

## International Purchasing Offices in China: A Dynamic Evolution Model

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### **Abstract**

The salience of the International Purchasing Office (IPO) in the management of international sourcing activities of multinational corporations (MNCs) has steadily increased, in developed and emerging economies, since the first adoption of this supply chain strategy in the 1980s. The aim of this paper is to develop an activity/role-based evolution model for IPOs, employing multiple case studies: fourteen MNCs' IPOs in China, studied by British, Italian, and Chinese scholars. Applying role theory in a global purchasing context, we identify eight routine roles and four strategic roles played by IPOs and propose that IPOs could lead an MNC's global sourcing in a geographical region. We challenge the unilinear and sequential nature of existing global sourcing process models and propose a Dynamic Evolution Model, consisting of five stages differentiated by number, depth, and breadth of roles, in which IPOs could leapfrog some stages, re-trench (move back to lower stages) and be potentially withdrawn. Finally, we conclude that the stage of an IPO is determined by the strategic importance of China to its parent company.

### **1. Introduction**

Global sourcing has increasingly attracted the attention of International Business (IB) researchers since 1980s. A recent special issue of *International Business Review* was devoted to global sourcing of business services (Lewin & Volberda, 2011). The first papers on global sourcing in IB literature were published in the late 1980s and early 1990s and focused on a taxonomy of global sourcing strategies of multinational corporations (MNCs) in the developed world (Kotabe & Murray, 1990; Kotabe & Scott, 1994; Murray, Kotabe, & Wildt, 1995). In the past decade, the focus of global sourcing research has shifted from physical products to services (Murray, Kotabe, & Westjohn, 2009; Nassimbeni, Sartor, & Dus, 2012), to sourcing from “low-cost countries,” e.g., China or India (Kotabe & Zhao, 2002; Grandinetti, Nassimbeni, & Sartor, 2009), to the

potential demerits of global sourcing (Kotabe & Murray, 2004; Kotabe, Mol, & Murray, 2008), and to organisational structures for global sourcing (Trautmann, Bals, & Hartmann, 2009). In this paper we engage with the last of these IB research streams, i.e., organisational structure for global sourcing, and investigate the International Purchasing Offices (IPOs).

The salience of IPOs in the management of global sourcing activities of MNCs has steadily increased, in both developed and emerging economies, since the first adoption of this supply chain strategy in the 1980s (Nassimbeni & Sartor, 2006). It is expected that the establishment of IPOs will continue to be a success factor in integrated global sourcing (Monczka, Trent, & Petersen, 2008).

Having established the significance of this strategy for global sourcing in MNCs, we turn to the roles played and activities carried out by IPOs. The *activities* (i.e., what they do) have attracted the attention of many authors (Humphreys, Mak, & McIvor, 1998; Nassimbeni & Sartor, 2006). However, little is yet known about the *roles* of IPOs (i.e., what part they play within the overall sourcing and supply chain strategy).

An IPO is formally defined by Goh & Lau (1998, p.120) “*as an offshore buying office or buying house set up by an OEM to procure components, parts, materials and other industrial inputs [...] for use by manufacturing plants globally.*” Caution should be given in that this definition was based on research on the IPOs of Western and Japanese electronics companies in Singapore in the middle of 1990s. Given its geography and stability, Singapore was a popular IPO location at that time.

Other definitions of IPOs consider them “*intermediaries*” (Humphreys, Mak, & McIvor, 1998, p.181), “*shared service entities*” (Mulani, 2008, p.23), “*full-service procurement centres*” (Monczka, Trent, & Petersen, 2008, p.50), and “*procurement service centres*” (Kumar, Rehme, & Andersson, 2011, p.1). These definitions and descriptions of IPOs only capture one or two aspects of the roles played by an IPO at a surface level and do not capture what roles exactly an IPO plays in a host country as it grows over time.

In the two decades since this development, it may be expected that the activities and roles of IPOs have expanded and changed. Hemerling & Lee (2007), in their BCG report of “Sourcing from China”, found that China sourcing itself is evolving; the approaches

that were best practice a few years ago are now standard operating procedure in most China sourcing offices. In this period, China has risen to become the world's prominent region for manufacturing and market (Salmi, 2006; Lee & Humphreys, 2006; Biggemann & Fam, 2011; Kang, Wu, Hong, & Park, 2012).

At the best of our knowledge, there is to date no research that differentiates between the types of IPO, based upon the activities/roles carried out in a host country. In this paper we attempt to develop an activity/role-based classification and a process model of IPOs based on the role assumed. To do this, we have conducted interviews with the IPOs of fourteen Western MNCs in China.

This research contributes to the global sourcing literature in a number of significant ways. *First*, this is the first paper to apply role theory and study the roles played by an IPO at different stages of evolution and the change of roles over time. We also supported the existence and discovered four strategic roles assumed only by the advanced IPOs and eight routine roles. *Second*, existing literature takes a headquarter-centric view on global sourcing; this paper is one of the first to show that IPOs could assume a proactive, or even a leading, role represented by assuming the four strategic roles in global sourcing of MNCs in a geographical region (e.g., China). This is a point of departure from previous research. *Third*, this paper provides detailed stages (e.g., five types of IPOs) after an MNC started sourcing from a low-cost country, however we also challenge the strictly sequential and unilinear nature of the existing models and propose our model a dynamic one in which an IPO could 'leapfrog', 'downgrade', or 'be withdrawn' depending on contingent factors and internal strategic change.

