

**Considering investments in supplier relationships –
The case of low-cost country sourcing**

Work-in-progress

Special track: The interface between B2B Marketing and Accounting

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Abstract

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The paper is based on a single case study. The case description is divided in two parts, one focusing on the company's overall activities and experiences in the area of low-cost sourcing and one that describes a particular relationship with a supplier producing in Estonia. The case presented is analysed with a focus on accounting principles connected to three coordination forms: market, hierarchy and relationship. The study illustrates some of the difficulties inherent in attempts to assess the outcomes and to govern the low-cost sourcing activities of firms, owing to the many boundaries that are crossed in these endeavours. Country boundaries, firm boundaries, relationship boundaries and time boundaries all require attention in attempts to capture the outcomes of low-cost country sourcing.

Key words: low-cost country sourcing, accounting, coordination forms, boundaries

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Introduction

In recent years, low-cost country sourcing has gained increasing attention in business as well as academia. Companies replace local suppliers with suppliers in low-cost countries such as China and India as part of their overall global strategies (Byrne, 2005; Fang and Axelsson, 2005; Trent and Monczka, 2005). For example, Vestring et al. (2005) reports that more than 80% of the companies in their study intend to shift their activities to low-cost countries and that about two-thirds of the companies had started various off-shoring initiatives. In the light of these developments it seems relevant to inquire into how companies assess the consequences of these changes. We have, in line with Håkansson et al. (2010) chosen to analyse this phenomenon from an accounting point of view, i.e. how do companies account for the (intended and actual) effects of low-cost country sourcing?

The aim of the paper is to explore how a buying company deals with low-cost country sourcing from an accounting point of view. In line with Håkansson and Lind (2004) we assume that accounting is intertwined with models of coordination: hierarchy, market and relational.

Hierarchical coordination relies on rules and formal power. The accounting methods to cope with hierarchical coordination include measures of costs, break even charts and ROI measures (ibid.:54). Market coordination relies on prices. In addition, comparison of costs and benefits for any given exchange is part of this logic (ibid.:55). For relationship coordination a purely dyadic approach can involve specific aspects such as costs, revenues, quality, cycle time and reliability of delivery. According to Caglio and Ditillo (2008) there is some consensus regarding market and hierarchical coordination while this is lacking for 'alternative archetypes of control'. Among the different approaches to relational coordination Håkansson and Lind (2004) suggest that relational coordination, in which coordination is not centrally orchestrated, is characterised by matching of plans and interaction to seek suitable solutions.

Low-cost sourcing as a phenomenon can be seen in the context of two larger trends in the business landscape. First, it is related to the wider *outsourcing* trend. Outsourcing is defined by Morgan (1999:90) as 'taking an operation or function traditionally performed in-house and jobbing it out to a contract manufacturer or a third-party service provider'. By specialising in a limited part of the activities, companies have been able to concentrate and improve their in-house activities (Quinn and Hilmer, 1994; Ellram and Billington, 2001). Furthermore, since the suppliers are performing similar activities to a number of customers they can gain from economies of scale and thereby increase the efficiency of their operations. In line with this Simchi-Levi, et al. (2003) suggest a number of advantages for outsourcing, including economies of scale, risk pooling, capital investment reduction, and increased flexibility. Second, Lewin and Peeters (2006:221), define *off-shoring* as 'locating activity to a wholly owned company or independent service provider in another country'. Low-cost country sourcing can, hence, be seen as a special case in relation to the general trends of outsourcing and off-shoring. From a coordination and accounting point of view, however, outsourcing and off-shoring may concern very different issues. When off-shoring concerns moving wholly firm internal activities it involves vertical relations within the firms and thus relates to what Håkansson et al. (2010) refer to as 'traditional accounting principles' (hierarchical coordination principles), while outsourcing, in contrast, concerns horizontal relations between firms (i.e. relational coordination).

