

From Domestic to International to Global Sourcing: An Alignment Issue

By Tomas Hult, David Closs, and David Frayer

Executive Briefing: The core of the article illustrates the disconnect that exist internally in multinational corporations between top management and purchasing managers in the area of sourcing, especially international and global sourcing. There is a misalignment here that needs to be carefully worked out to leverage strategic sourcing the best possible way in corporations. This article is based on material developed for one of the sections of the 2014 business trade book titled *Global Supply Chain Management: Leveraging Processes, Measurements, and Tools for Strategic Corporate Advantage*, authored by Tomas Hult, David Closs, and David Frayer.



Sourcing can reap advantages by strategically being more global. But how global and who leads the charge?

In 2005, Robert Trent and Robert Monczka wrote an article in the MIT Sloan Management Review in which they discussed how to achieve excellence in global sourcing. They made a strong case that global sourcing is an increasingly popular business strategy, but one that is difficult to execute. They argued that organizations which have developed outstanding global sourcing strategies are exemplified by seven characteristics. These include: (1) executive commitment to global sourcing, (2) rigorous and well-defined processes, (3) availability of needed resources, (4) integration through information technology, (5) supportive organizational design, (6) structured approaches to communication, and (7) methodologies for measuring savings.

Each of these characteristics – or clusters of characteristics as Trent and Monczka prefer to call them – is detailed in their article and relatively straightforward to understand (and beyond the scope of this Intelligence article). However, an important point that Trent and Monczka make is that very few, if any, organizations exemplify all seven characteristics. Instead, the seven characteristics should serve as benchmarks to use in developing strategic global sourcing in organizations. In addition, to help organizations better understand resource commitments, time allocation, and sourcing practices that may extend organizations globally, Trent and Monczka introduced a continuum of five levels of sourcing and shared data. They based these levels upon the expectations in the next five years, ending in about 2010 since their article was published in 2005.

Using their five levels, we update Trent and Monczka's data to today and also provide forecasts (based on real data analysis) for the next five and ten years, respectively. We believe that this form of benchmarking of the current time period (today), near future (five years from now), and somewhat distant future (ten years from now) provides a great set of criteria for companies to use in developing their own global sourcing practices.

Let's start by highlighting the five levels of sourcing. Level I is simply companies engaging in domestic sourcing activities only. Often, these companies also stay close to their home base in their domestic market when sourcing raw materials, component parts, and so on for their operations (e.g., a Michigan firm sourcing raw materials such as cherries from another Michigan firm to make chocolate-covered cherries for the consumer market). Other times, they use their home country's market to purchase needed input into their production process, but they do not venture outside their own home country. The next four levels of sourcing engage in different degrees of international purchasing and global sourcing activities.

Levels II and III are both considered "international sourcing" but of various degrees and forms (labeled international purchasing by Trent and Monczka). Level II is engaging in international sourcing activities only as needed. This means that companies employing this approach to international sourcing are often reactive and uncoordinated between their own buying locations in the firm and/or across the various units the firm is composed of, such as strategic business units and functional units. Level III is engaging in international sourcing activities as a part of the firm's overall supply chain management strategy. As such, at the Level III stage, companies begin to recognize that a well-formulated and executed worldwide international sourcing strategy can be very

effective in elevating the firm's competitive edge in the marketplace.

Levels IV and V are both "global sourcing" in various degrees. Level IV refers to global sourcing activities that are integrated across worldwide locations. This involves integration and coordination of sourcing strategies across the firm's buying locations worldwide. With Level IV we are now dealing with a sophisticated form of worldwide sourcing. Level V is engaging in global sourcing activities that are integrated across worldwide locations and functional groups. Broadly, this means that the firm integrates and coordinates the sourcing of common items, sourcing processes globally, and supplier selection efforts, for example. Trent and Monczka argue that only those companies that have a global design to their supply chain management can progress to Level V. Similarly, our take on this is that without global logistics, global operations, and global market channels that work well, global sourcing at Level V will not be achievable. It is critically important to integrate and coordinate efforts in logistics, operations, purchasing, and market channels to maximize global supply chain management.

Comparing Views of Sourcing Professionals and C-Suite Executives

Let us now move to some data for domestic, international, and global sourcing for today, five years from now, and ten years from now. Using data from a sample of 781 U.S.-based multinational corporations, this is where it gets interesting. It is intriguing simply to look at data to see where companies think they are heading in the next decade. But we thought we would take this up a notch by comparing data collected from sourcing professionals and so-called C-suite executives also from the same companies. A professional working in the trenches in a field such as sourcing may have a different view of his or her home field than the top level managers in the firm. The C-suite executives are the companies' top-level executives whose abbreviated title begins with C. In other words, this pertains to those with titles such as CEO (Chief Executive Officer), COO (Chief Operating Officer), and CFO (Chief Financial Officer).

