

Challenges which IKEA face in sourcing suppliers for their materials in different countries

Dissertation

Submitted in Partial fulfilment

Of the requirements for the degree of

[NAME OF COURSE/ DEGREE STUDIED]

By

Student's Name

Acknowledgements

Attestation

Abstract

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1 CHAPTER 1 – INTRODUCTION

1.1 Background Information

IKEA is among the most successful multinational companies, whose overwhelming success over the last decade can be attributed to its strong relationship with suppliers. The company specialises in the designing and selling of ready-to-assemble furniture products, and home appliances and accessories (Hultman et al, 2012A). IKEA was founded in Sweden in the year 1943 by Ingvar Kamprad, before expanding to other 47 countries by the year 2014. Based on a recent report by Ebnother et al (2014), IKEA is the largest global furniture retailer, whose internationalisation approach cannot be considered as smooth, but rather full of challenges before adapting and attaining success in every foreign country it has expanded to. The expansion of IKEA has not been discriminative as it has been able to venture into the developing countries in Africa, South America, and Asia; in addition to its expansion to the developed countries in Europe, North America and Australia.

In most of the developing countries, Johnsen et al (2014) observed that most of the suppliers have been struggling with environmental and social challenges. However, IKEA seem to have established strong relationships with the suppliers in its bid to foster sustainability within its value chain. One of the core beliefs in IKEA is to contribute positively in its supply chain by partnering with its suppliers, other stakeholders, and authorities every country it operates in. As reported by Ungson and Wong (2014), IKEA is prioritising building long-term relationships with suppliers in order to be able to develop them so that they can grow together, where IKEA shares its values to them. As pointed out by Dawson and Mukoyama (2013), one of the key success factors in today's highly turbulent environment characterised by extreme climatic conditions and environmental degradation, is to partner with raw material suppliers in order to build a common business culture of

sustainable business practices that do not endanger the ecosystem. On this basis, IKEA's strategy of partnering with suppliers from all over the world can be considered as a strategic approach towards ensuring sustainability in its activities.

As part of its sustainability strategy, IKEA has been motivating and supporting suppliers to develop higher responsibility for their activities. With an aim of ensuring that all the activities within its supply chain are fair and acceptable in the 21st century, IKEA has been supporting and providing guidelines and technical advice to the suppliers with matters related to raw materials, quality, and product development (IKEA, 2007; Hultman et al, 2012B). In addition, IKEA also supports its suppliers in terms of manufacturing activities and logistics (Ebnother et al, 2014; Johnsen et al, 2014). By keeping a transparent supply chain, IKEA has been able to achieve sustainable business operations which have seen the company grow and develop to become one of the best performing companies in the retail industry.

However, given the magnitude of its global operations, Dawson and Mukoyama (2013) observed that IKEA has been facing challenges related to the sourcing of ethical raw materials from its global suppliers. Considering that some of the suppliers that IKEA relies on are from the developing countries where environmental regulations and policies have not been strictly enforced, it has been difficult for IKEA to ensure that suppliers fully comply with quality and ethical standards that the company has put into place. One of the key issues that IKEA must ensure a degree of quality and ethical standards because contemporary consumers are becoming more conscious on the ethical practices that organisations are engaging into within their value chain (Trent and Monczka, 2005; Hill & Jones, 2004). From Handfield and Nichols (2004) point of view, IKEA needs to ensure stringent code of regulations and quality standards that must be communicated to the suppliers in its bid to ensure that its practices remains fair and acceptable in the market. Though some of the

suppliers that have not been in a position to hold the standards upheld by IKEA have faced disapproval by IKEA's management, much needs to be done to ensure that the suppliers embrace the values and norms prioritised by IKEA in order to enhance the sustainability of its practices.

Considering that one of the key strategies that IKEA continues to employ is low prices for its products, it has remained appealing to its customers in various markets across the world. All the activities of IKEA are infused within its vision which is to "create a better everyday life for the many people" (IKEA, 2007, p. 2), the company's business idea is to offer functional home furnishing products, and hence sustainability of the activities within its supply chain is critical. For instance, as reported by Hartmann et al (2008), IKEA ensures that its raw materials are not sourced from protected forests as part of its corporate social responsibility. This has been made possible by its strong value system where key issues like leading by example, constant desire for renewal, togetherness and enthusiasm, cost-consciousness, striving to meet reality, and willpower and humbleness have been among the key values that IKEA has been prioritising. As a result, IKEA has established code of ethics called IKEA Way which comprises of the expected standard levels and values from its suppliers, where the suppliers who have violated have dropped from the company's supply bases.

1.2 Statement of the Problem

According to Hultman et al (2012A), global sourcing is among the greatest challenges that face multinational firms especially those dealing with natural raw materials. With the increasing pressure to reduce costs, firms operating in the global scale have been necessitated to source from suppliers from low-cost countries. However, one of the main challenges that Handfield and Nichols (2004) and Steinle and Schiele (2008) considers to be fundamentally

facing global firms is the difficulties and complexities associated with the entire process. Despite the popularity of the issue of global sourcing in both manufacturing and service industries, it is evident that research in global sourcing is still at its formative stages, as it remains poorly conceptualised (Trent and Monczka, 2003). While some researchers have pointed out that global sourcing is likely to be influenced by the dynamics in the buyer-suppliers' relationships, very little empirical research has examined the implications of these trends and dynamics. IKEA is one of the best performing firms in the retail multinational firms whose overwhelming success can be attributed to its relationship with global suppliers.

Nonetheless, despite the stringent measures that IKEA has established within its supply chain in order to ensure high quality and ethical raw products, all has not been as expected since the company has been facing challenges with suppliers from both developing and developed countries. By conducting this study, the researcher brings into focus the key strategic challenges that IKEA faces in its global sourcing as it seeks to ensure sustainability within its supply chain. On this basis, the findings obtained in this study are expected to have both practical and theoretical implications. Practically, this study is expected to shed more light on the practical challenges that face IKEA in its global sourcing strategy, and suggest strategies which can enable it to foster efficiency and sustainability within its supply chain. On the other hand, the theoretical implications that this study is expected to bring into focus is to establish new insights into the field of global sourcing and establish the success factors that companies should prioritise in their global sourcing practices.

1.3 Research Aim and Objectives

The overall research aim of this study is to investigate the challenges that IKEA faces in global sourcing in both developed and developing countries where Ireland and Saudi Arabia will be the focus countries. The rationale for focusing on a developing and developed

country is that, the challenges that suppliers may face in the developing countries may vary from the ones faced by their counterparts in the developed countries; and hence focusing on Saudi Arabia and Ireland enabled the researcher to be in a position to identify the challenges faced by IKEA in both the developing and developing regions. In the context of this research aim, the following research objectives were also formulated for investigation in this study:

- a) To investigate why IKEA decided to buy its raw materials from suppliers who are environmental conscious
- b) To identify the key ways through which IKEA deals with its suppliers from both developing and developed countries
- c) To identify the criteria followed by IKEA in selecting reliable suppliers
- d) To identify the nature of contracts that IKEA establishes with its suppliers and the rationale for the nature of such contracts
- e) To identify the constraints that IKEA faces when dealing with suppliers from the developed and de enhance developing countries
- f) To establish ways through which IKEA can foster the sustainability of its supply chain activities across the globe

1.4 Research Questions

The overarching research question in this study is: “Given the expansive nature of IKEA’s operations in both developed and developing countries, what are the challenges that the company faces in sourcing suppliers for raw materials in both the developed and developing countries?” In this regard, the following sub-questions were formulated to guide the researcher:

- a) Why does IKEA source its raw materials from suppliers who are environmental conscious?

- b) What are the key ways through which IKEA deals with its suppliers from both developing and developed countries?
- c) What are the criteria followed by IKEA in selecting reliable suppliers?
- d) What is the nature of contracts that IKEA establishes with its suppliers and the rationale for the nature of such contracts?
- e) What are the constraints that IKEA faces when dealing with suppliers from the developed and de enhance developing countries?
- f) How can IKEA foster the sustainability of its supply chain activities across the globe?

1.5 Scope of the Study

As earlier illustrated, this study's main focus is to identify the key issues facing IKEA in sourcing raw materials from across the world, where the challenges that the company faces is the key focus. This will be done by focusing both developing and developed countries where Ireland (developed country) and Saudi Arabia (developing countries) are given a special focus in order to understand the challenges that IKEA faces both in the developing and developed countries. Considering that the challenges faced by firms in sourcing global products varies from one country to another where the challenges that firms that face in the developing countries is different from the ones faced in the developed countries; focusing on one developed country and another developing country was considered necessary.

This study will therefore employ survey method where data was collected from the employees of IKEA in the supply chain development where much of the focus is given on the relationship that IKEA has with its global suppliers, the challenges faced by the company in both the developed and developing countries, and the nature of contracts that the company establishes with the suppliers and the criteria that the company employs when selecting

global suppliers. By doing so, the researcher was able to ensure that the research problem was comprehensively covered.

1.6 Structure of the Dissertation

This dissertation is structured into five key chapters which include the introduction, literature review, research methodology, research findings, and discussion, conclusion and recommendations:

1.6.1 Introduction

This is the first chapter of this dissertation which presents the context of the study in which the research background information, statement of the problem, research and objectives, research questions, and the scope of the study where the study.

1.6.2 Literature Review

The literature review is the second chapter which presents a critical analysis of the past literatures on the research problem. Specifically, a critical review of the global sourcing practices, challenges, and sustainability issues are brought into focus in this section.

1.6.3 Research Methodology

The methodology chapter is the third in this study where the methodological approach employed in this study is brought into focus; in which the research design, philosophy, approach, and methods employed are established. Further, the methodology chapter explores the methodological limitations experienced by the researcher, and the ethical considerations adopted.

1.6.4 Research Findings

This is the fourth chapter in this study which presents the findings obtained in this study, in which the analysed data obtained in the study is systematically presented. This chapter data does not apply any analytical strategy, as the data is mainly presented as it was collected from the field.

1.6.5 Conclusion and Recommendations

This is the last chapter in this study. The chapter presents conclusions to the study and recommends researches that can be carried out in the future as a follow up to the findings of this specific study.

1.7 Chapter Conclusion

As revealed in this chapter, IKEA is a global leader in the home and office furniture and furnishing equipments as a result of its stringent global sourcing strategy. Operating in over 47 countries, IKEA continues to face the challenge of maintaining its quality standards across all its global suppliers from both the developing and developed countries. With limited research on the implications of buyer-supplier relationships in the global scale as a result of the diversity and complexity of the processes, this study seeks to explore the challenges facing IKEA in its supply chain in both developing and developed countries where Saudi Arabia and Ireland are given a special focus. In the next chapter, a critical review of relevant literature on the research problem is established, so as to establish a guiding framework for research in this study.