The motives for low-cost sourcing initiatives are manifold. Economic incentives seem to be the most significant driver and expected outcome for firms who adopt a low-cost sourcing strategy (Lau, et al., 2006; Lynch, 2004). However, according to Araujo and Gadde (2009) efficiency seeking, through specialization and economies of scale, are not always the main motives for outsourcing initiatives, but the actual trend in itself, as a business recipe, can be a driver. This driving force sometimes result in that firms are paying less attention to thorough and rigorous analysis of the actual consequences of such decisions, especially whether or not the initiative pays off in terms of increasing efficiency. In studies reported by Hogan (2004) and Smyrlis (2006) parts of the actual costs of off-shoring were found to be neglected by the managers deciding on these investments. As a consequence of outcomes not living up to expectations, many companies have started to reconsider their investments in low-cost country sourcing, and started up in-sourcing projects instead. In a study of 1663 German companies, Kinkel and Maloca (2009) found that every fourth to sixth offshore activity of these companies had already been subject to, or were considered for, back-shoring. Hence, how to use accounting as decision support, and as a means to follow up on these decisions, may be of great importance for the success of these attempts.

Although each decision may concern a particular coordination form, or a change from one to another, every such change is part of a wider context in which a mix of all coordination forms co-exist. Håkansson and Lind (2004) point at two main challenges for accounting when there is a mix of coordination forms involved. First, relational coordination implies interdependence across firm boundaries that extends directly and indirectly to other relationships, i.e. dyads are not isolated. Second, the accounting methods often co-exist and therefore the ways in which they interface with one another is also a challenge. In the analysis of the case we will focus on how the accounting methods relate to the current mix of coordination forms and how the consequent challenges are dealt with.

The paper is based on a single case study of a company's low-cost country sourcing efforts. The description of the company's approach to low-cost country sourcing is divided in two parts, one focusing on the company's overall objectives and experiences in the area of low-cost sourcing and one that describes a particular relationship with a supplier producing in Estonia. The case is followed by analysis of the case with a focus on how the company assesses the costs and benefits involved in the low-cost sourcing efforts and how the ways in which they govern these efforts can be interpreted in terms of accounting and coordination forms. Lastly, the concluding section highlights some of the challenges for accounting practices in the light of the case.

Case study part I: The IMI Indoor Climate Group (IMI)

IMI is active in temperature control, heating and cooling systems and has around 2000 employees in Sweden, Germany, Switzerland and United States. Procurement at IMI has a decentralised structure with centralised coordination; almost all procurement activities are performed by local procurement offices, while the large supplier contracts, key customer negotiations, decisions about entering new areas, supplier conferences and other issues are handled by the central office. Regional offices in China, Vietnam, India, Czech Republic and United Kingdom are also used for supporting the procurement activities of the company all around the world through enhancing the communication and interaction with international suppliers. Having a low cost procurement (LCP) factor of zero in the beginning of the millennium, the company has taken a great interest in low cost country sourcing by gradually increasing this factor during the years. By setting targets for this factor, IMI quantifies its way towards the reduction of sourcing costs. Thus, all purchasing employees are encouraged to always keep an eye on this indicator.

Owing to economic incentives, IMI has performed several low-cost country sourcing projects. *"Before, a low-cost supplier would offer a 50% cheaper price: an offer that leaves no doubt in such outsourcing decisions"*, according to the purchasing manager. Lately, cash flow has also become an important factor for off-shoring decisions. As a rule of thumb, an outsourcing activity is considered beneficial if firstly the price is at least 30% lower than what current suppliers can offer, and secondly if the investment pays off in a maximum of 12 months. In order to calculate return on investment (ROI) a number of costs, revenues and capital items are considered, all values are converted to present value, and ROI is calculated as the ratio between profits (revenues minus costs) and the invested capital. The conversion to the present value takes place due to the fact that costs occur in different points in time during and after the project. In order to

identify if a country can be considered a low-cost source or not, IMI bases its decision, among other considerations in their business cases, on the salaries, the total working hours per year, and the average output per hour in each country. A number of monetary items used to develop these business cases are explained in the following paragraph. These items are among those that are used to calculate ROI for IMI's investments in low-cost country sourcing.

IMI makes business case analysis for each of its sourcing investments, where the costs and other impacts of such investments are analysed through a number of considerations including the price, the costs of audits, stocks, quality, logistics and transportation, duty, and benefits as the impact on the business, product development issues and expenses in a 3 to 5 year period. All varies over time and are only to some extent possible to influence by the company. For instance, the duty fees in some countries like China are very much affected by the amount of the company's exports from that country, and at the same time face a lot of fluctuations. In the past, IMI used a 19% discount enabled by its exports from China, while today, owing to the government decisions regarding duty tariffs, this discount has been reduced to 4-5%.

