A Globalizing Perspective on Purchasing Strategies

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Summary

Despite the critical importance of purchasing in a majority of globalizing industries, the attention for international purchasing as a strategic pillar of the global firm is fairly new (Gadde and Håkansson 2001; Samli, Browning and Busbia 1998, Kotabe and Murray 2004).

In this paper, we present Global Purchasing Strategy (GPS) as a central mediating construct of explanatory models of international purchasing performance. We conceptualize GPS as the counterpart of Global Marketing Strategy (GMS) as defined and operationalized by Zou and Cavusgil (2002) This approach is in line with previous research that looks at purchasing through marketing glasses (e.g., Kotler and Levy 1973; Leenders and Blenkhorn 1988; Welch and Luostarinen 1993). Relying upon GMS, we conceptualize GPS as a construct that builds upon three dimensions: standardization, configuration and coordination (Zou and Cavusgil 2002).

Further, we hypothesize on the antecedents and performance consequences of GPS. Antecedents capture both external factors (e.g., government support) and internal factors. Among the internal factors, we distinguish firm-related (e.g., experience on international markets), management-related (e.g., top management’s vision on purchasing), and product-related factors (e.g., experience with the purchase of a specific product). International purchasing performance covers both the evaluation the achievements of the company (due to GPS) and the purchasing function. Both parts are operationalized respectively through a temporal comparison of the company’s financial and strategic position and the realization of purchasing goals.

GPS as well as the presented model attempt to streamline future explanatory research on international purchasing.

Keywords

international purchasing, global purchasing strategy, marketing perspective, conceptual

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Abstract

We present Global Purchasing Strategy (GPS) as a central construct for explanatory models of international purchasing performance. We conceptualize GPS as the counterpart of Global Marketing Strategy. GPS is a construct that builds upon three dimensions: cross-border standardization, configuration and coordination. We argue that GPS positively affects the degree of internationalization and that it is a central mediating construct towards international purchasing performance. Finally, the paper presents hypotheses on the antecedents and performance consequences of GPS.

Introduction

In the light of the globalization of competition in an increasing number of industries (Bartlett, Ghoshal and Birkinshaw 2003), the importance of purchasing can no longer be underestimated. However, to date an unbalance exists between the insights found in literature and the actual importance of purchasing as leverage towards global firm performance. Indeed, the attention for purchasing as a strategic pillar of the cross border competitive firm is fairly new (Gadde and Håkansson 2001; Samli, Browning and Busbia 1998). A truly international perspective on purchasing strategy remains a fallow research field (Kotabe and Murray 2004).

To accommodate to the need for more conceptualization in international purchasing, we present Global Purchasing Strategy (GPS) as a central mediating construct of explanatory models of international purchasing performance. Developed as the counterpart of Global Marketing Strategy (GMS; Zou and Cavusgil 2002), we conceptualize GPS as a multidimensional construct that builds upon three dimensions: standardization, configuration and coordination.

The remainder of this paper is organized in three sections. First, we build upon the global marketing strategy construct (Zou and Cavusgil 2002) as our point of departure for GPS. Next, we conceptualize GPS. Finally, we develop a model in which GPS takes the central mediating role towards international purchasing performance. With respect to this model, a number of propositions are developed.

A Point of Departure: Global Marketing Strategy

In line with Kotler and Levy (1973), Leenders and Blenkhorn (1988), and Welch and Luostarininen (1993), we take a marketing perspective to expand purchasing theory. To develop GPS construct, we rely on the established Global Marketing (GMS) construct. Zou and Cavusgil (2002, p. 42-43) define GMS as: “the degree to which a firm globalizes its marketing behaviors in various countries through standardization of the marketing-mix variables, concentration and coordination of marketing activities and integration of competitive moves across markets”. GMS is positively influenced by international experience, global orientation and certain external global conditions. Cavusgil and Zou (2002) show that both strategic and financial performance are positively affected by GMS. GMS integrates three dimensions of global marketing strategy: standardization, configuration-coordination and integration. We discuss each dimension shortly hereafter.

