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Optimizing Performance Outcomes of Manufacturing Firms: Does Plural Sourcing Matter?

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INTRODUCTION

A prime question that has dominated much of strategic management research is: What determines superior firm performance? Over almost two decades, scholars have sought to examine the role of various factors that could possibly influence business performance of a firm. This is because regardless of the country's boundary consumers from other parts of the world, in fact, have financially benefited from continuous escalation on volume of products of lower prices imported from developing countries. The increased pressures from fickle consumers and uncertain business environment are making more and more firms to recognize the strategic role in the rapid change of business environment. The firms ought to have the capability of responding the changing business environment efficiently and effectively, where sourcing can play a significant role in order to achieve sustainable competitive advantage (Bruce & Daly, 2011; Gligor & Holcomb, 2014; MacCarthy & Jayarathne, 2012).

Firms in the manufacturing sectors are facing the most inevitable challenge to decide whether products to make through internal effort, or solicit from outside independent suppliers (buy) with a high degree of economies-of-scale to enhance efficiency and productivity (Espino-Rodríguez & Lai, 2014; Hilman & Mohamed, 2011; Lafontaine & Slade, 2007). Efficiency and productivity thru reducing costs, maintain high quality, flexibility, improved delivery dependability, and prompt quick response enable a manufacturing firm to achieve competitiveness and performance (Su & Gargeya, 2012).

These perspectives assessment to decide in-house production (Make) by adapting the cost strategy or source externally (buy) by adapting differentiation. There are fewer studies to understand the long-term benefits of outsourcing to the firms (Hunter & Hall, 2011; Premuroso, 2008). Previous researches have conceptualized sourcing strategy and its effects on organizational performance, in which some of them emphasize on make or buy of sourcing (Espino-Rodríguez *et al.*, 2014; Hilman & Mohamed, 2011; Lamminmaki, 2011).

Extent literature considered sourcing as an evident governance modes or forms but little attention has been given to the underlying quality of relationship of sourcing firms which might influence performance. Extent literature to date about the relationship quality focused mainly on western culture and stable business environment and yet little know about the manufacturer's relationships with its key suppliers in emerging economies (Yang, Yu, Liu, & Rui, 2015).

Thus this study aims to provide an integrated model of competitive strategy, sourcing strategy, sourcing relationship quality and firm performance. Thus, the corresponding objective of this study is to address the quotation on how manufacturing firm can achieve better performance.

LITERATURE REVIEW

Sourcing Strategy

Sourcing is a useful way to adapt the firm's boundaries by restructuring its activities in order to stimulate the growth of its core business (Bustinza, Arias-Aranda, & Gutierrez-Gutierrez, 2010). Sourcing is not simply a purchasing decision also represents the fundamental decision to reject to do an activity in-house (make) and look for outside to optimize productivity and increase performance of a firm (Größler *et al*., 2013; Hilman &Mohamed, 2011; Quinn, 1999). Previous researchers found that sourcing strategy (make or buy) has mix impact on firm's performance (Heide, Kumar, & Wathne, 2014). Sourcing is known for its effect on value chain or related manufacturing activities (Kotabe, 1998; Mol & Kotabe, 2011). Based on Transaction Cost Economics (TCE), manufacturing firm makes decision either to produce a product through market based contract if this transaction cost is lower than producing internally (Jaklič *et al.*,2012, Lin *et al*., 2012; Mohiuddin & Su, 2013). This leads firm to consider sourcing as it become strategic forefront of modern practice in enhancing firm performance and competitive advantage (Weele &Raaij, 2014). Sourcing practices in the era of global supply chains, products are bought from multiple companies and across multiple continents in their path from material suppliers to the final consumer (Shmueli, 2011).

Make Strategy

Firms to recognize the strategic role that sourcing can play in achieving sustainable advantage. Transaction cost economics (TCE) suggests that firms should produce goods in-house (make) if the transaction cost of such product 'market based contract' is higher (Jaklič *et al.*, 2012; Mohiuddin & Su, 2013; Wallenburg *et al.*, 2010) firm must focus to make a product internally concerning if it could achieve economies of scale which requires the firms to reduce cost and increase efficiency. Prior research found that firm that opt for make strategy will have opportunities to reduce production cost, improve production efficiency and enhance quality through the use of advanced machinery (Jacobides & Winter, 2005; Ha¨tonen & Eriksson, 2009).