IMI handles its logistical activities through around 12 third party logistics providers, and has experienced an increase in the share of total logistics and transportation costs from 3 percent, a few years ago, to 6 to 8 percent. Transportation costs, quality issues, and duty fees are included in the logistics and transportation cost category for IMI, while leaving the insurance costs aside for gaining economies of scale by using the IMI group's insurance contracts.

Among all of IMI's off-shoring and low-cost country sourcing projects, three are considered of particular importance: moving with a supplier from Sweden to Estonia, outsourcing from the United States to China, and establishing a production plant in Poland. In order to analyse the outcomes of these attempts, an evaluation model is being developed by the company. Stock levels, cash flow, time to market, and lead times are the set of the currently identified key performance indicators (KPIs) of IMI. The purchasing manager emphasizes the significance of lead times: *"In Sweden [the delivery of an order] might take 3 to 4 days with satisfactory design, supply and quality, while a supplier in China needs 2 to 3 months for receiving the order, manufacturing, internal assembly, quality check, delay in the harbour, transportation, duty, and so on, and the quality is not as good as the Swedish suppliers'."*

Hence, taking advantage of low prices comes with augmented indirect purchasing costs. Longer distances incur increased logistics and transportation costs. Management and employees have to allocate time to spend with the new supplier, and supplier development teams have to take costly trips to ensure the quality of the supplies. IMI has experienced these extra expenses together with a variety of obstacles and problems with their low-cost sourcing projects. A primary set of problems include increased lead times. This is not limited to delivery lead times, but also involves the time required to change the production flow or specifications. The purchasing manager says that: *"A Chinese supplier would change its production flow in 3 months, a task that is done by a Swedish supplier in a week."*

Furthermore, a lot of quality issues have had to be solved with new suppliers. The purchasing manager has experienced that the defects rate for a Chinese supplier hardly reaches the specified limit at the times of direct inspection, and then continuously drop as the time passes the inspection dates. He explains this by lack of suitable knowledge among the suppliers and the difficulties in buyer-supplier interaction. Among the difficulties in interacting with the new

suppliers is that the employees seldom speak English. Although the regional offices are used for different types of support including translations, the interactions within these relationships are still not as smooth as expected and as they are used to with Western European or American suppliers. Moreover, having English-speaking employees entails extra costs for the suppliers, and these costs are directly charged on IMI's account.

A further hindrance for their low-cost sourcing attempts has been financial issues. Increasing costs, and thus prices, in low-cost countries are making them less advantageous. For instance, in China due to the government's controls, the price of copper is 35% higher than on the European market. In addition, exchange rate fluctuations and inflation in these countries aggravate these difficulties. As an example, a while ago when the Polish Zloty was getting stronger and stronger against the Swedish Krona, the situation was getting hard for IMI's activities in Poland. However, this rate returned to the balance later on.

IMI is currently moving further in its cost reduction efforts, and as its new strategy pursues both Low-Cost Procurement (LCP) and Low-Cost Manufacturing (LCM). This means that for their LCM efforts, they are not only considering low operating costs, but also the possibilities for procuring in low-cost countries for their manufacturing plants located in such countries. The purchasing manager of IMI believes that taking into account the logistical considerations (including the extra transportation, the lack of agility in relation to some distant sources, and the increased employed capital), LCM and LCP in Asia and other distant places cannot be the future, except to serve the local markets in those regions.

The financial crisis has also influenced the low-cost country sourcing decisions of the company. The 55% increase in the US Dollars exchange rate from April 2008 to March 2009 made Sweden a less expensive country. Furthermore, regarding the higher flexibility of Swedish suppliers, production in Sweden now seems much more beneficial. However, due to the yet reasonable prices, Mexico and some other South American countries are candidates for further low-cost country sourcing activities. As a solution to the devaluation of production and sourcing in some emerging economies IMI uses consignment stocks for some suppliers. Consignment stocks means that the suppliers own their delivered products kept at IMI's warehouses until they are used. Through this the piece price increases to some extent, while the total costs and the tied up capital is decreased.

Another important consideration for IMI is 'supply chain agility', which deals with the ability of the firm to change suppliers fast in accordance with changes in the economy. This is motivated by changes on the country level that makes the economic feasibility of sourcing in different countries change over time. Another solution to the problems induced from the financial changes is the dual sourcing strategy, in which the supplies are procured from two different suppliers, e.g. on a 30%-70% basis, in order to balance price and maintain quality over time. Then, in cases of price increase or quality decrease by one of the suppliers, the balance is changed in favour of the one with the cheaper or higher quality offer. This solution is already applied in several cases, such as for Chinese suppliers who are demanding price increases. These suppliers' share in the dual sourcing is being decreased in favour of the Swedish suppliers that have been kept in business relationship with IMI from the past through the dual sourcing.

