets are used common pools can be established.	7. Part business can be used as a base load in conjunction with which a smaller supplier may be developed.
8. Quality control is made easier, since there is only one location.	8. With two suppliers holding stock, the buyer company can reduce inventory level.
9. Scheduling is made easier.	

Source: Gadde & Hakansson, 2001B; see also Ramsey, 1990; Saunders, 1997; Burt, Dobler & Starling, 2003.

The factors in Figure 3 are advantages and disadvantages of the sourcing strategy in question. The two sourcing strategies can be seen as each other's negation so that the advantages of the one will be disadvantages of the other. Especially, focus is on the different types of costs that appear as a result of the sourcing strategy used. Also, consequences as regards management and planning are central. However, the importance of the cultural conditional factors' importance for the firm's sourcing is not explicitly referred to in most studies.

Besides, choosing internal and external sources, the firm also has to consider structure, development and connections between the firm's individual supplier relations. In other words, the sourcing strategy has implications for the firm's procurement policy. Shapiro (1988), for instance, distinguishes between four different types of purchasing policy¹. Two of them are based on several suppliers. The price competition strategy aims at obtaining the lowest cost price possible and the conditions competition strategy aims at reducing the suppliers' in use costs. Another two are based on only one or a few suppliers and aim at developing a high customer value. The differences in the two latter are the extent of cooperation; they are also called limited partnership strategy and extended partnership strategy. Also here, only little is made of the importance of both the culture that the firm is a part of and the corporate culture.

For much sourcing, the product service to be obtained or the task to be solved for the customer is central. Some researchers (Campbell, 1985; Lambert et al., 1996; Gadde & Hakansson, 2001B), however, stress that an appropriate cooperation presupposes a certain degree of compability as regards the firms' goals, strategies and culture. Of what importance a firm's sourcing more explicit is, is analyzed in the following.

3. Culture and management

Culture is a very used concept that is difficult to handle. There is a very wide perception of the concept of culture that says, "culture is a set of shared values, beliefs, meanings, and understandings" Referring to Frost, Alvesson (1994) defines organizational culture as follows, "organizational culture seems to mean talking about the importance for people of symbolism - of rituals, myths, stories and legends - and about the interpretation of events, ideas, and experiences that are influenced and shaped by groups within which they live". However, he chooses to add, "organizational includes values and assumptions about reality" (p. 2). Alvesson's definition seems to be wide, however precise, as it enables suggestion of specific areas that are to be disclosed if one

¹ The difference between sourcing and purchasing is not always clear in literature. Here, sourcing strategy refer to the choice of external or internal source; if external sourcing is chosen also the number of suppliers. Purchasing policy refers to the choice of cooperation terms seen from the chosen by the point of the buyer.

is to comment on corporate culture.

Within the IMP approach, focus has especially been on the importance of the development of relations between firms.

In his phase model, Ford (1980) states the importance of cultural distance for the development of relations. "Cultural distance is the degree which norms and values of the two companies differ because of their place of origin. When the two companies don't know each other well, this distance will often show up in national stereotypes, such as the "boring Swedes", the "arrogant Germans", the "unreliable English" or "the untrustworthy Italians" (Ford et al., 1998, p. 30). So, culture is about expectations, values and perceptions of others and of one self. The IMP approach has especially focused on culture in connection with cooperation between firms, but the culture's importance to firms' choice of sourcing strategy has only been clarified to a limited extent.

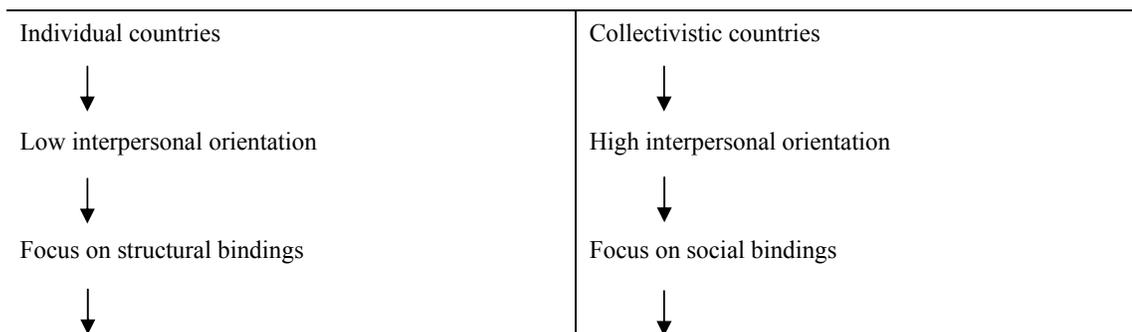
According to the above definition, organization culture can basically be considered to be a sort of pattern that influences individuals' cognition, affection and behaviour. The pattern is formed in the interaction between the individuals in the organization and in the interaction with the environment.

Thus, the corporate culture is also influenced by the culture that is surrounding the firms, and so it is affected by the national culture. Hofstede (1991; 1994) has defined the concept as follows: "Cultures, in the collective programming of the mind which distinguishes the members of one human group from another .. in this sense, includes systems of value; and values are among the building block of culture", p. 21 (1983).

