Balanced Sourcing As An Important Attribute Of Operations Strategy: Reality Or Myth Among Ghanaian Firms?

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Abstract
Today's business context is more complex than the environment in the past due to globalisation, new technologies, rapidly shifting conditions in the marketplace, and competition arising from the most unexpected places. These important events have posed challenges for companies as far as sourcing is concerned. The process view of an operations strategy is particularly important because it focuses on how work is done. For example "how is sourcing done?" Thus, it becomes important to answer the questions "who should perform an activity or process in the value chain?" and "how we should manage the supply relationship?" (Van Mieghem, 2008). The answers to these questions bring to focus the need to strike the optimal balance between a sense of cooperation and a commitment to competitive pricing. This is what Laseter (1998) termed "Balanced Sourcing". This paper therefore seeks to classify firms used in the research into the four quadrants of the "*commitment to a cooperative relationship*" and "*commitment to cooperative pricing*" matrix. Such a classification should serve as a guide to operation managers of firms to review sourcing strategies for a better financial performance of their firms. A survey approach was adopted using 150 firms in the Tema-Accra metropolis. The operation managers of the firms were served with questionnaire and were also interviewed. The collection of the questionnaire took a period of three months and the interviews spanned one-and-a-half months. The collected data were analysed using Statistical Package for Social Sciences (SPSS). All four quadrants were represented by the firms though majority of them are found in the balanced sourcing

quadrant. It was found that many of the firms have serious challenges pertaining to the sustainability of their positions. We also found out that benefits accrued to firms which have implemented sourcing strategies that emphasise cost and quality management.

Keywords: Balanced Sourcing, operations strategy, strategic sourcing, sustainable competitive advantage, transactions.

Paper type: Research paper.

Introduction

Today's business managers, as in the past, have three main objectives namely: creating shareholder value, gaining market share, and extending their company's capabilities and reach. Unfortunately, while the issues that confront today's managers are the same as in the past, the context in which these issues must be addressed has changed. Today's business context is more complex than the environment in the past. This complexity can be explained in the wake of globalisation, new technologies, rapidly shifting conditions in the marketplace, and competition arising from the most unexpected places. These important events have posed challenges for companies as far as sourcing is concerned. Thus, in order to survive, companies in various industries need to adopt strategies like focusing on a company's core competencies and primary business interest, continuous innovation, reinventing themselves completely, forming linkages with their chief rivals, and severing linkages with their closest friends (William F. Stasior in Laseter, 1998). It has been shown that the operations management function of any company yields the greatest improvement in contribution and may also be the only feasible option to maximising NPV (Heizer and Render, 2008). The achievement of this goal of operations requires the formulation of an operations strategy which consists of resource management, process management, and development of competencies (Van Mieghem, 2008). The process view focuses on how work is done, for example "how is sourcing done?" The choice of this research topic is informed by the fact that resources generally are scarce and therefore great importance must be placed on where and how a company purchases these resources for its business function. Thus, it becomes important to answer the questions "who should perform an activity or process in the value chain?" and "how we should manage the supply relationship?" (Van Mieghem, 2008). The answers to these questions bring to focus the need to strike the optimal balance between a sense of cooperation and a commitment to competitive pricing. This is what Laseter (1998) termed "Balanced Sourcing" and since then, several researchers have researched on cooperative relationships with suppliers (Vachon et al., 2008; Cambra-Fierro and Polo-Redondo, 2011) and commitment to competitive pricing (Sivakumar, 2007; Henke et al., 2008). This paper therefore seeks to classify the companies under study into the four quadrants of the "commitment to a cooperative relationship" and "commitment to cooperative pricing" matrix. Such a classification should serve as a guide to operation managers of companies to review sourcing strategies for a better financial performance of their companies. The paper will then provide managerial break-through ideas based on the findings.

