

# Aligning Sourcing Activities with Corporate Strategy

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## PREFACE

Projects like these are a useful reminder of how fortunate I've been to have such wonderful mentors, colleagues and friends.

**Tommi**, thank you for providing me with great opportunities and for having confidence in my abilities.

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And of course, many thanks to all of my brilliant and kind colleagues at Company X.

## EXECUTIVE SUMMARY

In this paper I set out to discover how global firms ensure that sourcing activities are aligned with corporate strategy. In order to understand this, I broke the problem down into three specific questions, which were:

- 1) *How does strategy flow through the sourcing departments of large firms?*
- 2) *What hurdles do sourcing departments face when trying to implement corporate strategy?*
- 3) *What tools are available in improving the alignment between corporate strategies and sourcing activities?*

Specifically, I wanted to answer these questions by using the example of a real life case company, and was fortunate enough have in-depth access to a large European manufacturing and engineering firm (referred to as Company X) which has implemented global sourcing operations.

I answered the first question by developing a model of how strategy flows through the sourcing operations of large firms. In order to do so, I studied both the relevant literature (discussed in detail in Section 2) and the real-life operations of Company X. My model, referred to as the *strategy flow model* throughout the paper, was by no means perfect or inclusive of every single factor involved in that very complex process, but it certainly helped to set the framework needed to answer the latter questions.

Interviews with employees of Company X provided answers to the second question. The major hurdles faced by sourcing departments when trying to implement corporate strategy were identified as (1) the difficulty in balancing the need of global leveraging with the need for local responsiveness, (2) challenges faced by data quality and availability, and (3) communicating corporate strategy and initiatives throughout the organization.

Interviews with employees of Company X also helped to answer the third question. The tools used by the firm to align sourcing activities with corporate strategy were directly related to the hurdles identified in the second question. Regarding the *global vs. local* conundrum, Company X has successfully implemented a matrix-structured category management approach. Regarding the issues related to data quality and availability, Company X has taken actions such as installing well-defined processes and creating specific job roles which focus on sourcing process management. Regarding the issue of communicating corporate strategy throughout organizations, Company X had found great success through the use of a visual tool which depicts the major elements of their strategy (such as vision, targets, industry trends and major initiatives).

The vast majority of this research was completely focused on a single firm's sourcing department. This means that while it allowed for great depth in explaining the situation of one firm, there are limitations in being able to generalize the findings to other functions, firms or industries. For that to be done, future quantitative analyses could be completed which would ask similar (but more generalizable) questions across a much wider data set.

## IMPORTANT DEFINITIONS AND REPETIOUS TERMINOLOGY

**Company X** – the case company of this research

**Matrix organization** - *“any organization that employs a multiple command system that includes not only a multiple command structure but also related support mechanisms and an associated organization culture and behavior pattern”*, as defined by Ford & Randolph (1992, 268)

**Sourcing** – that which *“involves integrating and coordinating common items, materials, processes, technologies, designs and suppliers across worldwide buying, design and operating locations”* (Trend & Monczka, 2005, 24)

**Strategy / strategic management** – these terms are synonymous within the context of this paper, and are in line with the Nag et al. (2007, 947) definition: *“The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving the utilization of resources, to enhance the performance of firms in their external environments”*

**Strategy flow model** – the model which has been proposed by the author that demonstrates how strategy flows through sourcing organizations (first presented in Figure 4)

**Strategy map** – The visual aid used by Company X to demonstrate the firm’s vision, strategic targets, major initiatives and global trends which affect the industry (mock version presented in Figure 5)

## 1 INTRODUCTION

Strategic management as a field has been historically difficult to define in an absolute manner through a unified consensus among academics. After conducting a large scale survey of authors and academics who had worked on the subject, Nag et al. (2007, 947) proposed that strategic management could best be defined in the following way:

*“The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving the utilization of resources, to enhance the performance of firms in their external environments.”*

This definition was constructed through analyzing the frequency of individual words from a massive collection of separate definitions provided by a pool of academics and content-experts. This would suggest that while it could be a useful definition to expand upon, it does not necessarily define strategic management in a finite manner since there is no absolute or unified consensus of the term.

Nag et al (2007, 952) also concluded that even though the boundaries of the field of strategic management are fluid and unclear, this apparent weakness can actually serve as a strength for the field by providing a larger common area for scholars to thrive and conduct further research, as opposed to being limited by a “dominant theoretical or methodological strait-jacket”.

While a single definition may not exist, this thesis will attempt to tell the story of strategy by showing a real world example of how it cascades through a large manufacturing and engineering firm (from this point forward referred to as Company X) which has operations in more than 50 countries around the world. Specifically, it will highlight the journey of strategy as it flows through the company’s global sourcing operations, starting from top management, moving through the corporate structure as it is implemented through operational activities around the world, and then continually evolving through a constant flow of new data and changes in internal and external environments.

### 1.1 The Business Problem and Research Questions

In order to tell this story of strategy flow, it is useful to view it through the lens of a specific function or department. In my case, I have had excellent access to the global sourcing functions



of Company X, and have been able to see firsthand the complex ways in which corporate strategy interacts within Company X's sourcing activities. There are some situations where the relationship between strategy and sourcing is clear, and other times when this is not the case. In fact, it is the *alignment* between these two topics (i.e., *sourcing* and *strategy*) that best explains how they relate. Therefore, the best way to frame the main business problem of this research is:

**How can global firms ensure that sourcing activities are aligned with corporate strategy?**

This is an ideal way to phrase the business problem, because it not only highlights the dichotomy between the lofty aspirations of corporate strategy and the actual day-to-day activities of a specific department, but it is also manageable enough to be answered within the scope of a single Master's thesis (and within the context of a single case company).

That said, the business problem is still quite broad, and will be hard to answer unless it is broken down into more digestible parts. Therefore, I have identified three key questions that if collectively answered, can help to solve the aforementioned business problem. These questions will touch upon how strategy pragmatically *flows* through organizations, the hurdles it faces along the way and the available tools and methods which help to lessen the negative impacts of these hurdles. Let's now examine these three critical questions in detail.

***Question 1: How does strategy flow through the sourcing departments of large firms?***

This first question is asked in order to map out the path of corporate strategy as it is communicated and implemented throughout Company X's global sourcing operations. In order to achieve this, I will propose a model which can be used to illuminate the connection between the often vague corporate strategies of large firms, and the seemingly distant but tangible tasks that are completed by employees at an operational level. This proposed model is neither highly detailed nor a completely unassailable framework of strategy flow through Company X's sourcing operations. Rather, it is simply a tool which we can use to assess the deviations in alignment between strategy and sourcing at Company X. It is a rough framework which explains how the process of strategy flow happens *most* of the time, and in normal circumstances.

Of course, trying to understand the ways in which strategy cascades through corporate functions is not limited to sourcing departments. Similar research and models could be used in other

functional areas such as sales and marketing, human resources, or R&D. However, the scope of this paper is limited to sourcing (as opposed to the other aforementioned departments) in order to obtain a specific and useful example which can be explored in sufficient detail, and also because of my past experience and access to the firm's sourcing organization. Hopefully, the proposed model (presented in Section 2) and the related findings can to some extent also be applied to other departments or functions within organizations, or perhaps used as a tool to improve the visibility of strategic objectives and actions *between* the departments of large firms.

***Question 2: What hurdles do sourcing departments face when trying to implement corporate strategy?***

This second question is asked because it will highlight the ways in which sourcing activities actually fail to align with corporate strategy, and the reasons why these failures occur. There are many academic models and topics related to the field of sourcing (which will be greatly expanded upon in the literature review section of this paper), but no existing research was discovered by the author in which these different sourcing-specific frameworks were placed within a larger unifying theory that considered both the firm as a whole and the role of strategy in organizations. Therefore, the goal of this question is to identify these failures in alignment between sourcing activities and corporate strategy, and then place these specific issues within the proposed framework that maps the flow of strategy through sourcing organizations.

On a tangential but significant topic, answering this question will also help us to understand whether corporate strategy is something that actually guides the actions of the full spectrum of employees, from the executive leadership to the operational employees who are out on the frontlines, or whether it is a vague and generic communication tool used by the company's leadership that provides little value or direction to the majority of employees.

Only by identifying these issues will we be able to take the correct measures in beginning to improve the situation as a whole, which leads us to the final key question.

***Question 3: What tools are available in improving the alignment between corporate strategies and sourcing activities?***

Answering this question will serve two valuable purposes. First, it will identify which tools and processes Company X has been able to employ in order to further corporate strategic goals

through its sourcing operations. By doing this, I can present the best practices of a single successful firm to a larger and more generalized platform. Secondly, answering this question will show which existing academic models Company X has *not* been using or considering. Once I understand these knowledge gaps between Company X and current academic insights on the topic, I can provide recommendations based on existing research and best practices which may be implemented (or at least considered) by the management of Company X.

## **1.2 Case Company Background**

While some outside examples will be considered when relevant, the majority of this thesis will be explored through the lens of the aforementioned Company X. The focal company is a global manufacturing and engineering firm based in Northern Europe. Company X operates in nearly 50 countries around the globe and maintains approximately 1000 office locations. Its 40,000 employees work in a wide variety of functions, such as corporate staff in the Nordic headquarter office, regional and local office employees, field technicians, manufacturing plant workers and localized sales teams, among others (Source: Company X Internal Information). Company X is also a publically traded company which is listed on a European stock exchange operated by NASDAQ ([www.nasdaqomx.com](http://www.nasdaqomx.com)).

### **1.2.1 Reasons for Choosing Company X as a Case Company**

The company, and more specifically its sourcing department, serves as a very relevant case subject for several reasons. First, it has a large number of employees and a full spectrum of departmental functions within the firm which provides the research topic with an example of structural complexity. Therefore, this company can sufficiently demonstrate the difficulty in effectively cascading strategic initiatives and communication throughout complex organizations. If I tried to study this topic by using a startup firm which had 10 employees, it would be easier but irrelevant to firms large enough to have standalone sourcing organizations. Second, the vast geographical footprint of the firm will be useful in identifying any cultural or language barriers that impact the flow of strategy (if those factors are seen as relevant or critical by the people of Company X). Third, the sourcing department within the company is responsible for managing over half of the firm's total annual costs (Source: Company X Internal Information). For this reason, it is absolutely critical that sourcing operations and performance be considered in terms of strategy formulation and implementation. Fourth, the company has had a strong track record of sustainable growth over the last several decades, and has been continuing this trend at the time of this research. This strong track record is important because it allows the research to focus

on the flow of strategy through the organization, as opposed to questioning the validity of the strategy itself. Of course, Company X's strategy may not be perfect, but we can at least assume it is good enough to serve as "healthy" research subject.

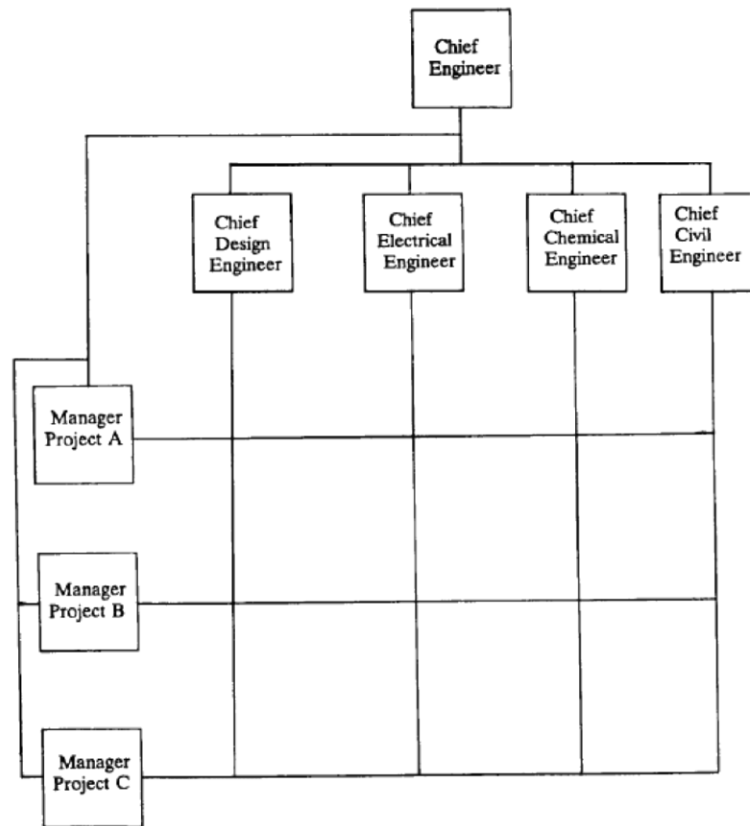
And finally, as mentioned, I have an existing relationship with Company X. For three months prior to beginning the thesis process, I worked as a summer trainee in the firm's global sourcing department. This position allowed a privileged bird's eye view of the firm's global sourcing operations, and provided me with enhanced judgment on which people across the organization could serve as useful interviewee subjects. However, at the time of this research, it is more accurate to describe my role as an external consultant as opposed to an employee of Company X. This switch from employee to external consultant has helped me to remain as neutral as possible throughout the study.