Standardization

The standardization dimension includes both marketing program and process standardization (Jain 1989; Özsomer, Bodur and Cavusgil 1991; Schuh 2000). Process standardization focuses on marketing philosophy, principles, and technology that are used when planning and implementing marketing programs (Özsomer, Bodur and Cavusgil 1991; Walters 1986). Program standardization aims at standardizing the marketing mix (Szymanski, Bharadwaj and Varadarajan 1993).
**Configuration-Coordination**

In line with Porter (1986), global strategy has two main components which are entwined with the organizational structure: (1) the configuration of value-adding activities and (2) the coordination of these activities. Both aim at enhancing efficiency and creating synergies (Craig and Douglas 2000; Porter 1986). Configuration is often reflected by the concept of (de)centralization (Roth, Schweiger and Morrison 1991; Zou and Cavusgil 1996). It is a measure for the level of dispersion of responsibilities and decision authority from top management to lower management levels (Kotteaku, Laios and Moschuris 1995; Olson, Slater and Hult 2005). Coordination is seen as a tool to enhance synergies, originating from economies of scope, scale and learning (Roth 1992).

**Integration**

The integration dimension focuses on the global scope of competitive action and reaction. The central idea deals with how a firm’s competitive battles are fought in different markets and how these efforts are effectively integrated (Birkinshaw, Morrison and Hulland 1995).

In general, GMS captures a firm’s degree of globalness in how it strategically markets its offerings. It is appealing to translate this GMS conceptualization into a purchasing context, since both ends of the buyer-supplier dyad faces similar challenges due to high competitive pressure. However, a number of pitfalls could hamper this translation. First, the aim of a marketing strategy differs from the aim of a purchasing strategy. Whereas the former may directly impact upon market share, customer satisfaction, etc. the latter cannot/should not due to its very position in the value chain. Purchasing strategy may have direct effects on risk reduction, cost cutting, the optimization of sourcing networks etc., yet only indirect effects on corporate performance measures. Second, the operationalization of GPS should rely on the very purchasing function and managerial instruments. For instance, the 4P operationalization of marketing mix standardization can only partially be translated into a purchasing context.

**Global Purchasing Strategy: The Construct**

We posit Global Purchasing Strategy (GPS) on the product type level as different product groups require different purchasing strategies (Kraljic 1983). As such, we concentrate on products that are similar in terms of product characteristics, application, supplier base etc.

Capturing GPS, one has to focus and integrate the firm’s buying process. Although the number of steps is not exactly defined and various authors stress different aspects of the buying process (e.g., Carter and Narasimhan 1990; Robinson, Farris and Wind 1967; Van Weele 2004), there is general agreement that, from the beginning of the buying process until the end of the actual buying activity, the following five activities will occur: (1) screening and analysis of suppliers, (2) supplier selection, (3) negotiation and contracting, (4) ordering, (5) evaluation and follow-up. While this focus is purchasing-specific, we remain close to the three-dimensional conceptualization as developed in Zou and Cavusgil (2002): standardization, configuration-coordination and integration.

**The Degree of Standardization**

Lysons and Gilligham (2003) enumerate a number of advantages of standardization in the purchasing context. These advantages include the ease of comparison, the facilitation of international purchasing due to the use of ISO norms, cost reduction, clearer specifications and consequently, the reduction of uncertainty. So, standardization has an effect on different levels (product, company, process). Standardization can also take place on different levels. In line with the marketing standardization, we can discern process and non-process related aspects. The process-related aspects refer to the standardization of the various phases in the buying process. Every action in the buying process can up to a certain degree become standardized.

Non-process aspects refer to product-specific aspects that can be standardized. Product standardization includes elements of specification settings, quality standards and degree of after sales service. Products bought can be standardized up to a certain level, depending on the purpose of buying: the purchase of a critical component in an innovative new product will probably be less
standardized than the purchase of writing materials. Campbell (1985) distinguishes three types of buying situations for which the degree of product standardization can vary: competitive buying, cooperative buying and command buying. In the case of competitive buying, there will be a higher desire for standardized products that be offered by many suppliers. For which the company will experience low switching costs. The other two types of buying situations will experience higher switching costs, since the call for standardized products is not emergent.