The structure of the paper is as follows. First, we provide a literature review on IPO as a stage of global sourcing and on IPO activities and roles. Second, we describe the case study method used for this research. Third, the results of an activities-based classification are showed. Fourth, a dynamic evolution model of IPOs is presented and two propositions are put forward. Finally, we conclude the paper with implications for research and practice, limitations, and future research directions.

## **2. Literature review**

### *2.1. The IPO as one stage of global sourcing*

International sourcing, or offshore sourcing, has been characterised by some scholars as an evolutionary process. Table 1 summarizes seven process models for international sourcing. These identify a number of sequential stages, characterised by one of the two dimensions: an increasing involvement in the foreign supply market (Monczka & Trent, 1992; Rajagopal & Bernard, 1993; Matthyssens & Faes, 1997; Hemerling & Lee, 2007) and development from transactional to strategic (Swamidass, 1993; Giunipero & Monczka, 1997; Trent & Monczka, 2003). These sequential process models present the establishment of IPOs as a necessary step that firms need to consider after the initial stage of international sourcing.

INSERT TABLE 1 ABOUT HERE

Three models show that there is a tendency for global purchasing to evolve from transactional to strategic. Trent & Monczka (2003) claim that firms at level 3 of their model often allocate certain buyers to manage international purchasing or rely on international purchasing offices to support purchasing activities, and that IPOs play a more crucial role in the next two levels (4 & 5). Giunipero & Monczka (1997, p. 323) argue that, during phase 2 (planning and managing stage), firms often establish international purchasing offices and, at some time, this growth reaches a point when the firm should decide “*what role various subsidiaries, divisions, and plants should play vis-à-vis corporate headquarters in international sourcing.*” Swamidass (1993) argues that this sequence is not only the most commonly observable one but it is also the most logical, since development of a foreign market and suppliers takes place over a long period.

Another four models identify different levels of involvement in the foreign supply market, with implications for global purchasing organisational structure. Monczka & Trent (1992) argue that international purchasing is initially carried out by designate domestic buyer(s) (stage 1). Then, this activity is managed by subsidiaries or other corporate units (stage 2) and companies establish international purchasing offices (stage 3). In the final two stages (4&5) IPOs continue to play a crucial role in managing global

sourcing activities. Matthyssens & Faes (1997) claim, instead, that business units (BU) of a company could be initially responsible for the purchasing in a host country (stage 1). If there are multiple BUs sourcing from this country, the CPO will be involved (stage 2), in setting up regional purchasing groups (stage 3) and eventually profit-oriented purchasing centres (stage 4). As development increases so does the level of involvement in the foreign supply market. The last two stages can be considered international purchasing offices.

Rajagopal & Bernard (1993) propose a process model for international sourcing, or modes of international sourcing entry strategy, again based on the level of involvement in the foreign supply market: (1) local sourcing; (2) import via agents or distributors; (3) import through subsidiaries/own representatives; (4) establish International Procurement Offices; (5) integrate and co-ordinate global sourcing through direct investment. The last four stages are related to IPOs. Importing agents can be seen as independent IPOs. Importing through a subsidiaries or own representatives can be seen as an arrangement of sharing the purchasing team/personnel with the foreign subsidiary, a transitional stage IPO. The final stage may represent a mature stage IPO, i.e., full-service procurement centre. However, the model does not differentiate explicitly the roles assumed and activities carried out by an IPO in the different stages of a company's global sourcing process. Finally, the Boston Consulting Group's report on "Sourcing from China" proposes that MNCs advance their sourcing in China through four stages: testing the water; early engagement with China sourcing; full integration of China sourcing into the company's global sourcing strategy; making China a centre of critical supply base (Hemerling & Lee, 2007). Again, this model shows increasing level of involvement in the supply market in China.

In sum, these models tends to be unilinear, i.e., all firms move in an upward direction from low to high levels of development, and sequential, i.e., firms do not skip any stages. Furthermore, majority of the models are conceptual and there seems to be a lack of empirical work.

## *2.2. Roles played and activities performed by IPOs*

Much of the existing mainstream IB research on global sourcing takes a headquarter-centric view, ignoring the proactive roles played by other internal stakeholders (e.g., IPOs, business units, and purchasing departments located in manufacturing plants) (see Trautmann, Bals, & Hartmann, 2009; Arnold, 1999; Giunipero & Monczka, 1997). During the main period for research on IPOs (1990s and early 2000s), it appeared that MNCs established IPOs as their “ears and eyes” in specific target countries. It is therefore perhaps not surprising that a supportive role was taken for granted for IPOs, as they were seen as an extension of the Corporate Purchasing Organisation (CPO). The potential for proactiveness or strategic importance for an IPO in global sourcing decision making remains absent from existing literature.

In order to understand the roles assumed by IPOs, we apply role theory in this study and consider that IPOs, as “actors,” may assume multiple roles. Role theory views an actor as a collection of roles, asserting “*roles are evoked by situations and the content of roles is socially constructed*” (Montgomery, 1998, p.97; Allen & van de Vliert, 1984; Zurcher, 1983). Johnson & Duxbury (2010) conclude that role theory can identify and locate the organisation’s adaptive function in the activities of individual boundary-spanning employees whose jobs bring them into contact with external agents for the purpose of effecting a transaction. It is therefore logical to apply role theory to IPOs because they span the boundary between global plants/CPOs and local supply bases, and between different functions within MNCs.

