Assessing the Global Dimension of Sourcing: An Exploratory Study on Italian Companies

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***Abstract*— Companies are paying a growing attention to volatility in the supply chain and many manufacturers are reassessing their global sourcing strategies. This paper try to investigate if multinationals are retreating their approach to a hemispheric, near-shoring model or are opting for a hybrid that maintains an international component. Furthermore the authors highlight the current challenges for Chief Procurement Officers facing risks and evaluating total costs along the global supply chain. The authors have reviewed both practitioner's and academic literature, exploring the main trends in the global approach to supply markets and the trade-offs that could affect strategic sourcing decision in the near future. The main result of this research is in the fact that companies, in their approach to global supply management have shifted their focus from low-cost-country sourcing to "best cost" country sourcing or "best value" country sourcing, two approaches that evaluates a range of factors besides just labor costs.**

***Keywords*—** *global sourcing; purchasing strategy; Italian companies.*

1. Introduction

The phenomenon of global sourcing is often analyzed jointly to the globalization of production and sales. Companies, in fact, seem to follow a process of gradual globalization of all their functions in search of new competitive advantages. Firms shall adopt, in fact, different configurations of global sourcing and global distribution (defined as the sale and distribution of products outside the country). The data analysis of the International Manufacturing Strategy Survey [1] shows how there is a majority of companies (65%) which operates predominantly locally and a small portion (6%) of companies strongly globalized. The latter are also companies with globalized production networks. The remaining companies are divided into those that either have a high level of global sourcing (10%) or global distribution (19%). Of course, companies can over time change their strategy of purchasing management.

The well known Swedish furniture retailer IKEA, for example, was initially focused on supply management at the local level: business development (through entry into new markets and diversifying into new products) led to change sourcing strategies as well as those corporate summarized in offering quality products at an affordable price. In particular, the company due to problems of capacity and relationship with its suppliers, which were proving less and less cooperative in lowering prices as requested by their client, started researching suppliers first in Europe, starting from East, then in China and the Far East and, finally, in the United States. The search for vendors in this region has followed the local opening of new stores [2].

A further aspect concerns the fact that global sourcing is not a trend followed uniformly by all businesses. Especially in recent years, even facing the acceleration of certain processes due to the crisis, there has been a slowdown in some areas of internationalization processes, up to the reversal of this trend. Often we refer with the term 'back-sourcing' (or outsourcing back-shoring) to the phenomenon that some companies 'abandon' the foreign supply markets to return to a more local supply base [3]. The reasons that can lead to this phenomenon are different, even though it may in fact be summed up in a loss of affordability of overseas supplies or in the difficulty of management of foreign investment.

The practice of global sourcing can be implemented in very different ways. First, we can distinguish between the situation where a company decides to outsource an entire production activity abroad and one in which the company buys one or more products or services from a foreign supplier. In the first case scholars and practitioners usually speaks of off-shoring.

There are many cases in recent years of companies that have resorted to this type of investment. Consider, for example, Fiat-Chrysler Automobiles, Renault, or other car manufacturers, who have relocated part of their production in Eastern Europe countries through investments in production facilities in these areas (sometimes retaining sole ownership, other times in forms of joint-venture).

The World Investment Report [4], which studies the flows of productive investments among countries, reports a growing trend in recent years,

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although there is a strong correlation with economic cycles that can sometimes lead to trend reversals. In the international scenario, Europe is the continent that sees more incoming and outgoing flows.

In case of direct purchase from foreign suppliers, we talk about *global sourcing* in the narrow sense to refer to the supply of raw materials or components, or of *global outsourcing*, in case of purchasing of production capacity.

Of course, the line between these two areas is not fully demarcated and thus we treat them jointly. While the phenomenon of back-reshoring of operations is being studied scholarly and a relevant data-base has been created and used for research [5], [6], there is still a lack of academic research, particularly in Italy, about the (eventual) decision of relocation of global sourcing activities and its antecedents.

