Factors and Motives in Practitioners’ Decision Making in Industrial Sourcing: Local Versus Global Perspectives

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Abstract

Global sourcing has dominated in industrial sourcing understating operational impacts as key objective. Low unit price has been pivotal: This paper investigates buyers’ and influencers’ decision-making on local versus global industrial sourcing, from a qualitative perspective, by contrasting between intentional and actual drivers related to operational fundamentals. Our study indicates that the prioritization in sourcing are: 1) unit costs; 2) quality and lead time; 3) flexibility of sourcing; 4) transportation/logistics, dependability, inventory level. Simpler drivers (unit costs) are favoured over “complex” drivers such as flexibility. This paper calls for closer reviews of sourcing decisions to streamline sourcing and operations better.

Keywords: Local Sourcing, Global Sourcing, Operations Management

Introduction

The choice between local and global sourcing has presented an ongoing challenge for decision makers over the last three decades (Bailey and De Propris, 2014; Bals et al., 2016; Johansson and Olhager, 2017; Monczka et al., 2016). The location of sourcing influences the geographical dispersion of business activities, and thus creates consequences throughout the company. Managerial issues relating to the geographical dispersion of sourcing and product development activities have been extensively studied (Echtelt et al., 2007; Gray et al., 2017), and this has improved our understanding of the drivers influencing the location of sourcing (McIvor, 2013), the involvement of suppliers (Dain and Merminod, 2014), cross-border collaboration and knowledge sharing (Revilla and Knoppen, 2015). However, decisions on the location of sourcing are mostly disconnected from operations (Dekkers, 2011), mainly due to a lack of understanding from sourcing management about the practical consequences of their decisions on operations (Brown, 2013). Indeed, Ketokivi et al. (2017) point out that senior managers
often have a perfunctory understanding of operations, and this results in decision making that does not reflect the short- and long-term opportunities and consequences.

Accordingly, by exploring the drivers influencing the decision on local versus global sourcing and analyse these drivers in the light of the impact on operations the purpose of this paper is to provide analytical means for qualifying and improving decision making in the relationship between sourcing and operations management. To do so, this paper draws on Argyris’ and Schön’s (1974) classical work highlighting a gap between “espoused theory” (a practitioner’ intentional action) and “theory in use” (a practitioner’s actual action). This understanding is used to distinguish between intentional drivers and actual drivers, and to guide the research as a research question we ask “to which extent are the local versus global decision-making based on intentional- or actual drivers”.

The empirical setting for this qualitative study is a global company with business activities around the globe. We focus on the sourcing of strategic materials for manufacturing plants located in Denmark.

**Theoretical background**

**Definition of terms**

Weele (2014) focuses on activities related to sourcing, and thus regards sourcing as a process of identifying, selecting and managing an optimal source of supply around the globe. Drawing on Weele’s viewpoint and Webster and Wind’s (1972) “Buy Grid” model, sourcing is understood here as a phased process involving activities related to the creation of specifications, supplier selection, negotiation and contracting, ordering, expediting and follow-up. The first three phases involve strategic sourcing, and thus mainly entail collaboration with product development, while the last three phases deal with operational sourcing in collaboration with operations (manufacturing). Thus, this paper defines **operational sourcing** as the ordering of materials, ongoing follow-up on these orders and activities related to the final evaluation of the sourced materials.

The globalisation of business activities has turned global sourcing commonplace (Kotabe and Murray, 2004). Weele (2014) regards global sourcing as the accomplishment of sourcing activities in globalised settings, often as sourcing from low-cost countries. Wagner and Bode (2006) describe global sourcing as an extension of the sourcing network in geographical terms. Local sourcing is understood by Wagner and Bode (2006) to be the activity of sourcing from geographic and socio-economic vicinity (Contractor et al., 2010). Accordingly, this paper understands **local sourcing** to take place within the domestic setting, while **global sourcing** refers distance and complexity.

Kraljic (1983) and Bensaous (1999) focus on the existing products being produced, meaning that these two well-known approaches to categorising the sourced materials draw on an operational perspective. According to Kraljic (1983), strategic materials are characterised as having high financial impact and high supply risk, while Bensaou (1999) defines strategic materials as requiring high levels of investment in the relationship by both the buyer and supplier. Since its publication, Kraljic’s approach has been widely adopted by practitioners in various business areas (Rezaei et al., 2015) and in academia. For instance, Gelderman and Weele (2003) call into question the sensitivity to measurement drivers, while Gelderman and Semeijn (2006) emphasise that in the case of strategic material, companies often have to accept the dominance of a supplier. Pagell et al. (2010) and Hesping and Schiele (2016) have further developed Kraljic’s model, and emphasise that not only the profit impact but also the long-term strategic importance of materials should be considered relevant when identifying portfolio groups.
Based on the above, *strategic materials* are defined here as having high strategic importance, including high profit impact, high supply risk, and deviations will have high impact on the operational performance.