Case study part II: Outsourcing and sourcing from Estonia

Until the end of the 90's, the glaring economic figures of IMI had left little room for them to see any need for reducing costs. The company was very much focused on procuring in Sweden and the situation looked very stable. In the beginning of 2000, however, the raw material price increase made a lot of companies start reconsidering their sourcing strategies. The economic pressures of that time acted as a boost for several companies to seek suppliers with cheaper offers all around the world. Following this trend and their new president's interest in developing production and sourcing in low-cost countries, IMI also put a start to this search. Eastern Europe was their main area of interest, where they analyzed several countries in terms of economic situation, inflation, wages, economic forecasts, and so on.

A few years earlier, an experienced Swedish supplier to IMI's TA business, producing 20 to 30 parts for IMI since the 1960s, decided to move their production to Estonia, seeking lower labour costs, and became one of the first Swedish companies producing in Estonia. The question for IMI was if more activities could be outsourced to this supplier. After the supplier's showing interest in extending the business relationship, IMI decided to use them as a low-cost source for the machining and assembly of a large number of items that were previously subject to in-house production by IMI. By having their own old supplier relationship in place, they saved a lot of money and time through using the experiences of this supplier for estimating the production costs, time, and to solve various issues.

A joint project started together with the supplier in 2001, wherein the management was highly involved. A variety of engineering activities were carried out jointly, including preparing and updating all drawings, developing specifications and requirements, making assembly layouts, identifying the required machinery, moving tools and machinery, designing the quality assurance processes, and so on. Almost 1000 parts were included in the project and several problems occurred that aggravated the complexity and time consumption. This huge project ended up in a high involvement supplier relationship with daily or weekly contacts among all organisational levels. Starting at 2001, the partnership took two years to build and to prepare all of the requirements for the production including designs, training, shop floor preparations and so on. IMI played the most important role in developing the new production set-up among the supplier's customers.

Nonetheless, lack of some resources made both companies delay parts of the project, for instance the supplier's attempt to find a project leader took a few months. In 2003 the production started in Estonia, and 2004 was the year in which the required capacities were met. This 3-year low-cost country sourcing project, which is considered as IMI's all-time largest, faced the change of the project leader 12 times. Lately, to overcome the cash flow problem, and when realising that the supplier had consignment stock contracts with some of their other customers, they also asked for it as a part of the deal. The purchasing manager refers to the challenges of the project as: "*It was huge and complex with 1000 part numbers involved. It was like a liver transplant.*"

In order to decide which of the parts to outsource to Estonia, a number of criteria were involved including the size of the parts, their applications, the customers for the parts, and so on. The production in Estonia is an intermediary part in the total production flow of the related IMI products. The raw material is bought by IMI from Swedish suppliers and directly shipped to Estonia. After the production and assembling in Estonia, the products are shipped to TA's facilities in Sweden for some final operations and packaging. Making for around 9% of TA's procurement volume, this supplier is its most important supplier in terms of expenditure. In

addition, the position of the procurement function has changed as a result. According to the purchasing manager of IMI, the change can be seen as shift from an administrative function focused on buying the raw materials to a more advanced function with a wider set of requirements including, for example, engineering, planning and purchasing functions.

A series of different issues were considered for making this decision. Costs were the most significant part of the considerations among which the supplier's quotations were the main decision-making criteria. These quotations were compared to the perceived costs of the operations required for the production of each item before the outsourcing. However, over time, the changes in the raw material prices affect both these quotations and the possible costs of finished goods for IMI had these items had been produced in-house. In addition, costs for education and the time spent by the project team were included in the total costs of the project. In order to ensure the quality the level of involvement is maintained high, which in turn incurs extra costs of having employees with different skills available all the time. Several trips are arranged regularly for the managers and other employees, which indicate a lot of time and travel expenses. Moreover, the inventory turnover rate and the return on investment are influential factors for the outcome. The inventory turnover was aimed to reach 8 to 10 times, while it only reached 4 and is increasing to 5.5 times.