### **1.2.2 Structure of Company X's Sourcing Operations**

The sourcing department of Company X is composed of over 100 sourcing professionals around the globe. Largely due to the wide geographic spread and the billions of euros being spent through Company X's sourcing activities every year, the firm's leadership decided to structure the sourcing department as a *matrix organization*. While the ways to define matrix structures are debated, we will use the Ford & Randolph (1992, 268) definition of "*any organization that employs a multiple command system that includes not only a multiple command structure but also related support mechanism and an associated organization culture and behavior pattern*".

As a practical example, Ford & Randolph demonstrated how this type of defined matrix structure may look in a firm that needs to run several major projects across varying engineering processes (as shown in Figure 1).

Figure 1. Project-based Matrix Structure



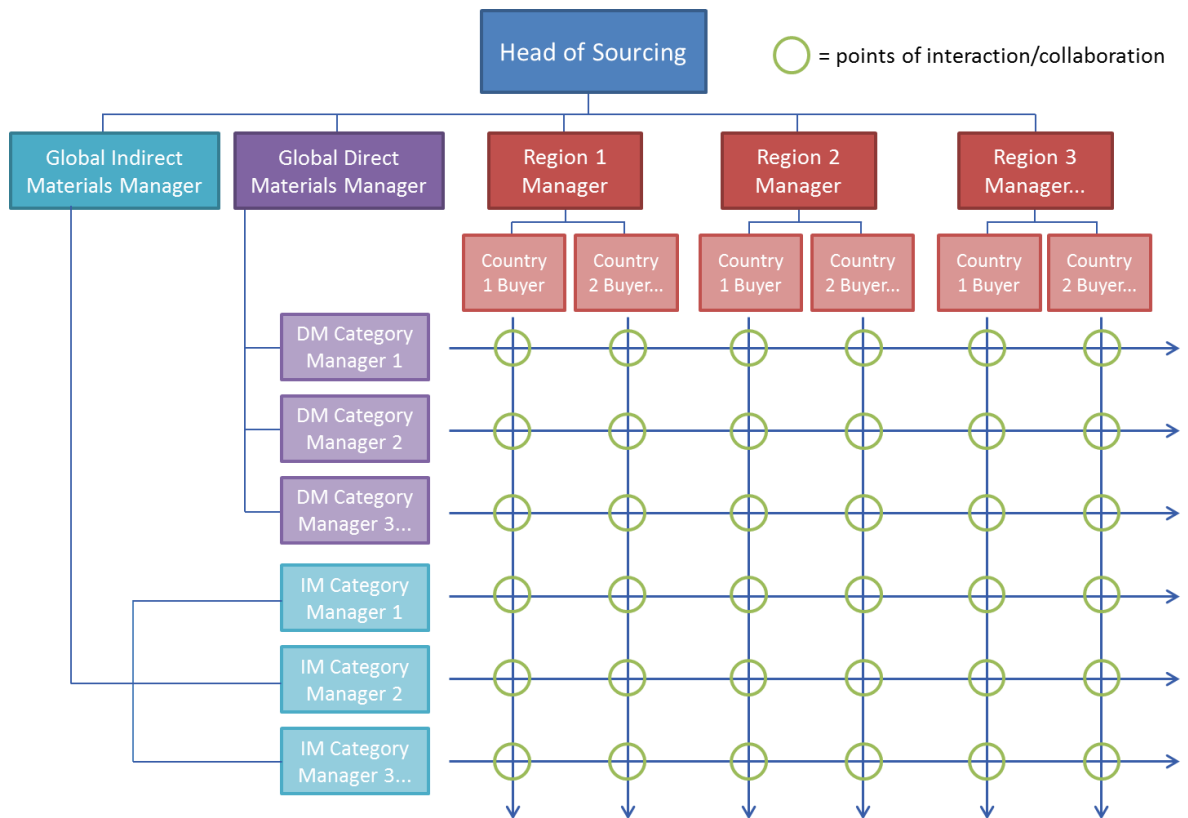
SOURCE: Ford & Randolph, 1992, 268

With regards to Company X, the matrix structure is useful because both the *command structures* and the *support mechanisms* are needed in order to optimize the sourcing efforts. In the Company X matrix, the *command structures* are headed by regional sourcing managers, who focus on specific geographical regions of the company's footprint. These regional managers oversee the country-level sourcing professionals who are responsible for all the sourcing efforts within a specific country (or *unit*). While these country-level sourcing professionals will tend to be very knowledgeable about the sourcing operations within their specific country or region, they will often have limited knowledge/control of Company X's global spend and supplier base as a whole across the many spend categories, and therefore may be unaware of opportunities where spend and sourcing could be leveraged at a global level in order to save money and/or effort through economies of scale.

In order to solve this problem, Company X's local sourcing units are supported by the *global sourcing category managers*, which can be considered to be the *support mechanisms* of the

matrix. These category managers are often based at the corporate headquarters and are responsible for a specific category of goods or services that are purchased by Company X. For example, this includes the varying *direct materials* which are used to manufacture and deliver the end products sold by Company X. It also includes the many *indirect materials* which are needed by most large companies for day-to-day operations, such as financial services, outside legal help, office equipment and anything else that is purchased but does not end up in the final product sold by the company. Figure 2 maps out the global sourcing organizational matrix of Company X. Several of the more important concepts will be expanded upon in the literature section, but at this point it is most important to understand the difference between the local, regional and global roles of personnel as shown below.

**Figure 2. Matrix Structure of Company X's Sourcing Organization**



**SOURCE: Interpretation of Internal Company X Documents by the Thesis Author**

It should also be noted that Company X has many supporting functions which are important to the sourcing organization, but not shown in Figure 2. This includes roles such as global process management, data management and financial controlling.

### 1.3 Thesis Structure

Moving forward into Section 2, this thesis will provide an overview of the key theoretical concepts and existing research related to the research questions. In order to do this, I will discuss strategic management and why many firms must consider sourcing when developing and implementing corporate strategy (Sections 2.1 and 2.2). In order to provide a deeper understanding of sourcing as its own discipline, I will discuss some of the most important topics related to sourcing that have been developed in recent decades, such as the need of maintaining a balance between global and local approaches, the differences between direct material and indirect material sourcing, and how sourcing professionals often fail to act in the best interest of stakeholders when committing an act known as *maverick buying* (Section 2.3).

In Section 3 of the thesis, I will lay out the methodology which was used while conducting research through interviews with employees of Company X. This will include topics such as the reasons why individuals were chosen, how they were interviewed and how data was collected, organized and extrapolated from the recorded interviews.

Section 4 will present the findings of the research, and will focus heavily on answering the second and third questions which were posed in Section 1.1 by using the example of case Company X. To review, these questions were:

- 2) *What hurdles do sourcing departments face when trying to implement corporate strategy?*
- 3) *What tools are available in improving the alignment between corporate strategies and sourcing activities?*

Additionally, Section 4 will address any unexpected findings which are not necessarily linked to the three research questions, but are still relevant to the topic at hand. Particularly, I will discuss an interesting phenomenon which was observed. To briefly explain, this finding showed that even though the interviewees held a wide range of views on how they defined strategy, they were very much aligned in how they defined the specific strategy of Company X. This observation had some interesting implications in terms of the individual employees' relationship with the firm.

In Section 5, I will provide specific recommendations to Company X for how its managers can improve their sourcing department operations through implementing best practices identified in existing research. This will be done by identifying weak points in the current flow of strategy through their global sourcing organization, and then applying to those weaknesses some best practices which have been used by other firms or identified in existing academic research in order to improve the situation. After this has been done, the latter half of Section 5 will have a discussion about how the proposed strategy flow model can be used in a much wider scope, i.e., the sourcing field as a whole. I will examine how mapping the flow of strategy can be used as a tool for nearly all large firms with large sourcing organizations, and how this tool can be used to identify both problems and solutions to these problems in a systematic manner.

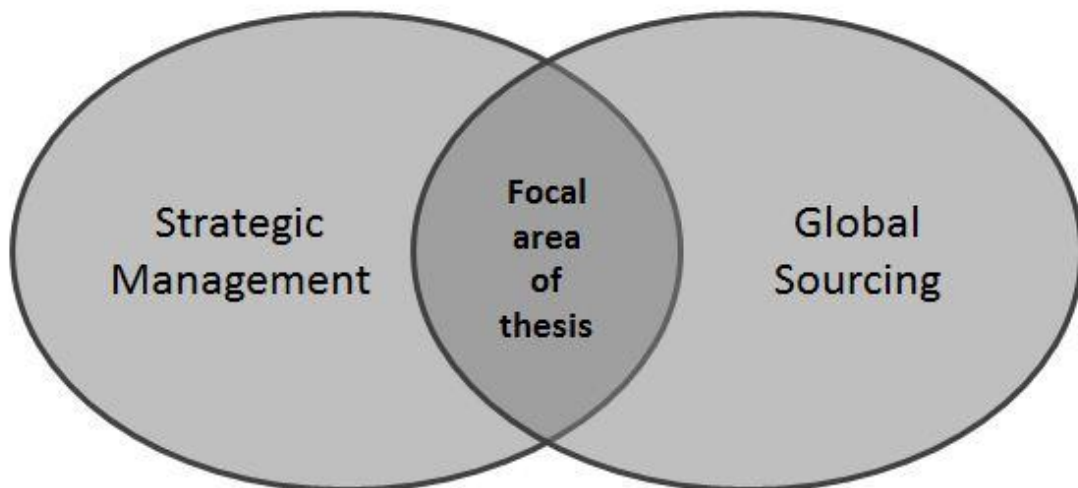
Section 6 will conclude the thesis by identifying future research areas which could further develop this body of work, and then close with some key takeaways. Section 7 will provide a reference list of information sources which were used to build the foundation of this research.



## 2 LITERATURE REVIEW

Before the key questions of this research can be answered, a theoretical canvas must be established so that we can see how everything fits together. This will not be an easy task, especially because the two major subject areas touched by this research (i.e., strategic management and sourcing), are each enormous topics in and of themselves. However, there is relatively little research which focuses purely on where these two topics intersect, and therein lays the research gap. In other words, by addressing the main business problem of this paper, *“How can global firms ensure that sourcing activities are aligned with corporate strategy?”*, we will be operating in that overlap between strategic management and sourcing, and will need to establish exactly what this overlap entails. A simple Venn diagram shows the boundaries of this thesis:

**Figure 3. Overlap of Strategic Management and Global Sourcing**

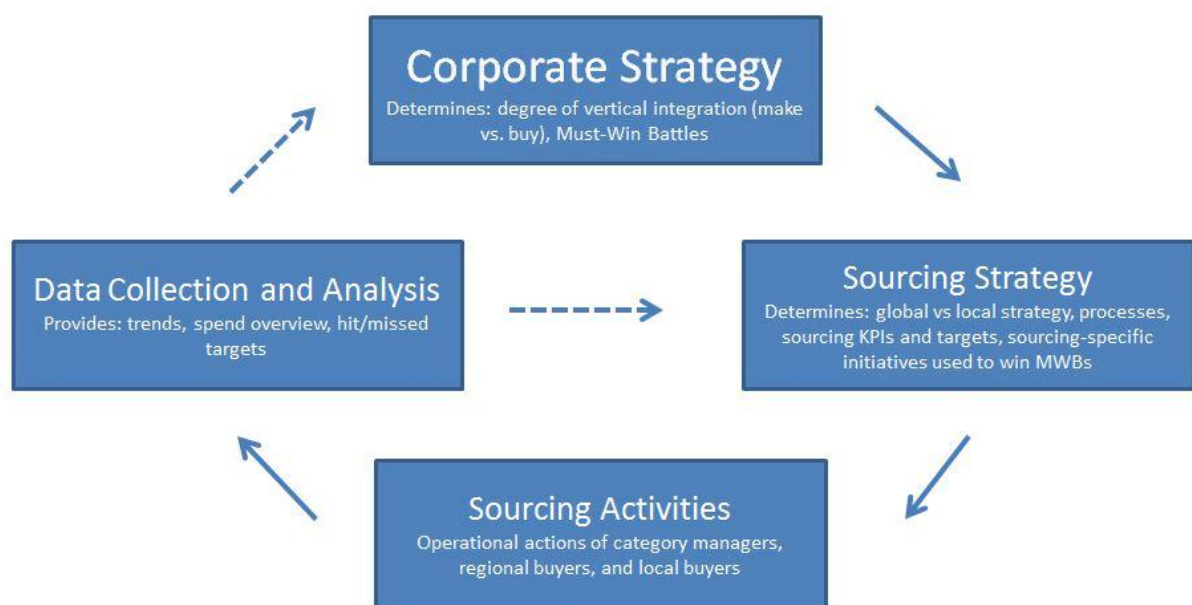


**SOURCE:** Thesis Author

The most practical way in exploring this overlap would be to show how corporate strategy actually flows through the sourcing operations of Company X (which would also be the answer to Question 1). By systematically mapping this process through the lens of a single department in a large organization, the life cycle of strategy can be better understood and significantly more tangible. This method will also help to prevent the research from becoming a long list of vaguely related topics that lack narrative or structure.

However, if I systematically move through each step of the sourcing operations of Company X and then wait until the very end to present the model of how strategy flows through these operations, it will seem disconnected and hard for the reader to follow. With that in mind, I will take the liberty of first presenting the model of strategy flow in Figure 4. The literature section of this thesis will continue in a manner which elaborates on each of the different sections of this proposed model, and I will continually refer back to this model throughout the thesis in order to maintain a consistent and logical approach moving forward.