**Identification of drivers**

Sourcing decisions must be analysed from its impact of general business functions such as sales and marketing (Ketokivi et al., 2017), logistics (Wagner and Bode, 2006), quality (Stanczyk et al., 2017), and warehousing and levels of inventory (Slack et al., 2016).

A study of 373 manufacturing companies (Johansson and Ölhager, 2017) illustrates that although low labour cost is the determining driver in the globalisation of sourcing, the consequences of this decision are often disappointing in terms of quality, lead time and flexibility of performance, thus prompting a reconsideration of the chosen sourcing location. Stanczyk et al. (2017) present a comprehensive literature review of drivers influencing the globalisation of companies’ sourcing activities; the drivers are divide into those relating to operational performance and financial performance, respectively. The former includes drivers such as lead time, inventories, quality and complexity, while the latter consists of costs related to materials, transportation, inventories and overhead.

According to the sourcing process model presented above, the selection of suppliers (i.e. the sourcing location) is one of the first decisions to be taken (Webster and Wind, 1972; Weele, 2014), meaning that the decision on sourcing location is decoupled from operational issues (Dekkers, 2011). Accordingly, the review of influencing drivers in this study focuses only on the performance-related consequences of sourcing location decisions; in other words, the aim of this review is to reveal the drivers of location decisions taken by practitioners in operational areas.

Slack et al. (2016) suggest that performance-related consequences include quality, time of delivery, lead time, dependability, flexibility (to cope with fluctuations in demand) and costs. Bozarth and Handfield (2016) agree, but omit dependability. Schönsleben (2004) identifies quality, costs, delivery and flexibility, while Chae (2009) emphasises inventory days of raw material supply and the dependability of upstream actors. Leonczuk’s (2016) finds that quality, dependability of delivery, lead time, flexibility, inventory levels and costs are key performance drivers.

Drawing on the above, it seems that researchers agree upon the following performance-related consequences: costs, quality, dependability (supplier reliability), lead time, inventory levels and flexibility. In the following, these performance-related consequences are used to structure a review of articles examining the drivers influencing the choice between local and global sourcing.

Costs are considered to be an influencing driver by Fagan (1991), Bozarth et al. (1998), and several others; Table 1 gives a comprehensive listing. These costs involve both unit costs and indirect costs, for instance transportation/logistics costs (Fagan, 1991). Trent and Monczka (2003) find that direct costs (unit costs) are the most important influencing driver. According to Kotabe and Murray (2004), although opportunities for reductions in unit costs were previously a crucial influencing driver, unit cost currently ranks alongside quality and dependability drivers. Zhai et al. (2016) echo this viewpoint, and mention unit costs alongside quality as the primary drivers. Joubioux and Vanpoucke (2016), Stentoft et al. (2016) and several others (see Table 1) consider quality to be an influencing driver. Except for Kotabe and Murray (2004) and Wagner and Bode (2006), these authors also find that lead time is a driver influencing decision making. Trent and Monczka (2003), Bailey and De Propris (2014) and others (see Table 1) suggest that dependability influences this decision. Inventory level, including the volume of the sourced material, is considered to be an influencing driver by Kotabe and Murray (2004), Ashby (2016) and
Fratocchi et al. (2016). Finally, according to Bailey and De Propris (2014), Fratocchi et al. (2016), and several others (see Table 1) flexibility is a determinant of the choice between local and global sourcing.

In summary, based on the above review of 16 articles, the seven drivers are as follows: unit costs (identified in 14 articles); transportation/logistics costs and quality (identified in 13 articles); lead time (identified in 12 articles); flexibility of sourcing (identified in 10 articles); dependability (supply reliability; identified in nine articles); and finally inventory level (identified in seven articles).