Few roles are identified for an IPO in the literature. We reviewed and used those identified for supply managers and purchasing functions, who assume multiple roles. For example, Wu, Steward, & Hartkey (2010) show how supply managers span the boundary between the buyer’s and supplier’s organisations. They identify four such roles played by supply managers: a buyer's negotiator, a facilitator, a supplier's advocate, and an educator. Hallenbeck, Hautaluoma, & Bates (1999) claim that the purchasing manager’s position is a classic example of organisational boundary spanning and proposes that the roles played by purchasing managers include: gathering, filtering, and transmitting (gatekeeping), transacting, being proactive, and protecting. Knight & Harland (2005) identify a number of roles played by a buying organisation’s purchasing function in the public health sector, i.e., coordinator/facilitator and advisor to a range of constituents. Jia (2009) was first to

propose the role of cultural broker in a Western buyer and Chinese supplier interaction context, claiming that this role could reduce cultural tension and help parent companies adapt to cultural differences.

A number of activities performed by IPOs have been identified by literature (e.g., Monczka & Trent, 1992; Nassimbeni & Sartor, 2006). We develop a list of potential IPO roles and activities based on those traditionally assumed by supply managers and supply function previously identified in the literature (table 2).

INSERT TABLE 2 ABOUT HERE

The Purchasing and Supply function is becoming more strategic and a distinction is made for transactional vs. strategic purchasing activities (Giunipero, Handfield, & Eltantawy, 2006; Lawson, Cousins, Handfield, & Petersen, 2009). Giunipero, Handfield, & Eltantawy (2006) further identify the strategic activities carried out by the supply function based on grounded empirical research. We summarize them as: 1) strategic orientation of supply function, i.e., making highly important decisions; 2) seeking out new technologies and suppliers more often; 3) integrating and collaborating with supply base by managing strategic relationships with suppliers. We can see that the first activity is aligned with the supply policy maker role; the second innovation facilitator role; the third network structuring agent role, all of which are proposed by Knight & Harland (2005) as roles for a supply function (table 2). In our study, we therefore distinguish these three strategic roles from the eight non-strategic or routine roles for a supply function.

Accepting that establishing an IPO is a major step in a global-sourcing strategy and that this form of supply entry strategy needs to be broken down further and applying role theory in IPO research, enables us to develop a role/activity based model for IPOs, identifying intermediary stages of implementing global sourcing.

### **3. Research method**

#### *3.1. The case study approach and sampling*

To build an activity-based typology and process model we adopted a multiple case study method, observing that research on IPOs is at its early stages and that, especially for the

roles played by IPOs, there is little theory (Eisenhardt, 1989; Voss, Tsiriktsis, & Frohlich, 2002). This method is also appropriate for our focus on an evolutionary process, the data for which are difficult to obtain through survey or other instruments (Ghauri, 2004; Piekkari & Welch, 2004).

Our unit of analysis is the IPO. As suggested by a number of researchers (e.g., Glaser & Strauss, 1967; Eisenhardt, 1989), we adopted a theoretical sampling method. In this study, we employed maximum variation sampling strategy (i.e., selecting cases demonstrating diversity in terms of the dependent variable or predicted outcomes) as a form of theoretical sampling (Patton, 2002; Mahoney & Goertz, 2004; Fletcher & Plakoyiannaki, 2011; Poulis, Poulis, & Plakoyiannaki, 2013). In our case, the scope (breadth and depth) of IPO roles is a dependent construct. We selected those IPO cases from simple sourcing offices to fully fledged and proactive IPOs (e.g., six advanced IPOs) to represent as much variance as possible.

We selected fourteen IPOs, belonging to fourteen large-scale Western MNCs, located in China. As noted by a recent literature review on IPOs (Sartor, Orzes, Nassimbeni, Jia, & Lamming, in press), Western IPOs located in China represent the most frequent situation in practice and the prevalent focus of studies on IPOs. Furthermore, larger firms were more likely to have an IPO in China and a significant history of sourcing in China (Nassimbeni & Sartor, 2007). Table 3 provides data about the sampled IPOs and parent companies, using code names to protect identity.

INSERT TABLE 3 ABOUT HERE

### *3.2. Data collection*

Research instruments included face-to-face semi-structured interviews lasting 60-90 minutes per interview and archival data from the internet and company documents. To conduct the interviews, we used a three-part interview protocol: (1) Company and IPO profile; (2) IPO roles; and (3) IPO evolution. In the first of two rounds of data collection, we collected data on the first two parts. In the IPO roles, we provided interviewees a list of 11 roles (3 strategic; 8 routine) and activities, drawn from literature on the roles assumed by supply managers and purchasing departments and IPO activities, and asked



them to discuss each role against their IPOs (at the time of the field research) and identify any new roles not listed. Second, for the final part of IPO evolution, we performed additional telephone interviews with the same interviewees for each IPO, asking the interviewees to describe their IPO evolution and important events, noting number, depth and breadth of roles assumed since their establishment. We were lucky to have the key informants (e.g., head of the IPO), majority of who stayed for the whole duration of the IPOs. For those who did not, they had the knowledge about the whole IPO evolution. In this second round we also resolved some disagreements between respondents in the depth and breadth of each role for the IPOs at the time of the research (data collected during the first round of interviews).

Finally, iterative efforts were made to collect archival data for the 14 MNCs and their IPOs in China, including the profile and the evolution process (identifying key events related to the projected stages), and sourcing activities in China to triangulate with the interview data.