According to Hofstede, national culture is made up of four main dimensions: individualistic versus collectivistic (the degree to which in a country learn to act as individuals rather than member of a group), degrees power distance (the degree of inequality between people in physical and educational terms), degree of uncertainty avoidance (the degree to which people in a country prefer formal rules and fixed patterns of life as means of enhancing security), and feminine versus masculine (the degree to which quality of life, care for weak, and solidarity prevail over performance, success, money and competition).

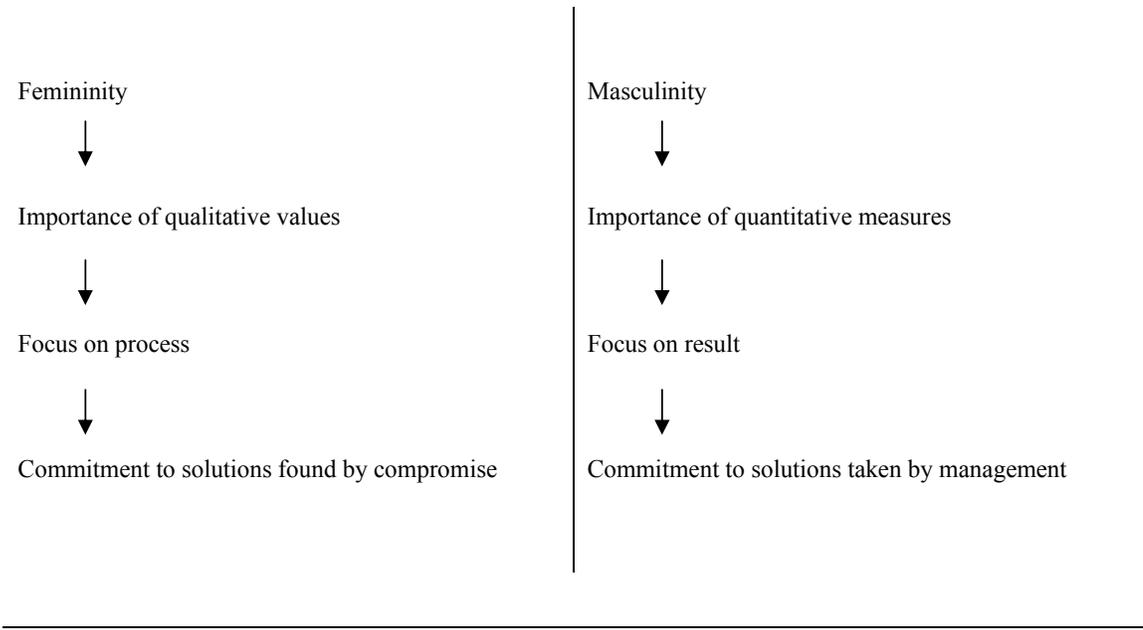
According to Williams, Han & Qualls (1998) and Ulrich & Hollensen (2002) the differences between individualistic and collectivistic countries can be as shown in Figure 4.

Figure 4 Cultural differences



Commitment to organizations	Commitment to persons
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With regard to masculinity and femininity a similar linkage can be made



Feminine values compared to masculine seem to be what especially differentiates Denmark and Australia. But according to Hofstede, the two countries also seem to be somewhat apart as for the degree of uncertainty avoidance, see Figure 5.

Figure 5 A Comparison of Cultural factors in Denmark and Australia according to Hofstede

Individualistic	Collectivistic
AUS DK	
Low power distance	High power distance
DK AUS	
Weak uncertainty avoidance	High uncertainty avoidance
DK AUS	
Feminine	Masculine

Adapted from Hofstede (1991)

The individual's cognition, affection and behaviour are based on the culture of the individual countries. The firm is influenced by this. Also, a number of other factors internally in the firm (e.g. goals, technology, etc.) and in the firm's environment (internationalization, networks, etc.) affect how the firm prepare its sourcing and procurement strategy (see Figure 6). Interesting is, however, what impact does culture actually have on this?

Culture shows itself in the way that a management is performed. According to the above, it influences the managerial style, structure, performance goals and the will to tackle new tasks in an organization.

In management theory, two perceptions of management are employed: First, aims and problem solving in cooperation with others and second, planning for, directing and controlling others (Johnsen, 1996; Mintzberg, 1998). In this connection, Mintzberg (1973; 1998) mentions managerial tasks or roles, such as guidance and motivation, transmitting information, and initiating and designing change. In practise, the performance of these tasks vary, all depending on the manager's status and authority.

The basis of this analysis is that the national culture influences the firm's sourcing. The way in which culture is expressed in the individual firm is through a specific corporate culture. The corporate culture is formed through the internal and external interaction between various players through out time. Both managerial style and cooperation still is affected by the culture.