### Table 1. Drivers influencing the decision between local and global sourcing methods

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<th>Costs</th>
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### Methodology

This research is exploratory, and a qualitative research approach is applied here (Creswell, 2014). Boer et al. (2015) suggest that a review in an explorative study should be short, rather than comprehensive as for theoretical tests. Narrative literature review in this paper is to gain an overview of the influencing drivers (Hammersley, 2001). A literature review reveals seven identified drivers. These seven drivers feed into and structure the empirical analysis. Thus, although the research commences with a literature review, the line of inquiry is not a purely deductive approach; as Bertilsson (2004) states, “Deduction does not really ‘see’ anything at all as it serves a control office”.

The empirical context for this paper is a large global company producing complex products with both mechanical components and hardware with embedded software. The company has operated with both local and global sourcing methods for 10 - 15 years. While the company has several facilities globally, the focus in this research is on sourcing strategic materials for its manufacturing plants located in Denmark. Thus, the distinction between local and global sourcing is based on the geographical location of suppliers in relation to the Danish facilities. The study of this company constitutes a case-based research approach (Woodside and Wilson, 2003; Yin, 2009).

Product variants are often made on engineer-to-order basis. There is also a certain degree of customisation or configurability of each system with respect to a range of customer or local requirements. Most parts are manufactured by suppliers, but critical
parts are assembled within the company. The planning horizon for assembly and shipping systems to customers is typically very long – measured in years.

The data collection carried out here involves observations and semi-structured interviews with practitioners in a range of different organisational functions. Seven semi-structured interviews were conducted. A gatekeeper (Bryman and Bell, 2007) supported the identification of each of the practitioners interviewed. Informants were identified with a range of different organisational functions, who were either involved in or directly influenced by the local or global decision making, for example operational procurement, engineers involved in engineering changes to existing products, quality, planning, warehousing and production. Extensive action research was also used to underpin the results, consisting of a presence in the company for approximately one year, shadowing meetings, decision-making and daily data processing.

Our analysis draws on the above interviews and observations, which were coded into a matrix with the identified drivers as one dimension, and the informants and observations making up the other dimension. Focal point of this analysis is the influencing role of the drivers, rather than the different functional areas. Through our approach, a pattern gradually emerges from the collected data, enabling an understanding of the current approach to the decision on local versus global sourcing followed by clarification of the practitioners’ suggestions for an ideal approach to determine the location of sourcing.

**Empirical findings and analysis**

With the aim of providing analytical means for qualifying and improving decision making in the relationship between sourcing and operations management the analysis in this section explores the drivers influencing the decision on local versus global sourcing. To guide the analysis we focus on “to which extent are the local versus global decision-making based on intentional- or actual drivers”.

Although the seven influencing drivers are presented and analysed separately below, the majority of practitioners emphasised that the decision between local and global sourcing location should not be based on a single driver. Instead, proper decision-making should take into consideration several of these seven drivers. Intentional driver for the local/global decision-making is to apply a trade-off approach among all drivers.

The majority of practitioners ranked unit costs (direct material costs) as a pivotal driver affecting the decision between local and global sourcing. Few practitioners ranked it in second place, who considered dependability as the most crucial driver. Even though placing unit costs as their first priority driver, the practitioners acknowledged that the total cost of sourcing strategic materials would be more appropriate, emphasising that although global sourcing has lower unit costs, the total cost of global sourcing will in some situations be higher than for local sourcing.

Although the practitioners noted the benefits of applying a total cost analysis in this decision, the weighting of transportation/logistics costs was surprisingly low. All practitioners stated that this driver had only a minor influence on the decision-making process; issues being highlighted by the practitioners are costs consideration based on INCOTERMS agreements (Weele, 2014). The viewpoint in the company is that since the supplier is responsible for carrying all risk and transportation/logistics costs, the unit cost is the pivotal driver. Thus, costs related to increasing the safety stock (inventory level) due to longer lead times and potential quality issues are neglected. This indicates that the actual driver for the decision-making is unit costs.

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All practitioners highlighted that dependability was not a matter that greatly influenced the decision-making process. The only dependability issues that influenced decision-making were audits of the suppliers’ financial positions; dependability in terms of timely
deliveries and the right quality had no influence. Practitioners pointed out that dependability influenced the selection process of suppliers, but did not have any influence on whether local or global sourcing was selected. The practitioners acknowledged that dependability in regard to on-time deliveries and quality should have a higher degree of influence on the selection process of suppliers, as it could be a means of reducing the risks of sourcing. It seems the actual influence of the dependability driver is minimal.