We interviewed two to five respondents for each IPO, including expatriates (if there were any) and Chinese nationals. A total of 34 people were interviewed (twice): 14 IPO heads, 13 sourcing managers, 4 buyers, 2 supplier quality engineers, and 1 coordinator.

Using multiple respondents for each case enhances validity (Yin, 2003) and reliability of the collected data (Voss, Tsiriktsis, & Frohlich, 2002). Piekkari, Welch, & Paavilainen (2009), describing case study methods within the IB field, suggest a careful selection of informants to provide greater depth and multiple perspectives and encourage the selection of multiple informants who represent a range of hierarchical levels and multiple groups of employees, such as expatriates and local personnel. We selected IPO head and sourcing manager for each case to represent the typical two-level of IPO organisational structure and interviewed expatriates and Chinese nationals as two groups of employees.

The reasons for selecting at least the IPO head and a sourcing manager for each IPO studied are 1) the IPO heads tended to have the most comprehensive knowledge related to the IPO (e.g., IPO evolution); 2) sourcing managers are the ones who tend to directly interact with suppliers and could provide first hand information on roles assumed by the IPOs. Their knowledge complements with each other.

Following Eisenhardt (1989), we formed two field research teams (each comprising two researchers), each covering some cases but not others. In this way, “*investigators who have not met the informants and have not become immersed in case details may bring a very different and possibly more objective eye to the evidence*” (Eisenhardt, 1989, p.538). Furthermore, one researcher was kept out of the fieldwork and assigned a “resident devil’s advocate” role, to bring a more objective view (Pettigrew, 1990; Sutton & Callahan, 1987).

The interviews were carried out in English and Chinese depending on the interviewee’s preference. As Wright (2004, p.59) argues, “*cross-cultural studies should not be carried out in a unilingual English language fashion.*” All interviews were recorded, transcribed verbatim, and translated as necessary (i.e., from Chinese to English) by a professional translator. Some English transcripts translated from Chinese were selectively back translated by the researchers to compare with the original transcripts.

The international team composition allowed the integration of differing cultural perspectives, something that is seen as conducive to cross-cultural research (Ghauri, 2004; Piekkari & Welch, 2004).

### 3.3. *Data analysis*

The two field research teams carried out coding and case analysis manually for each of the fourteen IPOs, in order to ensure inter-coder reliability (Duriau, Reger, & Pfarrer, 2007). The independently coded data were compared to ensure consistency. The two research teams and the fifth researcher discussed and resolved disagreements, clarifying or redefining some constructs. At the end of the process the two research teams reached the consensus on all constructs.

We developed a 3-level coding scheme coding the responses against each activity of the analysed roles i.e., non performing and performing, which is further divided into reactive performing and proactive performing. Some indicators or key phrases were used as evidence to measure the three levels, i.e., “fully involved”, “very important to us”, “a significant issue” and “leading” are indicators for proactive performing while “to some extent”, “in some cases”, “supporting” and “do as told” are indicators of reactive performing. Moreover, non-performing is more straightforward to identify using the

indicators like “not involved”, “involved very little”, “low level of involvement” and “limited involvement”.

The data analysis process consisted of three iterations, each containing within-case and cross-case analyses. Some tactics proposed by Miles & Huberman (1994) were adopted. The *first iteration* was focused on roles assumed by the IPOs at the time of the research. In the within-case analysis for each IPO we created a table in which each row represented the perception of a respondent about depth and breadth of each role within its IPO (i.e., “*role-ordered matrix*”). This allowed us to compare different perceptions of interviewees and to resolve disagreements. Then, employing a “*clustering*” (e.g., grouping and then conceptualising objects) technique at a case level, we identified the five types of IPOs in the first round, according to the depth and breadth of activities they performed.

During the first iteration, we found there might be an evolution of the IPO types. We carried out telephone interviews (with the same interviewees) for all the cases asking them to explain the evolution of their IPOs and collected more archival data on the IPO evolution. We created “*time-ordered displays*” and “*critical incident charts*” (within-case analysis). The results support the typology/classification made in the first iteration and identify a sequential progression among IPO types, highlighting a dynamic evolution model for IPOs.

The data collected for the first iteration are “snapshot” data (depth and breadth of roles for each IPO at the time of the research), while those in the second iteration are “retrospective longitudinal” (evolution of each IPO). They corroborate each other, significantly increasing the construct validity.

Finally, the *third iteration* relied on “*causal network displays*” and “*making and testing predictions*” (within-case analysis) and “*causal chains*” (cross-case analysis). We identified the construct of strategic importance of China to an MNC which affects depth and breadth of roles assumed by IPOs and the IPO stage.

We validated the results by performing Yin’s (2003) four tests (see table 4).

INSERT TABLE 4 ABOUT HERE

In this paper, we present the final aggregate findings of the three iterations and cross-case analysis only.

#### **4. An activity/role-based classification of IPOs**

Using the coding scheme described in the previous section, we coded each activity associated with each of the 12 roles (including one new role emerged from data) and were able to classify the 14 IPOs into five IPO types based on the number, depth and breadth of the roles assumed and associated activities carried out by each IPO: “Intermediary International Sourcing Office;” “In-house International Sourcing Office (ISO);” “Exporting International Purchasing Office (E-IPO);” “International Purchasing Office responsible for both global and local plants (E&L-IPO);” and “Overseas Corporate Purchasing Organisation (O-CPO) (see table 5)”. The depth of a role means the level of involvement in each of the activities associated with that role (e.g., reactive performing or proactive performing). The breadth of a role represents the number of activities performed within each role (e.g., performing or non-performing). We explain the differences between the five IPO types and provide an exemplar case description for each type.