2 CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical framework of the study in which the key theories and issues related with global sourcing are focused. As such, the first part of this review establishes the concept of global sourcing. Further, the differences between global sourcing and international are brought into focus. Secondly, the global sourcing process model is established where the path followed by firms who employ global sourcing is brought into focus. Further, the concept of supply chain management in global sourcing is brought into focus where the key issues facing global supply chain management are explored. Moreover, the factors facilitating the driving of global sourcing alongside the benefits associated with global sourcing are presented later in this study. In addition, the risks emanating from global sourcing are further brought into focus, before the chapter concludes with a model analysing the challenges of global sourcing from the existing literature.

2.2 Global Sourcing

A growing body of scholarly attention on the concept of global sourcing has been witnessed over the last few decades as firms expand their operations on the global platform (Quintens *et al*, 2006a). Within the field of purchasing research, Van-Weele (2005) observed that global sourcing has grown to become one of the most explored areas of interest among scholars, with an aim to establish the key issues and dynamics in global supply chain management process. Being a relatively new concept, a wide range of definitions of the concept of global sourcing has been established. Trent and Monczka (2003) defined global sourcing as the world wide integration of “engineering, operations, logistics, procurement, and marketing activities within organisations’ supply chains” (p. 607). Moreover, Ungson

and Wong (2014) considers global sourcing as a centralised process associated with the strategy of procuring raw materials by multinational companies through corporate-wise benchmarking and standardisation. Fundamentally, global sourcing is mainly associated with the integration and coordination of common materials and items designs, processes and technologies across the world in a purchase process by an international firm. Most importantly, Trent and Monczka (2002) pointed out that effective global sourcing in multinational firms is one of the key sources of competitive advantage; since firms are able to minimise costs, while also accessing superior supplies from various parts of the world.

The concept of global sourcing is leveraged on a more traditional approach to global procurement management called global purchasing which mainly refers to the process through which enterprises attempts to acquire materials from global suppliers in order to attain their goals (Steinle and Schiele, 2008). The process of purchasing includes inquiry, placing an order, tracking the order, accounting and supervising the order process, and receiving the goods after which the payments are made. Unlike local purchasing processes which mainly involve fewer transactions, global purchasing is affected by a myriad of factors including currency fluctuations, government policies, time consumption, custom duties, and a wide range of documentation (Handfield and Nichols, 2004). With the increasing competition across the global firms, it has become critically necessary for firms operating in the global scale to leverage a common level of time, quality, cost control, and satisfaction with services (TQCS) as suggested by Bozarth et al (1998). In their bid to achieve corporate-wide standardisation, firms have been necessitated to leverage global sourcing strategy, which involves higher supervision and collaboration with global suppliers, in which the firms get actively involved in the production of raw materials in the global markets. As a result of the wide scale of sourcing and the exposure to more global forces like foreign government

policies, custom duties, costs associated with freight of materials, and much expansive documentations; international purchasing has remained a challenging process to many organisations.

As pointed out by Trent and Monczka (2003), global sourcing mainly differs from international purchasing in the sense that; global sourcing involves a wider scope, complexity, and is a more proactive approach in the integration and coordination of common items and raw materials in the global platform; whereas on the other hand international purchasing is a reactive process which involves less logistical arrangements. Quite importantly, global sourcing is mainly associated with logistical activities, as it is rather characterised by a set of managerial activities with an aim of accomplishing goals that firms set in their global operations; whereas global sourcing is an entrepreneurial strategy based on the changes in market demand. Cho and Kang (2001) pointed out that, unlike in international purchasing where a firm can only rely with one supplier from one country, global sourcing involves selecting a set of suppliers which must be carefully selected, quality standards set, prices negotiated and close monitoring of the activities conducted by the suppliers with an aim of fostering the sustainability of the global sourcing process. Unlike international purchasing which may take place once; global sourcing is a long-term investment strategy which involves a complex evaluation and selection process for foreign suppliers. Quite importantly, global sourcing helps firms to leverage a long-term strategy for their sources of raw materials and other materials that they require in their value chain

One of the key benefits of global sourcing over international purchasing is that firms have higher supplier responsiveness because of the proactive nature of the sourcing practices (Giunipero and Monczka, 1997). Given the way firms work collaboratively and more closely with suppliers, it becomes easier for firms adopting global sourcing to respond quickly to any

changes in the demand side either up-sizing or down-sizing production by the suppliers (Hartmann *et al*, 2008). Unlike international purchasing where the buyers have no control over the processes and practices conducted by the suppliers; who may not be able to respond in time because there no stringent contractual set-up between the suppliers and the purchasers. For example, rapid changes in demand may necessitate an organisation to purchase from an international supplier, who may not be able to meet the quick demands of the organisation. Though studies have shown that global sourcing is not always successful as theory may portray it (Lewin and Donthu, 2005), the practicability of a global sourcing paradigm is a complex issue which only a few firms like IKEA and Starbucks Coffee among a few others have successfully leveraged.

Moreover, Matthyssens and Faes (1997) observed that it is usually easier to achieve standardisation and consistency of sourcing process in global sourcing; unlike international purchasing where standardisation may be difficult to maintain. Since global sourcing involves improved supplier relationships than as it is in the case of international sourcing, it is usually easier for firms to maintain the quality of supplies, since the firms collaborate with suppliers to establish quality standards; and hence the firms have higher control over quality standards for their raw materials than as it in the case of international purchasing (Monczka and Trent, 1991). However, some studies have continued to show that despite the availability of a wide range of literature explaining the process of global sourcing, very little evidence is available on the specific global sourcing processes involving firms from developed countries and suppliers from developing and less developed countries. This is because the challenges faced by global sourcing from developing countries may be different from the ones experienced by firms from developed countries. With this study focusing on the challenges faced by IKEA when sourcing suppliers from the developing countries, conducting this study is expected to

bring new insights into the concept of global sourcing with regard to the developing countries. In the next section, the global sourcing process model is brought into focus, before discussing supply chain management issues in global sourcing.

2.3 Global Sourcing Process Model

According to Quintens *et al* (2006b), no firms start directly sourcing materials from the global markets, but rather start their sourcing process at domestic levels. Most importantly, as firms start their internationalisation process, they usually progress from domestic purchasing, and later engage into international purchasing as their operations gradually enters into the international markets (Dawson and Mukoyama, 2013). The work by Trent and Monczka (2002, 2005) has largely contributed to the understanding of global sourcing process, leading to the establishment of a global sourcing process model as shown in figure 2.1 below. This is a five stage model which involves moving from domestic purchases only to global sourcing. However, some previous works (e.g. Guinipero and Monczka, 1990) have tried to explain the concept of global sourcing arguing that global sourcing is basically a reactive approach to the market needs, and that firms do not necessarily need to be previously practicing in international markets. These arguments were later proved wrong by Bozarth *et al.* (1998) who argued that global sourcing develops as a consistent approach to firms' internationalisation process. Given the extensive nature of global sourcing, Trent and Monczka (2003) have argued that firms must always undergo the four levels of sourcing which include domestic purchasing, international purchasing only, international purchasing as part of sourcing strategy, global sourcing strategy leveraged across worldwide locations, and global sourcing strategies integrated in worldwide locations and functional groups within organisations.

Figure 2.1 – The global sourcing process



Source: Trent and Monczka (2003, p. 609).

The first level of global sourcing, as reflected in figure 2.1 above, the first stage of global sourcing involves domestic purchasing only (Trent and Monczka, 2003). At this stage, firms are still small with their operations only based on the domestic market, where all the sourcing process is mainly done within the domestic market. At this stage, firms focus much on short-term sourcing/supplies, with smaller amount of long-term supplies within the domestic market (Trent, 2004). At this point, firms usually rely on few small-scale suppliers who mainly operate on their own, and only interact with the firms whenever need arises. As firms grow and expand their operations and grow their need to explore foreign markets. As a result, their operations start purchasing materials and other items that they require for their operations.

In the second level of global sourcing which involves international purchasing only when needed, firms engage into international purchases at irregular intervals when only in need (Rozemeijer *et al.*, 2003). At this level, firms' international activities are not well defined, as the firms seek to position themselves more strategically in the international

market. Firms operating at this level are considered by Ungson and Wong (2014) to be engaging in international purchases for tactical and operational reasons. For example, a firm which is planning to expand to international markets can engage into international purchasing from various suppliers in foreign designated global markets. Since new international activities are still at formative stages for the firms operating at this level, international operations at this level are minimal, and thus firms usually do not have clearly defined sourcing structures from the global suppliers (Johnsen *et al*, 2014). As firms progress and get used to international into international operations, their international sourcing strategy gets shaped more clearly, and hence they progress with international transactions, they move to level three which involves partial sourcing in their international purchasing strategy.

At level three, international purchasing, organisations start transitioning from international purchasing to the sourcing activities and supplies for the world (Trent and Monczka, 2003). As firms get used to international activities, they develop the importance of leveraging higher standards of operational efficiencies while reducing their costs in the long-term; and hence the need to incorporate sourcing into their value chain. This involves leveraging a more defined and complex systems to enable them to coordinate their sourcing activities in the international markets better. As competition in the global scale increases, firms recognise the importance of quality and cost in operating in the global scale, at this level there is still no concerted efforts in integrating purchasing across locations and in various functions. As a result Hill & Jones (2004) observed that learning from previous international experiences is one of the most important factors that shape the nature of international activities and sourcing structures that firms at level three adopt. Most importantly, sourcing at this level carries a critical level of significance, though the efforts of elevating it higher at this level still remain low and inadequate from the available literature.

The fourth stage of the global sourcing model, firms integrate and coordinate global sourcing strategies around the worldwide buying locations (Dawson and Mukoyama, 2013). As pointed out by Trent and Monczka (2003), firms at this stage engaged into sophisticated sourcing activities by leveraging worldwide information systems and personnel with global expertise and skills. At this level, firms require extensive coordination of activities and processes as the organisational structure incorporates global suppliers as a critical part of the organisational value chain. For example, an organisation may adopt an automatic reporting system which links the suppliers, distribution centres, and the retailers for efficient inventory management. As part of the proactive approach towards sustainability within their supply chains, firms leverage an amount of control of the processes and activities engaged by their suppliers. However, Steinle and Schiele (2008) pointed out that, although sourcing is done on a worldwide scale, it is still done on a location basis; rather than across functions at a time. Explain more fully the last sentence For example, Ungson and Wong (2014) pointed out that, companies like Nike and IKEA are at this level of global sourcing because of their selective global sourcing centres that are directly linked to the organisations' headquarters.