Thus this paper is concerned with assessing whether and how the "global" dimension of sourcing is still a feasible and effective path for leading companies. Specifically, this paper debates the following three research questions:

1) under which conditions and with which degree of awareness of risks and costs have industrial companies relied on global suppliers?

2) Considering that cost saving is still the main reason for the scouting of foreign suppliers especially in low-cost(wage) countries, what kind of management tools (if any) are actually used to effectively measure and monitor the total cost of global supplies in order to evaluate the real convenience of global sourcing?

3) Is the return to domestic supply base or nearshore sourcing an option considered for the future?

The research methodology is qualitative and based on a focus-group organized in May 2014 with the Chief Procurement Officers of seven leading Italian manufacturing companies which operates globally, some with production and sourcing activities, some only with sourcing activities. A preliminary and exploratory part of the results of this focus group will be summarized in this paper after the presentation of the theoretical background.

2. Globalizing Operations and Supplies: a Theoretical Background

For more than twenty years, deciding where to build a manufacturing plant to supply the world or where to find global suppliers to source from was quite "simple" for many companies [7]. Unsurprisingly, the underlying principles of Adam Smith's book 'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776) provided a simple, yet convincing explanation for why economies as a whole, and individual companies in specific, should engage in international trade: arguments have subsequently found their way into the Operations and Procurement Management domain, where they have been applied to three streams in the literature, representing some of the most fundamental decisions that purchasing and production managers face [8]. The first decision relates to the value adding tasks to be performed by a firm, known as the so-called 'make-or-buy' decision [9] or under the term 'outsourcing' [10]. Secondly, once decided what to keep in-sourced, managers need to decide where to locate the operations to perform these tasks [11], [12]. Thirdly, managers need to decide where to source the required parts and/or services that are not produced in-house [13], [14].

In this period manufacturers have viewed offshoring as a necessity—one virtually mandated by the price demands of customers and by the cost advantages of competitors that had already aggressively off-shored. Most larger companies today engage in global sourcing in some form and to some extent [15]. The rationale for offshoring (either for in-sourced products or out-sourced supplies) was, in fact, a rather straightforward economic one. Suppliers in low cost countries (LCC) such as China have been able to offer "perceived" prices 25 to 40 percent lower than those available on shore—the typical threshold or tipping point for moving off shore. These reduced prices were made possible by low labor costs, cheap commodities, and favorable exchange rates [16].

Global companies (MNCs) adopt dynamic strategies towards the global configuration of their activities and, for this reason, divestment and new investments go hand in hand [4]. This type of companies govern a complex internal system of interlocking value added activities positioned across countries. This system evolves continuously, with expansion in one sector or territory sometimes accompanied by contraction in another. The composition and organization of value added activities by a MNC change continuously to respond to exogenous environmental, technological and social factors, as well as new endogenous strategic priorities. The key forms of strategic positioning are defined in the table 1.

Table 1. Terms and definitions for global strategic positioning

Off-shoring
It's the process of transferring part or all of the value added activities conducted by a company from the home country to another. When it engages in offshoring, the firm maintains ownership over activities conducted overseas. This differs from offshore outsourcing, which involves purchasing products or services from

another firm located overseas [4]
Relocation
It is the movement of existing assets, resources and people from one location to another. It can be linked to divestment. Companies may decide to relocate all or part of value added activities in response to new environmental conditions or to reflect new strategies adopted by the firm. Relocation can take place within a host country, across borders to a new host country or back to the home country of the company [4]
Nearshoring
It is the process of positioning all or part of the value added activities in a country that is geographically, economically and culturally close to the country of origin of the company
Back-shoring
It is the "Re-concentration of parts of production from own foreign locations as well as from foreign suppliers to the domestic production site of the company" [17, 155] "The geographic relocation of a functional, value creating operation from a location abroad back to the domestic country of the company" [18, 156], [5]
Reshoring
It is the process through which a MNC relocates all or part of value added activities conducted abroad back to the home country of the company [4]
Back-sourcing
It is the "production return relocation from an [...] external entity" [18, p. 156] *for (Out-sourced) manufacturing activity abroad (partial vs. total)*