Buy Strategy

Buy strategy or outsourcing refers to any goods and services that are procured from outside suppliers (Mol & Kotabe, 2011). For the decade the buy option has become increasingly significant due to its potential benefits, which firms rely a lot on suppliers as to reduce firm's total costs besides enhance its competitive advantage (Driedonks *et al.*,2014; Gadde*et al.*,2010; Hilman & Abidin, 2012; Sundquist, Hulthén & Gadde 2015). Manufacturing firms in Bangladesh get order from abroad or local customers which perhaps not related to firms product line. Thus to meet the order from customers, it is difficult to develop a new product within a firm because of slower and risky method (Wang *et al.*, 2014; Wagner, 2014). A manufacturing firm can considered the buy strategy to meet the order of unrelated products or excessive order of products produce by external suppliers (Abdullah *et al.*, 2011; Wagner, 2014).

Competitive Strategy

Competitive strategy represents that firm's business strategy orientation toward external environmental conditions that include competitors and customers (Abdullah et al. 2009; Dadzie, Winston & Dadzie, 2012; Hitt, Ireland & Hoskisson, 2015). To gain a competitive advantage, it is the "Holy Grail" of strategic management research (Helfat & Peteraf, 2009). The literature suggested that resource-based view (RBV) and market-led view are useful but considered as oversimplify choices firms make to use resources and assets, identifying external opportunities, either new and existing markets or market niches of globally connected economy that create opportunity to establish competitive advantage and achieve strategic fit for competitive firms (Barron & Hollingshead, 2004; Espino-Rodríguez & Lai, 2014; Hilman & Mohamed, 2011; Hilman & Warokka, 2011; Kang, Wu, Hong & Park, 2012; Porter, 1985).

Cost leadership strategy

Cost leadership strategy is an integrated set of actions taken to produce goods with unique features that are sold to customers at the lowest cost compared to competitors or at reduced cost to achieve superior profitability (Teeratansirikool, Siengthai & Badir, Charoenngam, 2013). Manufacturing firm striving to reduce production cost and cost reduction is recognized by far as the main driver for sourcing (Ha¨tonen & Eriksson, 2009). Firms following a cost leadership strategy try to obtain the lowest costs in their environment, offer good prices to its customer, obtain profits and remain competitive (Dadzie *et al.,* 2012; Espino-Rodrígueza & Lai, 2014; Hitt *et al.*, 2011; Porter, 1985; Spanos *et al.*, 2004).

Cost leadership is one of the Porter generic strategies that firms pursue does not directly affect firm performance, it does so indirectly and significantly by having the lowest cost in the industry and allow firms to remain competitive (Anon, 1988; Espino-Rodrígueza & Lai, 2014; Hilman & Abidin, 2012; Porter, 1980; Powers & Hahn, 2004; Solberg & Durrieu, 2008; Teeratansirikool *et al.,* 2013).

Differentiation strategy

Differentiation strategy develops a competitive advantage by creating strategy as unique or alleged to be product/services which driven from internal resources that comprised capabilities, knowledge, and skills (Dadzie *et al.*, 2012; Hilman & Mohamed, 2011; Porter, 1980).Prior researchers have refined and conceptualized the differentiation strategy across several dimensions, including product differentiation, marketing differentiation, quality differentiation, service differentiation and innovation differentiation strategies.

We have conceptualize differentiation strategy in this study as a competitive strategy because it is the most commonly used strategy in most sectors (Dadzie *et al.,* 2012; Espino-Rodríguez & Lai, 2014; Hilman & Abidin, 2012; Kang *et al.*, 2012; Ortega, 2010).