When comparing the cultural conditional differences between Danish and Australian firms and considering Hofstede's cultural dimensions (Figure 5), the following propositions can be made:

Proposition 1:

- Employees in Denmark and Australia are primarily committed to the firm and not so much to fellow employees.

Proposition 2:

- It is expected that the low power distance in both Denmark and Australia leads to individuals often participating in the organizational decision-making process.

Proposition 3A:

- It is assumed that Australian firms have a more formal structure and more formalised procedures than Danish enterprises.

Proposition 3B:

- Employees in Australian enterprises are more likely to consider themselves to be suffering from stress than employees in Danish enterprises in case of organizational changes.

Proposition 4A:

- In Australian enterprises, decisions reflect the interests of the management, whereas in

Denmark, they are more an expression of a compromise between the various actors' interests.

Proposition 4B:

- In Australian enterprises, quantitative performance goals are considered to be more important than in Danish businesses. In Danish businesses qualitative values are considered more important than in Australian enterprises.

Before determining what studies to make in order to clarify the contents of the propositions presented, a framework of understanding for the study will be established.

4. Framework

The firm's sourcing is influenced by many factors. There are basically three main categories that influence the sourcing. First, there are the market's characteristics. For instance, the market can be characterized by a number of very solid networks, within which a close cooperation exists; this is bound to influence the firm's sourcing (Gadde & Håkansson, 2001B). Second, the country's characteristics will influence the sourcing. Especially the language affects how firms act, e.g. as regards the making of design manuals, quality manuals, routines, and regulations. Third, a firm's characteristics will influence the sourcing. What the firm wants to buy make demands of the firm's choice of sourcing (Webster & Wind, 1972; Wilke & Nielsen, 1999).

Figure 6 Factors influencing business sourcing

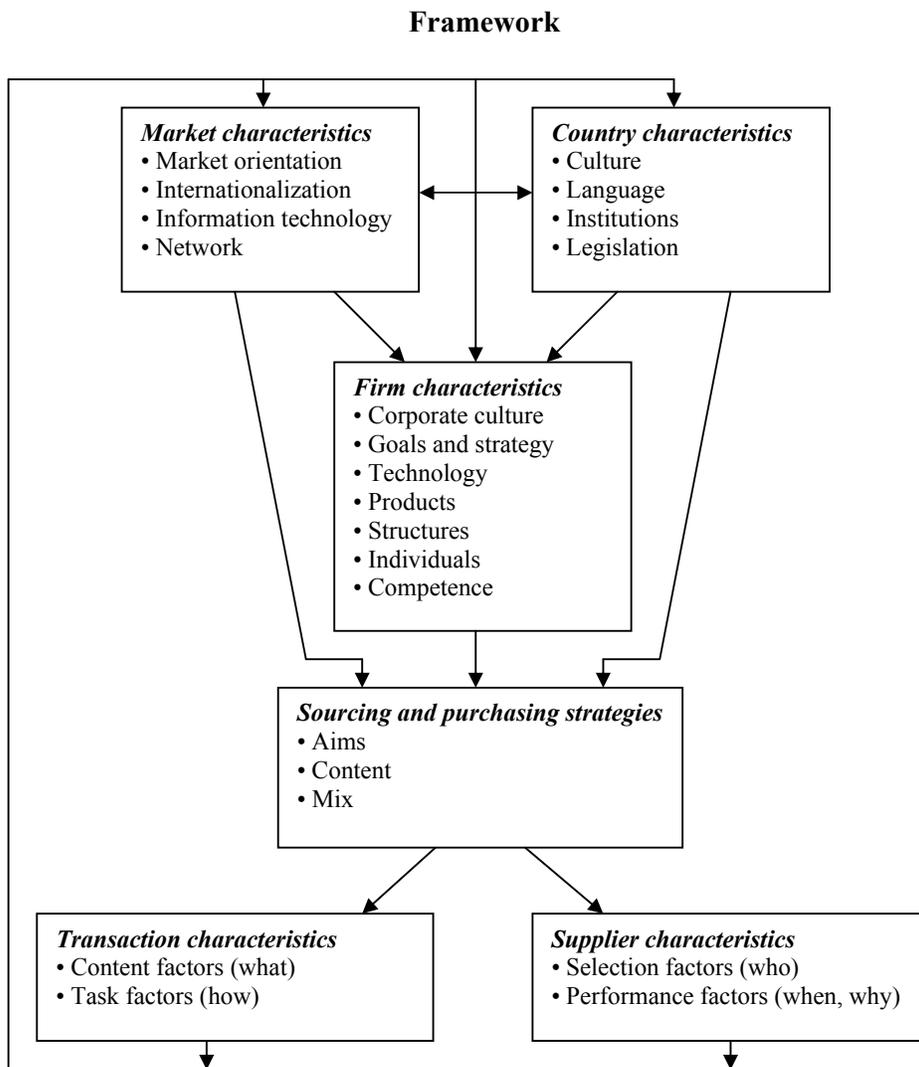


Figure 6 shows that culture is one of more factors that influence a firm's sourcing. Culture, however, can also be a more basic factor that decisive influences other factors that affect the firm's sourcing. In their cognition, affection and behaviour, the individuals are influenced by their cultural background. Finally, to what extent are a transaction's contents (what) and its realization (how) as well as the selection (who) and evaluation (when, why) of suppliers influenced by the underlying culture (see Figure 6).