We therefore include two types of standardization in our conceptualization: standardization of the buying process and product standardization.

**The Degree of Configuration and Coordination**

The structure of the purchasing function depends on the purchasing needs as well as on the purchasing history. With respect to the centralization issue, three types are distinguished: centralized, decentralized and mixed purchasing structures. Fearon (1988) found that most of the US manufacturing companies had a mixed purchasing structure. In one third of the companies, purchasing was centralized, while a complete decentralized purchasing function was only found in a small number of companies. Currently, however, there is a trend towards more decentralization forced by new management concepts as lean management and business process reengineering (Arnold 1999). This decentralization includes risks (decentral units may become too small for efficient global sourcing) as well as opportunities (in terms of entrepreneurship in the decentral unit) (Arnold 1999). It remains important, though, that there is a close fit between the structure of the purchasing function and the objectives that are given to this function. Elaborating on this subject, Arnold (1999) has identified three main types of purchasing organization models: (1) central purchasing, (2) coordination, and (3) outsourcing model.

Purchasing coordination is believed to encompass and manage synergies from economies of scale, scope, process, and learning (Faes, Matthysens and Vandenbempt 2000). Especially in a global purchasing environment, coordination could be an effective contribution to create synergy and competitive advantages (Rozemeijer 2000). Matthysens and Faes (1997) describe four types of purchasing coordination. First, purchasing issues can be coordinated by the largest user of a specific product or product group or by the user that is located in the supplier’s country of origin. Second, headquarters can coordinate the purchasing activities. Third, the company can install different regional purchasing groups to coordinate the purchasing activities. Finally, the company can set up profit oriented purchasing centers, which sell their services to various customers within the company.

Zou and Cavusgil (2002) measure configuration and coordination as the extent to which the marketing activities of the marketing mix elements are “deliberately performed in a single or a few country locations” (p. 43) or “planned and executed interdependently on a global scale” (p.43) respectively. Focusing on the context in which products are bought and organized internationally, we can define a degree of centralization or coordination accordingly.

**The Degree of Integration**

As we try to conceptualize integration in our GPS construct, a problem of terminological confusion raises. Integration, as defined by Zou and Cavusgil (2002), covers the “game” of increasing market shares, snatching customers away from competition, subsidizing one move from resources generated by another move, and trying to be the first in a certain market. This “war behavior” could also occur to a certain extent in purchasing environments, such as advantages of being the first to purchase in a new market or demanding exclusivity contracts. Integration in this setting relates more to the degree of fitting the total of competitive “games” within the global business operations in order to optimize the international purchasing function. This fitting will be realized by a lot of coordination efforts. Although less frequently occurring than in a marketing environment, subsidizing one purchasing move by resources generated from another would, again, very strongly rely on coordination efforts. Therefore, in our vision, integration could be seen as an aspect of coordination, rather than as a separate construct. For this reason, we categorize the integration efforts of a firm as part of the coordination dimension in GPS.
Table 1 summarizes the mirror of GMS-GPS and the conceptualization measures for GPS. In the reminder of the text, we will develop the other elements of our conceptual model. The model itself is represented in figure 1.

Towards Purchasing Performance

Literature distinguishes between two levels of performance: performance of the company as a whole and performance of a particular organizational function. This has also been the case for international purchasing. While Kotabe, Murray and Javalgi (1998) and Murray, Kotabe and Wildt (1995) focused on firm performance, Narasimhan and Das (2001) looked at the realization of various performance goals related to the purchasing function (e.g., cost reduction, delivery performance and quality performance). Firm performance in addition, is typically operationalized as a bi-dimensional construct capturing strategic performance (e.g., market share, sales growth rate) and financial performance (e.g., return on sales, return on investment) (Kotabe, Murray and Javalgi 1998; Murray and Kotabe 1999).