INSERT TABLE 5 ABOUT HERE

##### *4.1. International Sourcing Office (ISO)*

An IPO starts from a sourcing, or re-sourcing, need, i.e., collecting supply market intelligence, searching, auditing and selecting suppliers, and carrying out basic quality control. Such activity is more properly termed an *International Sourcing Office* (ISO) since it serves as a basic sourcing office, acting as the “eyes and ears” of a company in the host country or region. For example, the Sourcing Project Manager of *Industrial A* said:

*“IPO stands for International Purchasing Office and should have such behaviours like placing orders. We only support our business unit globally; therefore should be called International Sourcing Office. We normally do the sourcing and then pass the suppliers to the plants.”*

An ISO could be an independent, intermediary trading company, intermediary plants/sales office or an in-house buying office, reporting to corporate purchasing departments. We define the first stage of IPO development as an “Intermediary ISO.” This includes the use of an intermediary trading company (third party) or an intermediary plant/sales office of the company in China. An in-house ISO is one that has a dedicated sourcing team functionally reporting to a corporate purchasing department, searching for and auditing suppliers for global plants. All the 14 MNCs used intermediary ISOs at the beginning of their sourcing from China; 12 cases also set up in-house ISOs subsequently.

ISOs are used to find and certify suppliers and then pass them to global plants, without being actively involved in the execution of orders, quality control, supplier development, and logistics management. So, we can say that the two types of ISOs assume a *gatekeeper role*. In-house ISOs support negotiation but do not normally play a significant role in negotiations with suppliers whereas intermediary ISOs provide little negotiation support (*negotiator role*); both support the inter-organisational projects (*coordinator role*) but the level of support from intermediary ISOs is much lower in general; both represent the suppliers in front of the internal customers (*supplier’s advocate role*). In-house ISOs passively provide advice to international customers while intermediary ISOs provide little advice (*internal advisor role*); in-house ISOs develop suppliers before they are qualified and passed to global plants while intermediary ISOs do little on this (*ex-ante supplier developer role*). Both help to reduce cultural tensions (*cultural broker role*); in-house ISOs are involved in administrative activities, recruitment and training of new personnel, and legal activities while intermediary ISOs do not assume any other roles. *Automation, Identification, Industrial A*, and *Industrial C* were ISOs.

*Industrial C*’s ISO shared personnel with its Shanghai plant’s purchasing team; these people spent 30% of their time working for the ISO and were wholly funded by the plant. There was no incentive for the ISO to perform better than they were tasked, i.e., to identify new potential suppliers in China, because the China plant was not paid a fee for providing such a service. It provided little negotiation support, did not develop suppliers, was involved in the coordination only passively, provided very little advice, and was not involved in other roles. *Industrial C* was therefore the only company at the first stage (e.g., intermediary ISO), using an intermediary plant at the time of the research.

*Automation*'s ISO has been passively involved in negotiation and logistics and carried out basic quality control (visual check of the packaging only by two IPO technicians) for China sourcing. It initially used the sales company, set up in 2006, as an intermediary for sourcing from China. The in-house ISO was set up within the sales company of *Automation* in China in 2008 when the existing head of the IPO took the position.

#### 4.2. *International Purchasing Office (IPO)*

When purchasing volumes in the host country significantly increase, a buying office or ISO may be given responsibilities beyond simply seeking suppliers and collecting supply market information. At this point, the foreign buying office enters into a stage of an *International Purchasing Office (IPO)*, potentially with all the functions of an ISO plus activities related to duties after suppliers are qualified, e.g., order fulfilment, logistics/shipping, and quality control/inspection.

The differences between ISO and IPO are shown in table 5: in *gatekeeper role*, an IPO carries out routine quality control (QC) after a supplier is qualified in addition to what an ISO does (basic QC before a supplier is qualified); in *negotiator role*, an IPO negotiates with suppliers directly instead of supporting negotiation; in *coordinator role*, instead of assuming a supportive role as an ISO, an IPO carries out and leads order fulfilment and logistics management; in *supplier developer role*, an IPO develops a supplier after it is qualified on a continuous basis.

An IPO can be further classified into two types: an IPO focusing on serving global plants, i.e., exporting, (E-IPO) and an IPO serving both global and local plants (E&L-IPO). Where a strong link exists between the IPO and the CPO, e.g., where knowledge and expertise in supply management are shared, the IPO may become a centre of functional excellence and be required to conduct not only supply base management in the host country for global plants initially but also the same task for local plants.

In terms of roles played, the differences between E-IPO and E&L-IPO are manifested in four roles: reactively involved vs. proactively involved in *supply policy maker role*; reactively following company's policy on *network structuring agent* activities vs. proactively fulfilling the role; searching for technical solutions to some extent vs. fully engaging and leading the NPD process (*innovator role*); no evidence of *knowledge*

*broker role* vs. acting as a supply chain management knowledge centre of excellence to promote the best practices among the operations of the parent company and the supply chains in the host country.