5. Method

To gather qualitative data in two different contexts in order to get some idea of the importance of culture for sourcing is difficult. Culture is difficult to handle - not just because it has many understandings and definitions (Alvorsson, 1994; Schein; 1985).

This study is based on data that have been collected as follows:

- Downloaded from the enterprises' home page

- Supplied by the enterprises
- Personal interviews
- Sitting in on meetings

On the basis of gathered material, relatively extensive case descriptions have been made. These have subsequently been sent to the enterprises for approval in order to eliminate misunderstandings or to have factual errors corrected, if any. In all firms, contact has been made to two or more employees in order to ensure a certain width and answers less dependent on sources (Bendixen and Burger, 1998). However, it does not solve the fundamental problem of the possible insecurity of the respondent's perception of the situation and answering behavior.

Figure 7

Perception of situation Behaviour in the interview	Different perception of the situation	Similar perception of the situation
"Political"	Double jeopardy sampling	Single jeopardy sampling
"Neutral behaviour"	Single jeopardy sampling	Convenience sampling

There is hardly any doubt that the data gathering can be difficult. Culture in itself is difficult to disclose. Moreover, there may be different perceptions of a situation etc. and the respondents may have a political interest in describing certain situations in certain ways. It is not unusual that e.g. heads of purchasing can be inclined to overestimate their influence on a certain buying decision, and that a more balanced view of the situation is achieved as more interviews are made (Freitag & Nielsen, 1990).

Long-term stays in the case firms would have been ideal. The risk is that only information about what Schein calls the value level is being collected; that information about Schein's two other levels is collected only to a limited extent. However, for practical reasons and for reasons as for resources it has not been possible to carry through a more extensive and in-depth data gathering.

Where possible, the respondents were chosen from their role in the firm, knowledge, and their will and ability to give relevant answers to the questions asked (Tremblay, 1957). It is, however, not easy to say if the will to respond is due to a specific underlying agenda of a political nature. So, it is difficult to determine the type of interview, cf. Figure 7. All case enterprises were contacted via the purchasing manager.

The case enterprises were chosen on the basis of two criteria: maximal variation and convenience (see Figure 8). The aim was to examine how cultural factors influence – especially the planning of sourcing. In order to do so, a comparative analysis is necessary. The comparative element was

obtained by selecting two countries, Denmark and Australia, and by choosing enterprises representing different industries, i.e. the food industry, metal and plastics, and the building industry, and enterprises that were different in size.

Figure 8 Case choice

Case type	Choice strategy
Cases which describe something typical or atypical	<ul style="list-style-type: none"> ▪ Extreme ▪ Typical ▪ Intensity ▪ Critical ▪ Political
Cases which focus on big or small variance	<ul style="list-style-type: none"> ▪ Max variation ▪ Stratification ▪ Homogeneity
Cases where references are important	<ul style="list-style-type: none"> ▪ Snowball ▪ Expert
Cases chosen from a theoretical perspective	<ul style="list-style-type: none"> ▪ Criteria ▪ Theory ▪ Confirmatory
Cases chosen by chance	<ul style="list-style-type: none"> ▪ Opportunism ▪ Random ▪ Comfort

Source: Neergaard 2001, see also Patton 1990, Lincoln & Guba 1985

In Australia, firms were selected via colleagues' knowledge to and possibility of gaining access to the firms. It is difficult to say in what way such a selection influences the result of the study. Using case firms with relations to the academic world includes a risk that their corporate culture is influenced by more openness towards the external environment than businesses that are not in contact with universities. Therefore, these firms may represent less valid cases as regards the phenomenon intended to be disclosed. In other words, there is a risk that firms are more influenced by a global management culture than a locally influenced culture because of their interaction with the academic world. It has not been possible to test whether or not this is the case, e.g. through a control case (Hildebrandt et al., 2001; Johanston et al., 1999). However, the firms that have been part of the study do not consider or describe themselves as exceptional compared to other firms.

6. Cases

The cases very much direct the perception of the reality that is established, and influence the reflection and adjustment of the theories (Hällén & Sandström, 1991). In the following, the six case firms will be described in short and compared to each other.

Aussie Steel & plastics (ASP)

ASP is a smaller manufacturing firm with a little more than 80 employees that produce plastics and pressed metal parts. The production of plastics is fairly simple plastics products (bottles, containers,

etc.) that are used by consumers. The management of the company regards ASP as a typical Australian company. The style is informal, and efforts are made to achieve good results. The employees have different cultural backgrounds, but are very much embedded in the company culture. It is also considered important to be close to what is going on in the company. The managers e.g. "walk the floor" before production meetings to get their own impression. For ASP quality is very important. The quality system clearly defines and states what the procedures are, which tasks should be carried out and by whom, thus making it clear where improvements can be made, and where operations are carried out in a satisfactory way. To achieve this, the company operates the quality system and works as a team to secure that skills are used effectively and that learning is retained in the organization.