**Figure 4. How Strategy Flows through Sourcing Operations**



**SOURCE:** Thesis Author

I will discuss the specific steps of this model as I move through Section 2, but for now, it is important to see it as the step-by-step flow of strategy through organizations. To summarize in a single sentence, the strategy flow model maps the journey of strategic initiatives as they move through sourcing operations, starting at their formulation, moving through the processes related to implementation and operational actions, and finally ending in the analytical steps which serve to renew the strategy itself.

As mentioned in the introduction, this proposed model is neither a highly detailed nor completely unassailable framework of strategy flow through Company X's sourcing operations, but rather a simple tool which can be used to assess the deviations in alignment between strategy and sourcing at Company X. It is a rough framework which explains how the process of strategy flow

happens most of the time, and in normal circumstances. As a researcher, I welcome future challenges to or improvements upon the model, but for the purposes of this paper, we can assume that it accurately enough reflects the realities of how strategy flows through the sourcing operations of Company X.

Finally, there is one practical issue that should be mentioned before we delve into the literature: in order to tie the well-established frameworks from academia to the current situation of Company X, I will explain with some level of detail how each topic relates to Company X in the real world. This will include things such as roles, processes and hierarchical structure. By doing this, the model will be reinforced, and there will be a continual connection between the real life case company and the theoretical research questions.

## 2.1 The Relationship between Strategy and Sourcing

The definitions and relevant theories in the fields of *strategy* and *sourcing* will each be addressed independently below, but it is critical that we first establish whether or not there is a significant link between a firm's corporate strategy and its sourcing activities, as I suggested in the Venn diagram (Figure 3) and proposed in the model (Figure 4). Without a significant linkage, this research would be folly as it would be studying the nonexistent/irrelevant. Perhaps the strongest argument comes from Quélin & Duhamel, who state that sourcing is a strategic activity because it affects major corporate decisions, such as influencing the ways in which resources are allocated, determining the of vertical specialization of companies, and defining the "frontiers" of the firm. (Quélin & Duhamel 2003, Insinga & Werle 2000, Grant 2002).

Quélin & Duhamel (2003, 647) expand on the impact of sourcing, and specifically *outsourcing* (explained in Section 2.3.1) by stating that:

*"...outsourcing is a choice that lies in the corporate policy, not just business strategy, area, as it modifies the firm's boundaries as a legal entity and generally involves top management decision makers. Affecting company-wide resource allocation policies and asset management practices, outsourcing decisions often involve several divisions in large, diversified companies..."*

This is very relevant to consider in light of Company X, particularly when it comes down to resource allocation and vertical specialization. Company X's global sourcing organization is tasked

with allocating well over half of the firm's global costs in any given year, and therefore the ways in which they allocate these funds has a huge impact on whether or not the company is using its resources in ways that are aligned with the corporate strategy. In terms of vertical specialization, the decision about the degree of vertical specialization within the value chain is intrinsically tied to the make-or-buy decision. In other words, the decision of *what* Company X produces is based on whether or not they think it is more reasonable to produce it themselves, or rather to outsource certain activities to other firms. This is certainly true for any large manufacturing firm which depends on global supply chains and large supplier bases in order to produce competitively priced products. For all of these reasons, it would be impossible for large manufacturing firms to disregard sourcing when developing a comprehensive corporate strategy.

Another reason why sourcing should be viewed as a strategic activity stems from the *relational view* model, as posed by Dyer & Singh (1998, 675), who argued how "*a pair or network of firms can develop relationships that result in sustained competitive advantage*". In other words, being able to leverage relationships with entities outside of a firm's internal boundaries can be strategically advantageous. If we follow this line of thinking, since sourcing is often the most significant method by which a firm will develop and maintain relationships with other firms (as in the case of Company X), it should therefore be seen as integral to the firm's competitive strategy.

## 2.2 Strategic Management

In this section I will cover three areas. The first will deal with defining *strategy* in a way that suits the needs of this research, but doing so in a way that does not ignore just how difficult this term can be to define, especially when using the real world example of Company X. Then I will discuss the value in communicating strategy, and how this is done at Company X. Finally, I will cover the topics of strategy implementation and its cyclical nature.

### 2.2.1 Company X: A Tale of Two Strategies

In its broadest sense, *strategy* could refer to almost anything, from the way military generals wage war to the way an individual person approaches a game of poker with friends. Unless we severely limit the scope, the word strategy becomes useless to us. For that reason, I need to establish a single definition and use it throughout the paper so that consistency can be maintained. For the purposes of this research, **95% of the time when I refer to strategy or strategic management**, I will be using the Nag et al. definition (2007, 942), which described it in the following way:

*“The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving the utilization of resources, to enhance the performance of firms in their external environments.”*

In most cases throughout the thesis, this definition works quite well and fits well within the context of Company X. As shown in Section 2.2.2 in Company X’s strategy map (Figure 5), there are several stated initiatives known as Must-Win Battles (a term first coined in 2005 by Malnight et al.), which are created and driven by the firm’s management. These are both intended and continual initiatives, such as quality and customer satisfaction, as well as emergent initiatives which have recently arisen do to internal or external causes. Moreover, it is important that this definition refers to utilizing resources since the firm’s sourcing operations are in charge of allocating such a large proportion of Company X’s monetary assets.

However, Company X also provides an excellent real world example of just how difficult it is to define strategy in a finite manner. It would be very easy to argue that the historical success of Company X does not only come from its communicated strategy and related initiatives (which could be considered to be quite universal in the industry), but rather the company’s success is equally indebted to a specific set of competitive maneuvers which have historically *differentiated* it from other firms in the industry. In other words, the firm’s strategy could also have been defined in a way which Michael Porter would have described as “unique and valuable positions” and establishing the “trade-offs” by deciding what the company will *not* be doing (1996).

For example, throughout the second half of the 20<sup>th</sup> century, the global industry in which Company X competes went through massive consolidation. When this began to happen, Company X was not yet a global competitor in the industry and was only active in geographically near markets (including its domestic market) which were relatively small. This created major challenges caused by competitive pricing and threats of acquisition. However, through bold leadership, the firm implemented a strategy which focused on aggressive new market expansion through mergers, acquisitions and partnerships which allowed the company to survive and eventually thrive (Source: unlisted in order to retain anonymity of Company X). Well into the 21<sup>st</sup> century, the firm has continued to grow both organically, as well as through M&A activity. While

this is not communicated in its official corporate strategy document, it is certainly in line with how Porter and other like-minded academic professionals would define the word *strategy*.

Therefore, while I will proceed with the Nag et al. definition mentioned above since it works in most of the contexts being explored in this research, I will at times mention these other definitions because they become relevant in some of the unique findings gained through the interviews, which will be discussed at the end of Section 4. Whenever I am using a different approach to the term *strategy* (i.e., not the Nag et al. definition), I will explicitly state so to avoid confusion.

### 2.2.2 Communicating Strategy

Studies have shown that companies with high *strategic credibility* have better stock performance than those without, and that strategic credibility has a direct relationship with a firm's ability to communicate its strategy to its major stakeholders (Higgins & Bannister, 1992, 27). This provides a strong argument for the idea that executive management teams do not only need to focus on creating and implementing strategy, but also effectively communicating it to both internal and external stakeholders.

However, effectively communicating intangible ideas of strategy to a wide variety of stakeholders is certainly easier said than done. Cummings & Angwin have found that if the people in charge of implementing a firm's strategy (i.e., employees) do not understand it well, it is just as bad or even worse than a firm not communicating a strategy at all (2011, 435-436). The authors go on to explain how one of the most effective ways to communicate corporate strategy is to use pictorial or graphical aids which conceptualize the core tenants in a meaningful way. To show how these ideas relate to Case Company X (while retaining the firm's anonymity), Figure 5 shows a mock version of the graphical aid used by Company X in order to communicate the firm's stated corporate strategy. The real version is more complex and structured in a somewhat different manner, but I will use this more generic version with the goal of preserving case subject anonymity.

Figure 5. The “Strategy Map” of Company X



(#) denotes the amount of initiatives/targets/areas/trends

**SOURCE:** Interpretation of Internal Company X Documents by the Thesis Author

At this point it is important to restate that this research **will not** try to analyze whether or not Company X has a good or effective strategy, since that would require an industry wide analysis and would be much too far out of the scope of this research. Rather, I will be researching whether or not the strategy is communicated and implemented effectively through its sourcing activities, and then discuss the ways in which this alignment between strategy and sourcing can be improved.

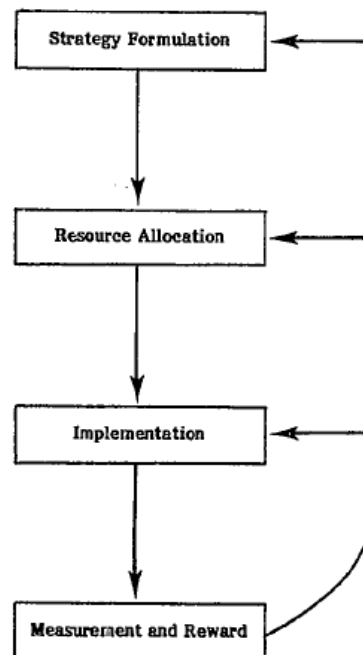
### 2.2.3 Strategy Implementation, Performance Measurements and the Feedback Loop

When it comes to strategy implementation in larger organizations, one of the most critical factors is the performance measures which are used. Grady argues that performance measures are important because they (1) further articulate the strategy to the employee base (i.e, they are communication tools), and (2) serve as a feedback loop in which the strategy can continually be monitored and renewed as the firm moves forward (1991, 49).

In 1981, Paul J. Stonich also spoke of the importance of measuring performance, specifically in terms of tying the measurements to specific rewards and bonuses which drive employee performance in a way that promotes the company’s strategy. His central arguments are based on

the idea that even though measurement and rewards may at times seem distant from the initial strategy formulation, they are absolutely critical because they have a huge impact on areas such as strategy formulation, resource allocation and strategy implementation. Figure 6 demonstrates this relationship:

**Figure 6. Stonich's Strategic Management Cycle**



**SOURCE: Stonich, 1981**

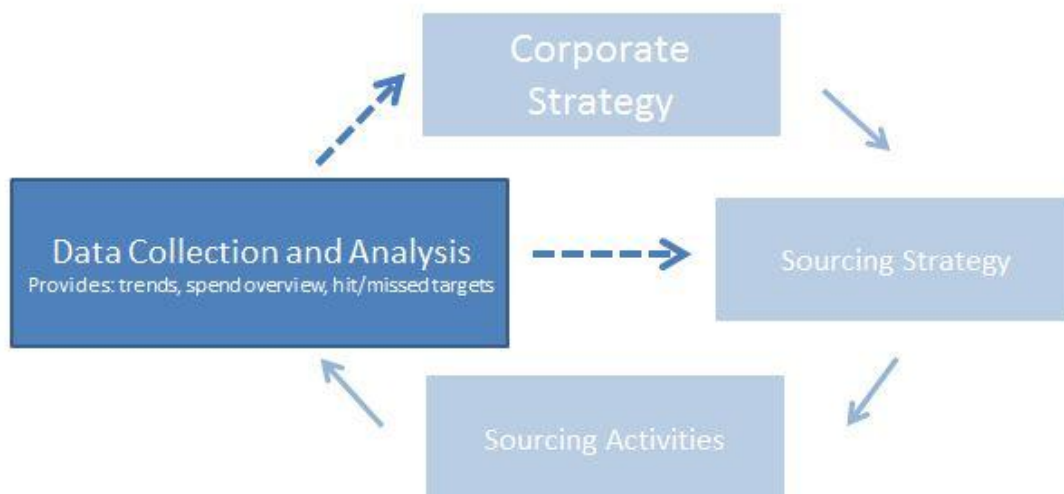
In the case of Company X, Figure 6 serves as a relevant example of the relationship between strategy, resource allocation and measurement. My research explores this idea in a somewhat different manner (i.e., focusing on sourcing and hierarchical structures instead only processes). However, it is certainly worth considering the ways in which measurements and data are cycled back into the highest levels of organizations and affect strategic formulation, as opposed to performance measurements simply being data sets which are isolated in distant niche areas of a company.

The model used by Stonich is also very much in tune with the proposed strategy flow model of this thesis. As shown in Figure 7, strategy is formulated at the highest levels, implemented at the department level through the top managers who are responsible for sourcing, and then carried out at the operational level by both local buyers and global category managers. The relevant data and performance measures are continually collected and analyzed which helps to close the



“feedback loop”. This sort of data collection not only helps with things like individual employee performance measurements, but also serves as a critical force in renewing corporate strategy. Of course there are several very important related topics such as data collection, determining KPIs and performance measures, and benchmarking by using industry best practices. However, for the purpose of keeping this research within scope and feasible, I will only touch the topic of data and performance measures at a very high level. Figure 7 highlights how data collection and analyses close the feedback loop and help to drive the renewal of corporate strategy by providing the executive management, strategy department and global sourcing management with new information:

**Figure 7. Data and the Renewal of Corporate Strategy and Sourcing Strategy**



**SOURCE: Thesis Author**

It is important to note that identifying the point of origin for any particular company’s strategy is not an easy process, nor can it necessarily be boiled down to a definite answer. This is because even though a corporate strategy may be formulated within a strategy department or by the executive team, it may also arise from grass roots origins as the company, industry and other factors continually change through time (Botticelli et al, 1998). The proposed model which I am using in this research mostly focuses on the ways in which strategy is communicated and driven from the highest echelons of the organization, but this is done with the caveat that there are certainly instances where strategic formulation and renewal arise from outside of the boardroom (e.g., market and industry trends, R&D initiatives, or changes in the behavior patterns of middle managers due to external factors).