Logistics were another cost category of the project. The increased transportation led to a rise in total logistics costs and lead times. IMI considers these lead times as part of the production time and delivery performance, and the effects of the increased transportation are considered as a part of the total lead times. In some cases a number of steps were added to the flow of raw material to be shipped to the factory for casting or to another Swedish supplier for heat treatment, and back to Estonia for assembly or other production activities. Since 2001, when the project started, the lead times have been improved as a result from joint improvement of processes. This is why the purchasing manager believes that it is difficult to specify the lead time changes resulting directly from this low-cost country sourcing project. At the moment, the average lead time for TA's products is 3 to 4 weeks.

Among all included considerations, the purchasing manager believes that there have been several ignored or underestimated costs. For example, the project was supposed to take up to a year, but in practice it took between 2 to 3 years, meaning a high amount of extra unexpected costs. As another experience from this project, the quality costs were also underestimated. Today, the quality is measured in parts per million units, while by the time of the project the quality was not measured as accurately as it is done now. This added precision is seen by the purchasing manager as a positive effect of this project.

In order to evaluate the effects of the project, IMI plans to develop an analysis model. While previously the piece price was the main criterion for such analysis, the need to consider more issues has made the company look for a more comprehensive model. For instance, to achieve 'lean' material flows, which IMI is aiming at, suggests as small batch sizes as possible in order to enhance the production and replenishment, while from a logistics and transport cost point of view the bigger the batch sizes are, the more efficient. Solving the contradiction between these conflicting objectives requires a broad analysis model.

Owing to the recent financial crisis, IMI started reconsidering several of its activities including the outsourcing to Estonia. Their analysis has showed that moving activities from the Estonian

supplier to the (IMI's) Polish factory would lead to a large amount of savings. However, such a change would require another 2 to 3 years, which instead made IMI's managers restart their negotiations with the supplier in Estonia. They managed to lower the price and by that returning to a cost/benefit balance. IMI promised to help the supplier by other means such as increasing their access to their engineering resources and by helping them with re-engineering and other tools for cost reduction, but they earned the price decrease at this crucial moment. The purchasing manager sees the reasons of this success in this way: *"Everyone is going down in business. You have the factories, you have the space, and you have the people. So what you are doing the outmost is to keep your business."*

Although 'returning' to the previous situation is not an option, the purchasing manager finds it interesting to continuously monitoring the possibilities for in-housing. This is due to that the parameters changes over time. Moreover, he considers the dependence resulting from this relationship as a negative consequence, which is making the 'return' option more interesting. He expresses it as: *"Now we are very dependent on this supplier, and it is not so easy to change it. How could we ever find a new supplier at the same level?!"*

When it comes to viewing the project as an investment, the purchasing manager finds it very helpful to have a 'white book' including all of the details of the costs and gains, and they normally perform such calculations for their other projects. However, the project has not been analysed to assess its financial outcomes as compared to its total costs. The purchasing manager believes that such an evaluation would be very helpful in case of aiming for a reconsideration of the in-house production option. In his opinion, however, the knowledge and experience gained from the project, which can be used in future projects, is more important than the direct costs and gains. According to him, their success in off-shoring production to Poland is, undoubtedly, among the results of the experience that they have gained through the project in Estonia.

Case analysis

The case illustrates several interesting aspects when accounting for the effects of low-cost country sourcing initiatives is concerned. We draw on Håkansson and Lind (2004) who relate accounting to coordination forms: market, hierarchy and relationship. All three forms seem represented in the practices of IMI in relation to the way they govern their efforts and how they assess the outcomes of their attempts to succeed with low-cost country sourcing. The coordination forms can be related to different levels of analysis. Here, the country level, the company level and the relationship level seem to be the main ones. There are, however, also apparent links between the different levels and coordination forms stressed by the accounting principles applied.

First, working with the LCP (low cost procurement) index as an indicator of the 'success' of the IMI group's low cost sourcing ambitions is based on the general 'market' assumption that the higher the extent of low-cost sourcing the more beneficial for the firm since the cost of producing in these countries are very low. The latter is reflected in the price levels while a set of indirect purchasing costs such as additional logistics and transportation costs arise. However, an interesting boundary issue appears in that the general economic conditions, and regulations that influence the costs, in the different countries in which the company is active, change over time. Considering the three broad activities of sourcing, production and marketing, and how these are distributed or located in different countries make the company more or less vulnerable to these

economic fluctuations and changing regulations. Hence, while the general economic conditions in these countries cannot be affected by the company, it has to deal with how to link, and where to locate, its sourcing, production and marketing activities to cope with these changes. Firm internal concerns such as exploiting on economies of scale and reducing certain indirect costs following from having these activities located in different countries also need to be included in these considerations. The dual sourcing situation that is used in relation to some suppliers has been created in response to, and as a means to cope with, changing economic conditions. The cost of maintaining two relationships instead of one does not seem to be part of the cost assessments. The dual sourcing situation in this case not only concerns the indirect interdependence between the two dyads but is also conditioned by developments of the general economic conditions in the two country markets.