Competition varies within plastics and metal. Here, not much coincide as regards customers as there is only one product that combines the two materials. Within metal punching there are 16 competitors all in all, of which 3-4 are competitive important. Within plastics there are about 20 competitors in Australia. As for both plastics and metal, there are app. 40 customers. Within each field, only 5 are important, and within each area, they make up less than 40 per cent of the total turnover.

ASP has more than 800 suppliers, but only about 50 are really important. New suppliers are evaluated with regard to delivery, price and quality. An assessment report is made for every delivery. The one-page report states the supplier's order fulfilment. The supplier will receive the performance measures, and subsequently the necessary actions are taken. The quality managers and other managers perform the evaluation. The financial manager together with a secretary manages purchasing.

In the purchasing area the company has improved much over the last 3-4 years. Delivery performance has to be improved in future, and kanban will probably be introduced in several cases. These measures are expected to affect the customer satisfaction. Management has been aware of new tendencies towards traceability of components and supplies. For the management, it is question of setting new goals and using the devices already created. The tendency of more distinct cooperation is not expected to involve ASP considerably.

Danish Steel & plastic (DSP)

DSP is a smaller manufacturing with a little over 20 employees. It produces plastic parts, punching parts and combination products for producers of camping articles, HVAC fittings, etc. The firm considers itself to be a good example of a smaller Danish manufacturing firm. Importance is not attached to regulations, but to tasks being solved properly. Until 2003, DSP was ISO 9002 certified. However, the procedures etc. of this certification are still kept, but DSP has decided to do without certification because the management considered the new ISO standard to be far too cumbersome and that it did not give additional value in relation to customers. As ISO is no longer applied in the firm, DSP has chosen to drop the continuous supplier performance supervision and the report sent to the suppliers. This is because management found that only very few differences in the reports lead to corrections. If problems occur, other types of actions than the ones contemplated in the ISO system are needed.

As for competition, a large number of Danish and foreign producers are competitors. Especially the increased outsourcing to the Far East has influenced the firm and made it necessary for it to be even more high-speed adjustment oriented than previously. DSP has 50 customers; 20 of them are

considered to be very important, of which three make up half of the sales.

The firm finds it very important to get closer to the customers and is looking for 1-2 engineers that can help increase the firm's performance. There is no such focus within purchasing. All in all, DSP has 60 suppliers of which 10 are considered to be important. Only to a limited extent cooperation with suppliers is a fact – actually only with one.

Differences and similarities

DSP and ASP clearly differ in their attitude towards and the observance of quality concepts. ASP perceives the prescribed description and control of all processes both necessary and appropriate. DSP, however, considers quality concepts to be too rigid and not always suitable as regards servicing customers. The firms do basically not disagree that various quality standards can be used for getting control of and raising the quality.

Aussie Brick & Concrete (ABC)

ABC is the largest construction company in Australia with more than 12,000 employees. In Australia, ABC has more than 700 business sites, and it also operates in Asia and USA. In some areas, ABC controls the whole supply chain, as the firm owns both quarries and forests. Its customers vary, but the biggest sales are within civil engineering or renovation of larger housing estates, factories, shopping centres, etc. As a whole, the industry has developed positively because of the growing market.

Since 2000, the firm has made a targeted effort to come up with a new sourcing strategy. The strategic intentions are based on four pillars:

- To pursue focused strategies that create and build upon competitive advantages
- To provide customers with better value and service than competitors
- To ensure that the best people in the industry are employed at ABC
- To encourage and implement innovation to further improve the processes, the products and the services.

The supply strategy is based on the firm's overall vision to create more value for their customers through world class supply management.

Procurement at ABC is far away from traditional purchasing where focus is on order placement, delivery, stock, invoicing, etc. Procurement is about having full time professionals facilitating the company instead of looking at unit specific supply agreements. It is about understanding the supply market, about assessment and development of strategy, data management, and contract risk management, and about constantly improving operations. Based on the above strategy, the firm has been involved in optimization of supply base, consolidation of suppliers and reduction of total costs. Next step will be e.g. total value chain perspective on cost, segmented supplier management approaches and joint improvement plans. The optimization of the supplier base is based on Kraljics (1989) model.

The deliberately chosen procurement strategy has been very successful and has very much contributed to the good results of the company the recent years. In the future, the challenge is to maintain focus on the value creation and the organization's interest in sourcing.

Danish Brick and Concrete (DBC)

DBC is part of a group with 75.000 employees of which 1.500 are employed in Denmark. In Denmark, the trade has been subject to varying economic trends for the past years. Therefore, the firm has had to make organizational adjustments and source out some tasks to subsuppliers. The outsourcing deals with e.g. tasks within civil engineering.

