Current Challenges in Global Sourcing

Jon Maxim, President
Maxelerate
(847) 691-3299; jmaxim@maxelerate.com


Abstract. I recently heard a senior executive of a large global company say, “Those Global Sourcing people are causing us nothing but trouble. We had a perfectly good relationship with our suppliers before and now Global Sourcing has ruined everything we built up!” What actually lay behind those words was a complex set of issues including:

• Organization
• Mission
• Corporate culture
• Culture and language barriers
• Supplier Management
• International trade laws and practices
• Supplier capabilities
• Global logistics

In this article I will examine the first four factors. But first, let’s examine why organizations choose to source or procure globally rather than locally or regionally. I am not just talking about sourcing hard goods, products or raw materials that have formed the traditional backbone of international trade. Over the last 20 years or so, improvements in communications and technology has caused a meteoric rise in sourcing of offshore services such as outsourcing of Information Systems (infrastructure and development), Business Process Outsourcing (such as Accounting and HR), Helpdesk and Call Centre outsourcing, etc. The perceived benefits of sourcing globally include:

• Economies of scale
• Low cost sources
• Higher quality
• Uniformity of operations
• Demonstrate that the company is global in scope
• 24 hour operations
• Just in time supply chains
• Elimination of middlemen

The truth is that these benefits can be achieved if global sourcing is implemented well. My observation is that often global sourcing fails to achieve these benefits and just as often makes the situation worse. This is especially true of indirect procurement (i.e. procurement of goods and services that do not end up in your finished product). Why is this? Here are some of our observations made during our consulting work with large global (and even not so global) companies.
Hello, Is This Mission Central?

One of the premises of Global Sourcing is organizational. The responsibility for sourcing usually lies in a central organization often at the global head office. Even if some of the people in the organization are geographically dispersed, they report to the central organization.

This can often lead to a perception at the local level that head office in a distant country is dictating what products, services or vendors should be used without an understanding of local conditions. This may not be true but even with the tremendous advances in modern communications, misunderstandings do occur. A major factor is how the mission of the Global Sourcing department is defined.

When face with these situations I ask the senior executive, “Is your mission governance or service”? In a governance model, the sourcing department is expected to oversee or even control the sourcing process throughout the organization. Unless the whole corporation has a very rigid top-down structure, which is accepted at the local country level, feelings of wariness towards head office are bound to occur.

Most global corporations are organized in a matrix where local people have a solid or dotted line reporting relationship to the country management and to a functional department at head office. In this case, the Global Sourcing department can be more effective if it has a service mission. In this role a significant effort should be made in marketing its services and showing the added value it provides.

Another important consideration is the division of responsibilities. There has to be a clear understanding of the responsibilities that the sourcing people have at the local, regional and head office locations.

Are your communication lines open?

Communication in large organizations is a challenge at the best of times. Add to this a global structure and you have a major challenge. There is no question that face to face communications are the best. Given the cost of travel, few organizations want to spend the money just to get people to talk to each other face to face. In my experience, if global sourcing is to succeed, this investment is essential.

The next best alternative is to communicate by phone. Even so, this can be difficult considering time zones. Although web sites like www.timeanddate.com can greatly ease the task of international conference calls, people still have difficulty in thinking that a country halfway round the world is on a different date.

The most common answer is to use modern electronic tools such as video conferencing, net meetings, e-mail, instant messaging, etc. Each of these has its advantages and challenges. However, in my experience, the biggest obstacle in using these tools is the human factor. Whether people do not like the technology or whether it is through resistance to control by a remote office, people often misuse these tools. This usually manifests itself by slowness or refusal to respond to e-mails, return phone calls, etc. This is a management challenge. A
significant effort has to be put in to create a culture of responsiveness at the head office, regional and local levels.

Is your corporation cultured?

“He’s gone native! He used to be one of us!” I have heard this cry several times. This refers to someone that head office assigned to a local office in the hope that they would instill head office disciplines at the local level. The insight one executive gave me was, “We used to have that problem but now we cycle the people back and forth from HQ to the regions on a regular [2-3 year] basis and the problem is gone. It has another tremendous advantage; it keeps on refreshing our knowledge of the regions.”

There are two challenges here. The first is that once somebody has been reporting to a local manager their “allegiance” to head office tends to weaken. The second is culture. Each corporation has its own distinct culture. Even more so, each country has its own culture. Local people will usually prefer to deal with their local counterparts. They understand each other better. Local vendors will often try to take advantage of this if head office is proposing a competing solution.

Is your language cultured?

Cultural and language barriers pose a much greater obstacle than most organizations anticipate. They believe other people will want to do business with them and any language obstacles will be solved. The default language of commerce is English. However, the standards of English usage vary tremendously by country and individual. This can lead to serious misunderstandings even if the terms of business are put in writing.

In fact, it can be worse than if the two parties cannot speak a common language. In this case translators must be used and people will tend to be very careful how they communicate.

Adding to language problems are cultural differences. When you meet, do you shake hands, bow, embrace or kiss? Each one of these is very appropriate in some cultures but can be an embarrassing mistake or even an insult in others. Giving gifts is a highly skilled and ritualized custom in some countries. One of the most sensitive areas is humor. For instance, in some countries in the Far East, making jokes about people is considered rude. Even making fun of yourself is considered in poor taste.

These cultural differences really can create challenges when it comes to negotiation. In some countries, vigorous, temperamental, argumentative negotiation is the norm. The loudest person wins. The same behavior in other cultures will cause your counterparts to clam up. Face saving negotiation is what is required.

What next?

How do we mitigate these challenges so that we implement Global Sourcing successfully? Oh, did I mention the cost? Yes, we must structure the organization carefully and also be prepared to make investments. Here are some pointers:
Carefully study your organizational structure, corporate culture and the local cultures before creating the Global Sourcing department.

Be prepared to invest in a lot of marketing, promotion and selling of your department to all your internal stakeholders and especially to the local countries’ staff.

Be prepared to invest in good communications technology.

Be willing to invest in travel and assignments for the purpose of getting the head office and local people familiar with each other.

Be prepared to spend a lot of (most of?) your Global Sourcing management team’s time in resolving communication problems that will occur and encouraging responsiveness to each other.