Problem Statement

Operations management is an important functional area of every company. It is the operations function which has the greatest potential for increasing the NPV of the company (Heizer and Render, 2008). When the operations function is efficiently managed, significant cost reductions are realised thus increasing profits. Thus, every company needs to have an operations strategy which should align with the company's competitive strategy. While a company's competitive strategy involves selecting industries in which to compete and choosing the product attributes on which to compete, operations strategy involves enabling the execution of the business strategy. In particular, it finds the best ways to deliver the value proposition. Sourcing emerged as a business area worthy of executive-level attention during the 1990s. It is reported that every year, the typical manufacturing company spends 50 to 75 percent of its revenues on outside materials and services (Laseter, 1998). There are divided views on how this should be done. Some executives push for extracting the maximum value from the supply base while others are in favour of rationalising the supply base and creating long-term partnerships. According to Laseter (1998) neither of these schools of thought provides an optimal sourcing strategy beneficial to both the buyer and the supplier. Companies should engage in strategic sourcing which provides the possibility of reducing the percentage of a company's revenue spent on sourcing. It is quite important to note that strategic sourcing should eventually be beneficial to the supplier of the materials or services as well. This has therefore made strategic sourcing one of the most challenging strategic issues of today's businesses. Laseter (1998) proposed the balanced sourcing model as a solution to addressing the challenge. Since the inception of this model, little or no research work has been done on the applicability of the model among Ghanaian firms. This paper therefore seeks to fill this gap.

Literature Review

Processes in companies play a key role in revamping the companies' profitability status. For example, attention has been given to cross-functional process analysis and improvement. Usually, this is done with the assistance of process maps which are used to identify and analyse problems and opportunities. Such analyses could lead to time savings, costs reductions, and quality improvements. This phenomenon is in line with the 85:15 rule (Deming, 1986). Deming (1986) observed that 85% of the problems encountered at work are due to the processes used to guide and regulate the work, and only 15% are due to workers. Process analysis is therefore important in order to minimise, if not eliminate, the problems encountered at work. However, it should be noted that the primary goal of a cross-functional process analysis is customer centred. Much of the current literature suggests extending the revamping of a company's financial performance to the supply base (Gottfredson and Phillips, 2005; Gould, 1997; Tam et al., 2007; Kumar et al., 2011). In order to achieve this, a company needs to develop some competences in the directions of commitment to a cooperative relationship and commitment to competitive pricing. In either direction, the commitment could be low or high yielding a four-quadrant outcome space. These quadrants are referred to as purchasing approaches from the supplier. Thus, we have four purchasing approaches namely:

unleveraged purchasing, Darwinian rivalry, trust-based partnerships, and balanced sourcing (Laseter, 1998) (see Figure 1). The first three approaches are referred to in purchasing literature as one-dimensional.