Now, however, a combination of economic forces is fast eroding China's and other LCC's cost advantage both as an export platform for the North American and European markets and as a low-cost supply source. Meanwhile, Germany, France, Italy, UK and, mostly, the U.S., with an increasingly flexible workforce and a resilient corporate sector, is becoming more attractive as a place to manufacture many goods consumed on this continent. Indeed, many manufacturing and procurement executives now recognize that quality problems, longer supply chains, lack of visibility, piracy and intellectual capital theft, are also part of the off-shoring operation, meaning that not all of the 25 to 40 percent off-shore sourcing savings goes to their bottom line. Moreover, working capital is increasingly tied up in inventory trapped on slow-steaming ocean transit and in safety stock held at distribution centers. Innovation also suffers from the physical, and sometimes cultural, distance between manufacturing and design operations. "Over time, the balance of labor shifted and the unemployment rate in the wealthier countries soared to new levels" [6, 382] (see table 2).

Table 2. Factors that generate the need to reconsider manufacturing location and advantages of nearshoring or reshoring

Factor indicating need to reconsider location
Strong domestic customer base is being served by offshore manufacturing
Very sensitive IP
Increasing shortages and price increases of local, routinely needed services, like transportation, warehousing, and labor as indicated by factor market rivalry. Generally increasing price levels significantly faster than global averages.
Repeated environmental and/or human rights violations
Regional financial instability in manufacturing location
Labor costs are a decreasing factor in manufacturing due to automation, or could be due to potential automation
Potential advantage of nearshoring or reshoring
Reduced inventory and transport costs, especially with the lowest global fuel costs in North America
Domestic and nearshore locations offer greater protection and enforcement. Easier to monitor closer locations
More predictable pricing and availability
Greater visibility, commonality, and enforcement of sustainability laws
Locating in the same region as customer may create a more balanced financial flow, stability in currency exchange
Since cheap labor is generally a major advantage of low cost countries, it might be worth reanalyzing the situation

The reversal of off-shored decisions is not a new phenomenon and it has been documented since the eighties [19], but cases of repatriation of production are being increasingly reported in the economic press [20] and in consulting firms' reports [21], [7], [22].

In the last few years several manufacturing companies have, in fact, announced the return of part of their off-shored production (either captive or out-sourced) to their home countries. Industrial giants such as Caterpillar, Bosch, and Philips are featured among them, but also a plethora of small- and medium-sized enterprises that are reconsidering their international location and/or sourcing strategy. Yet, the return back to the home country (back in-shoring) or the relocation of supply sources in countries closer to headquarters (near-reshoring) is not always connected only to the decision of backshoring manufacturing operations. [5, 57] have created a few years ago a research group (Uni-Club MoRe Back-shoring) that has built a data base on back-shoring based on secondary data gathered from a variety of sources. The data base consists of 294 back-reshoring operations, among which US and European companies are almost equally represented. The countries most present in the sample (USA, Germany, and Italy) are also highly focused on global manufacturing activities. Differently from the German and European survey results, almost 70% of cases concern returns from China and other Asian countries, while Eastern Europe accounts for around one tenth. However, this evidence is largely differentiated between US and European companies, confirming the stronger region-centric approach of the latter ones in term of off-shoring strategies [23]. Further, breakdown by industry shows that back-shoring activities were implemented in almost all manufacturing industries, without any relevant difference among labor and capital intensive ones. Time based analysis reveals that the phenomenon is not recent – especially for European firms – and that repatriations from China are significantly swifter than from other countries, with about 25% of firms returning from China within a time span of six years. Finally, quality issues and logistic and labor costs emerge as the foremost reasons for back-reshoring.