## 2.3 Key Topics in Sourcing

By using the proposed model of *How Corporate Strategy Flows through Sourcing* (Figure 4), I have identified the most relevant areas within the academic field of sourcing that significantly overlap with the field of strategy. There will be a few minor topics that don't fit within the model which are worth mentioning, but in this section we will mostly focus on those sourcing-specific topics which fit within the proposed model.

### 2.3.1 Definition of Sourcing

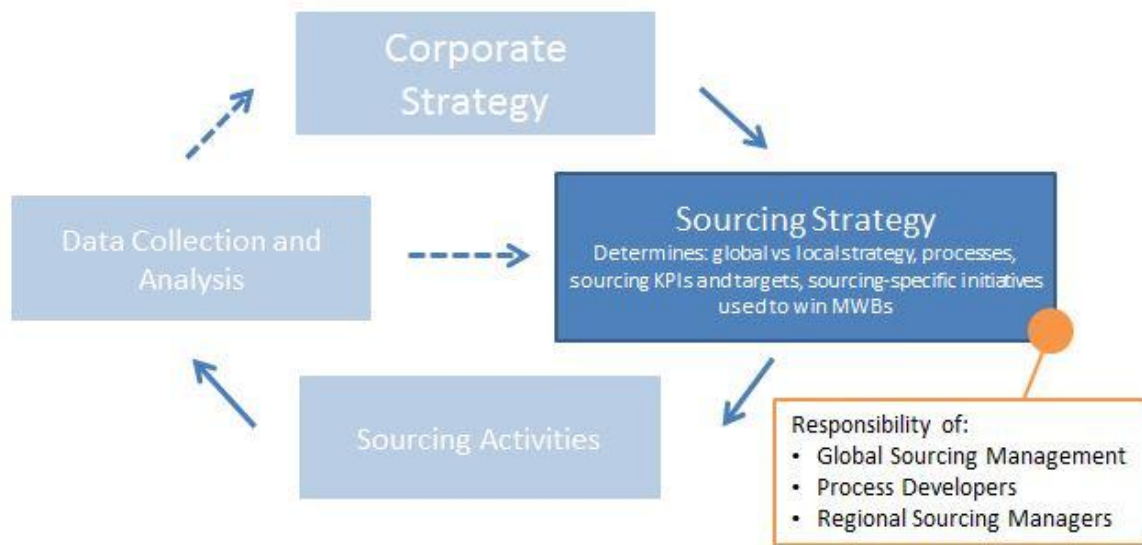
In the world of supply chain management, *sourcing* is often used as an umbrella definition for many other words with very similar meanings, such as outsourcing, procurement or purchasing. The differences between those terms are minor enough to not be significant to this research, but it would be valuable to establish at least one single definition of sourcing moving forward for purposes of consistency. Trend & Monczka (2005, 24) define sourcing, and specifically *global sourcing*, as that which “*involves integrating and coordinating common items, materials, processes, technologies, designs and suppliers across worldwide buying, design and operating locations*”. This is a useful and correct definition for this term when talking about Company X because it not only covers the act of buying from suppliers, but also demonstrates how sourcing is strongly linked to operational and design functions in a truly global context.

Additionally, *sourcing* is the word most commonly used by Company X employees in day-to-day communications when referring to this topic (as opposed to *buying*, *purchasing* or *procurement*). While these latter words may be used on occasion, it is generally understood that these all refer to the actions of the firm's sourcing department, as well as those activities which focus on the firm's supplier relationship management practices.

### 2.3.2 Approaches to Global Sourcing: Centralized vs. Decentralized

As mentioned in Section 2.1, the creation of a firm's corporate strategy will more or less have outlined the firm's vertical specialization, which in turn determines what the company will *make*, and what the company will *buy*. The overwhelming majority of goods and services which fall under the “buy” category are a responsibility of the sourcing department, whether directly or indirectly. Once the goods and services which will be bought have been determined, we can move into the second box of the strategy flow map, as shown in Figure 8.

Figure 8. From Corporate Strategy to Sourcing Strategy



SOURCE: Thesis Author

It is important to remember that Company X, as well as this research in general, deals with *global* sourcing operations. For this reason, all of the following ideas (which take into account wide-ranging geographies and large cash flows) would not be very relevant to small firms with only local suppliers. As stated, Company X has over 40,000 employees spread out in nearly 50 countries. This means that they have both *opportunities* to gain in terms of negotiation leverage through economies of scale and standardization (Quintens et al., 2006, 882), as well as major *challenges* in ensuring that globally sourced goods and services actually meet the location-specific needs of their 1000 locations around the world. Moreover, by having direct access to many locations around the globe, firms are able to take advantage of location-specific advantages, such as cheap labor or new technology (Trautmann et al., 2008, 195).

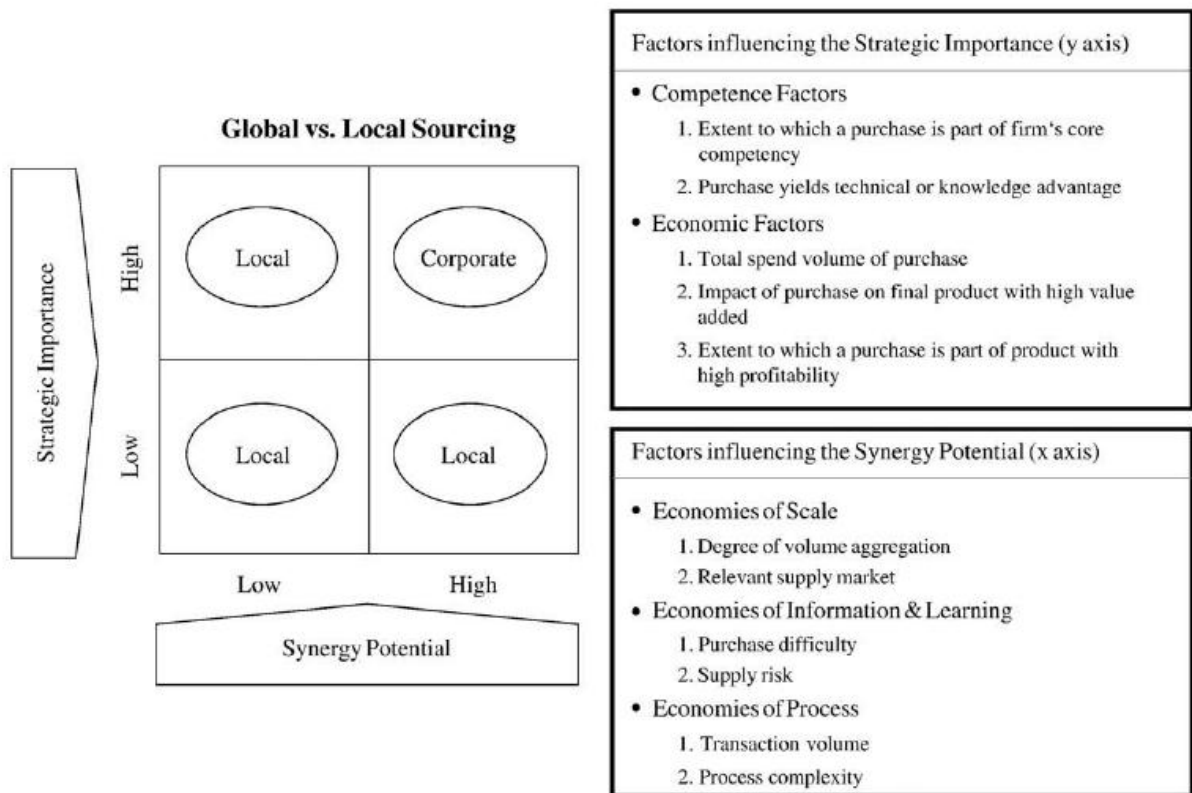
An example of global negotiation leverage at Company X would be any situations in which a certain commodity is used by the firm in several locations around the globe, but can purchased from a single source at very high volumes. In other words, as opposed to buying a specific commodity from local producers where prices could be high and availability might vary, Company X has the opportunity to negotiate larger contracts with one or two global suppliers which could provide lower prices and a more reliable supply. This would be done via *centralized sourcing operations*, which are usually structured in a way that focuses on specific commodity categories,

as opposed to specific regions or countries. This is the key reason for Company X implementing the matrix-style corporate structure, as was shown in Figure 2.

In terms of major challenges related to satisfying the needs of local offices, an example would be how legal services are sourced for dealing with local labor laws. It is clear that global companies will implement global HR practices to maintain certain global standards across all of their local business units, but often local or regional laws will create a need for firms to call upon the services of lawyers or HR service providers that specialize in the local legal framework. In these types of situations, it may be impossible or impractical to find a single global supplier that can provide locally-tailored solutions. Since the relationships with these local suppliers and service providers must be managed at the local level, this type of sourcing activity is referred to as *decentralized*.

Perhaps the best model (which takes into account the many factors related to global and local sourcing operations) was developed by Trautmann et al. in 2008. In the paper, *Global sourcing in integrated network structures: The case of hybrid purchasing organizations*, Trautmann et al. presented the following model, which does an excellent job of highlighting the main factors related to “global vs. local” sourcing decisions. It should be noted that in this example, *centralized* refers to implementing a global approach to sourcing, and *decentralized* refers to implementing a local approach to sourcing. Figure 9 shows the model and the related critical factors which help companies to best understand which approach is optimal. Note that this does not suggest that firms should implement a single approach for the entire firm (i.e., EITHER centralized OR decentralized), but rather that firms should use a mix of the two approaches by classifying specific spend categories, and then determining which approach the firm should take for each category.

Figure 9. Model of Global vs. Local Sourcing and Factors of Influence



SOURCE: Trautmann et al. 2008

This model is relevant to the research for three reasons. First, it provides an excellent overview of the key factors which must be considered when making sourcing decisions in a global firm such as Company X. Second, it provides a useful tool for placing *categories* (not just specific goods or individual suppliers) within a set of guidelines that determine whether the global or the local approach is ideal. In the case of Company X, all of the sourcing spend is at least categorized at the global level for purposes of consistency and visibility (although this does not mean that Company X actively pursues global agreements within each of these categories). And finally, this model is relevant because it coincides very well with sourcing departments which are utilizing the matrix style organizational structure. In other words, it takes into account both categories and geographies, which is a critical aspect of Company X's organization sourcing matrix.

As shown in the Trautmann et al. model, there are several important factors influencing the decision of whether firms should take a local or global approach in the sourcing of any specific goods or services category. These factors include things such as competencies of the firm, opportunities to achieve economies of scale and existing internal processes of the firm. The

*strategic importance* to the firm and *synergy potential* across firm operations will vary greatly from category to category. Using a model like this, firms can use a single and globally established process in determining the approach to each sourcing category.

### 2.3.3 Sourcing at the Operational Level and Maverick Buying

Now that the global-level view of sourcing strategy has been covered, we can discuss the actual operational-level sourcing activities carried out by the global category managers and local buyers. In terms of the proposed model of strategy flow, we are now at the bottom section, as demonstrated in Figure 10.

Figure 10. Operational Actions in Sourcing



SOURCE: Thesis Author

Up until this point in the thesis, the theoretical environment has focused only on the *internal* aspects of strategy and sourcing. This has been ideal since each of the three research questions address issues that are internal to the firm. To review, the three questions were:

- 1) *How does strategy flow through the sourcing departments of large firms?*
- 2) *What hurdles do sourcing departments face when trying to implement corporate strategy?*

3) *What tools are available in improving the alignment between corporate strategies and sourcing activities?*

While this thesis will continue to focus on these *internal* questions, I will close the literature section by addressing an issue that sits right at the border between the internal and external environments. We have reached this border because we are now discussing the actual sourcing professionals who are the representatives of Company X that interact with suppliers and negotiate agreements with them. This means that there is an external element which arises (i.e., the suppliers themselves). Specifically, the topic of *maverick buying* is of interest because it is an excellent example of an activity in which sourcing activities are not aligned with corporate strategy.

Maverick buying can be defined as “*the off-contract buying of goods and services for which an established procurement process is in place based on pre-negotiated contracts with selected suppliers*” (Karjalainen et al., 2009, 248). The main reason why maverick buying relates to the central idea of this paper is that it could be considered as a specific example of a common sourcing action which is a deviation from corporate strategy. If we assume that sourcing processes and contracts have been implemented in order to drive corporate strategy, this would mean that any cases of maverick buying by sourcing professionals would be clear examples of sourcing activities that *do not align* with corporate strategy. I need not go more in depth, but it deserved a quick definition since it was discussed by a few of the Company X employees during the interviews.