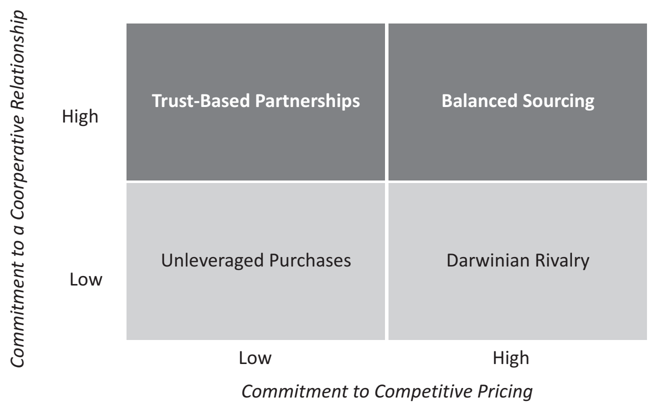

Figure 1: Purchasing Approaches

Source: Laseter, 1998

For example, the unleveraged purchases quadrant depicts a company that is low in both commitment to competitive pricing and commitment to a cooperative relationship. Such a company has little cooperative relationship with its suppliers and also pays high prices for its materials and services from its suppliers. High supplier partnerships with little commitment to competitive pricing results in the trust-based partnership which erodes some of the company's profits because of high prices paid to suppliers. On the contrary, high commitment to competitive pricing with low commitment to a cooperative relationship leads to the Darwinian rivalry situation. This situation drives survival of the fittest among the supply base ensuring that companies overwhelm their competition or die out. Such a system is unstable because every company attempts to seek overall dominance. Some authors have suggested supply chain management as a means to minimising the inefficiencies of these one-dimensional purchasing approaches. First, they argue that it will ensure an efficient way of obtaining materials and services and secondly, will ensure an efficient system of distributing finished products to the final consumer. In this way, supply chain management is a way of mitigating the lapses in the one-dimensional purchasing approaches. Nonetheless, such attempts have also been criticised for not providing practical guidance for achieving an effective supplier partnership (Laseter, 1998). Laseter's (1998) proposed “balanced sourcing” model is the quadrant where both commitment to a cooperative relationship and commitment to competitive pricing are high. It is supposed to drive improvement at both customer and supplier end points. This new model recognises that effective purchasing requires a set of organisational capabilities. According to findings from Booz Allenn's field research, these capabilities can be categorised into two, namely; those that appear universally applicable in any industry, and those that are critical for certain companies or industries. These capabilities are schematically presented in Figure 2 followed by literature review on each of them. Our propositions are then formulated after review on each capability. These propositions are labelled P1, P2, P3, P4, P5, and P6 corresponding to the six capabilities.

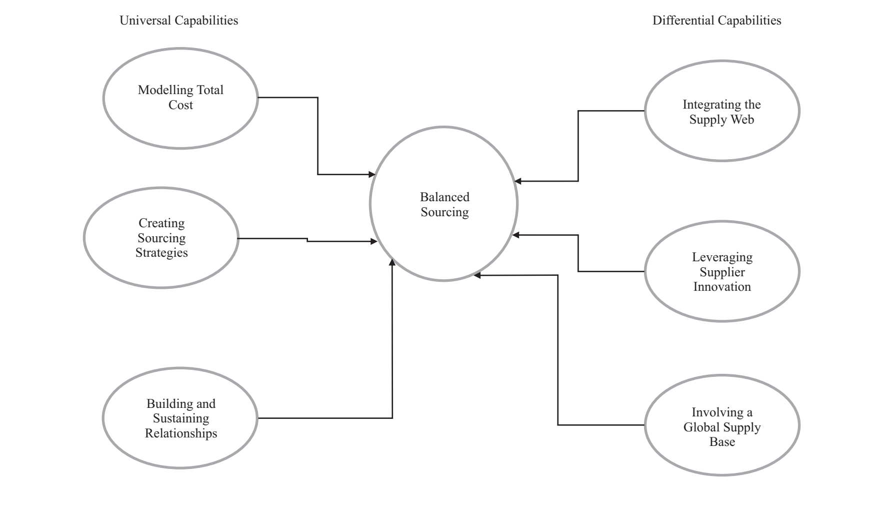

Figure 2: Organisational Capabilities for Balanced Sourcing

Source: Laseter (1998)