Another way of trying to stand out is through the so-called “partnering model”. The idea is to increase everybody’s loyalty in relation to the specific building project. The first point is to agree on a budget limit. Any variances hereto – negative or positive – are allocated according to a percentage scale between the parties involved (client, DBC, architect, and subcontractor, e.g. 70, 5, 5, 20 per cent). The partnering concept will be transferred to purchasing. As for the purchasing department’s benchmarks the following is important:

- Fewer suppliers
- Lower prices and bonus
- Employee and customer satisfaction
- Settling of disputes

DBC has so-called trading agreements with all their suppliers. The suppliers are divided into categories of red, blue and green. There are relatively few of the red ones. As for the red suppliers, DBC has bound its purchases to this type of supplier. The blue agreements concern the so-called preferred suppliers from whom DBC buys most of its products. The green agreements deal with local suppliers. The different types of agreements depend on the organization’s accept; otherwise disputes can arise because of lost expectations with the supplier. Such disputes arise when the project owner has a relative high degree of autonomy in the selection of suppliers. The advantage is that the individual project owner feels committed to the project and agreements.

The number of suppliers is expected to fall in the future, and the sourcing is expected to become more internationalized because of the possibilities in e.g. Eastern Europe. The objective is also to realize some cooperative benefits through utilization of the various types of trading agreements give. Finally, in mid-2004, DBC will set up an internet portal for putting out its sourcing needs in connection with new projects, and for suppliers to make bids and present their products.

Differences and similarities

Two main differences that are connected to each other, however, are ABC’s focus on risk control in connection with sourcing and DBC’s possible local self-determination and partially possibility of not observing trading agreements entered into. Cf. information from e.g. an internal empirical exchange and benchmarking project in DBS, ABC agree with most actors in the building industry in the USA. Projects and products etc. are described in detail and more binding agreements are made, which the purchasing department is to control. In Denmark and Scandinavia it is different. Here, contract control with some trading agreements is less strict. Both firms were very much focused on and conscious about the need for new concepts that deal with the interaction with the customers, including the need for inspiration and experience from more sources. The ability to develop and implement new concepts is considered to be decisive for the firms’ competitiveness.

Aussie Food Processing (AFP)

AFP, which is family owned, sees itself as one of the leading edge agribusiness models in the

Australian meat industry. The company is raising cattle and slaughtering the cattle for meat processing. In total, a little over 500 are employed at the slaughtering facility and at the farms. AFP has probably the only facility in the world where an animal is slaughtered, boned, value added, packed to a retail ready state and distributed to the customer.

The company is organized with a managing director at the top, a manager running the operations (factory), a financial and administration manager, and a manager for rural and organizational development (farms). The management style is so that top management is very much involved in running the business. Management has a succession plan, i.e. a plan that clearly lays down the future plans for the management level and defines the future training and personnel development. The succession plan was implemented after the point was made by the buying company (Coles - a major retail chain).

A great effort with regard to quality standards has been done in the company, and AFP is one of the few - if not the only - that has an ISO 9002 qualification, a HACCP 9000 food safety certificate, an ISO 14001 environmental certification, and a NATA accredited. "We think it is important to be able to measure, because then we can compare it, and when we can compare, we can prove it". A major goal for AFP is to be able to deliver certified superior red meat products.

There are more red meat producers in Australia, as Australia is the world's largest exporter of beef. AFP is among the 15 largest producers in Australia. As for customers, the market is dominated by two large retailing chains that hold 50% of the market. One of the customers is one of these retailing chains. The supply chain is unique. Only three companies are between the consumer and the cattle in the paddock. AFP is the producer, Frigmobil is the transport company, and Coles is the retailer.

Traceability is a part of the food safety programme of the company. The system is based on two principle systems: electronic bar-coding and biological bar-coding (DNA). The objective is to show the ability to trace the product, the co-products and the by-products back to the carcasses and even individual livestock using the EAN UCC system and the DNA sample. To some extent it is like producing cars, but just the other way around. "We have the product/the corpus and disassemble it and distribute it. Afterwards we then trace it back to the corpus to learn how it turned out to be the way it did". AFP's quality system makes heavy demands on the firm itself, but also to its suppliers because AFP must have total control of the delivered products (feedstuffs etc.)

Danish Food Processor (DFP)

The firm is owned by a number of members that are also the firm's suppliers. It has about 7000 employees. Its management style is characterized by a high degree of openness and interest in developing the firm. Two important factors for the firm's effort for obtaining success in the market is product development and cost minimization. The market is characterised by a major price pressure.

The red beef production totals only a very small part of the firm's production. The interest for foodstuffs is increasing and especially BSE has aroused major attention to the security of foodstuffs. In order to ensure the quality of the delivered products, the firm cooperates closely with other players within the area.

Red beef production is not central for the firm, but it is important for the firm to be able to offer marketing opportunities for the members' livestock.

As for customers, the market is characterized by two large players that hold more than 70% of the market. The firm supplies products to both retailing chains and to the other retailing chains in the Danish market as well. Security of supplies towards the individual member is important for the firm. However, once farmers got feedstuffs that contained bone meal from cattle, this of course gained major attention in the press.