Firms use differentiation strategy can charge a higher price for their products uniqueness (Allen *et al.*, 2008; Murugesan *et al*., 2012; Schoenherr, 2012; Wiengarten *et al.,* 2011). Efficient firms are able to respond to uncertain changes to provide customers with desired products or address problems associated with a rapid surge in demand besides ensuring its competitiveness (Jacobs & Chase, 2010; Lee *et al.,* 2015). Thus, a firm recognizes for its differentiation for unrelated product to fulfil customer demand need to build capabilities securing competitive advantage based on flexibility (Jacobs & Chase, 2010; Lee *et al.,* 2015).

Sourcing Relationship Quality

Strategic management literature have focused and recognized the significance of buyer–supplier relationship enlargement in successful economic exchanges between firms (Bastl, Johnson, & Choi, 2013; Yang, 2013; Wang, Li, Ross, & Craighead, 2013). Manufacturing firms considering the relationships quality might have several advantages such as; enhancing efficiency and innovation (Revilla & Villena, 2012), improving new product development (Salvador & Villena, 2013), boosting firm performance (Stewart, Zacharia, & Artis, 2012), and reducing opportunism and uncertainity (Wang, Li, Ross, and Craighead, 2013). Previous literature suggested that, given differences in strategic priorities, there are differences in the types of characteristic firms look for in supply chain partners quality, relationship and integration (Anderson *et al.,* 2011, Roh, Min, & Hong, 2011; von Massow & Canbolat, 2014). Therefore, this study conceptualizes the sourcing relationship quality to measure the moderating influence over sourcing strategy and firm performance relationship.

Organizational Performance

Organizational performance is defined as outcome of a firm's attempt to leverage relevant strategies and techniques to achieve organizational goals. The method by which it is measured is dependent upon (a) the industry in which the firm operates, and (b) the parameters of the research model used to typify it. Typically, firms gauge organizational performance using financial and non- financial outcomes related to certain aspects of the quality and operations they employ (Lee *et al.*, 2015). To promote organizational performance, manufacturing firms may seek to improve product quality, limit costs, and improve operational efficiency. Performance measures provide a set of mutually reinforcing signals that direct managers' attention to the important strategic areas that translate to organizational performance outcomes (Dixon *et al*., 1990). Firm performance is the final outcome that is observed across the literature. It refers to the success of a firm in fulfilling its business goals (Yamin *et al.*, 1999; Li *et al.*, 2006).

METHODOLOGY

Industrial Economics

Typically, IO suggests that firms can earn above-average returns by producing either standardized goods or services at costs below those of competitors (a cost leadership strategy) or by producing differentiated goods or services for which customers are willing to pay premium price (a differentiation strategy) (Hitt et al., 2015). Firms performance generally can be increased only when they operate in an industry with highest profit potential and use their resources to identify and implement strategy best suited with required by the industry's structural characteristics (Brauer & Wiersema, 2012; Posen, Lee, & Yi, 2013). Proponents of IO economics hold industry structure is central determinant of firm performance and firm differences are considered against industry background (Porter, 1980). According to Bain (1968), IO economics is concerned with the economy and wide complex of firms of various functions as suppliers, sellers, or buyers, of goods and services.

Transaction Cost Economics

According to Williamson (1985), Transaction Cost Economics (TCE) focuses on transactions and the costs incurred via completing transactions by one institutional mode rather than another. The transaction either make or buy a product, is the unit of analysis in TCE, and the means of affecting the transaction is the principal outcome of interest (Tadelis & Williamson, 2012). TCE suggests that the costs and difficulties associated with market transactions sometimes favour hierarchies (make) and sometimes favor markets (buy). Based on TCE, manufacturing firm makes decision either to produce a product through market based contract if this transaction cost is lower than producing internally (Jaklič *et al.*,2012, Lin *et al*., 2015; Mohiuddin & Su, 2013). Therefore, TCE provides the theoretical basis to conceptualize the sourcing strategy for manufacturing firms either to make or buy the products.