Modelling Total Cost

Globalisation and new technologies have resulted in a more complex business environment thus, making modelling total cost especially important if a company must establish a sustainable competitive advantage in the market. This is so because competition is not confined to local markets. Different countries have different cost structures because of differences in tax policies, labour costs, material costs, etc. A study of the apparel manufacturers in USA and UK (Acaccia et al., 2002) revealed that many of them have moved their operations to different countries for one or more of the reasons given above. It has been reported that apparel companies both in the USA and UK who are trying to regain their market share employ outsourcing (Teng and Jaramillo, 2005; Sauvant, 2004; Kim, 2003). Gottfredson and Phillips (2005) indicate that too many executives focus more on using outsourcing to achieve cost cutting rather than on its potential for capability enhancement. Outsourcing can bring about a sub-optimal operations strategy when we consider only the price of the consumer goods without taking into consideration hidden costs (delays, use of air freight, quality cost, etc.) and inflexibility costs (the company's inability to meet an increasing variety of customer expectations without excessive cost, time, disruption or loss) (Lowson, 2002). Gottfredson and Phillips (2005) also observe that "outsourcing often fails to measure up to expectations when it is even purely on the basis of cost savings". One reason the authors gave for this is that most companies make outsourcing decisions on piecemeal basis. Kumar and Arbi (2007) also observe that being a lower labour cost country alone is not a sustainable strategy, but is an order-qualifier. From the forgoing discussion, it appears that a lot of consideration must be injected into the estimation of the cost of the outsourcing process if it must yield the intended results.

P1: Total sourcing costs estimation excludes hidden and inflexibility costs.

Creating Sourcing Strategies

For a company to successfully create a working sourcing strategy, it must have a deep understanding of the industry economics and dynamics. This can be achieved by forming multifunctional commodity business teams who will produce commodity business plans. A good commodity business plan should enable management develop better sourcing strategies based on low cost, the nature of demand (volatile or not), the nature of competition (increased or mild), and the nature of the product life cycle (when the product life cycle is short). It is also imperative that the company must be able to quantify its potential returns (Åkesson et al., 2007). According to Åkesson et al. (2007), sourcing strategies comprise of two strategic dimensions namely the choice among various supply markets and the choice among various supply channels. Fraering and Prasad (1999) make these dimensions clearer when they refer to the former as a national versus an international sourcing and the latter as internal versus external sourcing. The external sourcing is also referred to as make-or-buy.

P2A: This firm has a policy to formulate a successful sourcing strategy

P2B: This firm's sourcing strategy is effective.

Building Sustainable Relationships

An efficient and effective customer-supplier relationship is crucial for the survival of any company. For example, Prior (2012) found out that actor bonds between the firm and its largest supplier provide a source of competitive advantage that results in higher relative customer satisfaction, innovation, market efficiency and market effectiveness for the buyer firm. Prior (2012) also established the fact that there exists a positive relationship between information sharing and asset efficiency. This is so because when information is received at the proper time and place, it can lead to the efficient allocation of assets thus bringing about their efficiency. It is therefore imperative to state that building and sustaining customer-supplier relationships is essential if any company wants to gain competitive advantage. The trend over the few decades is towards holding fewer and closer relationships in business-to-business markets (Ulaga and Eggert, 2006). This indicates that businesses have realised the importance of keeping "lean" and "agile" suppliers. In a way, this enables the consuming companies to closely monitor their suppliers' activities in relation to their own activities. This is an important step to building and sustaining relationships which can result in mutual benefits to both parties. Many researchers have established the fact that trust and commitment are central to building and sustaining relationships and also managing risk (Anderson and Weitz, 1992; Morgan and Hunt, 1994; Geyskens et al., 1999; Gilliland and Bello, 2002; Spekman and Davis, 2004; Kasperson et al., 2003; Gil-Saura et al., 2009). They emphasise that commitment goes beyond an evaluation of the current benefits and costs of a relationship.

P3A: This firm develops an effective customer-supplier relationship.

P3B: This firm enjoys enormous benefits from the resulting relationship.

Integrating the Supply Web

The traditional process of making sure that sales forecasts, production plans, and inventory targets are in alignment is being challenged by today's type of supplier. Due to globalisation and advances in technology, disintegration of the value chain is very easy. For example, these days, it is very common to identify a supplier that functions simultaneously as a customer, a competitor, or even a joint venture collaborator. When relationships with such a supplier become sophisticated and complex, managing the flow of goods among companies in such a complex network becomes all the more critical. This is so because the cost of an inefficient supply web can be quite huge. Strategies such as managing the web-like relationship on a day-to-day basis, shortening the lead times, and reducing waste in the delivery activities have been proposed in the literature (Laseter, 1998).