FIGURE 1
Conceptual Model
Since the ultimate aim of any purchasing strategy is to contribute to the performance and efficiency of the company, various studies have given sufficient insight on which variables affect the performance of a firm in an international purchasing context. Kotabe and Omura (1989) found no significant results for the hypotheses that country of assembly and the source of assembly (internal/external) positively influenced firm performance. Internal purchasing (affiliates buy from each other internationally), however, has been found to determine market performance (Kotabe and Murray 1990). Murray, Kotabe and Wildt (1995) indicate that internal purchasing has a particular advantage over external purchasing in cases where asset specificity is emergent. Foreign purchasing of supplementary services, however, is negatively related to a firm’s market performance (Kotabe, Murray and Javalgi 1998). Petersen, Frayer and Scannel (2000) found a positive association between top management commitment and the effectiveness of global purchasing, as did global purchasing business capabilities, while Skarmeas, Katsikeas and Schlegelmilch (2002) indicate that the importer’s commitment to an overseas supplier has a positive effect on the importer’s performance in the relationship. All these findings indicate that the global purchasing context indeed influences firm performance. However, little empirical findings have focused on aspects related to the dimensions of GPS.

### TABLE 2
Performance measures

<table>
<thead>
<tr>
<th>Measurement scale</th>
<th>Adapted from</th>
<th>Measurement items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of a purchasing function</td>
<td>Narasimhan and Das 2001</td>
<td>Cost reduction, quality and delivery performance, customization responsiveness</td>
</tr>
<tr>
<td>Strategic performance</td>
<td>Kotabe et al. 1998; Murray et al. 1995</td>
<td>Market share, sales growth rate</td>
</tr>
<tr>
<td>Financial performance</td>
<td>Germain and Dröge 1997</td>
<td>Profit growth, profit, ROI, ROA</td>
</tr>
</tbody>
</table>

In the marketing field, the relationship between GMS and performance is empirically supported (Cavusgil and Zou 1994; Samiee and Roth 1992; Zou and Cavusgil 2002). Based on their findings, we postulate the following propositions.

Proposition 1a: GPS positively affects a firm’s strategic performance.
Proposition 1b: GPS positively affects a firm’s financial performance.
Proposition 1c: GPS positively affects the performance of a purchasing function.

In line with Porter’s (1986) classic value chain logic, it is plausible that the performance of the purchasing function will act as a mediating construct between GPS and the two constructs of firm performance. After all, the performance of the firm will depend on the performance of all the functional activities of the company, including purchasing. We therefore state:

Proposition 2a: A firm’s strategic performance is positively affected by the performance of its purchasing function.
Proposition 2b: A firm’s financial performance is positively affected by the performance of its purchasing function.

### Antecedents of GPS

In literature, antecedents of marketing strategy are typically structured along four groups: (1) firm-related, (2) management-related, (3) product-related, and (4) external factors. Table 3 summarizes antecedents which are deemed relevant in the context of GPS, along with their sources and measurement items.

All but two factors are described in a way that is beneficial to GPS. Therefore, it is expected that for each of the variables the following propositions can be made.

Proposition 3a: GPS is positively influenced by the following external factors: globalization response, competitive advantage, business/cultural
diversity and service enhancement and negatively influenced by adverse foreign conditions and home country impediments.

Proposition 3b: GPS is positively influenced by the following firm-related factors: international orientation, level of strategic purchasing, business unit competitive responsiveness and the firm’s international competence.

Proposition 3c: GPS is positively influenced by the following management-related factors: Top management’s perception of purchasing importance and the strategic importance of purchasing.

Proposition 3d: GPS is positively influenced by the following product-related factors: availability of alternatives; product innovation, technological uncertainty, volume uncertainty and novelty.