### 3 RESEARCH SETTINGS AND METHODS

In Section 2, I covered the most important literature which fits within the research problem, “*How can global firms ensure that sourcing activities are aligned with corporate strategy?*” In order to achieve this, I first discussed how these two different topics (i.e., *strategy* and *sourcing*) overlap, and then examined how the most relevant models which cover these topics can be used to help explain the flow of strategy through sourcing organizations in global firms. With that established framework, this research intends to further this field of knowledge by answering the proposed three questions, which are:

- 1) *How does strategy flow through the sourcing departments of large firms?*
- 2) *What hurdles do sourcing departments face when trying to implement corporate strategy?*
- 3) *What tools are available in improving the alignment between corporate strategies and sourcing activities?*

In order to build a framework so that we may attempt to answer questions 2 and 3, I needed to first establish a model. Through my experience at Company X, I was able to build a rough framework (Figure 4) which provided the necessary backdrop these questions. With that having been established, I was then able to answer the second and third questions through interviewing a list of relevant staff members at Company X who could help bring focus to the different parts of the model.

#### 3.1 Empirical Method

Here I will outline the basic empirical methods which were used, and how I came to choose these methods. The empirical research was based on interviewing employees of Company X.

##### 3.1.1 Qualitative vs. Quantitative

In order to answer the proposed questions, an empirical method had to be chosen which could

- 1) identify hurdles that sourcing departments face when implementing corporate strategy, and
- 2) identify the tools which are available to improve the alignment between strategy and sourcing.

As the reader will notice, these are not questions which can be answered with a simple “yes” or “no”, nor a specific number. For that reason, a *qualitative* method of research was needed. Figure 11 shows how Haslam & McGarty (2003, 359) describe the differences between qualitative and quantitative research.



Figure 11. Distinguishing Features of Quantitative and Qualitative Research

	Quantitative	Qualitative
<i>Standard distinguishing features</i>		
Form of data	Numbers	Situated practices
Form of analysis	Statistical	Illustrative
'Feel' of analysis	Cold, bare	Warm, rich
<i>Radical distinguishing features</i>		
Underlying philosophy	Positivist, realist	Relativist, constructionist
Goals of analysis	Nomothetic (oriented to discovery of universal causal laws)	Idiographic (oriented to understanding behaviour in its local context)
Products of analysis	Reliable, stable relationships between variables	Potentially variable meanings and rules
Application of findings	General	Particular
Stance assumed by researchers	Detached	Involved
Assumed status of analytical products	Objective	Potentially subjective

SOURCE: Haslam & McGarty, 2003, 359

Using this table, it is easy to argue that the research questions of this thesis fall within the definition of something that is best answered through a qualitative approach to research. For example, since I am proposing a new model which describes a somewhat intangible concept, it must be illustrative and describe processes and practices, as opposed to being a set of statistics related to any specific question. In terms of the products of the analysis, the best outcome I can achieve is to establish a theoretical model which works and helps to understand a process, and then answer the initially posed questions by using the model as a backdrop for those ideas. Because the model is new and the core topics of sourcing and strategy are so difficult to define, it would be futile to try to establish a highly reliable or stable relationship between variables at this stage. Additionally, the stance assumed by the researcher (in this case, me) would certainly be described as "involved" due to my relationship with the case company and interviewees. Finally, the questions being answered have some level of subjectivity to them since they (1) cannot be described in numerical or finite terms, and (2) even within case Company X, the topics are not always completely agreed upon nor consistently defined across functions and department (nor in any company, for that matter).

For all of these reasons, qualitative research was by far the better (and perhaps only) choice in methodology. That said, in the future it would be possible to test certain results of this research through quantitative methods. For example, this could be done by testing any of the findings of

this paper (shown in Section 4) across a large number of companies, countries or business functions.

### 3.1.2 The Unit of Analysis

Using the work of Fletcher & Plakoyiannaki (2011, 173), we could describe the *unit of analysis* for this research as the *individual employee* who has been interviewed. The *individual employee* is the unit of analysis because it is perhaps the only way to obtain meaningful data from the research questions at this point. For example, the proposed model of strategy flow (Figure 4) has not yet been firmly established, so it would be difficult to do a study in which the process itself is analyzed across many companies. For this same reason, the company itself cannot be the unit of analysis, especially considering the vastly different challenges faced by firms across industries in terms of strategy and geography. Therefore, the individual employee can provide the most useful insights the proposed questions and model.

Finally, one could argue that the unit of analysis could be the *dyadic relationship* between the individual employee and the employer (i.e., Company X), or the between the individual employee and the process (i.e., the flow of strategy). However, since the only consistent unit throughout the research is the employee, regardless of question or context, I will move forward focusing on the employee as the unit of analysis.

### 3.1.3 Data Quality and Reliability

The vast majority of data will come from interviews with individuals who have some relation to the aforementioned research questions. The major advantage of this type of data (i.e., interviews) is that they can provide unique insight through real life experiences, as well as examples which can help to validate existing theory or demonstrate emergent theory. Furthermore, this will provide a wide range of perspectives which could show how a single problem is perceived from multiple angles.

There are at least two major disadvantages in using interviews as my main source of data. The first disadvantage is that (1) collecting this type of data will be very time consuming and difficult to organize. This problem (and planned solution) will be discussed further below. The second disadvantage is that (2) while differing perspectives will enhance my data pool in some ways, they will also create problems in trying to present unified theories or unanimously approved answers to the questions being asked. Basically, some solutions may be seen as positive to certain people, while being seen as negative to others. In the case of Company X, this will often

fall along the lines of trying to balance centralized purchasing with decentralized purchasing. For example, centralized contracts may save a lot of money and be seen as positive from the global roles, but they may be too rigid for decentralized units who need locally tailored solutions and suppliers. However, hopefully these differences will be beneficial in illuminating creative solutions to problems, even if it does make it more difficult to find consensus in the results.

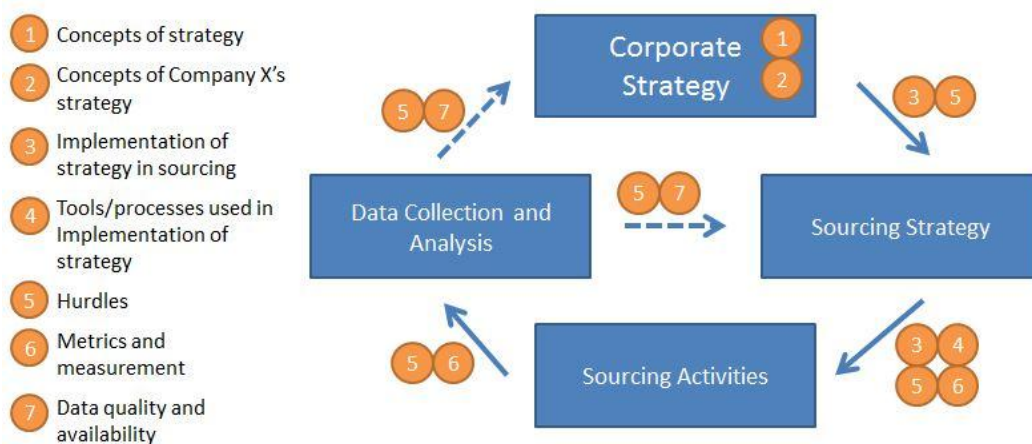
### 3.2 Interviews

Referring back to the matrix structure of Company X as shown in Figure 2 (Section 1.2.2), it was important that I interviewed people throughout Company X since their different roles generally related to a specific section of the strategy flow model. Additionally I needed to be sure to cover all aspects of the proposed model of strategy flow, and therefore had to find interviewees who worked in areas such as corporate strategy development, sourcing process development and data collection/analysis.

#### 3.2.1 Choosing the Relevant Questions

Before I could begin to answer the main business problem which was *“How can global firms ensure that sourcing activities are aligned with corporate strategy?”*, I first had to map how strategy flowed through sourcing organizations. Once the proposed model was established, I could then conclude that the most relevant themes to discuss during the interviews (which would eventually be formed into specific questions) would be related to that model. Figure 12 shows how I used the proposed model to pinpoint the major themes which would be used to drive the interviews:

**Figure 12. Finding the Relevant Themes through the Strategy Flow Model**

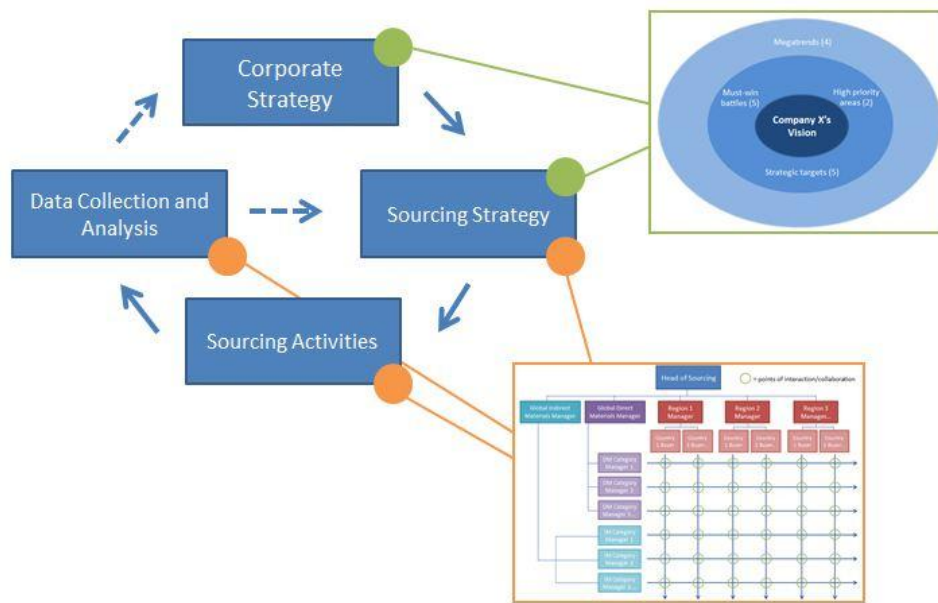


**SOURCE:** Thesis Author

### 3.2.2 Choosing the Interviewees

Since the research focuses on the overlap between strategy and sourcing, I needed to build an interview pool composed of people who either had experience with the firm’s strategy development, the firm’s sourcing operations, or both. Figure 13 shows how the strategy map and sourcing matrix were used to ensure that I could cover all of the relevant aspects in both sourcing and strategy:

Figure 13. Method for Choosing Interviewees



SOURCE: Thesis Author

Table 1 provides the list of the eight candidates which were chosen. A few of the interviews (such as Interviewee 3 and Interviewee 4) don’t quite align with the Company X Sourcing matrix, but they were chosen because they have significant roles which are included in Company X’s internal sourcing structure matrix and have unique insight into how it operates.

**Table 1. Interviewee List**

<b>Interviewee</b>	<b>Role</b> <i>NOTE: may not be official title</i>	<b>Relation to Strategy Flow Model</b> <i>NOTE: this is not concrete, relationships/roles may blur</i>	<b>Relation to Sourcing Matrix</b> <i>NOTE: this is not concrete, relationships/roles may blur</i>
<b>1</b>	Global Category Manager	Operational sourcing activities	Support Mechanism
<b>2</b>	Global Category Manager	Operational sourcing activities	Support Mechanism
<b>3</b>	Global Sourcing Process Manager	Sourcing strategy, processes, data collection	Support Mechanism (not shown)
<b>4</b>	Sourcing Data System Management	Processes, data collection	Support Mechanism (not shown)
<b>5</b>	Head of Strategy	Corporate Strategy formulation	Not in Sourcing Matrix
<b>6</b>	Head of Sourcing	Corporate Strategy, Sourcing strategy, processes	Head
<b>7</b>	Regional Sourcing Manager	Sourcing strategy, operational sourcing	Command structure role
<b>8</b>	Controller of Sourcing Processes and Data	Sourcing strategy, processes, data collection	Support Mechanism (not shown)

**SOURCE:** Thesis Author

### 3.2.3 Interview Format

Once the interviewees were contacted and times and locations were agreed upon, I completed face-to-face or over-the-phone semi-structured interview (and in one a case a qualitative questionnaire via email). The interview questionnaire and protocol document (see Figure 14) was used to guide the interviews, but the interview were kept free flowing to the point where the interviewees were allowed to branch off into new or tangential topics. This was done in order to allow new or unexpected information to arise out of these discussions. Also, it is worth mentioning that the interview questionnaire was slightly modified depending on the individual role of the interviewee (e.g., strategy or sourcing, global or local) if needed. However, the questionnaire below demonstrates the basic questions which all interview candidates were asked.

Figure 14. Interview Questionnaire and Protocol

**INTERVIEW #** \_\_\_\_\_

*Protocol notes:*

- *Provide short summary of thesis topic before interview, and request permission to record*
- *Open with informal discussion to so that interviewee is relaxed before the research-related questions are asked*

**QUESTIONS**

1. How would you define corporate strategy?
2. How would you describe the corporate strategy of Company X
3. How does COMPANY X's global sourcing department implement this strategy?
4. What tool/processes does COMPANY X use to ensure the alignment between the corporate strategy and sourcing activities?
5. What are the main hurdles that COMPANY X's sourcing department faces when trying to implement the corporate strategy?
6. Which types of metrics are used in COMPANY X's sourcing operations to ensure an alignment with corporate strategy?
7. Does poor data quality make your job more difficult? If so, where and how?
8. Does COMPANY X actively strive to improve data quality and data availability? If so, how?