P4: Complex networks exist among companies requiring special skills to manage them.

Leveraging Supplier Innovation

According to Ma (1999), access to distribution and supply, knowledge, competence, and capability in business operation are essentially necessary for a company to create competitive advantage. These attributes can be developed between the consuming company and its suppliers when the former actively involves the latter in its key processes. Jemmeson (1997) also highlights the internet as an important tool driving competitive advantage. Technology in general enables the exchange of ideas irrespective of geographical distance. Thus, collaborative designs between consuming companies and their suppliers are possible encouraging innovation by both parties. Technology has also made lean and agile production possible and this has been proven to both underpin competitive advantage and create strategic resources to support sustained competitive advantage (Lewis, 2000). Thus, for today's businesses, technology is an enabling factor. Its development with suppliers must therefore be seen to be a crucial tool enhancing innovation and hence creating competitive advantage.

P5: This firm has a policy of developing technology to enhance the leveraging of supplier innovation.

Evolving a Global Supply Base

Technology has made distance no longer a barrier in business transactions and hence has widened the supply base of companies. Indeed we now have a borderless supply base and businesses therefore go global by either operating in or getting their supplies from other countries. This has been made possible because of the existence of fast means of transportation and communication. Benefits to be derived from such operations include low-cost of supplies, and the support of global expansion of the company's operations. However, there are challenges to be managed with such a widened supply base. These challenges include the request by host countries of meeting local content requirement, currency exposures, and cross-cultural communication. When companies are able to manage these challenges, enormous gains can be made.

P6: Despite the existence of a global supply base, constraints exist making its access difficult.

Research Methodology

The Accra-Tema metropolis, the capital region of Ghana, was chosen for the study. The metropolis was chosen for the study because this is the most developed part of Ghana in terms of infrastructure. Also, majority of the manufacturing and service companies are situated in this part of the country. The choice of a mixture of manufacturing and service companies is appropriate because the sourcing strategies of such companies fit the choice among various supply markets and the choice among various supply channels (Åkesson et al., 2007). It is particularly important to investigate whether these companies outsource some of their activities to foreign companies in the wake of globalisation and high technological advancement. Both primary and secondary data will be used in this study. Primary data will be collected through questionnaire and interviews (structured and unstructured respectively) while secondary data will be collected from the companies' records. A sample frame, with addresses of the companies, was obtained from the Association of Ghana Industries. Those companies located in the Accra-Tema metropolis were 150 in number and we decided to use all of them. These companies are classified into large, medium, and small based on the criterion adopted by the Ghana Statistical Service (Ghana Statistical Service, 2009: GSS). Companies employing 100 and more employees are classified as large, those employing between 20 and 99 are classified as medium and those employing 5 to 19 employees as small. The classification of these companies into sizes is important for the understanding of the four purchasing approaches. It is particularly interesting to find out how the firms are distributed, by size, among the four purchasing approaches. The purchasing officer of each firm completed the questionnaire. However, he/she was allowed to contact any other officer in the company who was more knowledgeable in any section(s) for assistance. We used a firm's major supplier, as it is done in the literature (Morgan and Hunt, 1994; Prior, 2012; and Laeequddin and Sardana, 2010) because the companies could have more than one supplier. To facilitate the collection of information and the analysis, the questionnaire was divided into seven sections namely: (1) basic characteristics of the firm, (2) basic characteristics of the firm's main supplier, (3) sourcing cost estimation, (4) formulation of sourcing strategy (5) customer-supplier relationship, (6) role of technology in sourcing, and (7) challenges in sourcing. Most of the questions in Sections 2 to 7 investigate Laseter's (1998) six companies' capabilities for Balanced Sourcing and are very necessary to answer the research propositions. The questionnaire was pre-tested on 10 students who have performed purchasing tasks before for their companies. They were encouraged to identify unclear questions, comment on the importance of the research issues, and also to suggest changes. The aim was to ensure that the target respondents would have no difficulties answering the questionnaire and that the information they provided was relevant to the research topic. The refined questionnaire, consisting mostly of closed-ended questions, was then hand-delivered by the principal author's assistants to the respondents who had to answer all the questions. To ensure validity of the responses, questions in the questionnaire that could be cross-checked from company's records were cross-checked. Also, interviews, lasting between twenty and thirty minutes were organised for some selected people from management of some of the companies to verify responses to some of the questionnaire questions. Because of the busy schedules of the officers, appointments were made at the convenience of these officers. The data was analysed using the statistical package for social sciences (SPSS). Simple descriptive statistics were provided by the software.