The last stage of global sourcing with regard to Trent and Monczka (2003) model involves the integration and coordination of global sourcing strategies with other international groups by leveraging sophisticated communication and coordination systems. At this level, all location-based sourcing are integrated into the group, where activities, processes and technologies are leveraged on a single management system where standards and benchmarks are similar across all locations (Wisner *et al.*, 2005). Though implementation of global sourcing at this level may vary across various functions and locations, it is important that firms focus on ensuring that all their sourcing locations are linked up. However, Johnsen *et al.* (2014) pointed out that, only firms with highly sophisticated world-

wide design, logistics, and procurement capabilities can be in a position to handle this kind of sourcing. For example, companies like Honda and Toyota are among the key multinational firms with this kind of global sourcing level. Importantly, firms at this level tend to enjoy from large economies of scale, since all their operations are centrally coordinated across the locations.

2.4 Supply Chain Management in Global Sourcing

According to Cook (2006), global sourcing as a way of international supply chain is characterised by the creation of corporate value in order to enable an organisation to be able to achieve certain competitive advantages in order survive in the highly contested global markets. Supply chain management is considered by Sharma and Modgil (2015) to be a fairly new concept in the global development direction which necessitates that organisations leverage a highly sophisticated system for sourcing materials in the global scale. Basically, supply chain management involves the planning and management of all the processes, tasks, and activities involved in sourcing, procuring, converting, and logistical management of activities within an organisation's value chain (Management Association of Information Resources, 2013). Most importantly, supply chain management in the global scale involves a high level of coordination and collaboration strategy, where channel partners like suppliers, third party logistic providers and intermediaries to the end consumers are linked up in order to achieve efficiency within an organisation's value chain system (Handfield and Nichols, 2004). Fundamentally, Cho and Kang (2001) observed that supply chain management links up supply and demand within an organisation in order to facilitate coherent and sustainable processes within the value chain system of organisations.

With the proliferation of the concept of supply chain management in the international operations, the concept of global economic integration has emanated. According to Carlos

(2008), global economic integration is basically a process that fosters a rational allocation of resources from across the world in order to drive direct global sourcing. For example, organisations are able to source raw materials from countries where costs are low, and thus enabling the organisation to enjoy high level of economies of scale. As a result of the highly accelerating global economic integration, countries are shifting their reliance on domestic knowledge, infrastructure, human resources, and commodity markets to comparative resource advantage which facilitates the allocation of resources beyond the geographical borders of the countries in which an organisation operates in (Fui-Hoon, 2001). This has led to companies adopting global sourcing strategies in order to achieve optimal efficiencies in the re-allocation of resources within their value chains. On this basis, companies planning to leverage global supply chain systems are required to identify the comparative advantage for such strategies by conducting cost-benefit analysis in order to be in a position to establish the viability of leveraging a global sourcing strategy in a particular foreign country, but not the other (Cook, 2006). One of the critical issues that Sharma and Modgil (2015) points out is the nature of government and legal frameworks underpinning a global supply management system, which guides organisations on whether to continue with the global sourcing strategy or not. For example, in some countries contract laws are more elaborate and clear, whereas in others such laws are abstract and unclear.

Fan (2007) argued that, the development of information systems and other relevant technologies is one of the key facilitators of supply chain integration and global sourcing strategy. With the adoption of information technology, Gianluca (2007) argued that it becomes easier for an organisation to link up decentralised sourcing centres in order to come up with an organic whole organisation. This information system enables the process of integrating suppliers, manufacturers, distributors and retail outlets in order to ensure a

cohesive coordination of the flow of inventory within the organisational supply chain. Through supply chain integration, Hartley and Choi (1996) argues that organisations are in a position to closely align and coordinate processes and activities within the supply chain in order to foster the fulfilment core business promise. With the increasing information technology, organisations operating in the global markets have found it easier for them to integrate their various sourcing locations to those of their processing centres, distributors and retail outlets in order to achieve quick response within the organisational supply chain.

One of the key supply chain integration concepts that has been given priority both at functional and theoretical realms is the enterprise resource planning (ERP), which is typically considered as an integration application and software which enables organisations in collecting, storing, managing, and interpreting data from various business activities (Management Association of Information Resources, 2013). According to Carlos (2008), ERP fosters the flow of information across functional business units in order to enhance cohesive coordination of activities within the business units. In the context of supply chain management, Fui-Hoon (2001) pointed out that ERP fosters an integration of suppliers, producers, and distributors of completed products by ensuring transparency within the supply chain; which plays a critical role in promoting better coordination of activities right from the sourcing of raw materials to the final disposal of completed products to the market. One of the key strategic advantages of ERP as suggested by Carlos (2008) is that, it links the current business processes to its strategy, and thus ensuring that all its stakeholders act within its strategy.

By leveraging ERP system within global supply chain systems, Management Association of Information Resources (2013) pointed out that it is becomes easier for organisations to efficiently manage inventories by enabling an organisation to be in a position

to order materials to be delivered in specific quantities needed each time, rather than purchasing large or small quantities at a time. This is one of the key benefits of leveraging an information system in the supply chain because it saves organisations from unnecessary inventories, and this saves the companies a lot of money. Though some studies point out that leveraging a coordinated global supply chain system is highly expensive as it requires a lot of money to purchase the needed software and highly skilled human resources (Sharma and Modgil, 2015), a study conducted by Cook (2006) revealed that though the costs incurred initially are fairly high, the company is saved from unnecessary costs associated with unbalanced inventories. Moreover, since through global sourcing and integrating an automated supply chain enables an organisation to be in a position to link up with suppliers through long-term contracts, any fluctuations in terms of prices are less likely to affect the organisations. From this point of view, therefore, it can be argued that integrating a supply chain system with technology is not only a key source of efficiency within the supply chain management system in terms of inventories, but also in terms of costs. This is because with a highly integrated global supply chain, inventories are optimised and costs minimised.

Fan (2007) pointed out that, the extension of business marketing across boundaries has contributed to the development of revolutionary transformations in the global sourcing operational systems, and hence necessitating the development of integrated supply chain management systems. Considering that global sourcing processes involves the identification of specific suppliers of raw materials/inputs and establishing a collaborative approach towards the quality limits required (Gianluca, 2007); adopting an integrated supply chain system enables an organisation to be in a position to not only achieve transparency in the supply chain in which it will be easier to monitor activities by the suppliers, but also would provide a platform for quick communication in cases of any changes in the demand side

(Hartley and Choi, 1996). From this point of view, therefore, it can be argued that effective supply chain management for global sourcing is fundamental as it determines the success of organisations in terms of costs, quality and timely flow of raw materials into the organisation's value chain in order to be in a position to respond in timely manner based on the changes in the market.

However, studies have evidenced that though theory overestimates the completeness of leveraging information system in global supply chains and global sourcing, the practicability of the theory across the world remains a critical issue (Monczka *et al.*, 2008). For example, Qi (2007) pointed out that, global sourcing from less developed and developing countries may not work as much effective, than it may be when sourcing developed countries, basically due to the differences in not only technology, but also ethical standards among the suppliers. Though companies sourcing from across the world establish codes of conduct which provides guidelines for the expected behaviours and ethical values by the stakeholders (Salleh and Mohammad, 2006), past studies (e.g. Ting and Cho, 2008; Steinle and Schiele, 2008) have pointed out that sourcing from developing and less developed countries has been faced by challenges ranging from poor ethical practices to poor coordination between suppliers and the organisations. This is evident in the way some global companies sourcing from across the world have taken disciplinary measures on countries which do not abide by their codes of conduct, leading to disciplinary measures being taken against them.

2.5 Factors Driving Global Sourcing

With regard to Porter's generic strategies, competitive strategies that firms may adopt can be sub-divided into product differentiation and low-cost strategy; which Handfield and Nichols (2004) considers to be closely related to global sourcing. Undoubtedly, many firms have been adopting global sourcing in their bid to achieve low cost strategy, and hence a

competitive advantage for them in their operations (Bozarth *et al.*, 1998). The need for low cost, high quality and available raw materials from the global suppliers at comparatively lower costs is pointed out by Monczka *et al.* (2008) as one of the key drivers of global sourcing decisions. Qi (2007) suggested that push and pull factors are mainly responsible for a firm's decision to sourcing globally. Pull factors comprise of the negative and passive factors like competition and customer demands which obliges an organisation to pursue global sourcing strategy; whereas push factors on the other hand are positive and strategy-based strategies which makes an organisation to voluntarily start sourcing globally (Cho and Kang, 2001). Though the two types of drivers seem to be different, Ungson and Wong (2014) observed that push factors evolve from pull factors for global sourcing, and hence push factors generally emanate from pull factors. For example, Wisner *et al.* (2005) observed that an organisation can respond to the competition and customer demands in the market by restructuring its corporate which may necessitate global sourcing in its bid not only to reduce costs, but also access higher quality raw materials.

Most importantly, Johnsen *et al.* (2014) observed that, changes in customer needs is one of the key driving forces for global sourcing which are considered to be among the most popular driving forces in many international companies practicing global sourcing. Given the turbulence nature of the contemporary business environment, reinforced by way consumers are becoming sophisticated; firms have been necessitated to adopt global sourcing in order to be able to improve their inventory management, while also facilitating quick response in the global markets (Van-Weele, 2005). For example, Trent and Monczka (2003) observed that customers' demands are complex as a result of the turbulent business environment as characterised by highly fluctuating economic trends which necessitates the adoption of global sourcing strategy in order to save firms from inconveniences brought about by international

purchasing; and thus with global sourcing it becomes easier for organisations to change quickly and adjust their production capacities to meet the market requirements. From this point of view, therefore, it can be argued that adopting global sourcing is a source of competitive advantage, as this makes it easier for firms to ensure sustainable market satisfaction with its products as a result consistent supply.