**SOURCE:** Thesis Author

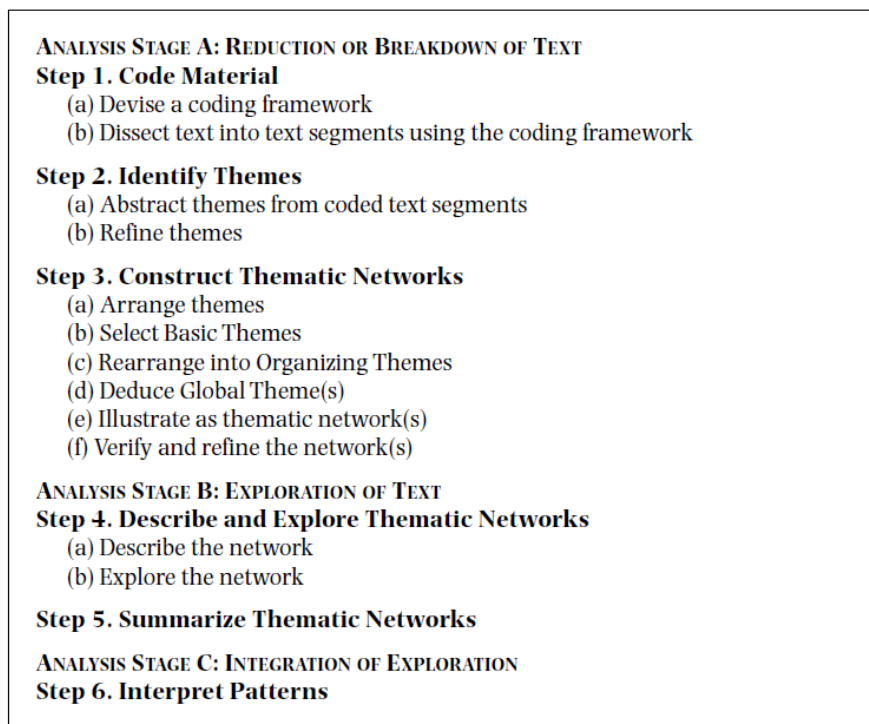
In regards to conducting the interviews, there are three important tactical issues which should be mentioned here. First, as mentioned, Company X already has an existing strategy map (Figure 5) which is available to all employees and often used in both internal and external communications. Even though this document is relevant to the research topic, I was very careful to not mention it during interviews unless it was first brought up by the interview candidate. I did however keep a copy of the strategy map document on hand so that its details could be discussed in the interview if it was mentioned by the interviewee. The purpose of these actions was to avoid leading the interviewee into a specific answer, which would spoil the neutrality/objectivity of the study. The second tactical issue dealt with recording the interview. From my experience with conducting interviews in the past, I've noticed that it usually takes a few minutes for interviewees to be at ease when a recording device is in the room. For this reason, I generally started the interview with some very basic and easy-to-answer questions which may not have been relevant to the interview, but helped the interviewee to relax in that environment. This interview warm-up

dialogue has not been included in the final data collection, since it often had personal (or completely irrelevant) information.

### 3.3 Analysis Method

Once the interviews were completed, it was important that I converted the large amount of dialogue into meaningful results through an analysis. From my perspective, this was the most difficult step to achieve because there is an existing threat of accidentally tainting the results through my own subjectivity and biases, even if I actively tried to avoid this. For this reason, I employed a simplified version of the analytical method proposed by Jennifer Attride-Stirling (2001) in her paper *Thematic networks: an analytical tool for qualitative research*. When it comes to converting the transcribed interview texts, I followed a similar method to her proposal (Figure 15) of breaking down and thematically organizing information, so that it could be rebuilt into useful findings:

**Figure 15. Attride-Stirling's Method of Coding Text**



**SOURCE:** Attride-Stirling, 2001

In the case of my research, this was useful since I already had at least three existing themes which could be utilized (i.e., themes related to the three proposed research questions). However, as mentioned, it was important that I did not allow my own biases affect the outcomes. To



achieve neutrality, I had to be sure to scan the dialogue for other emerging themes which I had not previously understood or recognized. Additionally, if the evidence suggested that one of my existing research questions was no longer valid nor served as a useful coding theme, I was prepared to pivot toward a more relevant theme which was more representative of the interview results, even if that meant discarding prior work. As will be demonstrated in the findings, there was at least one major outcome that was unexpected given the initial questions and model.

### 3.4 Limitations to the Methodology

There are three major limitations of this methodology that are worth mentioning at this stage. The first limitation is that by using a qualitative method, it is difficult to build an argument which cannot be easily attacked by dissenting opinions. There is no “hard data” or simple math that will make the findings and corresponding proposals unassailable. The second limitation considers the cultural context of completing the entire study within Europe, specifically the Nordic region. Even though a few of the interviewees may reside elsewhere or originate from outside of the Nordics, Company X is certainly a Nordic company and has deep historical roots in the local cultures and countries. If the research was quantitative, it would be easier to expand the research pool to a wider geographical perspective. And finally, the third limitation is that as mentioned in Section 1 of this thesis, I have a preexisting relationship with the company through a summer traineeship. This means that I have worked alongside some of the interviewees. In order to avoid bias and maintain consistency between interviewees (i.e., those whom I know well, and those whom I don’t know well), I was sure to ask each of the basic questions which were on the standard questionnaire.

### 3.5 Conclusion of Methodology: What, Why and How

**What I did:** (1) Found out how strategy flows through sourcing departments by testing the proposed strategy flow model, (2) found examples of deviations between sourcing activities and corporate strategy and the reasons for these deviations, and (3) uncovered any other relevant phenomena within the scope of this research.

**How I did it:** (1) I interviewed eight Company X employees across several job functions and hierarchical levels that were within or complementary to Company X’s sourcing organizational matrix, (2) transcribed, coded and organized the interview results, and (3) analyzed the information so that the initially posed questions could be answered, and that any other relevant phenomena could be brought to light.



**Why I did it this way:** Investigative interviews seemed to be the only viable method of obtaining this information, especially since (1) the available information was qualitative rather than quantitative, and (2) the relationship between the individual sourcing professionals and the processes/company/tools was very important, and could best be explained through spoken word.

## 4 FINDINGS

This section will reflect on the findings of the three main research questions first posed in Section 1.1. The first question, *“How does strategy flow through sourcing departments of large firms?”*, was largely answered already in the introduction and literature sections via the proposed model which was constructed by focusing on the overlap between sourcing and strategy. However, I will still take some time to review the strengths and weaknesses of the model that arose through interviews.

The second question, *“What hurdles do sourcing departments face when trying to implement corporate strategy?”*, will be answered by reviewing the results of the interviews completed with employees of Company X. Since the interviewees all worked within the same company, the results of these questions will not apply to all global companies. However, we can certainly find interesting real-life stories when thoroughly examining the ways in which the case company deals with some universal problems in the world of sourcing.

The third question, *“What tools are available in improving the alignment between corporate strategy and sourcing activities?”*, can be answered in two ways. The first way, which I will address in Section 4.3, would be to describe how Company X works toward improving this alignment. In other words, I will discuss the tools utilized by Company X, which were often discussed during the interviews. The second way to answer this question would be to take a more universal approach, and see what the academic world has to offer. Since the existing academic approaches may be useful to managers at Company X, I will use this second approach in the “Specific Recommendations for Company X” part of this paper (see Section 5.1).

Finally, there was one major phenomenon which arose while doing this research. If you recall from Section 2, there are many ways to define strategy. For the majority of this paper, I have been using the Nag et al. (2007, 947) definition when talking about Company X or specific models:

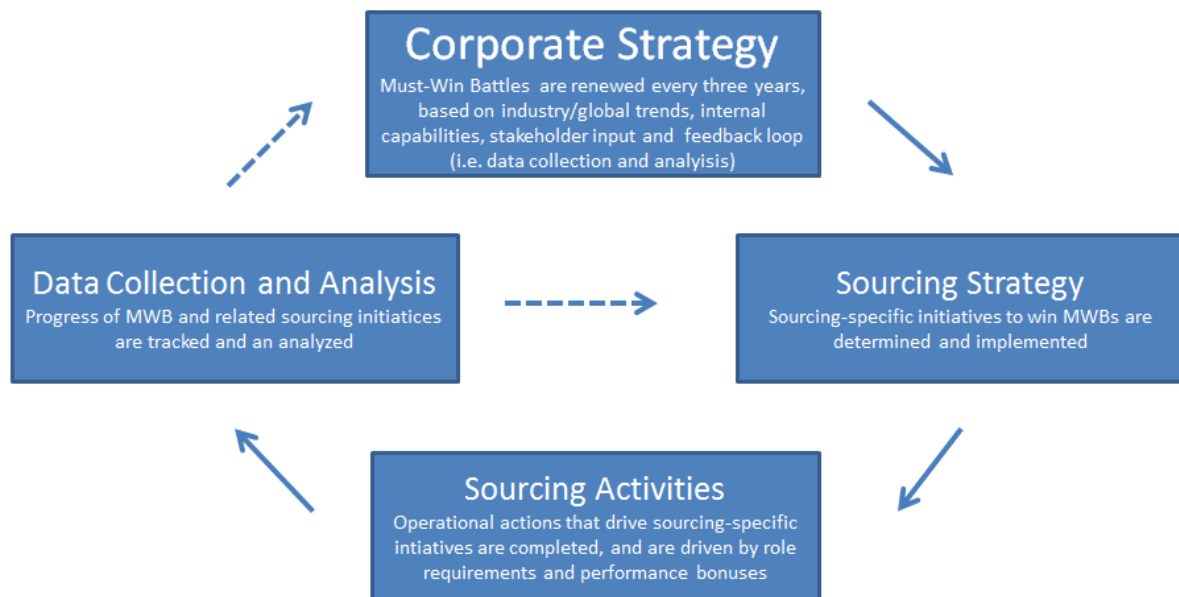
*“The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving the utilization of resources, to enhance the performance of firms in their external environments.”*

This definition fits in well with Company X's communicated strategy map (Figure 5), and is a useful definition when reflecting on the major initiatives proposed by the executive management of the firm in that document. However, as mentioned in Section 2.2.1, another popular understanding of the word *strategy* focuses on how firms differentiate from others in the industry. Michael Porter (1996) described a firm's strategy as their "*unique and valuable positions*" and how they make "*trade-offs*" by clearly stating what the company will *not* be doing. Because Company X's strategy map describes a very generic approach to their industry, of which most of the major initiatives are common themes of almost all of their competitors, **Porter's definition would suggest that the firm's strategy map is not really "strategy" at all.** If that statement is true (i.e., that Company X's strategy map does not actually highlight Company X's *actual* strategy), then why does it exist? Is the company misguided and therefore lacks a competitive advantage over its major competitors? Or is there an alternative purpose for the strategy map? The data gained through the interviews of Company X employees suggests that the document is actually hugely valuable to the firm for several reasons, even if it does not exemplify Porter-style definition of the word *strategy*. This will be further explained in Section 4.4.

#### 4.1 Review of the Model: Did it work?

While not perfect or completely inclusive of all possible aspects, the model certainly helped to identify the key channels by which strategy flows through sourcing organizations. This was affirmed by the fact that nearly all the "hurdles" of implementing strategy (as will be identified below in Section 4.2), could be placed within the boundaries of the proposed model. Additionally, the model provided a canvas with which to discuss the solutions to these problems, as well as helping to identify the individuals who could implement these solutions. For example, in the case of Company X, there were certain company-wide initiatives (e.g., the *Must-Win Battles*) that were declared at the corporate level, implemented through sourcing-specific initiatives at the department level, carried out by operational sourcing personnel across the globe, and then continually measured and analyzed, all of which established a continuous feedback loop. Figure 16 demonstrates this:

Figure 16. Must-Win Battles Moving Through Company X



**SOURCE:** Thesis Author

As shown, the model proved to be a useful tool in demonstrating real life examples of how strategy and its related initiatives moved through the hierarchy of Company X. In this case, the *Must-Win Battles* (Malnight et al, 2005) are the 3-5 strategic initiatives that Company X focuses on achieving over a period of three years. Often, a specific department within Company X will take the leading role in achieving success for a given MWB. These will be further discussed in Section 4.3, in terms of specific tools Company X used to implement strategy.

Returning back to the topic of the model, it should be said that although it was useful, it is far from perfect. There are at least three weaknesses in the model that are worth mentioning. The first is that it was limited because it only focused on the internal forces that impact strategy formulation and flow. For example, the model did not have anything to show in terms of how the external competitive environment impacted the strategy of Company X. In this same vein, it was also unable to account for one of the identified issues (i.e., Maverick Buying), because it does not consider external agents such as suppliers. The second weakness of the model was that it somewhat oversimplified the very complex flow of strategy through organizations. In the real world (including at Company X), identifying the point of origin of a firm's strategy is not as straightforward as suggested by the model. As Botticelli et al. (1998) discussed, strategic formulation can originate from strategy departments and executive teams, but it can also arise from grass roots changes within the company which are caused by evolutions in the firm's

industry. In the case of Company X, it was relatively easy to use the model to frame the main business problem and identify the most relevant interview questions, but I would hesitate to say that it completely or fully represented the strategic processes at Company X. For example, externally originating industry trends most likely have an even greater long-term impact on the firm's strategy than the internal reports and data which are cycled back up through executive management. The third weakness of the model is that it did not sufficiently handle the important sourcing issue of how firms must balance global efficiencies with local responsiveness. I will expand on this topic in terms of Company X in Section 4.2.3.