3. Global Sourcing: Motivations, Opportunities and Challenges

Global sourcing has received growing attention both in the academic literature and in business practice since the 1980s [24], [25], [26], [27], [28], [29], and has remained an active area for research since (see for example [30]; [14]). While the terms ‘global sourcing’, ‘global procurement’ and ‘international sourcing’ are often being used as synonymous in the literature, a general consensus, in the more recent literature, follows the works of [31], defining global sourcing as the final stage in the strategy evolution, seeking to include foreign supply sources as part of the overall purchasing strategy. For the purpose of this paper, we will use ‘global sourcing’ as synonymous for a sourcing arrangement outside of the market, where either the final product is assembled, or being sold (retailed) to its end customer. This growth trend has driven researchers to more thoroughly analyze the impacts of global sourcing on companies’ processes and performance to determine the best ways to cope with it. In fact, recent studies have shown that global sourcing, especially from low-cost sources, makes it harder to manage the cost versus response trade-off [32], [33]. There seems, however, to be strong consensus that global sourcing is either inevitable and/or beneficial to firms. International sourcing has been called ‘‘… an automatic expectation to respond to competition’’ [34, 225], which would leave firms little choice as to whether or not to engage in it.

There are traditionally three main motivations behind the decision to source globally: (a) cost savings, e.g., due to lower factor costs, such as wages or currency influences; (b) access to highly innovative products or technology that companies otherwise would not have and (c) promotion of sales activities in the sourcing region [35], [29].

Table 3. Rationale for global sourcing (in order of importance).

[24]
• Lower prices • Firm had worldwide operations and attitude • Availability of foreign products • Improved quality of foreign products • Technology available from foreign sources • To fulfil countertrade/offset/local content requirements due to developing worldwide competition • Improved delivery of foreign product
[31]
• Cost reduction • Quality improvements • Increased exposure to worldwide technology • Delivery and reliability improvements • Introduction of competition to the local supply base • Establishing a presence in a foreign market • Satisfying offset requirements • Increase the number of available sources Reacting to the offshore sourcing practices of competitors
[14]
• Purchase materials and components at lower costs • Achieve resources not available in the home country • Acquiring less expensive manpower • Global competition • Global attitudes of the company • Possibility of acquiring advanced technologies • Reduction of commercial barriers • Possibility of developing a presence on foreign markets • Presence of plants in foreign countries • Possibility of selling products on supplying markets • More favourable taxation

There are several factors influencing the adoption of global sourcing. It is to a large extent dependent on the company, the sector in which it operates, the type of product purchased and the country where the foreign supplier is located [26].

For example, [36] reports that in Italy, textiles/clothing and chemicals/pharmaceuticals are the sectors where global sourcing is more widely adopted.

Company size is not always relevant in determining global sourcing strategy; even smaller companies often appear willing to globalize their sourcing [37], [38], [26], [39], [40]. However, small companies may face difficulties because appropriate resources (i.e., people, money, and competences) are required to effectively operate purchasing on a global scale [41], [42]. Moreover, larger companies with worldwide production facilities have easier access to foreign supply markets [29], [37].

4. Assessing the Total Cost of Global Sourcing

Earlier research [43], [44], [45] demonstrates a clear focus on the cost-saving aspects of global sourcing, particularly for western companies. A fundamental question, though, has not yet been fully answered [15]: does it really help and if so, under which conditions? Few attempts have been made to quantify empirically the impact of global sourcing - particularly in low-wage-countries - and its benefits, linking the level of global sourcing to firm performance [46]. Moreover, the findings are somewhat ambiguous concerning the success of attempts to save costs. While ‘‘firms located in developed countries often find that labor costs are high, compared to the value that is added to their products’’ [47, 122], substantial differences in factor costs between developed and less developed countries, such as these labor costs, should theoretically lead to lower prices. Both managers and scholars, however, highlight the difficulty of calculating the objective value of global sourcing initiatives [48], [29]. Favorable factor costs do not automatically translate into lower sourcing costs. The findings on the actual cost-saving results from global sourcing vary greatly, ranging from negative or zero [49], [50] to 20% [51], [52]. Despite the importance of cost in global sourcing, few authors have proposed comprehensive cost-based decision frameworks for assessing global sourcing decisions. Instead most contributions focus on specific risks or costs associated with global sourcing, such as inventory costs [53], currency fluctuations [54], logistics cost [55], or the specific disadvantages of global sourcing in comparison to local sourcing [43], [30], [14]. When planning for successful international sourcing, a company’s opportunities to conduct detailed ex-ante analysis of its purchasing strategy’s effects are limited. Purchase price comparison is often the method of choice when it comes to planning, monitoring and measuring the success of international sourcing activities [56]. However, a low purchase price might be offset by lower quality and delivery reliability [57]. Additional expenses might occur, e.g., for negotiating and contracting in a foreign language, supplier qualification, travel and transportation costs to more distant places, etc. Furthermore, uncertainties and risks might increase, e.g., the risk of supply chain interruptions.