Importantly, Hill & Jones (2004) observed that the pull factors (e.g. competition and change in demand) have been among the most influential factors driving global sourcing over the past 30 years, and are still expected to continue influencing global sourcing in the future. Qi (2007) suggested that, as a result of more and more firms entering into the global marketplace, multinational firms will continue suffering from endless pressures associated with global competition and consumer sophistication, and hence continued reliance of global sourcing to counter these forces. Though Gong (2013) points out that global sourcing as a result of pull factors can be negative in the sense that firms may only concentrate on sourcing from cheapest suppliers, a study conducted by Dawson and Mukoyama (2013) revealed that competition in the marketplace today is not necessarily leveraged on price, but rather on customer value; and hence firms which focus on customer value (quality and price) tend to be always successful. From this point of view, therefore, though pull factors have continued to influence the sourcing behaviour, consumers have still continued to pressure companies to source not only quality materials, but also ethically as part of firm's corporate social responsibility. This shows that, prospective firms are no longer mainly interested in sourcing from cheap suppliers, but seek to foster customer confidence in their products through quality and ethical sourcing.

Under the global sourcing strategy arising from pull factors, Trent (2004) observed that some managers take the advantage of consumers being less informed to source from low-

price suppliers with less regard on the ethical issues associated with the raw materials. As a result, most of the managers focusing on global sourcing seem to be adopting global sourcing as an approach to enable them achieve low-cost competitive advantage in the short-run; rather than sustainable long-term competitiveness. With regard to Rozemeijer *et al.* (2003), for organisations to be in a position to maintain a highly competitive advantage, an elaborate approach towards global sourcing is necessary, where a critical focus on the factors that promote their sustainability are emphasised. While some organisations may demand highly environmental conscious sourcing strategy, some others may focus on recreational aspect of the raw materials sourced from the global suppliers. For example, Torekull (1999) pointed out that IKEA places much emphasis on the environmental consciousness of its supplies where it has partnered with most of its global suppliers to practice environmentally conscious tree planning and conservation strategies in order to enable its sources of materials to remain sustainable.

Unavailability of materials in the domestic market is further pointed out by Quintens *et al* (2006a) as one of the key driving factors for global sourcing. As a result of geographical and technological differences in one country to another, some raw materials and items may not be locally available to firms, and hence necessitating them to engage into global sourcing. Moreover, Monczka and Trent (1991) observed that some firms may engage into global sourcing due to their incapacities which may limit them from meeting the local needs using their current resources; and thus necessitating them to engage into overseas sourcing in order to revamp their capabilities in achieving their performance targets (Matthyssens and Faes, 1997). From this point of view, therefore, it can be argued that one of the key drivers of global sourcing in firms is fundamentally the unavailability of materials in the domestic markets which necessitates them to engage into global sourcing.

Moreover, when the quality of materials available in the domestic markets does not meet the specific demands and requirement by the buyers; organisations are necessitated to engage into global sourcing (Lewin and Donthu, 2005). With regard to Hartmann et al (2008) ideas, in some countries the quality of locally available raw materials may be of inferior quality, which prevents them from being sellable in the international markets; which necessitates organisations to move abroad and establish global sourcing as a measure to revamp their competitiveness in the global markets. As a result, when local suppliers fails to meet the threshold required in international standards firms are necessitated to source for higher quality and more reliable materials from the global suppliers; and hence it can be argued the inability of local/domestic suppliers to meet the quality and technical threshold required in international markets can be a critical driving force for global sourcing in organisations.

Another important driving force for global sourcing is the issue of prices and technology. According to Giunipero and Monczka (1997), as firms seek to pursue cost-leadership strategy in their activities, it may be more cost-effective for them to source from less developed and developing countries where the materials are less expensive, compared to sourcing from developed countries. Though some studies point out that the quality of materials from less developed countries may be lower than those from developed countries (Cho and Kang, 2001); Handfield and Nichols (2004) pointed out that, firms collaborate with local suppliers in the developing countries to improve the quality of raw materials sourced from these countries. On the other hand, materials involving technology necessitates firms to source for the materials in developed countries where the suppliers have the state-of-the-art technology to develop world-class level technology supplies.

2.6 Benefits Associated with Global Sourcing

As earlier pointed out, global sourcing mainly involves worldwide integration of operations, procurement and logistics within the upstream organisation's supply chain (Trent and Monczka, 2003). One of the most fundamental benefits of global sourcing is that, organisations are in a position to access cheaper materials and this may largely impact positively on their competitive advantage. When firms source for global suppliers where raw materials are cheaper than in their home country, they are in a position to pass the low costs incurred to their customers through low prices; leading to increase customer satisfaction (Steinle and Schiele, 2008). As a result, researches have shown that firms which source materials from low-cost suppliers in global suppliers like Starbucks has enabled it to be in a position to enjoy high levels of customer satisfaction, leading to loyalty, which is necessary in the success of organisations both in local and international markets; as it is with the case of Starbucks.

Moreover, a study conducted by Ting and Cho (2008) revealed that firms adopting global sourcing are in a position to access high quality materials which might not have been possible without engaging into global sourcing. When firms source globally, they are in position to access higher quality materials from different countries which revamps their competitiveness in the markets because of their ability to produce final goods that matches with international standards (Salleh and Mohammad, 2006). This happens mostly on technology-based supplies which many companies from the less developed and developing markets consider being important for them in order to be in a position to match the quality levels of their competitors in the international markets (Qi, 2007). Moreover, availability of new technology which is only available in specific countries necessitates firms from all over the world who consider it to be useful in their value chain to source it; and hence enabling

them to be in a position to produce world-class products using state-of-the-art technology which they could have otherwise not have achieved without sourcing globally.

Further, Monczka *et al.* (2008) observed that global sourcing increases an organisation's base of suppliers and this diffuses the bargaining power of suppliers than only relying on a single supplier or few of them in the local markets. When the number of suppliers increase, their bargaining power is reduced and this places an organisation in a better position to bargain for prices for the materials they are sourcing; and hence revamping their control for the costs they incur within their value chain. Though in most cases companies prefer to source globally as a result of shortage materials in their local markets or due to high costs for such materials locally (Hartley and Choi, 1996); in some cases where an organisation relies only on a single or very few suppliers locally may opt to seek global sourcing in order to enhance their bargaining power for prices for the materials they source. As a result, the firms enjoy the benefit of increased number of suppliers as they gain higher bargaining power over the suppliers; unlike in a situation where there are only few suppliers.

As earlier pointed out, global sourcing involves a highly integrated system of logistical platform, where the suppliers are technologically linked with firms and then to the retail outlet through supply chain integration, and this fosters quick response to customer needs (Gianluca, 2007). Salleh and Mohammad (2006) argued that, global sourcing fosters better customer service by leveraging a highly responsive supply chain system where customer needs are timely responded to. Moreover, as a result of low prices offered to customers as a result of the low costs that companies may experience in global sourcing, high customer satisfaction is likely to be experienced, and this contributes towards improved competitive advantage of the firm.

In countries where trade obligations necessitate that foreign companies relies on raw materials from the host countries, global sourcing helps them to meet counter-trade obligations (Fan, 2007). As a result, an organisation is able to access and exploit a foreign market which it could not have accessed easily without engaging into global sourcing. Though there are some companies which only engage into sourcing of materials from foreign countries without targeting the foreign market (Cook, 2006); studies have shown that over 90% of global sourcing strategies are accompanied by an international strategy where an organisation establishes active operations in the foreign market. On this basis, therefore, leveraging global sourcing strategy enables organisations to be in a position to achieve outstanding benefits associated with counter-trade obligations which leads to the acquisition of competitive advantages as firms are in a position to enjoy the benefits as a result of meeting the counter-trade obligations in the host country.

Salleh and Mohammad (2006) ranked the benefits of global sourcing (as shown in table 2.1 below), where seven benefits were rated out of seven and the scores recorded. As reflected in the table below, the researchers concluded that the access to high quality materials confer the highest level of benefits (5.8846) followed by access to low priced materials (5.8462). This was further followed by access to worldwide superior technology with a rating of 5.7307. Further, enhanced competitive position, increased supplier base, higher customer service, meeting counter-trade obligations, and better delivery of services to the customers followed in that hierarchy in terms of the ranking based on the ranking model established by Salleh and Mohammad (2006). As such, it can be concluded that access to higher quality materials, lower prices, and access to superior technology are the major benefits associated with global sourcing.

Table 2.1 – Rank of benefits for global sourcing

Perceived Benefits	Overall Mean Score
Access to higher quality goods	5.8846
Access to lower-priced goods	5.8462
Access to worldwide technology	5.7307
Enhanced competitive position	5.5000
Increased number of suppliers	5.0769
Better customer service	4.7692
Helps meet counter-trade obligations	4.7308
Better delivery service	4.5769
Overall Mean Score of Perceived Benefits	5.2644

Salleh and Mohammad (2006, p. 8)

2.7 Risks and Challenges Emanating from Global Sourcing

Despite the benefits associated with global sourcing, it has not been without any risks and challenges. According to Rozemeijer *et al.* (2003), when companies start global sourcing, they are exposed to diverse political, economic, legal and cultural factors which may prove to be challenging to their operations. In addition, Matthyssens and Faes (1997) observed that global sourcing exposes companies to logistical and technological challenges because of the complexities and wide scope of operations and coordination on the global scope. It is important to note that, expanding to the global platform exposes an organisation to a wide scale of coordination of activities which further may burden the current workforce, and in cases where the managers have no experience in coordinating global operations; a crisis in terms of efficiency and expertise may arise (Knight and Liesch, 2002). It is therefore important that when organisations decide to go global, they evaluate their capacities and capabilities in order to ensure that they are well equipped with the knowledge, skills, and expertise required in managing global coordination and processes associated with global sourcing; since with the adoption of advanced technology and extension of an organisation's

logistics network may prove to be complex and technical to many organisations who may not have the experience required in managing global enterprises.

Another key risk that organisations face while engaging into global sourcing is the political risks especially in the less developed and developing countries (Clara and John, 2005). Accenture (2007) pointed out that, in many developing countries, political uncertainty and turmoil which usually threaten the success of organisations pose critical risks for organisations engaging into global sourcing. When countries experience political turmoil or uncertainties, the suppliers in the country may not be in a position to provide sustainable and continuous supplies and this may adversely affect coherence in the organisations value chain (Sharma and Modgil, 2015). It is therefore very important that organisations evaluate their off-shore suppliers in terms of the stability of the political environment they operate, in order to foster a more informed decision on the nature of suppliers they plan to link-up across the world in order to ensure that they only select only those global suppliers from countries with foreseeable political stability in order to ensure that they get supplies in consistent manner.

Moreover, the aspect of culture is yet another key issue that Cook (2006) considers to be fundamental when it comes to global sourcing. It is important to note that, as a result of different cultures, and perhaps different time zones, companies can experience difficulties in their global sourcing strategy. The availability of hidden costs is usually common from culture to another, and hence it is important that companies adopting global sourcing be careful to ensure that they acquaint themselves with the culture of the target source of its materials in order to avoid inconveniences associated with global sourcing from different cultures (Fan, 2007).