Data and Analysis

Of the 150 questionnaires administered, 109 were returned. Fifty one firms have been in business for ten years and over. Thirty four firms have maintained relationships with their main supplier for ten years and more. Majority of the firms maintain a local supplier. In response to the main reason informing the choice of their main supplier, the responses are as follows: 30 firms wish to minimise sourcing costs; 48 want to improve quality; and 11 want to enhance their capability. There were 76 firms that source materials and services both locally and abroad, 25 firms source locally, and 5 firms source from abroad. Majority of the firms are owned by Ghanaians and 72 of the firm owners have either a first degree, or a second degree or doctorate. Most of the questionnaire questions were answered by the respondents. Using the GSS (2009) classification of firms by size, there were 30 small firms, 31 medium size firms, and 47 large size firms. There was only one respondent who did not indicate the number of employees in his/her firm. Based on their response to two of the questionnaire questions (commitment to a cooperative relationship and commitment to competitive pricing), the 109 firms were categorised into Laseter's (1998) four quadrant matrix of Unleveraged purchasing (UP), Darwinian rivalry (DR), trust-based partnership (TBP), and balanced sourcing (BS). One firm belong to UP, three belong to DR, seventeen belong to TBP, and seventy eight belong to BS. There were ten firms which could not be classified (UC) because the respondents in these firms did not answer either or both of the two questionnaire questions. The categorisation of the firms into these quadrants and by firm size is presented in Table 1 below.

Table 1 - Categorisation of firms by size and Laseter's (1998) four quadrant matrix

Type	Small	Medium	Large	Total
UP	1	0	0	**1**
DR	1	2	0	**3**
TBP	4	7	6	**17**
BS	21	18	39	**78**
UC	3	4	2	**9**

In order to provide answers to our six propositions, the responses to the questionnaire questions that aim to assist in assessing each proposition were collated and presented in percentages for each of the "balanced sourcing" matrix elements. For example, there were three questions in the questionnaire that measure proposition one (P1) and the respondents were to indicate "True" or "False". Consider BS where there are 78 respondents. Everybody answered all the three questions yielding 234 responses where 126 of them are "False" and 108 are "True". Each of these totals was then expressed as a percentage of the 234 responses. Table 2 presents the analyses for all the six propositions.

Table 2: Collated results for the six propositions

Proposition	Response	UP	DR	TBP	BS	UC
P1	True	66.67	55.56	35.42	46.12	59.09
	False	33.33	44.44	64.58	53.88	40.91
P2A	True	83.33	83.33	69.31	86.76	75.61
	False	16.67	16.67	30.69	13.24	24.39
P2B	True	100	55.56	71.43	82.10	47.37
	False	0	44.44	28.57	17.90	52.63
P3A	True	75	41.67	70.59	81.97	88.24
	False	25	58.33	29.41	18.03	11.76
P3B	True	100	40	94.12	93.24	100
	False	0	60	5.88	6.76	0
P4	True	0	0	27.45	23.93	10
	False	100	100	43.14	58.12	56.67
	Not Sure	0	0	29.41	17.95	33.33
P5	True	0	25	52.24	53.10	33.33
	False	100	75	47.76	46.90	66.67
P6	True	50	30	38.33	45.45	19.23
	False	50	70	61.67	54.55	80.77