Therefore, DFP is involved in more projects that are to ensure a far higher degree of foodstuffs security. Here, traceability is very important.

Differences and similarities

AFP and DFP are pursuing relatively different overall strategies: AFP is committed to high quality and DFP on cost minimization. The firms also differ when it comes to the role of management. The Australian firm is very much characterized by the family that owns the firm and the Danish firm by the values that are attached to the cooperative movement.

It is difficult in such limited space to sum up all the differences that are attached to the six firms and that is partly because of the corporate culture, managerial style and/or the national culture. Figure 9 sums up some of the most important factors

Figure 9

Characteristics of three Danish and three Australian firms

	Danish firms			Australian firms		
	Danish Steel and Plastics	Danish Brick and Concrete	Danish Food Processing	Aussie Steel & Plastic	Aussie Brick and Concrete	Aussie Food Processing
National culture	<ul style="list-style-type: none"> ▪ Individualistic ▪ Very low power distance ▪ Very low uncertainty avoidance ▪ Very feminine 			<ul style="list-style-type: none"> ▪ Very individualistic ▪ Low power distance ▪ Almost in the middle between high and low uncertainty avoidance ▪ Masculine 		
Corporate culture	”Craftsman influenced and order oriented”	Open and result oriented	Management and result oriented	Management and control oriented	Management and result oriented	Management and result oriented
Management culture	”Owner managed, informal and hesitant”	Effective and innovative	Efficiency and adjustment oriented	Development and adjustment oriented	Efficiency oriented	Innovation oriented
Business strategy	Order driven	Creativity and efficiency	Cost reduction	Solid and reliable producer	Better customer value though improved process	”Outstanding value”
Sourcing	Many and short-	Many and mainly short-	Many and short-term	Many and short-	Many and mainly short-term	Few and long-

strategy	term supplies	term supplies	supplies	term supplies	supplies	term supplies
Number of and changes in the supplier base	Many and unchanged	Many and declining	Many and stable	Many and slightly declining	Many and declining	Few and unchanged
Use of portfolio	No	Yes – common	Yes	Yes	Yes	Yes
Purchasing policy	Control oriented	Standardized and control oriented	Standardized and control oriented	TQM/control oriented	Standardized and value oriented	Cooperation and control oriented
Customers	Many; focus on price; attempts at changes	Many; focus on price; attempts at changes	Few; very focused on price	Many; focused on price	Many; focused on price	One; high expectations for price and quality

7. Conclusions and implications

The objective of this study is to show to what extent cultural and managerial factors influence enterprises' sourcing strategy. Below, key conclusions and implications are summed-up. However, it is important to clarify that the objective of this study first and foremost has been to identify relevant problems – not to present general statements.

Theoretical implications

The sourcing models (Saunders, 1997; Burt, Starling & Dobler, 2003; Ramsey, 1990; Shapiro, 1988) are based on some very general advantages and disadvantages between single (dual) sourcing and multiple sourcing. The study across the three different industries showed that there is a tendency to use fewer suppliers in all three industries in both countries. This fact reflects a global trend that has shown impact in both Denmark and Australia. However, the considerations as regards single sourcing within the three industries varied a little. Within the foodstuffs industry hygiene and traceability, for example, is very important and is closely connected to the considerations taken. The two other industries consider volume and various cooperative advantages to be important. Also, trade customs are still quite important. This fact is probably best reflected in the cases dealing with the building industry, where the employment of both local and national suppliers is very important in Denmark. The Australian construction company considers sourcing to be more or less synonymous with risk management. The Danish construction firm attaches only little importance to this aspect. In stead, it finds it important how the partnering concept can be developed so that it can be used in regards to sourcing. In other word, the firms have different understandings of competition and cooperation. In Denmark, cooperation is considered to be very important in order to understand the behavioural pattern; In Australia, this is not to the same extent the case. The attitude toward cooperation and competition may therefore affect the choice of sourcing strategy.

As an introduction, some propositions were made that has been illustrated by way of the cases. Not in all cases, it has been possible to reach an unambiguous clarification of the proposition, but in most cases it was possible to indicate where to look for the answer.

In all 6 cases, the employees were loyal to the corporate goals and strategies, cf. proposition 1. Thus, how to realize the corporate goals were central for all answers given. Only in the family owned Australian foodstuffs enterprise, the family's influence seemed to be so distinct that the employees' orientation towards the family had a considerable impact on their behaviour. This is probably more an expression of the family's participation in the operations of the business than a specific feature of the Australian culture. The fact that a similar feature was not found with the Danish iron and plastics firm, in which the family also participate in the operations of the business, is probably due to personality and the role that the family has taken in the firm.

Also, all cases showed a tendency to rather direct communications and access to decision making, cf. proposition 2. In all firms it was indicated that it was important to involve the employees in the decision process in order to ensure the best result. The degree of formalization is obviously closely connected to firm size, as there was a clear tendency to the large firms being more formal than the small. This is not at all surprising, as formalization is a well-known way of handling large quantities of information and complexity.