The diversity of operations that companies engage into when they adopt global sourcing also exposes them to higher economic risks associated with currency fluctuations

which can result into adverse end-results (Gianluca, 2007). The diverse economic forces that firms operating in the global economy faces are considered to be among the key challenges facing global sourcing, since changes in currency exchange rates in some countries can results into increased costs for the organisation. Hartley and Choi (1996) observed that, global sourcing has not always been a smooth ride for multinational companies because when organisations are exposed to global contracts with suppliers from different countries, any currency fluctuations may turn out to be an increased cost for the company, and this can result into cost risks for the company. Moreover, Qi (2007) observed that monitoring global operations is usually not easy; as it is accompanied by greater costs than as it is when sourcing domestically.

Moreover, quality and intellectual risks as observed by Salleh and Mohammad (2006) are also critical challenges that organisations face when they adopt global sourcing. In cases where companies source from developing countries, poor quality problems can easily affect the company's brand name which in return can affect the company's financial performance heavily. Such cases have been experienced recently in Primark's sourcing in India where it was alleged of unethical child labour and sweatshops; and this came as a blow for the company. Similarly, Timberland's sourcing strategy from low developed countries for raw materials from suppliers who have compromised environmental conservation also impacted negatively on its brand name (Ungson and Wong, 2014). Moreover untrustworthy suppliers can leak sensitive information to the competitors and this can largely affect the company's strategic performance (Wisner *et al.*, 2005). From this point of view, therefore, it can be argued that global sourcing exposes organisations to greater risks of quality and intellectual property risks.

2.8 Model for Analysing the Challenges of Global Sourcing

2.8.1 Complicated logistics

As earlier pointed out, global sourcing involves the leveraging of complex logistical framework in order to facilitate the flow of inventory within the organisational supply chain system (Johnsen *et al.*, 2014). As such, considering the complexity of the global logistics, it is evident that organisations experience challenges with the movement of inventory across borders. As pointed out by Van-Weele (2005), suppliers from less developed countries may be unfamiliar with high-standard expertise in operating technology adopted by an organisation in its global supply chain system; and this necessitates organisations to first train their suppliers in order to enable them to be in a position to uphold the standard requirements involved in global sourcing. Nonetheless, it is imperative that organisations conduct a cost-benefit analysis in order to evaluate whether to leverage a global sourcing strategy in a particular country or not. Moreover, Trent and Monczka (2005) observed that low grade logistics in some developing countries may adversely affect efficiency in the organisation; and thus when leveraging a global sourcing strategy it is important that organisations evaluate the level of infrastructure of the country in which their suppliers are based in order to determine whether to go ahead with the global sourcing strategy or not. This is because with problems of transport within the foreign country in which the suppliers are based, it is possible that inefficiency would be experienced.

2.8.2 Volatile political and economic environments

Volatility in political and economic environments within the countries where global suppliers are based can be a critical risk for global sourcing (Cook, 2006). As a result of cheap labour and poorly implemented legal frameworks, some countries may experience

uncertainty in their economies (Hill and Jones, 2004); and hence when selecting global suppliers it is important organisations keen to evaluate the volatility level of the economic and political environments in order to avoid leveraging a global sourcing strategy in countries where there is high risk of political and economic risks. In terms of economic trends, countries which do not show any prospects of recovering from any economic crisis usually pose a potential threat to the survival of economic activities in the country, and hence necessitating firms planning to partner with suppliers from these regions to be extremely conscious in order to avoid getting into a situation where their operations would be affected by the inabilities of the suppliers to meet the needs of the organisation (Rozemeijer *et al.*, 2003). By doing so, the organisations will be able to avoid inconveniences and challenges associated with volatile political and economic environment especially in the developing regions.

2.8.3 Currency exchange rate fluctuations

According to Matthyssens and Faes (1997), global sourcing involves the movement money from domestic markets to foreign countries; and thus any changes in the exchange rates between currencies can be risky for an organisation. While currency stability is important for organisations because it makes business easier, instabilities in currencies makes it more complex for companies to engage in global sourcing as a result of the cost risk that the fluctuations impose on international transactions (Knight and Liesch, 2002). As a result, Clara and John (2005) suggests that it is important that organisations evaluate the historical trends in the fluctuations of the currency of the foreign country that they intend to establish a sourcing location centre in order to avoid unnecessary costs associated with frequent changes in the foreign exchange between countries. More specifically, large organisations operating in the global platform through global sourcing need to leverage a team of personnel in their

financial departments to collect and manage information on currency fluctuations (Accenture, 2007). In some cases, companies enter into a contract with their suppliers to source materials using a common currency, where in cases of any fluctuations of the currency the costs incurred by the organisation may not be interfered with as a result of changing one currency to another.

2.8.4 Differences in quality standards and regulations

As a result of different phases of industrialisation in various countries, Management Association of Information Resources (2013) points out that countries experience different industrial standards across the world. This is because some countries categorised as developing countries may be characterised by high level of industrialisation, while others still in the developing countries category be poorly industrialised. As pointed out by Accenture (2007), it is important organisations avoid misunderstanding industrial development scenario in countries in order to enable them to filter suppliers based on the level of industrialisation in their countries. For example, Sharma and Modgil (2015) observed that, countries where the level of industrialisation is low, there is usually poor legal framework that governs business transactions; and hence it may be riskier for the organisations to leverage their global logistics sourcing infrastructure in such countries. On the other hand, countries with high industrialisation strategy are usually characterised by highly defined legal frameworks, which promotes investment in the country, alongside a highly developed infrastructure which facilitates business activities within the country (Fan, 2007). From this point of view therefore, it can be argued that selecting global suppliers involves the evaluation of the suppliers' countries' legal and regulations systems in order to avoid unnecessary incontinences associated with global business activities.

2.8.5 Complexities in supplier selection

The processing of selecting and handling global suppliers is considered by Gianluca (2007) to be a highly complex process which may be costly to organisations. Selecting the best suppliers is one of the key milestones for success in global sourcing, since poor selection may result into huge losses for the organisation. As a result, organisations planning to adopt global sourcing usually face high costs associated with the identification, selection, and evaluation of foreign suppliers (Hartley and Choi, 1996). As pointed out by Monczka *et al.* (2008), the supplier selection has direct impact on the supply chain process, as it determines the effectiveness of the processes within the organisational supply chain. Unlike domestic supplier selection which involves less time and resources, global sourcing involves suppliers from different countries, and hence cultural differences between suppliers and the organisational managers can complicate the entire contracting process. Various companies apply different methods on their selection for suppliers, which necessitates looking for only suppliers who are willing to conform to the company's specific requirements (Salleh and Mohammad, 2006). From this point of view, therefore, it is important for companies selecting global suppliers to go an extra mile to understand the compatibility of the suppliers' strategy to that of the organisation in order to avoid unnecessary inconveniences associated with poor conformity between the organisation and the suppliers.

2.8.6 Choosing whether to adopt global sourcing or not – is it the right way to go?

Fundamentally, global sourcing can be considered as an international division of labour strategy where an organisation expands its operations and number of stakeholders within its value chain (Ting and Cho, 2008). Considering that global sourcing exposes an organisation to global cultures, and expensive tariffs and duties, it is important that organisations evaluate whether they need global sourcing or not based on their scale of

operations and organisational strategies. While global sourcing is associated with a myriad of benefits including cost-saving, access to quality materials and technology; it is important that organisations identify their source of competitive advantage before adopting global sourcing in order to determine whether it contributes towards their competitiveness or not (Steinle and Schiele, 2008). In most cases, small and medium organisations tend to find global sourcing unsustainable for them, since leveraging a global supply chain results into increased administration and technology costs; and hence making global sourcing to be best suited for large organisations because of their economies of scale (Handfield and Nichols, 2004). On this basis, therefore, it is important that organisations evaluate their stage of development, and determine whether adopting global sourcing will enhance their competitive advantage or not.

2.8.7 Cultural and lingual differences

According to Cook (2006), though cultural issues are often manageable at global level, they still remain critical issues of concern for organisations leveraging global sourcing systems. Considering that global sourcing involves a closer interaction between organisations and their suppliers from different countries (Bozarth *et al.*, 1998); the need to show mutual respect for people and cultures is necessary in order to foster a more meaningful business relationship. However, some barriers like language differences always seem to threaten cohesive communication between people from different cultures, and hence the need to train people on intercultural communication is necessary in order to avoid conflicts arising from cultural differences. On this basis, therefore, it is important that managers dealing with people from different cultures be trained on how to handle and deal with stakeholders from different cultures.

2.9 Chapter Conclusion

This chapter has presented a critical review of the existing literature on global sourcing where the concept was defined, and a relationship between global sourcing and integrated supply chain management brought into focus. The benefits and risks associated with global sourcing were brought into focus in this chapter where it was revealed that global sourcing is beneficial to organisations in terms of facilitating quality materials from different countries, reducing costs, while also enhancing the flow of technology from developed countries to the developing countries. However, considering the complexity of supply chain integration involved in global sourcing, it was revealed in this chapter that companies adopting it face the risk of currency fluctuations, economic and political volatility, exposure to more stringent legal frameworks, cultural diversity, and problems associated with the high costs required to establish a global supply chain. As it was revealed in this chapter, though sourcing from sourcing from developing countries faces the challenge poorly established standards for various materials, and hence any quality compromise can easily impact negatively on the sourcing company's brand name. It is therefore important that for companies sourcing raw materials from developing countries to be extremely careful when selecting global suppliers in order to avoid inconveniences brought about by unreliable suppliers.

3 CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

In chapter 1, the aim of this research was specified as been to investigate the challenges that IKEA faces in global sourcing in both developed and developing countries where USA and Saudi Arabia were the main country of focus with USA been considered as a developed country while Saudi Arabia was considered as a developing country. In this section of the research, the various research methods and techniques that were used in the study in order to ensure that the specified aims and objectives were achieved are explained. In addition to that, the section also justifies the reasons behind the use of the various techniques and approaches.

3.2 Research Paradigm

As has been discussed by Tashakkori and Teddlie (2010) research paradigm basically involves specific beliefs and perspectives that dictates how a research in a given topic will be carried out as well as how the findings of the research will be understood. Bryman (2004) who has also discussed about paradigm explained that majority of the qualitative research surfaces from the interpretivist paradigm while quantitative researches surfaces from positivist paradigm. In view of this study, the research paradigm that was used was interpretivist paradigm since due to the nature of the study and the aims and objectives that the research sought out to achieve, the interpretive paradigm was found to be ideal since it would ensure that the researcher had a clear understanding of the challenges that IKEA faces in sourcing for suppliers in the different countries that the company operates in. Indeed, it can be explained that even though positivist paradigm would have helped establish the

challenges, it would not have made it possible for the researcher to have an in-depth understanding of the challenges.