To summarize, the model was useful in identifying the issues and setting the stage for the research questions, but it could certainly be improved through testing it via methods which would be inclusive of more companies and industries, and then making necessary adjustments. The ways in which strategy flows through organizations is an incredibly complex process, and the model at least served as an initial (although certainly not flawless) attempt in mapping it out.

## **4.2 The Hurdles of Strategy Implementation in Sourcing**

In this subsection, I will answer the second question by discussing the specific hurdles that Company X faced when trying to implement its corporate strategy. The two most common problems identified by the interviewees were (1) the difficulty in balancing global economies of scale/process with the need for local units to be responsive to their customers and suppliers, and to a lesser extent, (2) the problems related to managing data and measurements accurately in a complex global organization. The third hurdle which was repeatedly mentioned by the interviewees was related to (3) the communication of the strategic goals and the difficulty in keeping a global firm with tens of thousands of employees unified in their efforts towards common goals. *However*, in the case of Company X, every single interviewee gave a very positive response of how the firm has been able to largely solve this third problem, and even turn it into a competitive advantage through the use of a specific communication tool. Therefore, while it is certainly a recognized problem, Company X has already taken great strides in solving it, and this solution is largely seen by the employees of Company X as something that has given them a competitive advantage in the industry.

### **4.2.1 Balancing Global vs. Local Approaches**

There were several issues that the interviewees mentioned in regards to balancing the global opportunities arising from economies of scale and process, with the needs of local units to

remain responsive to the local customers and suppliers. Company X tries to find this balance with their matrix-styled organization (as demonstrated in Section 4.3.1), but there are still significant challenges associated with global sourcing and this type of hierarchical structure.

One example of a difficulty that arises is the often widely-defined categories and vast geographies which may fall under the responsibility of a single category manager. One interviewee described this dilemma in the following way (paraphrased):

*“The team responsible for global (as opposed to local) sourcing is a very limited group of people considering how big the company is. We all have a massive area of responsibility and therefore we have to pick our battles. That’s why I’m focusing on [SPECIFIC SUBCATEGORY], because of the millions of euros of spend in [CATEGORY], the majority falls into [SPECIFIC SUBCATEGORY]. After that there is a long tail of other stuff which can consume my time, but the effort for dealing with those things is more or less the same, so I need to focus on where I can make the biggest impact.”*

Another issue with trying to implement global sourcing practices is that while the firm may have a specific need across its entire global operations, there may not be any available suppliers which could offer a solution with global scope for these needs. As one interviewee noted:

*“In [GLOBAL CATEGORY], it is difficult to implement global initiatives because it’s impossible to run tenders for a global frame agreement.”*

Another hurdle which arose from the global vs. local conundrum was the issue of maverick buying (as defined in Section 2.3.3). One interviewee commented that (paraphrased):

*“Maverick buying is a problem, and it is a problem for the whole [CATEGORY]. The reason is simple, it happens when there is a difference between local managers’ performance targets and the corporate goals. The local managers’ drivers and their subordinates’ drivers are sometimes a bit misaligned with the*

*corporate view. We try to build global frame agreements, but often it is impossible for frame agreements to be the cheapest options for all participating countries. There is always someone who suffers, for one reason or another. Very often, I see units putting their own benefit into consideration over the corporate goals.”*

A final thing to mention regarding this issue is how the act of simultaneously trying to utilize both global and local approaches can also lead the firm into challenges regarding data quality. For example, one interviewee said (paraphrased):

*“It can be difficult to pull accurate information on certain suppliers on a global level. Within any specific country, we can collect accurate data, but often the links across countries or from a global perspective will not be so clear because of the difficulties in collecting data.”*

Another interviewee said (paraphrased):

*“Data quality makes implementation of projects difficult at times, which often comes from being in a global company with many different local offices that collect data in their own way, as opposed to always obeying a single method of data collection.”*

The topic of data quality and data availability will be discussed further below, but at this point it is worth recognizing that the root causes of these problems are often related to the challenges of balancing global and local approaches to sourcing simultaneously.

#### **4.2.2 Data Quality and Availability**

There are several other ways in which the quality and availability of data is seen as a hurdle in implementing the strategic initiatives of the firm. For example, a few of the interviewees discussed the difficulties that result from large firms having to separate functions into silos (such as sourcing being separated from finance), which means that the different departments must often be forced to use two different systems so that their individual department data needs can be met. One interviewee described this problem as (paraphrased):

*“Data quality can be a problem. There is a gap in spend data between what we get in [DATABASE] and what we get from finance. We have spotted a few instances where the sourcing tools have errors, and we’ve been able to correct some of those problems when we find them, but it still gives me a bit of extra trouble.”*

One interviewee commented on the difficulty in finding suitable classifications for often hard-to-define sourcing categories, and what that means for global sourcing operations (paraphrased):

*“A lot of supplier classification is done at the local level, which makes it difficult to control to the full extent. We are here at the global office and when we run the reports of all the data around the world, all of the mistakes in that data will eventually show up here. It’s like the bullwhip problem, where small mistakes will be made here and there, but when it finally reaches us at the global office, they have become big mistakes.”*

After describing a specific data quality problem which arose in the firm’s contract management system and the resulting corrective actions that had to be taken, one interviewee explained:

*“This means that we spent a lot of time cleaning our data, when we could have been spending that time on engaging new suppliers.”*

In other words, problems with data systems are seen as a distraction which use valuable time and resources that could be directed toward implementing the firm’s strategy instead. Additionally, it’s not only the data faults themselves that can cause issues, but the constant need to validate data and check for unseen/unknown problems, as described in this interviewee’s comment (paraphrased):

*“It’s very time consuming to collect data related to our supplier measurements, and then we have to spend a lot of time validating the measurements. Then sometimes we discover the*



*results are not too precise and we have to implement new procedures to get an accurate figure.”*

Perhaps the most interesting comment on data quality was when one of the interviewees provided this relatively nuanced perspective to the topic of data quality at Company X:

*“Our data quality is not bad. Data is data... The problem is not the quality of the data, the problem is, “Do we have the data or not?” If we don’t have the data, our company culture allows us to base decisions on fussy information. We are not always implementing strictly fact-based management. We are too often carried away by opinions. We base our actions on information that we think is data, but is actually meta-data or opinions. So that leads us into situations where opinions rule, not the data, which in turn leads us into situations where decisions are delayed, or made according to the wrong arguments... we don’t separate opinions from data professionally yet.”*

This last comment was so interesting because the interviewee saw the problems not as ones that arose from the lack of or quality of data, but rather from the need for the firm to be better at differentiating hard data from what would only be a best guess or opinion.

#### **4.2.3 The Problem of Strategic Communication**

As mentioned above, the problems related to communicating corporate strategy have been largely solved at Company X due to the implementation of the firm’s *strategy map* (Figure 5). In fact, seven of the eight interviewees immediately (and without provocation) referred to the *strategy map* when asked to describe Company X’s corporate strategy, and every single interviewee saw it as a positive tool which helped them to understand the firm’s major corporate goals and initiatives.

Therefore, since the problem has already been managed, most of the quotes related to this topic will fall under the final key question, which was *“What tools are available in improving the alignment between corporate strategies and sourcing activities?”*, which is discussed in detail in section 4.3.1. At this point, it is sufficient to simply say that the **interviewees perceived strategic**

**communication as a significant problem for large companies in general**, but they were overwhelmingly satisfied with the ways in which Company X dealt with the problem.

### 4.3 Tools for Aligning Sourcing Activities with Strategy

The sourcing department at Company X utilizes several tools and processes in order to implement the strategic goals of the firm, as described by the interviewees. In this section, we will tie these tools to the major hurdles which were described above.

#### 4.3.1 Dealing with Global vs. Local Issues

The most essential tool which serves to bridge the needs between the global and local functions was identified to be the **matrix structure**. By utilizing both *command structures* (the location-specific managers) and *support mechanisms* (the global category managers) in its matrix structure, the firm is able to both gain leverage in global negotiations, as well as remain responsive to the needs of the many local offices around the globe. One interviewee described the structure by saying:

*“Category management is pretty much our sourcing strategy. We have fairly independent categories and we have clearly split the sourcing functions between indirect and direct materials.”*

Another expanded on the topic by explaining (paraphrased):

*“We have a system in place that gives structure to the strategic sourcing process, which determines how Company X proceeds when determining the supplier choice. That said, strategic sourcing cannot be as rigid as other areas of Company X because it is more like project management and must be flexible enough to move forward. Each step of our system is not always 100% followed by our buyers, but I would say that as a mindset, buyers do tend to follow the main steps of our process. If the buyers need to be flexible and deviate slightly, we trust their decisions.”*

In regards to the negative impacts that maverick buying can have on a firm, one interviewee said that it was *“prevented through implementing strict standards on which suppliers could be used and which products could be purchased by employees”*. That said, the category which was being

discussed in that specific interview was one that often required incredibly high standards of quality and safety due to its nature, and this may have created an environment where stricter rules were expected by default, and would therefore face less resistance. In other words, any given firm's safety and quality requirements for its paperclip and office paper suppliers will probably not be as critical as the safety and quality requirements related to heavy machinery, and therefore it seems more likely that buyers will engage in maverick buying more often when there are less strict rules in place to prevent it.

#### 4.3.2 Data Quality, Availability and Understanding

In terms of data quality, one interviewee described their philosophy on how **ensuring the implementation of good processes limits the need for constant ad hoc data cleanups** (paraphrased):

*“Basically there are few ad hoc initiatives. What we have done in the past is followed the logic ‘close the tap, then empty and clean the tub’. This means that there needs to be a solid process in place that governs data quality on continuous basis. As a consequence, ad hoc initiatives are seldom needed.”*

Another interviewee described how steps must be taken to ensure that **data collection is connected to the firm's main strategic goals which are described in the strategy map** (paraphrased):

*“I think there is certain logic to improving data quality and availability at Company X, and our approach to steering that is to follow the [strategy map]. There is a council that determines our strategic initiatives which drives our strategy and what needs to be done to achieve them, and we will prioritize activities, projects and proposals according to that.”*

One other step that Company X has taken in order to improve data quality and availability within their sourcing operations is to **create job roles within the sourcing organizations that are specifically tasked with understanding which types of processes, metrics and data collection should be in place, and then ensuring that these steps are successfully carried out**. While the people in these roles are not buyers themselves, they serve as metaphorical doctors who

constantly monitor the processes within the firm's sourcing operations, and prescribe corrective remedies when problems are discovered that affect the health and performance of the organization.

Perhaps more obvious is the **role that databases and systems play in data quality and availability**. One interviewee focused on the importance of these systems by saying:

*"We spend a lot of effort on improving the situation on the data side... think of all the tools we implement. Just in sourcing, we have [DATABASE] for spend and contract management, we have [DATABASE] for savings tracking, we have a raw material database which we have taken into use over this year, we have [SYSTEM] for supplier measurements, we have this and that and so on. Here we are heavily investing in tools in this company, and you don't invest in tools if you don't want to get more data or capabilities with data."*

Another interviewee described the importance on being sure to constantly **improve data granularity** because it helps with decision-making, especially in situations where you have products which are composed of many different raw materials that have fluctuating market prices. They explained it in this way (paraphrased):

*"In sourcing operations, it is important to have a good understanding of what you purchase, what the price levels and base prices levels are, and how much we purchase both back-looking and forward-looking, which is very difficult. We're getting in better shape in regards to contract prices and exposure to raw material markets. Our data has been getting more granular, which is good because it helps us to understand our exposure to raw materials."*

It was also noted by a few interviewees how important it is to proactively take steps to **ensure that opinions and facts are separated**, and to confront the quality of the data. As one person noted:

*“The more time we spend on analyzing data, the more people will take those numbers for granted rather than indicatively. The more time you spend on it, the more it is perceived as hard fact rather than an indication of direction or being a signal of what to do and what not to do. We need to be sure to separate facts from opinions.”*

To summarize, the sourcing professionals at Company X tend to see data quality and availability as a journey of continual improvement. It’s one in which they must proactively strive to separate fact from opinion, and continually improve the quality and granularity of data through the use of better systems and processes. And of course, this data which is being collected and analyzed must be driven by the overarching strategic goals of the firm.