For the sample of sourcing professionals (e.g., purchasing manager, sourcing manager, corporate buyer, senior buyer, contract manager), we find that the results are relatively steady over the next decade. Clearly, there is movement in some levels, such as

Level I with its focus on purely engaging in domestic sourcing activities. In Level I, we forecast a downward trend from 33 percent of the companies engaging in only domestic sourcing today to 26 percent in ten years. Level II is predicted to be very steady at roughly 22 percent of the companies engaging in international sourcing activities only as needed. The same goes for Level IV (global sourcing activities integrated across worldwide locations), where we will see about 15 percent of the companies allocating their sourcing efforts over the next decade. The changes of any significance based on the input from sourcing professionals will mainly be in the Level III and Level V categories. This means that companies will actively engage more in international sourcing activities as a part of their overall supply chain strategy (Level III) and they will also engage in more concerted efforts in terms of global sourcing activities that are integrated across worldwide locations and functional groups (Level V). On the former, we will see movement from 16 to 21 percent in the next 10 years, while a forecasted upward trend for Level V will take us from 14 percent to 18 percent in the next decade.

Now the comparison starts! For the sample of C-suite executives (e.g., CEO, COO, CFO), the results are dramatically different and much more global. Let's keep in mind that we are talking about the same multinational corporations here; basically, the idea is that the results should be the same if the C-suite executives and sourcing professionals are aligned with each other and have a common strategic view toward sourcing as a part of their global supply chains. What we find is that the C-suite executives' understanding of today's sourcing in their companies involves somewhat minimal domestic sourcing only (9 percent) and then roughly an even amount of Levels II, III, and IV types of sourcing, with Level V being engaged in this intensity about 30 percent of the time. The most remarkable story from the C-suite executives' feedback is that – based on all data collected – we predict that C-suite executives expect a movement

Sourcing professionals say that 29% of their sourcing activities are global today while their C-suite bosses think it is 49%.

to some 61 percent being engaged in global sourcing activities that are integrated across worldwide locations and functions in ten years. This is a significant increase from their views of today –

which shows 30 percent at this Level V category, which is already significantly higher than that of their sourcing professionals at 14 percent.

A few more comparisons between C-suite executives and sourcing professionals may be in order. After all, C-suite executives often set the tone for what the firm does in terms of strategy. While we argue that

Sourcing Activities: The View by Sourcing Professionals

			2013	2018	2023
Domestic Sourcing	Level I	Engage in domestic purchasing activities only	33%	23%	26%
	Level II	Engage in international purchasing activities only as needed	22%	23%	22%
International Sourcing	Level III	International purchasing activities as a part of SCM strategy	16%	20%	21%
	Level IV	Global purchasing activities integrated across worldwide locations	15%	15%	13%
Global Sourcing	Level V	Global purchasing activities integrated across worldwide locations & functional groups	14%	19%	18%

Sourcing Activities: The View by C-Suite Executives

			2013	2018	2023
Domestic Sourcing	Level I	Engage in domestic purchasing activities only	9%	5%	5%
International Sourcing	Level II	Engage in international purchasing activities only as needed	23%	15%	12%
	Level III	International purchasing activities as a part of SCM strategy	19%	15%	12%
Global Sourcing	Level IV	Global purchasing activities integrated across worldwide locations	19%	13%	10%
	Level V	Global purchasing activities integrated across worldwide locations & functional groups	30%	52%	61%

Sourcing professionals predict that 31 percent of their sourcing activities will be global in ten years while their C-suite bosses are thinking it will be 71%.

supply chain executives should have a seat at the table when corporate strategy is discussed, decided on, and implemented, this is of course not always the case. But, thankfully, more and more companies involve SCM executives on corporate boards and corporate leadership teams today compared with the 1990s and early 2000s. Ideally, we would see at least one person on the board representing each of the four core areas of supply chain management – logistics, purchasing, operations, and market channels (oftentimes, we see the latter two functions being represented but seldom the first two, and that needs to change for effective global strategy development and implementation).

Aligning Sourcing Views, Goals, and Strategies

What we see now is a relative disconnect between C-suites and sourcing professionals. This is remarkably well illustrated by the fact that even what is going on today is not clear. For example, C-suite executives think that Level V global sourcing takes place roughly twice as often as the sourcing professionals do (30 percent versus 14 percent). This difference deals with both definitional boundaries and practical understandings of reality. That is, C-suite executives may simply define certain sourcing activities as more global than do their counterparts in sourcing. This definitional explanation gets us to some of the differences. Unfortunately, the differences also include the fact that one or both groups of firm employees may underestimate the level of global sourcing if they are not directly aware of each sourcing activity. In either case, alignment and coordination across hierarchies in companies obviously have to improve to make sourcing more strategic, aligned with firm objectives, and beneficial within other supply chain functions. ***The key issue for companies is not only moving from domestic to international to global sourcing, when strategically valuable, it is also moving from misalignment to alignment of views, goals, and strategies by sourcing professionals and C-suite executives.*** ♦ gBR Article 08-01, Copyright © 2014.

Source

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