3.3 Research Design

As noted by Calori (2002), research design entails the strategy that a researcher opts to incorporate the various aspects of the research been carried out in a consistent and valid manner, thus, making certain that the specified research problem will be effectively addressed. In other words, it can be explained that the research design of any given research is made up of the outline for data collection, measurement of the data and the subsequent analysis of the collected data. For this specific study, the research design can be explained to have been investigative since as has already been pointed out, the study sought to investigate the challenges that IKEA encounter when sourcing suppliers for materials in different countries.

3.4 Research method

Cresswell (2006), Punch (2005), and Saunders et al. (2009) are all in agreement that there are three main research methods that can be used by any given researcher when conducting a study. The three research methods comprises of quantitative method, qualitative method, and mixed research method. Nevertheless, Flick (2006) has explained that it is always important that the researcher thoroughly considers all the three research method prior to making a decision on the research method that the researcher will use in the research.

As far as quantitative research method is concerned, Bryman (2004) has explained that it involves gathering data that is statistical in nature hence the reason a researcher that uses this approach has to eventually make use of statistical tools to analyze the data collected. According to Saunders et al. (2009), the main advantage of quantitative research method is

that it makes it possible for the researcher to collect data from a large sample size and then easily analyze that data using various statistical tools. However, Saunders et al. (2009) have also explained that the main drawback of this approach is that the data that is collected through this approach is mainly descriptive in nature and might not be applicable for specific contexts.

Qualitative research method on the other hand has been expounded by Saunders et al. (2009) as a research method that aims at gathering data that instead of being numerical in nature is mainly in form of words. The main advantage of this research method as noted by Cresswell (2006) is that it gives the researcher the opportunity to have a better understanding of the reason why the respondents are of a certain perspective. In addition to that, it can also be explained that depending on the research instruments used, qualitative research method also makes it possible for the researcher to probe the respondents further when need be. However, qualitative research method also has its shortcomings with the three main shortcomings being that; the sample size is always small, it consumes a lot of time, and analysis of data collected through qualitative means is always challenging as the data is not uniform (Flick, 2006).

The third research method research as discussed by Cresswell (2006) and Saunders et al. (2009) is the mixed research method which as the name suggests involves the use of both qualitative and quantitative research in one study. According to Saunders et al. (2009), this is the most pragmatic research method that can be used in any given research since the fact that it involves the use of both qualitative research method and quantitative research method means that the shortcomings of either of the research method is addressed by the other method. Nevertheless, according to Flick (2006), the fact that the approach requires a lot of

time as well as other resources results to only a few researchers preferring to use the mixed research method.

3.4.1 Use of qualitative research method

After a review of the three research methods that could be used in this specific research, the researcher opted to use qualitative research method. In this section, the rationale for the use of the qualitative research method will be explained.

One of the reason as to why qualitative research method was considered to be the most ideal research method was due to the fact considering the nature of the study and the aims and objective of the study, the qualitative research method was considered to be the ideal method since it is the only method that would have made it possible for the researcher to have a clear understanding of the challenges that IKEA faces when sourcing for suppliers of materials in different countries. Indeed, it can be pointed out that the researcher realized that even though quantitative research method could have helped identify the challenges, it would not have made it possible for the researcher to have a thorough understanding of these challenges.

The other reason as to why qualitative research method was preferred was mainly due to the fact that as explained by Patton (2002), the use of qualitative research method in any given research makes the research more flexible since it makes it possible for the researcher to investigate any aspects or issues of the research topic that might emerge during the course of the research. In that view, it can be pointed out that when researching on the challenges that IKEA faces when sourcing for suppliers of materials in different countries, it was anticipated that there is a high chance that new aspects might emerge and as a result qualitative research method was preferred.

3.5 Study Area

The findings of this specific research can be explained to cover the entire operations of IKEA since the fact that the study focused on both developing and developed countries here IKEA operates in implies that the findings of the study would offer a clear understanding of the challenges that are faced by IKEA in the different countries that the company operates in.

3.6 Target Population

Flick (2006) has explained that target population entails the entire group of people or objects that the researcher would be keen in generalizing their views and opinions regarding the topic that is been researcher. In that view, the fact that this specific research sought to investigate the challenges that IKEA faces when sourcing for suppliers in different countries can be explained to imply that the target population of the research comprised of IKEA managers working in different countries and are responsible for sourcing for suppliers of different materials for the organization.

3.7 Sample size and selection

As explained by McNiff and Whitehead (2010), in most case, it is impossible that the researcher is able to collect data from the entire research population. Thus, according to the scholars, it is always important that the researcher specifies the number of participants who will be involved in the study and at the same time has a clear sampling technique that will be used in order to ensure that the research participants who will take part in the study are an ideal presentation of the research subject.

As far as the sample size of this research is concerned, it can be explained that the fact the research used a qualitative research method meant that the sample size of the study had to be small since as pointed out by Hanson (2006), the sample size of a qualitative research

method is usually small especially when compared to the sample size of a study that uses quantitative research method. Nevertheless, as noted by Patton (2002), the use of a small sample size should not be considered as a weakness since the use of small sample size ensures that the researcher is able to spend more time with the research subjects and as a result, understand the reason as to why they have certain views and opinions regarding various aspects of the research issue under investigation.

In case of the sampling technique that was used in the research, it can be pointed out that even though there were various sampling techniques that could have been used by the researcher; the researcher opted to use convenience sampling technique. As discussed by Flick (2006), the main advantage of this sampling technique is that it allows the researcher to be able to use the participants who are readily available and have shown their willingness to take part in the study. Thus the researcher used ten respondents who were working at IKEA and were based in developed and developing countries where IKEA has operations in. In particular, it can be stated that five of the respondents were based in developing countries where IKEA has operation in while the other five were based in other developed countries that IKEA has operations in.

3.8 Collection of data

As far as this study is concerned, primary and secondary data were used. Even though this section is aimed at explaining how the primary data was collected, the section will also briefly highlight how secondary data was collected so that a clear understanding of the data that was used in the research is established.

As discussed by Somekh and Lewin (2005) and O'Leary (2004) secondary data is made up of data that was collected by someone else for another purpose than what it is been used for. In case of this research, secondary data was used by the researcher in order to offer

insight and understanding on the research topic. Among others, some of the secondary sources of information from which the data was collected from entailed text books, internet sources, journal articles, and organizational websites.

In perspective of the primary data, Denzin and Lincoln (2005) explained that primary data entails the collection of authentic primary data by a researcher on a given topic of interest. In the subsequent paragraphs, the method that was used to collect the primary data will be explained in detail.

According to Fontana and Frey (2000), the research method that is used in a given research plays a major role in determining the method that a researcher is going to use to collect data for a given research. In that view, the fact that this research used a qualitative research approach implied that the data that was to be collected has to be qualitative in nature implying that the researcher had to ensure that the research collection method used would result to qualitative data been collected.

After a review of the various data collection methods that could be applied in this specific research, the researcher opted to use interviews to collect data from the research respondents whom as already explained comprised of managers of IKEA who were responsible for sourcing of suppliers in the different countries that IKEA operates in. As discussed by Fontana and Frey (2000), structured, unstructured and semi-structured interviews are the three types of interviews that can be used by a researcher who intends to use the interview method to collect data from the respondents. Thus, Richman and Nawyn (1998) have explained that it is very important for a researcher to thoroughly review the three types of interview in the context of the research that is been carried out so that the type of interview that the researcher ends up opting for results to adequate data been collected. In addition, Patton (2002) has also emphasized on the need for ideal preparations when

preparing for an interview since failure to have good preparations could result to the interviews carried out not been able to collect adequate data that will ensure that the aims and objectives of the research are achieved.

As far as this study is concerned, the researcher opted to use semi-structured interviews to collect primary data. As expounded on by Charmaz (2002), semi-structured interviews are also referred to as unstructured interviews. As the names suggests, the interviews are carried out within an outline that is not fully structured. Due to the semi-structure . Even though semi-structured interviews have different benefits, Denzin and Lincoln (2005) explained that the main benefit of using semi-structured interviews is that it makes it possible for the researcher to either probe the respondents further or even ask follow up questions.

One of the benefits of this approach as has been highlighted by Denzin and Lincoln (2005) is the semi structured interviews are more flexible as questions that are used can be determined from the responses that are given the people who are been interviewed. However, Patton (2002) has highlighted that unless the person using semi-structured approach is well experienced in conducting the interviews, there is a high chance that the interviewer might get outside the interview topic in the course of the interview.

Since it was not possible for the researcher to carry out face-to-face interviews as the respondents were located in different countries, phone interviews were used. Moreover, it can also be mentioned that the proceedings of the interview were all recorded due to two reasons. One of the reason for recording the phone interviews was due to the fact that the researcher realized that it was not going to be possible for him to make notes and at the same time conduct the phone interviews. The other reason why the phone interviews were recorded was

due to the fact by recording the interviews, the researcher would then be able to adequately analyze the responses given during the data analysis process.

Prior to the interviews taking place, the researcher developed an interview guide question that had 15 open ended questions. Nevertheless, it can be explained that the fact that the interviews carried out were semi-structured in nature meant that the sequence in which the interview guide questions were asked differed from one interview to another since the question to be asked next was mainly determined by the responses that were given by the respondents. The interviews were carried out at a date and time that was specified by the respondents. The reason for that was due to the fact that the researcher wanted to ensure that the respondents selected a time that they were free and would have no distractions when taking part in the research. The average amount of time that was spent in each of the interviews was about 35 minutes.

3.9 Data analysis

As has been explained by Mayring (2000) , analysis of qualitative data is always challenging since the data is never uniform. To analyze the data that had been collected from the interviews, the following stages were applied;

3.9.1 Stage 1: Data transcription

In this phase, the researcher listened to the proceedings of the interview and then typed the main points that were made by the respondents.

3.9.2 Stage 2: Data coding

In this phase, the researcher analyzed the transcribed data stage and grouped it according to the similarities and the differences. Indeed, it was in this phase that the

researcher identified some of the themes as well as patterns from the responses that were given by the respondents.

3.9.3 Stage 3: Data interpretation

This phase involved the researcher interpreting the patterns and themes that had already been established thus resulting to a clear understanding of the challenges that IKEA faces when sourcing for suppliers in the various countries that the company operates in.