Resource Based View Theory

This view appeared in the 1960s and 1970s when organizational theorists combined research on inter-organizational relations and political economy of organizations. This theory defines resources as tangible and intangible assets that are tied semi-permanently to a firm (Wernerfelt, 1984). According to RBV, firms are viewed as collection of various types of resources and capabilities; such as, internal factors that are semi-permanently linked to the organization, and these resources and capabilities are suggested as forming the basis of a firm's superior performance and competitive advantage (Barney, 1991; Wernerfelt, 1984). In the RBV of the strategic management pays specific attention to the genesis and development of the organization's internal resources and capabilities as a source of sustainable competitive advantage firm (Barney, 1991, 1996; Grant, 1991; Hall, 1992; Teece, 1997).The constitution of the resource-based view of the firm has over the decades shifted its focus from more or less general resources and their firm-specific combination and use towards the generation and use of intangible assets such as capabilities and competences (Espino-Rodríguez *et al.*, 2014; Hitt *et al.*, 2015).

Social Exchange Theory

Social Exchange Theory provides a potential perspective in understanding the nature of relationship between outsourcing providers and their clients (Bottom, Holloway, Miller, Mislin, & Whitford, 2006; Emerson, 1976; Homans, 1958). Emerson (1976) defined SET as regarding actions that are contingent on rewarding reactions from others. This theory, with roots traceable in the l920s, has remained very

powerful in conceptualizing workplace behavior and has been used in diverse fields as anthropology, social psychology, and sociology, and in different settings like social power, networks, board independence, psychological contracts, and leadership (Cropanzano & Mitchell, 2005).
In sum, evolution and continuance of outsourcing partnership may be described in terms of a social exchange process between two or more firms conceptualized as collective actors. Partners will be interdependent through socialization and will exhibit reciprocal behavior because they will be morally obligated to serve each other's purpose (Kingshott, 2006).

DISCUSSION

Sourcing practices in the ear of global supply chains, products are bought from multiple companies and across multiple continents in their path from material suppliers to the final consumer (Shmueli, 2011). According to Teece (2009), if the outside independent supplier has the capability of meeting the buyer's demands and can convince the buyer that a high degree of quality service is an exclusive property, then the buyer will continue to outsource instead of internally perform the activity. However, it requires firms to coordinate its interdependent activities as to ensure buy or sourcing strategy function as intended (Clark & Stoddard, 1996; Jarvenpaa & Stoddard, 1998; Tang & Rai, 2012; Shapiro & Varian, 1999). Outsourcing remains a common management practice, even though "significant questions arguably remain as to the adequacy of the typical framing of the outsourcing decision to achieve the performance of a manufacturing firm.

Transaction Cost Economics (TCE) focuses on transactions and the costs incurred via completing transactions by one institutional mode rather than another. The transaction, to produce a product is the unit of analysis in TCE, and the means of affecting the transaction is the principal outcome of interest for a manufacturing firms (Tadelis & Williamson, 2012, Williamson, 1985). On the other hand, TCE emphasizes the relationship between characteristics of isolated transactions, focusing primarily on the role of efficient management and analyzing why firms exist, while RBV focuses on the search for competitive advantage through resources and capabilities analysis (Espino-Rodrígueza & Lai, 2014; Hilman & Abidin, 2012; Tadelis & Williamson, 2012; Williamson, 1985).

A firm may fail or stuck in the middle in selecting the most appropriate generic strategy (Porter, 1980). To avoid such inconsistency of the generic strategy, a firm can consider to mix, hybrid, or combine these generic strategies base on the firm resources, capabilities and strategic choices of make or buy (Acquaah & Yasai-Ardekani, 2008; Espino-Rodríguez & Lai, 2014; Hilman & Warokka, 2011; Spanos *et al.*, 2004). Henceforth, in this hyper competitive environment firms are being forced to determine the best strategic fit of strategic factors to remain competitive and secure better organizational performance (Barney et al., 2011; Hilman & Mohamed, 2011, Wang et al., 2015).

Therefore, this study contributes to the literature by developing a research model based on a multi-theoretical perspective for manufacturing firms. This study has enlighten the literature to provide the link between competitive strategy and sourcing strategy and their relationship with performance of manufacturing firms. Moreover, sourcing relationship quality construct developed in this study as a moderator to investigate that how it affects or influence the firm's performance. Figure 1 shows the conceptual model of this study.