[8] in order to assess the Total cost of global sourcing, proposed to differentiate three different cost types for LCC sourcing; (1) Static costs, notably the purchase price ex-factory gate, transport costs, customs etc.; (2) Dynamic costs such as increased pipeline and safety stock and (3) Hidden costs such as labor cost inflation, currency fluctuations or the loss of intellectual property (table 4).

Table 4. A Framework for Financial Assessment of Global Sourcing.

Static cost
Purchase price ex- factory gate
Transportation cost per unit, assuming no unexpected delays or quality problems
Customs and duty to clear a shipment for export
Insurance and transaction cost
Cost of quality control and compliance with safety and environmental standards
Search cost and agency fees to identify and interact with local suppliers
Dynamic cost
Increased pipeline and safety stock due, which is amplified by demand volatility and product variety
Inventory obsolescence due to long logistics lead-times, e.g. in case of quality problems
Cost of lost sales and stock-outs, as the supply chain is unresponsive to shifts in demand
Expedited shipments, e.g. air-freight, to ensure uninterrupted supply
Hidden cost
Labour cost inflation due to rising standards of living and competition of the labour market
Currency fluctuations, in particular for cases of artificially pegged currencies
Rise in transportation cost, e.g. due to higher oil price and carbon offset costs
Overhead for managing the international supply base, including travel cost or cost for local personnel in the supplying markets
The loss of intellectual property to contract manufacturers
The risk of political and economic instability or change

Other scholars put in evidence that geographical distances not only increase transportation costs but also complicate decision-making because inventory tends to increase due to longer lead times in the supply chain. Moreover, infrastructural deficiencies in developing countries (e.g., transportation and telecommunications, inadequate worker skills, supplier availability, supplier quality, etc.) create challenges that are normally not experienced in developed countries [58]. Furthermore, global supply chains carry specific risks such as variability and uncertainty in currency exchange rates, economic and political instability, and changes in the regulatory environment [59]. One evident effect is that longer lead times and less dependable deliveries from suppliers require companies – ceteris paribus – to maintain higher safety stocks to preserve the same service level. This has been confirmed at an aggregate level [60]. According to [14], the incompatibility of just-in-time (JIT) and global sourcing has been an important area of discussion [61], [62]. The key conflict here is induced by the lack of buyer–supplier proximity, since JIT sourcing places emphasis on the delivery of small quantities in frequent intervals and rapid problem-solving cycles, whereas the large distance of global sources invariably commands transportation in large batches (to achieve full container loads, for example) and renders closed-loop kaizen improvement projects difficult, since attributing cause and effect is hampered by the long logistics lead-times. The required 'organisational' proximity is seldom attainable for globally sourced items, which are characterised by longer, less reliable international supply lines that pass through several intermediaries [63].