3.10 Ethical Considerations

There were two major ethical issues that the researcher considered in the course of the research. One of the issues involved the issue of informed consent which was effectively addressed since consent was collected from all the research respondents who took part in the research. On the other hand, the other ethical issues that needed to be considered was the issue of confidentiality of the respondents. This issue was also well addressed since the respondents were promised that their identity was never going to be disclosed to anyone hence the reason they are simply referred to as respondents.

4 CHAPTER 4: FINDINGS AND ANALYSIS

In this chapter the findings of the semi-structured interviews that were carried out will be presented and discussed. As has already been pointed out, to analyze the qualitative data that was collected, the researcher used thematic content analysis technique since the recordings of the interviews were replayed and the responses transcribed. Thereafter, the transcribed responses were compared and contrasted against each other resulting to various themes and patterns contained in the responses been identified. In that view, in this section, the themes and patterns that emerged from the responses that were analyzed are discussed. However, prior to that, the research questions that were used will be specified with the rationale as to why the questions were used been explained.

4.1 Questions used in the interview

In this specific research, semi-structured interviews were used to collect data from the research respondents. In this section, the questions that were contained in the interview guide questions will be discussed in detail.

Question 1: What is your position at IKEA?

Even though this question is not directly related to the research topic, it can be explained that the question was very important. To begin with, the fact that this question asked the respondents about the time that they had worked at IKEA meant that the respondents did not have to think on how to respond to this question as this was a straight forward question. However, by answering to this question, it was expected that the

respondents would end any nerves that they might be having about the interview as the question would help them to settle in the interview. In addition to that, the other reason as to why the question was included in the interview guide was mainly due to the fact that the responses that were given by the respondents would be able to help ensure that those who took part in the study were indeed qualified to take part in the research. For example, if the researcher was to find that one of the respondents was a receptionist at IKEA, the respondents would have been requested to withdraw his/her participating in the research since it is obvious that the respondent would not be in a position to have a clear and in-depth understanding of the challenges that are faced by IKEA when sourcing for different suppliers in the different countries that the company operates in.

Question 2: How long have you worked at IKEA?

Just as was the case in question 1, this question was included in the interview guide for two reasons. The first reason was because the responses that would have been given by the respondents would have made it possible for the researcher to ascertain whether the respondents qualified to take part in the study while the other reason was that the responses would have ensured that the respondents were settled and in mood to answer the succeeding questions that were important for the research subject.

Question 3 : Would you describe that your role at IKEA involves sourcing?

The rationale for this research was similar to the one for question one and two. However, another additional reason why this research question was included in the interview guide was to ensure that the respondents had a clear understanding of what the term sourcing involved and what were some of the sourcing strategies that were used by IKEA.

Question 4: Does IKEA source from foreign suppliers?

Question 4 can be explained to have been the first question that directly involved the research topic. Indeed, this question specifically sought to establish whether IKEA sources raw materials from foreign suppliers since the fact that IKEA is a multinational firm implies that the company could either be using suppliers based in Sweden and then imports finished products or whether the company also sources products from other suppliers. As a matter of fact, it can be explained that the responses that were to be given by the respondents in this question were going to be important as they were going to determine the direction of the interview. For example, if it was found that IKEA sources from only one supplier, then the succeeding questions would have to focus on the challenges that IKEA faces when sourcing from that specific supplier.

Question 5: What are some of the factors that IKEA considers when sourcing from global suppliers?

Various companies consider various factors when selecting their suppliers. In that view, it can be discussed that this specific question was included into the interview guide questions in order ensure that an understanding of the factors that IKEA takes into consideration when selecting the suppliers are understood. Indeed, it can be explained that in order to have a clear understanding of the of the challenges that IKEA faces when sourcing for suppliers of different materials in the different markets that the company operates in, it was paramount that a thorough understanding of the factors considered by the company when short listing the suppliers is first established.

Question 6: Why is the environmental aspect a major aspect when sourcing for suppliers?

From the literature review that had been carried out, it had been established that numerous scholars seemed to concur that the environmental factor is one of the factors that

need to be considered when sourcing for suppliers. Thus, this question was intended to be posed to the respondents in order to establish whether the claims by various scholars that environmental aspect was one of the aspects considered were valid or not as far as IKEA is concerned.

Question 7: Does cultural factors pose any challenge when IKEA is looking for suppliers?

From the literature review, culture was established to be a major challenge for many organizations that happen to be in the process of looking for suppliers. Thus, this research was incorporated in the interview guide in order to establish whether culture also posed a challenge for IKEA when it comes to sourcing of suppliers of raw materials.

Question 7: What are the other challenges that IKEA encounters when sourcing for suppliers ?

The reason why this question was included was in order to ensure that any other challenges that are faced by IKEA are established.

Question 8: What is the sourcing model used at IKEA?

Since there are various sourcing models that are used by different organizations, this question sought to establish the sourcing mode that IKEA uses.

Question 9: How can IKEA effectively address the sourcing challenges?

This question was important since it aimed at ensuring that the respondents' view on what could be done by IKEA to address the challenges that it faces are understood and taken into consideration in order to ensure that the company is able to effectively address the various sourcing challenges that it faces so that it is effective in the long term.

4.2 Results and analysis

4.2.1 Respondents position at IKEA

When the respondents were asked to explain their respective positions at IKEA, it was established that the respondents were all qualified to take part in this specific research since they were all involved in sourcing for IKEA in one way or another. For example, one of the respondents explained that he was a supply chain manager while another respondent explained that she was an assistant procurement manager at IKEA. In that perspective, it can be explained that the fact that the respondents were found to be aware of the sourcing process and strategies that are used by IKEA implied that the findings of this research were valid and reliable.

4.2.2 Respondents length of work at IKEA

When the respondents were asked to explain the period that they had worked at IKEA in order to establish whether they were indeed familiar with some of the challenges that were faced by IKEA when sourcing for suppliers in different countries, the responses that were given showed that all the respondents had indeed qualified to take part in the study since the respondent who had worked for the shortest time had worked at IKEA for two years. On the other hand, the respondent who was found to have worked at IKEA for the longest period of time had worked at IKEA for fifteen years. Therefore, the fact that the respondents had worked at IKEA for a long period of time can be considered to have been a good indication that the respondents were well versed on the research topic in context of IKEA.

4.2.3 Respondent's role and relation to sourcing at IKEA

Just as was the case with the other previous questions, this question was included in the interview guide in order to ensure that the respondents were indeed familiar with the

sourcing practices at IKEA and that they qualified to take part in the research. Thus, from the responses that were given by the respondents, it was found that all the respondents role were in one way or another linked to sourcing at IKEA. For example, one of the respondents who was a procurement manager noted:

“As a procurement manager, my job is linked to sourcing at IKEA since I am involved in negotiating as well as ordering for the raw materials from our suppliers. The suppliers can be from my country and at times from other countries. Actually, you should not be surprised if I tell you that at the moment; most of our suppliers are from various countries worldwide.

From such responses, it was established that all the respondents were working in different roles that involved sourcing at IKEA. Therefore, these responses were sufficient in proving that the respondents indeed qualified to take part in the research.

4.2.4 Whether IKEA sources from foreign suppliers

A foreign supplier as has been explained by Hartley and Choi (1996) entails a foreign individual or organization that supplies an organization in a different country with products or service. On the other hand, as has been discussed by Salleh and Mohammad (2006), there are various reasons as to why organizations tend to prefer to use foreign suppliers with one of the main reason been that the foreign suppliers are considered to be cost effective particularly when compared to suppliers based in a given organization home country.

When the respondents who took part in the interview were asked whether IKEA sources products from foreign suppliers, the respondents were all in agreement that IKEA does indeed source products from foreign suppliers. Upon further probing on the reasons why the respondents believe that IKEA sources products from foreign suppliers, it was established

that the reasons that have been discussed by Salleh and Mohammad (2006), and Hartley and Choi (1996) were some of the reasons that were explained by the respondents’.

For example, one of the respondents explained:

“At the time when IKEA was been established, the organization mainly used suppliers that were based in Sweden. However, as the company expanded and established presence in various foreign markets, it was obvious that the suppliers in Sweden were no longer capable of meeting the needs of IKEA thus resulting to the company seeking suppliers from other countries. Nevertheless, the decision made by the management team of IKEA to use suppliers from different countries also posed various challenges to the company.

Another respondent noted:

“A multinational company such as IKEA cannot be able to be effective in the different markets that it operates in without using suppliers from different countries. Precisely, IKEA has for many years used suppliers from different countries such as Russia, and Netherlands among others. In my own view, the decision by IKEA to use suppliers from different countries has mainly been motivated by the fact that the company needs to be competitive and it is a no brainer that in some cases, the company could not be effective if it sticks on only using suppliers who are based in IKEA. For example, it is obvious that wood suppliers in Sweden are likely to ask for more money for their wood products while suppliers in other countries that have vast natural forests are likely to ask less money for their wood products. As a result, as long as IKEA wants to be competitive in the market that has now become more competitive unlike was the case in the past, then the company has no option apart from sourcing for the raw

materials from foreign suppliers since their prices are relatively cheaper. But that should not be considered to be the only reason why IKEA uses foreign suppliers since I have also seen situations where IKEA has opted to even use foreign suppliers that are more expensive when compared to suppliers in Sweden. In short, all that I am saying is that many factors come into play when determining whether to use foreign suppliers or local suppliers”.

Another respondent explained that:

“A company that has operations in different countries has to use suppliers from different countries and IKEA is not an exception. I can tell you for a fact that the main suppliers that are used by IKEA are from China, Poland, Sweden, Italy, and Germany. Even though I am not involved in the supplier selection process, I am aware of the fact that the quality of the products supplied as well as the cost of the products supplier are some of the main factors that IKEA takes into consideration when shortlisting the suppliers that the organization will work with.

Another response that was given by another respondent and can also be explained to have been similar to the responses that were given by other respondents was that:

“The company definitely uses suppliers from other countries since it is not possible for IKEA to only use suppliers who are based in Sweden and at the same time be effective. Take for instance the company’s entry into the Chinese market. It would be almost impossible for IKEA to be able to effectively compete with other competitors in China if it was to use Swedish based suppliers since the costs of production in Sweden are definitely higher when compared to the costs of production in China. Therefore, I can state that IKEA does indeed

use suppliers from different countries in order to enhance efficiency and competitiveness. For example, it would be a main challenge for IKEA to always import products that are to be sold in China from Sweden.