<table>
<thead>
<tr>
<th>Measurement scale</th>
<th>Adapted from</th>
<th>Measurement items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Globalization response</td>
<td>Knight 2000</td>
<td>Importance of globalization, modification due to globalization, account for globalization in purchasing activities</td>
</tr>
<tr>
<td>Adverse foreign conditions</td>
<td>Leonidou 1999</td>
<td>Business risk, limited info, difficult locating, exchange rates, economic and political conditions</td>
</tr>
<tr>
<td>Home country impediments</td>
<td>Leonidou 1999</td>
<td>Shortage of working capital, government assistance, transportation</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>Cho and Kang 2001</td>
<td>Access to lower priced goods, Enhanced competitive position, Better value for money</td>
</tr>
<tr>
<td>Business/cultural diversity</td>
<td>Cho and Kang 2001</td>
<td>Business practices, habits/attitudes, languages</td>
</tr>
<tr>
<td><strong>Firm-related</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International orientation</td>
<td>Balakrishnan 1996</td>
<td>Foreign visits to suppliers or competitive installations, looking for new business opportunities, competence to compete in international markets</td>
</tr>
<tr>
<td>Level of strategic purchasing</td>
<td>Carr and Smeltzer 1999</td>
<td>Formally written long-range plan, long-range plan is reviewed strategic plans on a regular basis; long-range plan includes specific plans for products or services purchased</td>
</tr>
<tr>
<td>Business unit competitive responsiveness</td>
<td>McGinnis and Vallopra 1999</td>
<td>Effectively respond to changing customer, supplier needs changing competitor strategies; develops and markets new products effectively position in its market</td>
</tr>
<tr>
<td>Firm’s international competence</td>
<td>Cavusgil and Zou 1994</td>
<td>Number of full-time employees; sales volume; amount of firm’s international experience; years of firm’s regular international operations, number of foreign markets in which firm operates</td>
</tr>
<tr>
<td><strong>Management-related</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management’s perception of importance of purchasing</td>
<td>Goh et al. 1999</td>
<td>Instrumental in competitive strategy formulation; critical in reducing pricing for firm, affects operation of firm</td>
</tr>
<tr>
<td>Strategic importance of purchasing</td>
<td>Narasimhan and Das 2001</td>
<td>Regularly attendance of strategic meetings, recommendations and impacts on changes in end products, time spend in market and price/cost analysis, participation in new product design and process design and improvement, measured on strategic contributions to the company</td>
</tr>
<tr>
<td><strong>Product-related</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of alternatives</td>
<td>Cannon and Homburg 2000</td>
<td>Existence of other suppliers, supplier capabilities, few suppliers deliver this product, supplier monopoly</td>
</tr>
<tr>
<td>Product innovation</td>
<td>Kotabe and Murray 1990, Kotabe 1993</td>
<td>Level of product innovations in the market, bought by competitors and bought by our business unit</td>
</tr>
<tr>
<td>Technological uncertainty</td>
<td>Mol et al. 2004</td>
<td>Frequency of expected changes in specifications, probability of future technological improvements</td>
</tr>
<tr>
<td>Volume uncertainty</td>
<td>Mol et al. 2004</td>
<td>Expected volume fluctuations, Uncertain volume estimates</td>
</tr>
<tr>
<td>Novelty</td>
<td>Lau et al. 1999</td>
<td>Previous purchasing experience, existing information, novel or unique buying situation, product is quite familiar to company</td>
</tr>
</tbody>
</table>
Research Agenda and Final Remarks

The model presented here as well as the accompanying hypotheses (represented in figure 3) offers the researcher a broad conceptualization of organizational elements of a global purchasing strategy. GPS has the advantage that it is rooted in a basic concept of purchasing (the buying process) and is embedded in fundamental aspects of international business (standardization, centralization and coordination).

The development of GPS and the model is only the first step towards a more profound insight in the dynamic relationship between organizational settings, performance, internationalization and purchasing. The second step will be the testing of the model. Empirical work is needed to support the propositions we offered.

The list of antecedent factors is not exhaustive. Other elements can be included without altering the model fundamentally. GPS itself can also be modified without touching the fundamentals of the concept. This allows sector-specific and country-specific modifications of the same general model. The model can also be deepened out. For instance, Bartlett and Ghoshal’s (1989) typology of cross-border firms as well as Kraljic’s (1983) typology could be internalized to nuance the general model. The link with internationalization is also an aspect that could be further developed. Although it has been suggested that companies with a higher degree of internationalization make more use of coordination mechanisms (Monczka and Trent 1991; Trent and Monczka 2002), Bozarth, Handfield and Das (1998) did not find significant differences in purchasing performance for companies that were in early stages of the process model (Monczka and Trent 1991) versus companies that were in later phases of the process model.

References