Another important issue is the quality of globally outsourced products. [64] investigate how sourcing strategies are associated with product quality recalls. In particular, the authors examines how make-or-buy decisions (i.e., outsourcing), the use of foreign suppliers (i.e., offshore outsourcing), the relocation of production to offshore markets (i.e., offshoring), and decisions to consolidate supply bases (i.e., the use of few vs. myriad suppliers) are related to product recalls. Product recalls are serious quality failures in supply chains with significant, negative impacts on firm performance. Quality compromise by one chain member would result in a quality failure of the final product. For instance, they remind the 2007 Mattel toy recall that involved a Chinese supplier compromising quality by using paint with excessively high levels of lead [64, 244]. Product recalls are frequently connected to the globalization of supply chains and globalization has, at times, promoted inconsistency in quality control and standards, leading to quality problems and failures. Data across multiple industries, with widely reported recalls, have been collected by the three scholars and analyzed using regression techniques: the findings indicate that offshore outsourcing (global sourcing) has a greater impact on recalls than offshoring without outsourcing; outsourcing domestically has the least influence.

5. The Empirical Analysis: the Focus-group Methodology

There are many definitions of what constitutes a focus group [65, 9-10], [66, 1-2], [67] (Morgan, 1988, 9-10; Morgan, 1998, 1-2; Stewart & Shamdasani, 1990). Essentially, a focus group is "an interview style designed for small groups" [68, 100]. It typically involves from six to ten people discussing and commenting on particular topics or concepts under the guidance of a moderator. A key distinguishing features of the focus group approach is the ability of individuals from a similar community to interact: "The hallmark of focus groups is the explicit use of the group interaction to produce data and insights that would be less accessible without the interaction found in a group" [65, 12]. Focus groups are particularly useful for learning about participants' conceptualisations of particular phenomena and the language they use to describe them [67, 15].

The seven participants of the focus group organized in May 2014 in Milan where chosen among those companies whose ownership is mainly or totally Italian, in order to have a comparative idea of the underpinning logic of global sourcing decisions with that of other countries' companies, understanding if there is an "Italian way" of facing these strategic challenges. The seven represented industrial sectors were: medical devices and equipment, chemical, mechanical, electronics, safety footwear and furniture. Two companies are large companies, three are mid-sized companies and two are small-sized companies: the total sales turnover (2013) represented by the seven companies is 3,2 billion Euro, while the number of employees range from 3.700 to 60 for the smallest. The total purchasing volume (direct and indirect) managed by CPOs is 2,08 billion Euro; out of this procurement turnover the seven CPOs declared different degrees of globalization of supplies, ranging from a maximum of 55% (electronics) to a minimum of 20% (mechanical). Four of the represented companies (furniture, medical devices and equipment, footwear and electronics) have more than two production facilities abroad, geographically dispersed (China, USA, Romania, Vietnam, Brasil, Tunisia). All of them have relevant experience in global sourcing from Far East to Brasil, from Eastern European countries to South Africa, from Turkey to Morocco: they declared to have 37 different countries in their global suppliers geographic portfolio.

5.2 Focus Group Highlights and Discussion

According to all seven CPOs the growing costs and changing dynamics pose new challenges for global sourcing. To succeed in the new environment requires moving away from traditional sourcing models toward a more holistic approach that considers the total cost of sourcing from various countries. As a result, all the seven CPOs declared that their companies have shifted their focus from low-cost-country sourcing to "best cost" country sourcing or "best value" country sourcing, two approaches that evaluates a range of factors besides just labor costs. According to our findings, BCCS is here to stay. In fact, we found broader participation overall - and companies are also taking a more strategic approach, building portfolios of supply sources and seeking to achieve competitive advantages rather than just pure cost reduction.

Participation in global sourcing is expanding beyond the major multinationals to include small to midsize companies in Italy. This is partly because it has simply gotten easier to buy from overseas suppliers. Greater market transparency has helped smaller companies to set up direct sourcing arrangements from low-cost countries. But the primary reason for increased participation is the growing sophistication of LCC-based suppliers, which are proving to be credible substitutes for Western suppliers on the world stage.