Thus, from the analysis of the responses that were given by the respondents when they were asked whether IKEA uses foreign suppliers, it can be explained that the respondents were all in agreement that the company uses foreign suppliers. In addition to that, the respondents were probed on the reasons why IKEA uses foreign suppliers and from the responses that were given, the main reasons explained as to why IKEA uses foreign suppliers included; low costs, high product quality, and the supplier proximity which enhances efficiency of operations of IKEA in the various foreign markets that IKEA operates in. On a different perspective, the reasons that were explained by the respondents as to why IKE uses foreign suppliers are similar to the reasons explained by scholars such as Salleh and Mohammad (2006), Monczka *et al.* (2008), and Gianluca (2007).

4.2.5 Factors that IKEA considers when sourcing global suppliers

In the literature review, scholars such as Handfield and Nichols (2004), Steinle and Schiele (2008), Sharma and Modgil (2015) and Hartley and Choi (1996) among others were cited to have explained that whenever an organization is selecting suppliers, there are various factors that are taken into consideration since the organization wants to ensure that the supplier that it ends up selecting will be capable of offering the company. In order to be able to have a better understanding of the challenges that IKEA faces when sourcing for suppliers, it was considered that it was also going to be important to understand the factors that IKEA takes into consideration whenever it is sourcing for global suppliers.

From the analysis of the responses that were given by the respondents who were all employees of IKEA, it can be stated that it was evident that IKEA did not just select any suppliers since the company considered various factors before selecting the suppliers. Some of the responses that were given by the respondents were:

“We have to consider the capability of a supplier since if you end up selecting a supplier who has no capability to meet your needs; you will end up been disappointed. Mainly, to determine the capability of the supplier, we consider the resources available to the supplier. For example, a supplier who has competent workforce, and is financially stable is less likely to disappoint you unlike would be the case with a supplier who does not have competent workforce. Moreover, we also take into consideration past achievements of the supplier and even at times goes to the length of getting feedback from past clients that the supplier has served in the past. We simply do not want to be disappointed and we have to make sure we do whatever is required in order to ensure that the supplier we select does not disappoint us”.

“I am not involved directly with the selection of suppliers, but I am aware of some of the criteria uses. To begin with, the price charged by the supplier has to be competitive since if IKEA was to pay high prices for the products or raw materials that have been supplied to us, then the company will end making loses. Apart from that, we also take into consideration the external environment within which a supplier operates in. For instance, we cannot select a supplier who is based in a country that experiences regular riots as the riots will disturb the operations of the supplier and that would leave IKEA short of supplies. Another factor that we consider is the geographical location of the supplier since it is paramount that the supplier who is selected is capable of supplying IKEA with raw materials as well as products whenever needs arises without any major challenges in logistics”.

“The quality of the products or raw materials supplied is one of the factors that we consider since if a supplier cannot be able to offer high quality products as required by IKEA, the supplier will actually end up been a liability to the company. Therefore, when selecting suppliers, IKEA always undertakes the necessary measure in order to ensure that the suppliers that are chosen are the suppliers that can offer the company high quality products and raw materials. Another factor entails the price of the raw materials or products that the supplier is to supply to IKEA. The reason why we consider the price or costs is due to the fact that it is vital that the prices charged by the suppliers needs to be competitive so that IKEA can be able to be competitive in the various markets that the organization operates in.

From such responses, it was apparent that IKEA does not just select any supplier but indeed takes various factors into considerations before finally deciding on the supplier that the organization is going to select. In particular, from the analysis of the responses that were given by the respondents, it was found that the main factors that IKEA takes into considerations when selecting suppliers comprises of: location of the supplier, capability of the supplier, supplier costs, feedback from past clients that have worked with the supplier, quality of products or raw materials supplied by the supplier, and the kind of relationship that IKEA has in the past had with the supplier. These findings concur with the point raised by Sharma and Modgil (2015) and Hartley and Choi (1996) who expounded that organizations have to consider various factors when selecting the suppliers as they want to ensure that the supplier they end up selecting is the ideal supplier who will not jeopardize the operations of the organization.

4.2.6 Why environmental aspect is a major aspect when sourcing for suppliers

From the literature review, Salleh and Mohammad (2006), Ungson and Wong (2014), Cook (2006), and Hill and Jones (2004) among other scholars have highlighted that

environmental factor is always a major challenge when organizations are sourcing for suppliers since in the 21st Century, an increased number of consumers are becoming more environmentally conscious and as a result, they only want to be associated with the organizations that are friendly to the environment.

From the review of the responses that were given by the respondents, the views by Cook (2004) and other scholars on the reason why organizations want to ensure that they are environmentally friendly were found to be valid. Below are some of the responses that were given by the respondents when they were asked the reason why environmental aspect is a major factor when sourcing for suppliers:

“In the last few years, IKEA has suffered a lot as some of the suppliers that we have used were not friendly to the environment as their activities had devastating impacts to the environment. When such information was leaked to the media, IKEA received negative publicity and this resulted to a decline in sales while the IKEA brand was also affected. For example, one of our suppliers in Russia was cutting down endangered species and that had devastating impacts into the environment. When IKEA found out what the supplier was doing, the organization terminated all the contracts that it had with the suppliers. IKEA wants to be seen as an environmentally conscious company and association with such suppliers cannot send out such a message”.

“As a furniture making business, we have to assure our customers that our operations are not having any negative impacts to the environment. In order to do that, it is important that our suppliers are also environmental friendly and it is for that reason that we only work from suppliers whom we are certified are environmental friendly. Apart from that, our suppliers not commit to undertake

various initiatives that among others include tree planting to promote the sustainability of the environment. We want to ensure that the environment will not be negatively affected by our operations so that future generations can also be able to have a good environment”.

“IKEA suppliers have to be environmentally conscious as they are linked to IKEA and if they negative impact the environment, IKEA operations are also impacted. That’s the reason why we always ensure that all suppliers working with IKEA are environmentally friendly”.

Thus, among others, one of the challenge that is faced by IKEA when the company is sourcing for suppliers in the different markets that the company operates in is to ensure that the suppliers that the company selects are environmentally friendly since in the past, the company has selected suppliers who have promised to be environmentally friendly only for the suppliers to be later on be found to be having negative impacts to the environment.

4.2.7 Whether cultural factors pose any challenge when IKEA is looking for suppliers

Cook (2006) and Bozarth *et al.*, (1998) all concur that cultural factors are always a major challenge whenever an organization is looking to recruiting suppliers. In order to ascertain whether that was the case as far as IKEA is concerned; the respondents were asked whether cultural factors pose any challenge to IKEA whenever the company is looking for suppliers. From the analysis of the responses that were given by the respondents, it was found that the claims by Cook (2006) and Bozarth *et al.* (1998) are valid as can be deduced from some of the succeeding responses that were given by the respondents.

“Anyone who says that cultural factors do not pose a challenge to the operations of a multinational organization will be lying to you. A couple of years ago, IKEA ventured into the American market. The supplier that IKEA was working with was an American supplier who initially advised that IKEA modifies its products since the Americans like big sizes. However, IKEA declined and opted to offer compact products as is the case in the European market. However, IKEA had to later on modify its products and in particular the size in order to accommodate the tastes and preferences of the Americans. Thus, cultural factors do pose a challenge since we are always never sure whether to offer similar products in the various markets that we operate in or whether to customize the products”.

“Now that IKEA has been operating in the foreign markets for some years, the challenge posed by cultural factors when sourcing for suppliers is not as big as was at the time the company was initially expanding in the international markets. Nevertheless, the challenge is still there even today since IKEA might want its suppliers to act in a certain manner which the suppliers might consider to be in appropriate according to the cultural setting that the supplier operates in.

4.2.8 Other challenges that IKEA encounters when sourcing for suppliers

From the responses that were given by the respondents, below are other challenges that the respondents explained that IKEA faces when sourcing for suppliers:

4.2.8.1 Currency fluctuations

The respondents noted that since IKEA is based in Sweden, attempts by the company to have the supplier’s quote the company in Swedish Kronor have over the years been ineffective and that has left the company exposed to currency fluctuations.

4.2.8.2 Political factors

The other challenge that the respondents discussed as been major challenges faced by IKEA when selecting suppliers entails political factors. Indeed, the respondents noted that political factors in various countries that the suppliers that the company either works with or wants to work with pose major challenges since at times, the rules and regulations that are enacted in the different countries makes it impossible for IKEA to work with some suppliers.

4.2.9 Sourcing model at IKEA

From the research, it was found that the sourcing model at IKEA is a global sourcing model since the organization sources its products as well as raw materials from different suppliers who are located in different countries. However as pointed by Quintens et al (2006), and Dawson and Mukoyama (2013), no firms start directly sourcing materials from the global markets, but rather start their sourcing process at domestic levels. Most importantly, as firms start their internationalisation process, they usually progress from domestic purchasing, and later engage into international purchasing as their operations gradually enters into the international markets. These arguments by Quintens et al (2006), and Dawson and Mukoyama (2013) are valid since in case of IKEA, the company only started sourcing from global suppliers after it had expanded into foreign markets.

4.3 How IKEA can effectively address the supplier sourcing challenges

From the responses that were given by the respondents, there was no doubt that IKEA faces various challenges when sourcing for suppliers of different materials in the different markets that the company operates in. In order to ensure that the challenges that are faced by IKEA were effectively addressed, the respondents were asked to give their views on what

they believe would be done so that IKEA addresses the sourcing challenges that faces when looking for new suppliers.

Even though various respondents gave different responses, it was clear that the respondents were of the view that in order for IKEA to ensure that the challenges faced when sourcing for suppliers are addressed, the company needs to enhance its relationship with existing suppliers so that instead of recruiting new suppliers, the company works with existing suppliers. The following are some of the responses by the respondents:

“I have over the years advocated for IKEA to embark on strengthening the relationship with existing suppliers rather than recruiting new suppliers. Over the years, I have seen how IKEA spends a lot of resources recruiting new suppliers. I am of the view that these resources should be spent in enhancing relationship with the existing suppliers so that the suppliers can supply IKEA with raw materials and products for a long period of time”.

“Why recruit new suppliers while you have existing suppliers. The only way that these challenges will be solved is by IKEA working together with the suppliers and solving any issues that might exists so that the two parties can work together for longer periods.

Thus, from the responses that were given by the respondents who are familiar with the sourcing challenges that IKEA faces, the only way that the organisation is going to be able to effectively address those challenges is by working together with the existing suppliers rather than recruiting new suppliers who are not familiar with operations of IKEA.

5 CHAPTER 5: CONCLUSIONS

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