The knowledge broker role emerged from the data analysis and was not discussed in the literature. For example, the Executive Purchasing Director (IPO head) of *Engine's* IPO said:

*“This IPO has now become a centre of functional excellence for purchasing and supply chain management to support all these fifteen entities in China... what we've done is formed a Joint Venture Sourcing Council, so four times a year this IPO leads that council... We manage the supply base in China training the suppliers with lean manufacturing, six sigma, and 5S.”*

We observe this role is strategically important to MNC's global sourcing in China as it entails the development of and knowledge transfer to both internal customers in China and Chinese suppliers.

We illustrate the E-IPO and E&L-IPO with *Printing* and *Engine* cases.

#### *Printing: E-IPO*

*Printing* set up its first production facility in Shanghai in 1996. It started sourcing through the purchasing team based in the Chinese plant until the set up of an in-house ISO in 2003/04. Over 30% of the highest volume products were sourced from China in its heyday between 2003 and 2008, before the financial crisis. The ISO gradually developed into an IPO solely for exporting, i.e., carrying out routine quality control after a supplier is qualified, assuming a more leading role for negotiation with Chinese suppliers, being responsible for supplier development on a continuous basis, logistics management, and so on. The IPO's head reported to the group Global Sourcing Director and followed his orders closely. By 2011, there were two buyers and two Supplier Quality Engineers (SQEs) responsible for the development of existing suppliers. The IPO was considered an extension of the global sourcing team at HQ. Due to its corporate strategy of providing customized products (low volume and high mix) to customers, and following the rise in labour costs, sourcing in China became infeasible for some products. In 2011 *Printing* started considering pulling some sourcing out of China and back to Europe.

### *Engine: E&L-IPO*

*Engine's* IPO illustrated the evolution process well, evolving from an ISO to an E&L-IPO. *Engine* was one of the earliest US companies entering the China sales market. The initial sourcing was supported by the joint venture (JV) plant in China. Motivated by the low-cost production in China, *Engine* started increasing its sourcing from China in 1998 and in 2000 an in-house ISO was officially set up to search for suppliers in China for global plants.

Gradually, China became a main supply and sales markets. *Engine's* global procurement strategy also changed, away from the centralised approach. The China IPO was assigned more responsibilities, such as being involved in more NPD projects, global purchasing decision making for China, developing the supply base, and order fulfilment in China.

The ISO developed into an exporting IPO in 2003. *Engine* had seen a great deal of manufacturing transferred from the West to China; for some components this reached over 90 percent. On many occasions, the IPO led the sourcing project, including NPD, and made decisions on global procurement strategy for China. The team has grown from a few people in the late 1990s to 70 in 2008; this level of staffing remained the same in 2011 despite the financial crisis.

Having proven its ability to manage the supply base in China, the IPO was empowered further to lead a JV sourcing council, consisting of four *Engine's* joint ventures, and orchestrating the supply network management in China since 2009. In this way, the IPO served as a knowledge broker to disseminate its supply chain management knowledge among *Engine's* Chinese operations. Many of its employees were promoted to General Managers or Operations Directors of the operations in China. Hence, the IPO fully assumed the four roles of *supply policy maker, network structuring agent, innovator, and knowledge broker.*

### *4.3. Overseas Corporate Purchasing Organisation (O-CPO)*

Evolving further, it appears that an E&L-IPO can fill the role of a CPO. We can refer to it as an *Overseas Corporate Purchasing Organisation (O-CPO)*. It covers all the supply functions of an HQ-based CPO (and those of an E&L-IPO) but is located overseas. An



Overseas CPO takes overall responsibility of making global supply policy and of coordinating the relationship between the supply base in China and the relevant departments of a company, leads R&D projects of the company, and sometimes provides sales support and manages operations in a host country.

### *Retailer B*

*Retailer B* is a specialist retailer headquartered in the UK. In 2011, for the first time, the group sales coming from outside UK overtook those from the UK. The company expects that 75% of its revenue will be generated outside the UK by 2014. Aligned with its internationalization strategy, *Retailer B* intends to close hundreds of its stores in the UK. China and India are the key growth markets for *Retailer B* and the number of stores there continues to grow (22 stores in 15 cities in China in 2012). Furthermore, a retailer JV with a Chinese brand was set up in 2007, providing production capacity, supply base, complementary design capacity, and market channels.

The company does not conduct manufacturing and thus relies heavily on its supply base. It has a highly developed and expert supply chain management team in Asia, having acquired a toy design house's IPO in Hong Kong in 2007. It considers this a huge competitive advantage. Purchasing value in China represented 55% of total spending of the whole company. The balance is spread broadly, with significant proportions in India and Bangladesh, where clothing manufacture has been gradually transferred, due to even lower labour cost (than China) in both countries. Sourcing in Asia represents most of the company's direct spend.

The core product divisions of *Retailer B* started sourcing from China in 2006, using the Shanghai office of a Hong Kong-based intermediary, and then set up a Shanghai sourcing hub (initially an in-house ISO) in 2007. Also due to the fact that *Retailer B* opened its first shop in China in 2008, the ISO soon assumed more responsibilities and started to serve both global and local stores. Thus, it became an E&L-IPO, skipping the E-IPO stage. At the time of the research there were three sourcing hubs (IPOs) in Asia: Hong Kong for toys; Shanghai for home and travel systems; and Bangalore (India) for clothing. There are four satellite offices for the Bangalore hub: India (2), Bangladesh (1), and China (Guangzhou). In 2011/12 the CPO (including the product design team) was

gradually relocated from the UK to Hong Kong, bringing it close to both main supply and sales markets in both India and China and therefore became an Overseas CPO. The O-CPO led global supply policy making and R&D projects, coordinated the relationship between the supply base in Asia and the relevant departments of the company (e.g., commerce department), and managed the JV with a Chinese partner, which had manufacturing capabilities and many stores in China.