Discussion and Managerial Implications

The categorisation of the firms into Laseter's (1998) four purchasing approaches is useful for this section. We shall first discuss the findings for our six propositions and then talk about some managerial issues related to our findings. With the exception of firms that belong to the TBP, all the other firms confirm that sourcing costs are not properly estimated because they do not include hidden costs. On an operations management perspective, this does not argue well for cost minimisation since some of the costs are not captured. It could therefore lead firms making losses without realising it. To a greater extend, all the firms accept that there is a policy to formulate a successful sourcing strategy. This finding is quite useful since in this case, the firms choose suppliers who are committed to the four keys characteristics of customer satisfaction (quality, cost, speed of delivery, and responsive). All the firms also agree that their sourcing strategy is effective. This appears to be supported by the firms when they all indicated that they derive enormous benefits from the main suppliers. Table 2 also shows that firms in the DR category have not developed an effective customer-supplier relationship and these firms therefore do not also enjoy any benefits from the relationship. Majority of the firms studied either disagree with the statement that complex networks exist among companies or they are not aware they exist. While majority of the firms in the TBP and BS have a policy of developing technology to enhance the leveraging of supplier innovation, majority of firms in the other categories do not have such a policy. Finally, majority of the firms disagree that there are constraints that make it difficult to access the existing global supply base. Based on these results, we now suggest some managerial ways that will enhance the achievement and sustainability of the balanced souring concept.

In the first place, every firm should make a conscientious effort to form a multifunctional cost estimating team which should be equipped with cost modelling techniques. In collaboration with their main suppliers, such a team will be able to develop a good cost model for their key inputs.

Further, for most firms to adopt balanced sourcing approach, there is the need for a widespread change in three key areas: processes, organisation, and supporting infrastructure. We all know that processes add value and hence they must be designed and operated efficiently. This therefore requires that the focus of purchasing processes must shift from transactional to strategic management. In this regards, firms' request for quotes (RFQ) must change from a request for prices of parts, but should be request for information to capture an understanding of the cost-competitiveness of a new supplier facility. It should also be a request for the supplier's estimate of activity levels for a particular part for a cost model.

Finally, it is also useful for the firm to provide a clear focus and possibly a short list of qualified suppliers. The selected suppliers need to be provided with targets (based on a detailed understanding of cost and market dynamics) to achieve. These changes in purchasing activities should be matched with different skills. This can be achieved in several ways.

Firstly, the firm could employ staff with the requisite training in strategic thinking. Secondly, the firm may hire outsiders from leading companies who will then infuse the needed new approaches. Another alternative is to assign high-potential middle managers to shadow senior executives for three to four months with the aim of broadening these middle managers' exposure on the critical strategic issues of the business. This is referred to as 'shadow executive") in business parlance. Finally, each firm could institute a management development program where new employees with strategic thinking are rotated through a variety of business units and purchasing functions over a period of time before placing them in permanent positions. Finally, investing in information technology is the mortar for the first two approaches to balanced sourcing. Firms are encouraged to invest in enterprise resource planning (ERP) systems. Such an investment comes with lots of advantages among which are: (i) they link the purchasing transactions with other enterprise systems such as manufacturing, financial, and resource planning; (ii) frees up time for strategic thinking, (iii) improves the quality of data for planning purposes. Other information technology applications that can also support the evolution to balanced sourcing include transactional management systems, electronic commerce, purchasing information management, and decision support tools.

To conclude, the paper provides the following guidelines for a sustainable sourcing strategy:

1. Purchasing processes must shift from transactions to strategic management.
2. There is the need for organisational changes to upgrade and elevate the purchasing function to help reinforce the shift.
3. There is the need to invest in information technology to provide the necessary tools to support the new corporation-wide, strategic point of view required for balanced sourcing.

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