Responses regarding the influence of lead time are diverse. Practitioners who were involved in engineering change management, quality and planning stated that lead time was among the most important influencing drivers. Their argument was that sourcing with a short lead time (from suppliers) was more capable of handling fluctuations in production plans than sourcing operating with long lead times. Practitioners working in production and operational procurement considered lead time to have a degree of influence on decision making, and ranked lead time as having a medium degree of importance. As long as a supplier’s dependability in terms of timeliness and quality was acceptable, lead time considerations should only have a minor influence on the decision-making process.

All practitioners agreed that quality influenced the selection of local or global sourcing location. In the past, quality issues had been frequently encountered when receiving materials from global sourcing locations; however, practitioners stated that the level of quality from foreign locations ranked alongside domestic sourcing locations at the time of response. Indeed, quality was not regarded as a main influencing driver when distinguishing between local and global sourcing locations. Rather, quality was considered to be a generic driver in the choice of suppliers, and some practitioners ranked the influencing role of quality as lower than unit costs, while others suggested that quality was less important than both unit costs and lead time. Nevertheless, all practitioners felt that quality should be the pivotal driver in all sourcing decisions, as it could ensure the lowest total cost in the long term; as stated above, differences in quality performance are not generally caused by the location of sourcing, meaning that quality should remain a generic selection intentional driver.

All practitioners responded that inventory level did not influence the selection process of suppliers in any way. Practitioners pointed out that issues related to inventory level were handled by operations totally decoupled from the sourcing location. Practitioners apparently faced the consequences of this neglect, and they emphasised that inventory level considerations should be taken into account in the choice of local and global sourcing location. Practitioners from warehousing and procurement suggested that either local sourcing locations should be used or that global sourcing locations (suppliers) should establish local warehouses.

In regard to the last driver, the majority of practitioners considered flexibility of sourcing to be a driver of some importance. All practitioners underlined two aspects of flexibility: the availability of technology and the availability of free capacity. Both aspects were rated as being highly important when selecting local or global sourcing methods. In terms of the availability of technology, the practitioners did not identify any issues associated with local sourcing; however, in terms of the availability of free capacity, they emphasised that it was often necessary to use or supplement local sourcing with global sourcing, via a dual-sourcing scheme. Compared with the present situation, the practitioners did not see any need to change the priority of the flexibility of sourcing driver, highlighting that the total costs should be the pivotal influencing driver in the choice between local and global sourcing.

In summary, a huge gap between intentional and actual drivers for the local/global decision-making is revealed. The practitioners highlight the importance of using a trade-off approach in an attempt to reduce the total cost, but at the end of the day, the actual
driver having pivotal influence on the location decision is unit cost. Following unit cost, quality and lead time have also high priority, while flexibility of sourcing (capacity-wise) has a certain level of influence. Transportation/logistics costs, dependability and inventory level have only a minor influence. To close the gap between intentional and actual driver, the analysis indicates that practitioners should pay more attention to flexibility, dependability, inventory level and transportation/logistics costs.

Discussion
The consequences of an excessively one-sided focus on unit costs have been examined by researchers. For instance, due to issues relating to quality, lead time and flexibility performances, local versus global sourcing decision making based on reducing unit costs are often reversed (Johansson and Olhager, 2017), meaning that production is backshored (Ashby, 2016). Practitioners in the operations department were “held hostage” by the sourcing decisions, as they had to find a way to cope with inadequate quality, long lead times, a lack of flexibility, high transportation/logistics costs, low dependability and high inventory levels. According to the practitioners in the operations it was often necessary to carry out rescheduling of the productions and produced rush-orders/deliveries, which were resource demanding and costly for the company. Accordingly, it seems that the drawbacks of decisions made in the early phases of the sourcing process model (Webster and Wind, 1972; Weele, 2014) are difficult to overcome.

In contrast to the prevailing theoretical viewpoint regarding decisions on local versus global sourcing, which suggests a trade-off in terms of costs (Monczka et al., 2016), the findings in this paper illustrate that the practical realities of sourcing decisions favour unit costs at the expense of considering the total costs. The question thus arises as to why practitioners favour a total costs approach while at the same time acknowledging that since the suppliers carry both the risk and costs of delivering the materials, transportation/logistics costs should not have any influence. Likewise, although the influence of dependability is regarded as being small, a low degree of dependability makes it necessary to increase the level of safety stock, handle rush deliveries and increase the awareness of inventory management. Hence, we echo Stentoft et al.’s (2016) viewpoint that it is important for practitioners to have knowledge about the rationales of both local and global sourcing to carry out a balanced decision-making process. Our findings suggest that practitioners need to use a simple overall benchmark, unit cost, in the verbal expression of decision-making, but can analyse and verbalise complexity in depth when necessary due to their professional background and experience.