## 5. Discussion

### 5.1. A Dynamic Evolution Model of IPOs

Table 6 shows the evolution of the analysed IPOs among the five stages/types. The differences between the types represented by number, depth, and breadth of roles assumed by the IPO have been clearly elaborated in section 4. The *Lighting* and *Retailer B* IPOs were the only ones that reached the highest level i.e., O-CPO. However, most IPOs in our study tended to evolve sequentially upward toward a more empowered IPO until the point where they were when the data were collected, with the exemption of *Engineering* skipping in-house ISO stage, and *Retailer B* skipping E-IPO stage. Furthermore, all but one cases followed the same upward direction. The exception is represented by *Lighting* case in which a change in the company's global purchasing strategy caused the decision-making power previously given to the IPO being taken back to some degree and the office being rescinded from O-CPO to E&L-IPO stage. Finally, *Industrial C*, *Printing*, and *Solar* may gradually withdraw from the supply market in China, since the country's cost advantages are eroded.

INSERT TABLE 6 ABOUT HERE

Existing global sourcing process or stage models imply 'change over time' and tend to be unilinear and sequential (see section 2.2), therefore they have been considered 'evolution models'. In criticizing "stage" models on internationalization, Pauwels & Matthyssen (2001) observe that, at the operational level, there is often an assumed, predetermined, irreversible, and linear-cumulative progression of events and that the trajectory to the final stage occurs in a prescribed order, each stage of development being seen as a

necessary precursor of succeeding stages. To address this, they develop a dynamic theory of internationalization which they believe could explain non-unilinearity in the internationalization process of the firm such as international withdrawal and point out there are two conditions which could affect the linear evolution: contingency factors and managerial discretion that induces strategic dynamism.

Echoing them, Kamakura, Ramón-Jerónimo, & Gravel (2012) empirically identify a dynamic evolution model for SME internationalisation based on longitudinal data spanning 15 years. They claim that while there is evidence of “leapfrogging” one or two stages and of some re-trenching (firms at the highest global state have a 6% probability of moving back to advanced state), the general trend is to move toward a higher level of internationalization. In a similar vein, Monczka & Trent (1992) seem to be the only one who proposes implicitly a dynamic global sourcing process model.

Following Monczka & Trent (1992), Pauwels & Matthyssen (2001) and Kamakura, Ramón-Jerónimo, & Gravel (2012), we thus propose a dynamic evolution model for IPOs (figure 1). We claim that our model is dynamic (e.g., skipping a stage, re-trenching and possible withdrawal) and generally sequential and the sequential nature is contingent on two interfering factors: 1) the parent company’s decision to take the decision-making power back (e.g., *Lighting*); 2) the potential parent company’s decision to withdraw sourcing from China, for example due to the economic environment change (e.g., *Solar*, *Printing*, and *Industrial C*).

INSERT FIGURE 1 ABOUT HERE

In sum, it can be seen that our model (figure 1) refutes the arguments of the majority global sourcing process models (e.g., Rajagopal & Bernard, 1993) that skipping stages is impractical and global sourcing process is unilinear.

### 5.2. Strategic importance of China to MNCs

The interviewees of all the six advanced IPO cases suggested that the combination of both revenue contributed by China and spend in China as a percentile of total direct spend of the company seems to affect the roles and activities assigned to IPOs.

For example, the Director of Global Sourcing & Quality Assurance (also head of the O-CPO) at *Retailer B* said:

*“China is the predominant source arena for us so we are broadly about 55% of our total buy comes out of China. It expects the 75% of the revenue will be generated outside UK mainly China and India by 2014... Due to these two facets, we wanted to get more involved in the supply base, e.g., we relocated the design function to this office to improve speed to market.”*

Luo (2007) found that there is a shift from corporate integration to national integration for MNCs operating in China. Advanced MNCs tend to have 10% revenue contributed by China, which is of strategic importance to their growth. Schütte (1997) echoes this, arguing that there is a need for a regional strategy for an MNC in Asia and proposing that the strategic importance of a market (e.g., Asia) is determined by the market size potential and the availability of resources to MNCs.

Therefore, we propose the second-order construct “strategic importance of China to an MNC”, measured by “the sales revenue contributed by China” and “the percentage of China sourcing in the total direct purchasing value”, as an antecedent of the IPO stage (i.e., depth and breadth of roles). Following Luo (2007), Beebe (2007), and The Economist Intelligence Unit (2011), we operationalize the two measurements as such: if an MNC obtains more than 10% revenue and sources more than 20% from China, China is strategically important to that company; if an MNC obtains either more than 10% revenue or spends more than 20% but not both, then the strategic importance of China is medium; if both dimensions are below these levels, the strategic importance is low.

It can be seen from table 7 that for *Appliances, Engine, Engineering, Lighting, Retailer A, and Retailer B* the revenue contributed by China was more than 10% and that purchasing in China was more than 20% of total spending. The strategic importance of China was thus high to these MNCs. China represented both major sales and supply markets for the case companies. The types of IPO for them were O-CPO (*Retailer B*) and E&L-IPO (the rest). Further down the list, purchasing in China was more than 50% of the total purchasing value globally for *Industrial B, Industrial Tools, and Solar* and 30% for *Printing*, but the revenue contributed by China was less than 10%. The strategic importance of these IPO was therefore medium. For these companies, China represented a major supply market only. They tended to be exporting IPOs. Going even further down

the list, both the revenue contributed and purchasing in China were less than 10% for *Automation, Identification, Industrial A*, and *Industrial C*. They had ISOs.