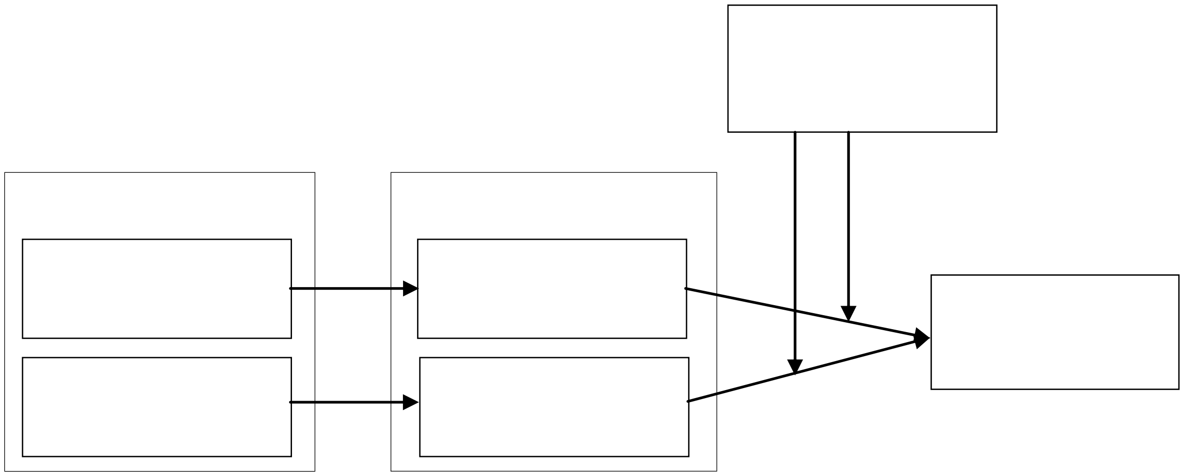

Figure 1: Conceptual Framework

CONCLUSION

Previous researches have conceptualized sourcing in terms of its evident governance modes or forms but little attention has been given to its underlying processes or the mechanisms that govern the relationships in question. Relationship quality assesses the extent to which a business relationship between sourcing firms involves commitment and cooperation from both parties, and performance targets that are less clearly specified. However, the literature is not conclusive on whether contractual relation between buyer and supplier reduce goal misalignment therefore mitigate the risk and uncertainty in market. These perspectives, the construct of sourcing relationship quality in this study represents the longer-term business relationship between buyer and supplier impacted to enhance performance.

The corresponding goal of this study was to address the quotation on how manufacturing firm can achieve better performance. To fill the gap of time until today, this paper conducts a thorough overview and confirms that especially in developing country like Bangladesh suggest prevailing and high-performing strategic choices in the ever-increasing body of empirical evidence. Various approaches and multiple strategies can deal with the competitive environment and contribute to achieve desired objectives of the firm. As an integrated approach of this context, competitive strategy, sourcing strategy, and relationship quality ensure firms to adapt in a competitive environment and help to enhance firm performance.

Model proposed in this study helps firms in the manufacturing sectors to decide whether products to make through internal effort, or solicit from outside independent suppliers (buy) with a high degree of economies-of-scale to enhance efficiency and productivity (Espino-Rodríguez & Lai, 2014; Hilman & Mohamed, 2011; Lafontaine & Slade, 2007). Efficiency and productivity thru reducing costs, maintain high quality, flexibility, improved delivery dependability, and prompt quick response enable a manufacturing firm to achieve competitiveness and performance (Su & Gargeya, 2012).

We have addressed the key issues and existing gaps in the literature related to the relationship of competitive strategy, make or buy (sourcing) strategy on firm performance in the manufacturing sector. However, there is still much to investigate concerning the conceptualization of proposed model as strategic choice of enhancing firm performance. Future research can be conducted in service sector. Moreover, to dwell the sourcing strategy, firm size, length of the relationship with supplier can be influenced the proposed framework.

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