Researchers suggest using a total cost approach in the local-global sourcing decision-making (Bailey and De Propris, 2014; Johansson and Olhager, 2017; Kotabe and Murray, 2004; Zhai et al. 2016). Practitioners have accepted this viewpoint, but the practical realities revealed in this study illustrate that the decision makers struggle in applying such a method. Basically, it can be argued that the empirical findings in this study challenge the distinction between local vs. global sourcing. For instance, these practitioners suggest that quality, logistics and transportation costs, dependability and inventory level should be seen as generic drivers for selecting suppliers, and that these drivers are therefore not directly linked to the local and global sourcing decision. This implies that unit costs, lead time, and to a certain extent flexibility requirements due to fluctuations are the determining drivers in the location of sourcing; trade-off exists between a reduction in unit cost and coping with the consequences of increased lead time.
Figure 1 illustrates a framework for qualifying and improving the relationship between sourcing and operations management in terms of local/global sourcing decision-making. As it appears from the analysis, the practitioners have acknowledge that it is crucial to prioritise short lead time if they should be capable of coping with high fluctuation. In contrast if the fluctuation is low, it is just a matter of drawing up a good plan. Having a laser like focus on fluctuation as the determinant for handling operations issues is well-evidenced (Christopher, 2016; Slack et al. 2016;). These researcher suggest addressing the level of fluctuations in downstream activities, in the internal value creating activities and final in the upstream activities. Acceptance of the viewpoint depicted in figure 1 reduces the distinction between local versus global sourcing, making it a matter of simply balancing unit costs and lead time issues.

This study has certain limitations. Findings are based on one company study with data collected from an inside-out perspective, and our empirical understanding does not draw on the network of the enterprise. The company examined here is sourcing high-end industrial products in low quantities, with a high level of engineer-to-order, but is making sourcing decisions partly with a “grocery shopping” philosophy, based on individual attitudes, perceptions and behavioural traits. Finally, we address the local versus global sourcing issues from an operational perspective, and thus deliberately neglect the decision-making processes in relation to product development. Future research should therefore extend the number of companies examined, and should also include both local and global suppliers, meaning that both an inside-out and outside-in perspective should be used. A comparison of the differences between the working practices of different companies and carrying out more interviews in each organisational department may pave the way for further learning points and increase the reliability of the research.

As a reflection upon the practical realities of sourcing decisions recalls Argyris’ and Schön’s (1974) classical work presented in the introduction of this paper. The practitioners are aware of the benefits of applying a total costs approach, and in general, the level of education in the company is very high. In other words, the espoused theory suggests that a total costs approach should be used, while the theory in use demonstrates that the practitioners limit themselves to a direct unit costs approach. Hence, by addressing the gap between the espoused theory and the theory in use, future research could study the extent to which social and/or technical drivers allow the practitioners to ignore decision-making based on total cost considerations.

**Conclusions**
This study focuses on operations, with the dual aims of improving the current understanding of the drivers influencing the motives of individual decision makers, and thereby influencing decisions on local and global sourcing.
A literature review identifies seven drivers, which shows that the drivers of unit costs, transportation/logistics costs, lead time, quality, dependability, inventory level and flexibility influence the location of sourcing. Although unit costs are mentioned most often in existing articles, a review does not provide us with the knowledge necessary to rank the influence of the drivers identified here. These seven drivers are studied empirically. The practitioners interviewed in this study had various functional affiliations.

Our empirical study indicates that the prioritisation of these drivers is as follows: 1) unit costs; 2) quality and lead time; 3) flexibility of sourcing; and 4) transportation/logistics costs, dependability and inventory level. Although unit costs constitute the most important driver, practitioners are aware that a total cost approach may be more appropriate; however, this is largely left at an intentional level. Global sourcing enables a reduction in unit costs, but the total costs of global sourcing often surpass those of local sourcing. A better approach to local and global decision making would pay more attention to quality, lead time, dependability, inventory level and transportation/logistics costs.

Finally, this study aims to understand the drivers driving practitioners. “Simple” drivers such as unit costs are favoured over “complex” drivers such as flexibility. We call for careful reviews of sourcing decisions in order to ensure the overall optimisation of costs, and for continuous lessons learned activities.

References