In addition, the categories of goods being sourced are expanding from traditional high-labor-content products such as garments and toys to more technology- and capital-intensive products. This is generally true across all major low-cost supply bases around the world. For example, companies are sourcing more capital equipment from these regions to reduce overall capital expenditures. From pumps to chemical plant equipment, from storage tanks to blast furnaces, companies are finding a growing number of suppliers with extensive product-development and manufacturing experience - often the result of serving their fast-growing local economies.

All participants indicated that their companies will continue to maintain or increase their sourcing activities from best-cost countries, especially from Asia, given that their savings are still significant. Many participants noted that although the financial crisis had a negative impact in some areas, it also brought opportunities for those countries. For instance, currency devaluation has made some relatively high-cost regions such as South Korea newly viable best-cost supply bases. Other historically low-cost countries such as Mexico and Vietnam are becoming even more attractive owing to currency changes.

All CPOs observed that the global downturn brought the topic of cost reduction to the attention of top management. This attention generated pressure and incentives for procurement teams to explore other countries and supply sources as cost-saving alternatives.

At this moment of the discussion we introduced to all participants the Total Cost of Global Sourcing model proposed by [8] we ask about their experiences in measuring the financial performance of global sourcing projects.

Two CPOs (mechanical and electronic firms) reported two of their unsuccessful experience of sourcing manufactured components from China and India: after less than one year of deliveries from the Far East they realized that, through a Total Cost analysis, the price-convenience had been substantially deleted by hidden costs and quality problems. After the sharing of these experience all the participants stated that half of their global sourcing projects performed in the mid term a total cost reduction lower than the expectations.

However, the risks and uncertainty surrounding labor shortages, currency volatility, and protectionism have raised concerns among the focus group participants. Four CPOs stated that they are aggressively migrating to a more diversified approach to global sourcing and are maintaining a portfolio of supply sources in different regions to mitigate risk.

The CPOs of the two larger companies also noted that the benefits of global sourcing go beyond cost savings to include strategic advantages that come from competing both locally and globally. One of the companies is transferring other steps of the value chain besides sourcing - such as R&D and manufacturing - to LCC to further develop their design capabilities and manufacturing networks. Advances such as these can create a sustainable competitive advantage. Apart from creating competitiveness on a global scale, companies are also leveraging their sourcing offices in emerging regions to help penetration in local markets. By providing access to local markets, establishing relationships with government officials, and demonstrating innovation throughout the supply chain, LCC can generate significant top- and bottom-line advantages even in emerging-market businesses.

6. Conclusions

As stated at the beginning, over the last few decades there has been an increase in the offshoring of manufacturing and services to low labor cost countries. Yet, these geographic locational decisions were largely made based on quantitative cost measures and often ignored other important criteria in the decision-making process. However, global organizations now face the growing trend of having to re-evaluate their supply chain designs largely because of rapidly rising wages in lower cost countries as well as increasing supply chain risk [6] and complexity [69] (Christopher and Holweg, 2011). The theoretical background and the empirical analysis have provided us with a complex but interesting vision of the global sourcing phenomenon that allowed us to review the existing debate on the costs and risks of such global sourcing strategies. We further postulate that many global sourcing ventures do yield less than expected benefits – or are in fact not economically viable – due to unforeseen costs that had not been accounted for in the initial calculations, a fact that was vividly illustrated in our focus group.

Combined these tools will give the management much stronger conceptual and analytical guidance to improve global sourcing decisions, and thus help reduce future failures of such ventures. Conceptually, the Total cost of global sourcing model can be applied to both global sourcing, as well as international manufacturing (i.e. ‘‘offshoring’’) decisions alike - the factors to be considered in either global sourcing or offshoring projects are virtually identical apart from the higher capital investment that also needs to be factored in.

The main result of this research is in the fact that all the seven participants to the CPOs focus-group declared that their companies have shifted their focus from low-cost-country sourcing to “best cost” country sourcing or “best value” country sourcing, two approaches that evaluates a range of factors besides just labor costs.

Future research is encouraged to apply, test and further develop the proposed framework. In particular, its application to additional cases (and preferably industries) is likely to yield additional insights into the dynamics of global sourcing decisions.

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