Second, the ‘market logic’ in using the LCP as an overall performance index is also transferred to the level of assessing the outcome of individual relationships with suppliers in low-cost countries. Here, the ‘agility’ in terms of being able to change suppliers fast is stressed by the company. However, at the relational level, the key performance indicators (KPIs): stock level, cash flow, time to market and delivery lead-time mainly concern relational coordination and thus require interaction and investments in individual supplier relationships in order to perform well. An interesting aspect of relational coordination in this case is that by introducing consignment stocks (as an adjustment made by the supplier in the specific relationship) three of these KPI’s are ‘taken out’ of the relationship performance since the stock levels, delivery lead-times and cash flow concerns are transferred to the supplier in exchange of paying a higher price.

Third, the relationship accounting practised in the case of the Estonian supplier is interesting in light of the overall abstract ‘market’ considerations. The positive and negative consequences of interdependence are key aspects in this case. Here the relational investment logic is striking in that IMI have invested a lot of efforts over a long time period to make the relationship with the supplier function well in order to benefit from the lower costs of producing in Estonia compared to in Sweden. Moreover, the change took place within an already established supplier relationship that was further developed as a result from the move of the supplier’s production activities to Estonia. Learning from supplier interaction is also among the relational aspects involved in the case and put on the ‘benefit’ side of the assessment of the project. On the cost side of the informal ‘calculations’ made are also a set of unquantifiable and unanticipated indirect costs such as extensive interaction in order to solve different problems. However, when at a later stage reconsidering the outsourcing to the Estonian plant, insufficiently utilised in-house capacity in IMI’s Polish factory became an important factor. Herein the scope of consideration was expanded to include new aspects and a mix of relational and hierarchical coordination concerns.

Some of the key accounting aspects of IMI’s low-cost sourcing efforts are summarised in Table 1.

Accounting ‘principle’	Coordination form(s)	Factors/dimensions considered
LCP	Market- hierarchy	Extent of low-cost sourcing
KPI	Market – relationship (price – indirect purchasing costs)	Stock levels, time to market, delivery lead-times, cash flow
Relationship investments	Relationship - hierarchy	Time and effort spent on interaction with the supplier Utilisation of the in-house capacity

Table 1: Key accounting principles, coordination forms and factors considered.

Concluding discussion

Håkansson and Lind (2004) stress two challenges in accounting when analysed in view of the different coordination forms. First, relationships are not isolated but interdependences extend beyond the scope of individual dyads. Second, the mix of coordination forms calls for interfaces between the accounting principles associated with them. The case illustrates both challenges, in particular with regard to how the company deals with interdependence. Maintaining an ambition to stay independent from individual suppliers, and thus considering the cost side of interdependence with a 'market logic', the company at the same time invests a lot of resources in supplier relationships in order to reap benefits of relationship specific adjustments over time. Aiming for low prices, swift and uncomplicated supplier changes while at the same time investing in making the relationships efficient is apparently not an easy equation. In addition, accounting for the effects is also complicated when time is concerned. For instance, the benefits of out-sourcing compared with in-house production may change over time as a result from general economic fluctuations and changing regulations. Also, the opportunities to compare a situation with a previous situation become increasingly difficult as time passes.

The aim of the paper was to explore how a buying company deals with low-cost country sourcing from an accounting point of view. The case presented illustrates some of the difficulties inherent in attempts to assess the outcomes and to govern the low-cost sourcing activities of firms, owing to the coordination challenges and the many boundaries that are crossed in these endeavours. Country boundaries, firm boundaries, relationship boundaries and time boundaries all require attention in attempts to capture the outcomes of low-cost country sourcing.

Based on this exploratory study of one company's low-cost country sourcing efforts we suggest that further studies of sourcing decisions and their consequences would benefit from a deepened understanding of the applied mix of accounting principles and the relation to coordination forms and the various boundaries crossed in these endeavours.

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