INSERT TABLE 7 ABOUT HERE

It seems that there is a correlation between the strategic importance of China to an MNC and the evolution of the IPOs (see Figure 1). We therefore propose that:

P1. The greater the strategic importance of China to an MNC, the more extensive and the deeper will be the responsibilities assigned to and roles assumed by its IPO in China.

Since we define the IPO types based on the roles assumed, the strategic importance determines the IPO types.

P2. The greater the strategic importance of China to an MNC, the more advanced will be its IPO toward O-CPO.

## **6. Conclusion**

In this paper, we set out to develop an activity/role-based IPO typology and an IPO evolution model. We have achieved this by identifying five types of IPO, based on the roles assumed and activities carried out. We have also built a Dynamic Evolution Model of IPOs, challenging the unilinear and sequential nature of existing global sourcing process models. Finally, we have shown the causal link between the strategic importance of China to its parent company and the depth and breadth of activities (i.e., IPO type).

### *6.1. Implications*

This research contributes to the global sourcing branch of the IB literature in a number of ways. *First*, this is the first paper to discuss the roles played by an IPO at different stages of evolution and the change of roles over time. The application of role theory proved to be a useful way of differentiating the evolution stages. We also identified four strategic roles (i.e., *supply policy maker, innovation facilitator, supply network orchestra*, and *knowledge broker*) assumed only by the advanced IPOs and eight routine roles. *Second*, this research highlighted the role of knowledge broker, not discussed in the previous

literature. The cases revealed that advanced IPOs may have gained more global supply chain management and host country knowledge than CPOs and are well positioned to transfer such intelligence to those who need it, including CPOs. This is akin to reverse knowledge transfer, i.e., MNCs learning from their subsidiaries (Ambos, Ambos, & Schlegelmilch, 2006). *Third*, existing literature takes a headquarter-centric view on global sourcing; this paper is one of the first to show that IPOs could assume a proactive, or even a leading, role represented by assuming the four strategic roles in global sourcing of MNCs in a geographical region (e.g., China). This is a point of departure from previous research and may open a new avenue of research. *Fourth*, this work theorizes by proposing the construct of the strategic importance of China to IPO's parent company and links it with the IPO types, conducive to further theory building. *Last*, previous global sourcing/purchasing process models (e.g., Rajagopal & Bernard, 1993; Trent & Monczka, 2003) were silent on the detailed stages after an MNC started sourcing from a low-cost country and prescribed a sequential and unilinear evolution for global sourcing. Moreover, majority of them are conceptual in nature. This paper fills this gap, providing empirical evidence for a dynamic evolution model of IPOs in which an IPO could 'leapfrog', 'downgrade', or 'be withdrawn' depending on contingent factors and internal strategic change. This is aligned with the dynamic evolution internationalisation models and challenges the strictly sequential and unilinear nature of the existing models.

This paper has also a number of implications for business in general and managers in particular. First, the dynamic evolution model represents a tool for MNC managers to assess their global purchasing and IPO stages and decide whether they want to upgrade, degrade, leapfrog, or remain the same. The need for such a stage-model in the industry is also highlighted by BCG's report on "Sourcing from China", which proposes four stages characterized by an increasing level of involvement in the supply market in China (Hemerling & Lee, 2007). Our model, building upon empirical data, identifies the roles (and activities) that could be assumed by each IPO stage. We therefore provide managers with a more detailed framework; this has implications for IPO organisational design and the skill set required by the IPO staff and management. Second, this paper shows that advanced IPOs assumed a proactive or even a leading role in the advanced stages global sourcing of MNCs. This has implications for MNC's CPOs and IPOs. On the one hand, it

challenges those MNCs taking a headquarter-centric view on global sourcing; on the other, it provides examples for those IPOs who wish to upgrade, to persuade or influence their CPOs, and so on. Third, the strategic importance construct helps managers to assess the fit between the strategy and the global purchasing structure of their MNCs, possibly providing them with reasons for upgrading or downgrading. Furthermore, it suggests managers must be clear about their motives for sourcing from China, rather than simply engaging in global sourcing because others also do it.

### *6.3 Limitations and future research directions*

The sample size of this study limits its generalisability to the whole IPO population; we tried to ameliorate this by including IPOs in different stages and in different scenarios. In future research, a survey of IPOs could address this limitation and allow the findings to become more generalisable.

Since we only had two IPOs at the O-CPO stage and the roles and activities seem to further expand into sales and operations management in a host country, it is not very clear how the supply management and sales/operations management functions are integrated into the same entity. According to Luo (2007) and some recent consultancy reports (The Economist Intelligence Unit, 2011; KPMG, 2012), there is a tendency for advanced MNCs to have a China or Asia regional strategy coordinating supply and sales management. This could be another future research direction.

The dynamic evolution model itself needs more clarification. In particular, the mechanism of upgrading and downgrading and the other affecting factors in addition to strategic importance (e.g., contingencies and managerial discretion) need to be further identified and empirically tested.

Finally, research may also be performed on the intermediary ISO stage. This has implications for small and medium enterprises (SMEs) who struggle to find the stable overseas supply due to their small orders.

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