However, the three Danish firms obviously showed a certain distance or rather reservation towards formalization, cf. proposition 3. This was reflected in all three firms. It was most distinct in the smaller iron and plastics firm that has given up certification. Obviously, formalized systems were disliked.

As for proposition 4, it was not possible to get a clear picture of how stress is handled within the two cultures - first and foremost because of the method of study. The short-term stays in the firms, in which primarily interviews were made - not so much participation in meetings etc., did not make possible comments on stress handling within the two cultures.

It was only partly possible to give a clear picture of the way of decision-making in the two countries, cf. proposition 5. The two large firms within the building industry clearly had a tendency to top-down management. It was also so in the foodstuffs firms – especially in the Australian firm, the family ownership was very important. However, in the two iron and plastics firms, decision-making seemed to be different. The Australian firm considered the formal system to be very important, as described in the quality system, whereas the Danish firm had a far more informal tone and decision making. However, one cannot rule out that the relatively big difference in firm size – 25 employees compared to 80 – play a role for the difference.

The quantitative performance goals are important in all the firms. This is because the firms have different types of measuring systems that are actually used. However, the three Danish firms stressed that the process leading to the performance goals are quite central and that the employees' involvement and commitment is decisive.

Methodological implications

"If one makes rude remarks one must expect a rude reply". In this case, it is not so. Indeed, the questions were given in advance, but they were very open and did not indicate what answers were

expected! Therefore, some respondents were a little reserved at first, but as the interviews proceeded, the reserved attitude disappeared.

A way of ensuring a high degree of validity in future analyses would be to use attendee observation or to participate directly in the organizations' work. So, a more in-depth and well-founded knowledge could be obtained. It would, however, also be very time demanding and cost-heavy.

Another aspect to consider in connection with a follow-up on the study is a realization of a comparative project with a researcher from each country. This would boost the cultural sensitivity and provide a more reliable basis for the study. Especially, it would be possible to discuss possible interpretations/understandings and explanations on certain phenomena in more detail.

Marketing implications

Firms' marketing efforts must be seen in relation to the situation in which it is compared to the buying firm. Customers' sourcing considerations typically include the following (Burt, Dobler & Starling, 2003; Gadde & Haakanson, 2001):

- Choice of internal or external source
- Optimization of supply base
- Appropriateness of type of relationship
- Reviewing the supplier base

Internal or external sourcing is indirectly connected to the firm's purchasing strategy. The importance of various factors in connection with the choice of internal or external source is connected to the firm's attitude to competition and cooperation, and to the degree of cost focus compared to the degree of a more forward-looking value creation orientation. The attitude to these points will also be reflected in the firm's overall purchasing strategy.

The more competition and focus on price, the more important it is that the supplier adjusts in these points. However, if the buying firm is value creation and cooperation oriented, it is decisive that the supplier can meet these expectations. When choosing internal or external source, the supplier must be able to suggest some advantages that meet the buying firm's expectations, depending on the overall purchasing strategy. Considering the two cultures, it seems decisive that the contact to the buying centre in Australia includes a more direct influence of the final decision maker(s). This is because there probably is a tendency to make more extensive decisions on only an overall decision level in Australian firms than in Danish.

Danish firms tend to strive for consensus or at least agree more or less on specific solutions. Thus, it is important for the seller to swear in all or most members of the buying centre, before an order is finally placed. However, the need for consensus can be used constructively if, for example, a decision is against a seller, to work the members of the buying centre that have not yet made up their mind.

It is also important for the supplier to argue for in which way an external supplier (?) can benefit the buying firm's fulfilment of goals. As for the Australian firm, the question of the application of certain systems could be a decisive sales argument. As regards Danish firms this could also be the case, but the application of specific systems and their way of function should hardly be the main message. In stead, the supplier should state that he has kept his flexibility in spite of the systems.

Basically, it must be assumed that supplier evaluation systems are prevalent and applied in both countries. However, the importance of supplier performance analyses is expected to vary. In Australia the systems and the obtained results are considered to be of central importance. In Denmark, the supplier supervision systems are assumed to be perceived more reserved. There may be certain scepticism towards the systems in general and especially in relation to the performance goals that the systems produce. Thus, good performance can be a pretext for doing nothing compared to Danish buying firms, for whom it is more about finding out how the buying centre's members each perceive the supplier and his performance.

Conclusion

The above recommendations must all be seen as a basis for what e.g. a seller can do to be successful in Denmark or Australia. Factors were mentioned that can be important when determining the importance of culture and management style for a firm's sourcing. Concurrently with markets being internationalised and/or firms being acquired across countries, the national culture may be assumed to be less important. On the other hand, recent years' experience with integration of immigrants in e.g. Europe does not seem to have influenced the speed of which the cultural identity changes. Finally every company has its own culture partly molded by the employees in the company and partly by the surroundings of the company, and this has to be taken into account when engaging with a company located in another country.

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