#### **4.3.3 The Strategy Map as a Tool for Aligning Sourcing with Strategy**

While conducting the interviews, I noticed a very interesting pattern which came from the first two questions of the interview guide (Figure 14). The first question of the guide was simply, *“How would you define corporate strategy?”* As discussed in the literature section, *strategy* is not very easy to define as a field or function of business, and I was not at all surprised when the eight interviewees responded with somewhat similar, but certainly varying answers. Here are some examples:

*“A company has a vision, and the corporate strategy shows the path to get there. Corporate strategy links vision and actions together.”*

*“To me, strategy is just a plan.”*

*“Corporate strategy is the company’s vision on how to survive.”*

*“Corporate strategy is setting the direction and priorities for the company.”*

*“Strategy is a guideline in a sense of the overall direction of the company, trying to frame the way that the company is getting stronger, getting better, and delivering more value for our shareholders. I think sometimes people look at strategy as too*

*black and white. People say, 'What's the strategy? What are the specific actions that we're going to do?' But I don't see strategy as being that specific, rather it's the overall framework of how the company is going to grow, become stronger and deliver more value to shareholders."*

*"A master plan of where we think we are, how the overall business is going to develop and which actions we're going to take to either mitigate or ride the wave of the development that we perceive at this point in time."*

As shown, there were several words that were often repeated, such as **plan**, **direction** and **vision**. However, while there was certainly overlap, there was still a significant amount of variation between the answers.

The second question was similar to the first, but more specific to Company X: *"How would you describe the corporate strategy of Company X?"* Compared to the relatively varied answers of the first question, the results of this second question were surprisingly unified, each referring to the **strategy map** of the company, often referred to as the "strategy picture" or "the big picture":

*"One good thing about Company X is how visible our strategy is, at least in the **picture**. This is something that our suppliers always want to see, they want a copy of the **picture**... our strategy is to reach for ambitious goals with the clear global programs and priorities that are quite well-visualized in that **picture**."*

*"One thing I like about Company X is how the **[strategy map]** highlights things like the megatrends which are happening around the globe that affect our business. It shows our plan, the things we need to focus on and the things affecting our business."*

*"The **picture**. This vision in our corporate strategy is quite key, and this is exactly what we take into our sourcing strategy."*

*“Our ‘big picture’ really says it all: it has our environment or the megatrends, our direction and how we measure our progress there, our priorities, as well as how we work together.”*

In fact, seven of the eight interviewees referred to the strategy map immediately and without provocation when asked to describe the corporate strategy of Company X, and the eighth interviewee ended up referring to it later in the interview saying,

*“I like the **strategy picture** very much. That somehow combines a strong understanding of our market, with the ways we can take advantage of opportunities that our market provides. And this is basically the purpose of all businesses. We have identified quite clearly in our strategy communication how that all comes together, and which elements must be in place.”*

One of the key aspects of Company’s X strategy map is the inclusion of several *Must-Win Battles*, a concept which was coined in 2005 by Malnight et al. The authors describe Must-Win Battles as “the 3-5 key battles that an organization must win in order to achieve its most important goals.” Several of the interviewees discussed the importance of MWBs in the context of strategy:

*“I think we should say, ‘I’m going to set aside one hour in my day to be strategic, or to review processes, or to think about how the team is structured, and how these sort of things can affect and improve our efforts to win our Must-Win Battles.’”*

*“We cascade our strategy to the units, including sourcing... through projects that are part of our MWBs” (Paraphrased)*

*“Initiatives are created within sourcing in order to achieve the Must-Win-Battles, especially those MWBs that are related to sourcing.” (Summarized from much longer explanation)*

What makes these interesting, especially when considering the proposed model of how strategy flows through sourcing, is that these MWBs are very tangible examples of how specific initiatives actually move through the organization, as was demonstrated in Figure 16.

Moreover, several of the interviewees described **performance bonuses** as a tool which can help to ensure that the actions of individual employees are working towards the initiatives that are driving the firm's strategy. One interviewee described the link between their individual role and corporate strategy this way (paraphrased):

*“Role-specific performance-based bonuses are set up to help with this alignment, such as completion dates and requirements for projects that are part of larger corporate initiatives, as well as cost reduction targets that directly impact corporate-wide strategic targets such as profitability.”*

That, said, the effectiveness of performance bonuses in helping the firm reach its strategic goals are certainly dependent on whether or not they are actually aligned with the corporate strategy. As explained by one interviewee:

*“The key vehicle to guide us is our annual bonus plan... although sometimes there is not always a direct link to corporate strategy.”*

To summarize, Company X has very effectively communicated the corporate strategy and major initiatives through the use of a strategy map, and drives them at an individual-employee-level through performance bonuses which are linked to specific initiatives. This means that the strategy follows a long but traceable path as was described in the proposed model. However, there can of course be disruptions in that path when departmental initiatives or personal bonuses are not clearly linked to the MWBs.

#### **4.4 Other Benefits of the Strategy Map**

As mentioned in Section 4, it would be easy to argue that the famous strategy map of Company X doesn't even really demonstrate the firm's strategy, especially if we use a Porter-style definition of the word *strategy*. This raised the question: **Is a strategy map still valuable if it doesn't actually show strategy?**

The findings in this research seem to demonstrate that the answer to this question is a resounding “yes”. Even though the major trends and focus areas described in the strategy map of Company X are quite generalizable for the industry in which Company X competes, the



document itself clearly has some major benefits even if it is not actually demonstrating *strategy* per se. As demonstrated through the interviews, it has been useful in driving awareness of the firm's key initiatives and industry trends. This can be advantageous for the firm by creating a more unified work force where employees are uniformly marching the firm forward toward the same goals.

A secondary benefit of the strategy comes from its ability to help the employees of Company X see their work as meaningful and part of a greater good. It was very apparent that the strategy map used by the firm has had this unifying effect since all of the staff members who were interviewed saw themselves as part of a larger picture. In several of the interviews, the interviewees took the physical copy of the strategy map and excitedly explained how they viewed the picture. In fact, they often pointed toward specific initiatives while explaining how their own individual efforts helped to drive those firm-wide goals. This demonstrated a subtle yet powerful benefit gained through the firm using this sort of tool in communicating its corporate strategy.

## 5 RECOMMENDATIONS

In this section, I will offer three recommendations for how Company X can work to improve the alignment between their sourcing operations and their corporate strategy. These recommendations will be tied to the hurdles identified through the interviews (and discussed in Section 4.2). Additionally, I will offer three lessons which can be taken from this research and applied to the situations of other global firms.

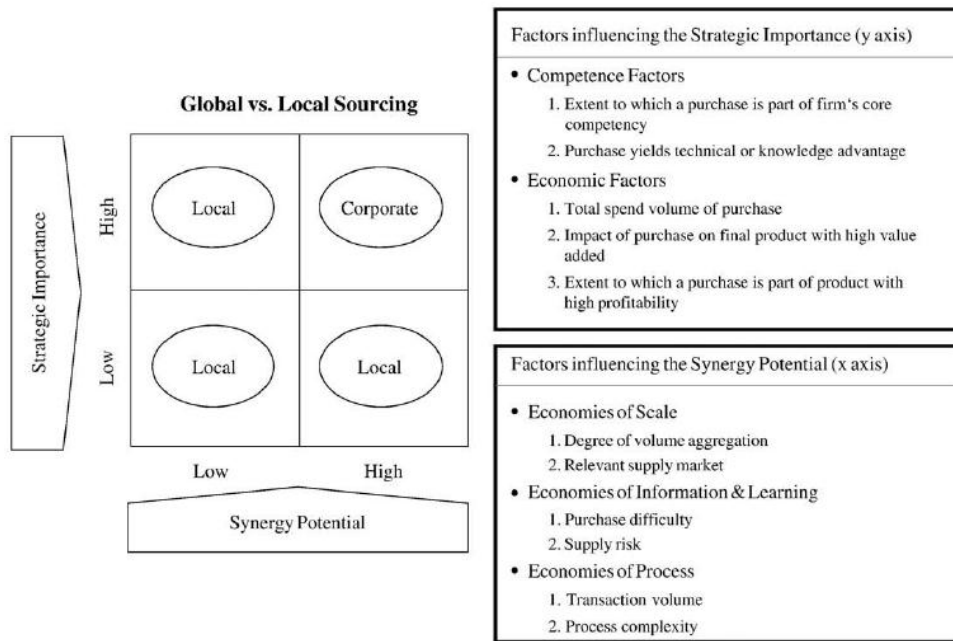
### 5.1 Specific Recommendations for Company X

In general, it appears that the sourcing department leaders at Company X have done a very good job of aligning sourcing activities with corporate strategy. However, as in any company or department, there is always room for improvement. I will now discuss a few ways in which Company X can work to overcome the three major challenges which were identified when trying to align sourcing activities with corporate strategy.

#### 5.1.1 Improving the Balance between Global and Local Needs

The *Trautmann et al. Model of Global vs. Local and Factors of Influence* (shown again in Figure 17) demonstrated key factors which should be considered when deciding whether to implement a global or local approach to specific categories within sourcing. By utilizing a matrix-type organizational structure, Company X has already been able to recognize and identify the difference between these two different approaches (i.e., the *global approach* and the *local approach*). The firm has also implemented processes in determining whether sourcing categories should be managed at the global or local level. However, from my experience in the Company X sourcing department, it is apparent that the established process at Company X is not as comprehensive in choosing the correct approach as that which is shown in Figure 17, particularly at the *sub-category* level (i.e., divisions within specific categories).

Figure 17. Model of Global vs. Local Sourcing and Factors of Influence (*repeated*)



SOURCE: Trautmann et al., 2009

There are at least four significant benefits which could be gained through using this type of system, especially if Company X analyzed the dozens of *sub*-categories within their global sourcing organization and placed them within the Trautmann et al. model. The first is that (1) the firm could more accurately identify the lucrative but previously unnoticed opportunities which could be exploited through global sourcing negotiations. Secondly, (2) completing this type of analysis would help to determine which subcategories should be left to be managed by the local units (and by doing so, prevent activities which unnecessarily clog the resource bandwidth of global category managers).

A third reason for completing this sort of comprehensive subcategory analysis, is that (3) it would help to improve and make transparent the decisions related to whether or not a specific category or subcategory should be driven at the global level. By using a well-defined decision-making process, errors resulting from cognitive biases are minimalized or removed completely. And finally, the fourth reason that Company X should implement this type of system (and at this level of specificity) is that (4) it would force the sourcing decision-makers to consider all the relevant factors when choosing a sourcing approach within a specific subcategory, including criteria such as competence and economic factors, economies of scale, economies of information and learning, and economies of process.

I should also note that implementing this sort of system does not have to be a massively resource-intensive project. It appears that most of the global category managers at Company X are already very knowledgeable about their respective sourcing categories, and would therefore be able to analyze the subcategories that fall within their portfolio rather quickly. However, implementing this system will allow them to reconsider their work from a new perspective, and perhaps minimize the damage of any cognitive biases which have been hindering their effectiveness up until this point.

### 5.1.2 Data Quality, Availability and Understanding

The data issues at Company X fell into two categories. The first category dealt with data quality and availability. Many of the interviewees attributed these sorts of problems to the difficulties in managing massive databases which are collecting information from dozens of locations around the globe and being both accessed and compiled by hundreds or thousands of Company X employees. Considering the incredible complexity of these processes, it seems that Company X has actually handled this issue quite well through the use of dedicated people who focus on process improvements and guidelines. Of course there is always room for improvement when it comes to data, but it would take a massive research effort by me to uncover the root problems of sourcing data quality at Company X, especially if I was to provide enlightened recommendations (or at least recommendations which have not already been heavily considered or researched by Company X employees).

However, the second category of data issues discussed at Company X dealt with difficulties in separating fact from opinion, as one interviewee stated:

*“We base our actions on information that we think is data, but is actually meta-data or opinions. So that leads us into situations where opinions rule, not the data, which in turn leads us into situations where decisions are delayed, or made according to the wrong arguments... we don’t separate opinions from data professionally yet.”*

This signals that there are sometimes cognitive biases which are negatively affecting decision-making at Company X. In order to combat this, Company X managers should take steps to identify and consider uncertainty in their own decision-making processes. A good way to deal with this is by asking the question, *“If you had to make this decision again in a year, what information would*

*you want, and can you get more of it now?"* Kahneman et al. (2011, 56) proposed that by asking this question before big decisions, individuals and teams could help curb the negative effects that cognitive biases have on the decision-making process. By asking this question, Company X is forced to consider what information is lacking from the current decision, and whether or not that lack of information is harmful to the decision-making process in that specific context.

### 5.1.3 Communication of Strategy

As mentioned, the communication of strategy at Company X could certainly be described as a strength of the firm. If anything, the firm must be vigilant in ensuring that the sourcing-specific initiatives are clearly tied to the global *Must-Win Battles*, and that these sourcing-specific initiatives are communicated as such. Additionally, it is important that the personal performance bonuses are in turn clearly tied to the departmental initiatives. By doing so, the firm will ensure that the operational activities of employees around the world are actually within scope of the firm's goals and in doing so demonstrate an effective utilization of the firm's human resources.

Practically, this would require a very clear demonstration of *what* the department-specific initiatives are and *how* they are linked to the strategy map. Additionally, when establishing performance bonuses for individual roles, **there must always be a clear linkage to the department's initiatives**. If these steps are taken, a clear path between the high-reaching corporate strategy and the operational actions of employees can be seen and understood.

## 5.2 Recommendations for Global Firms in General

There are at least three lessons gained through this research which can be applied to global firms in general. These recommendations focus on the benefits of (1) considering the strategy flow model, (2) utilizing visual tools to depict and communicate corporate strategy, and (3) using the matrix structure to manage global spend categories.

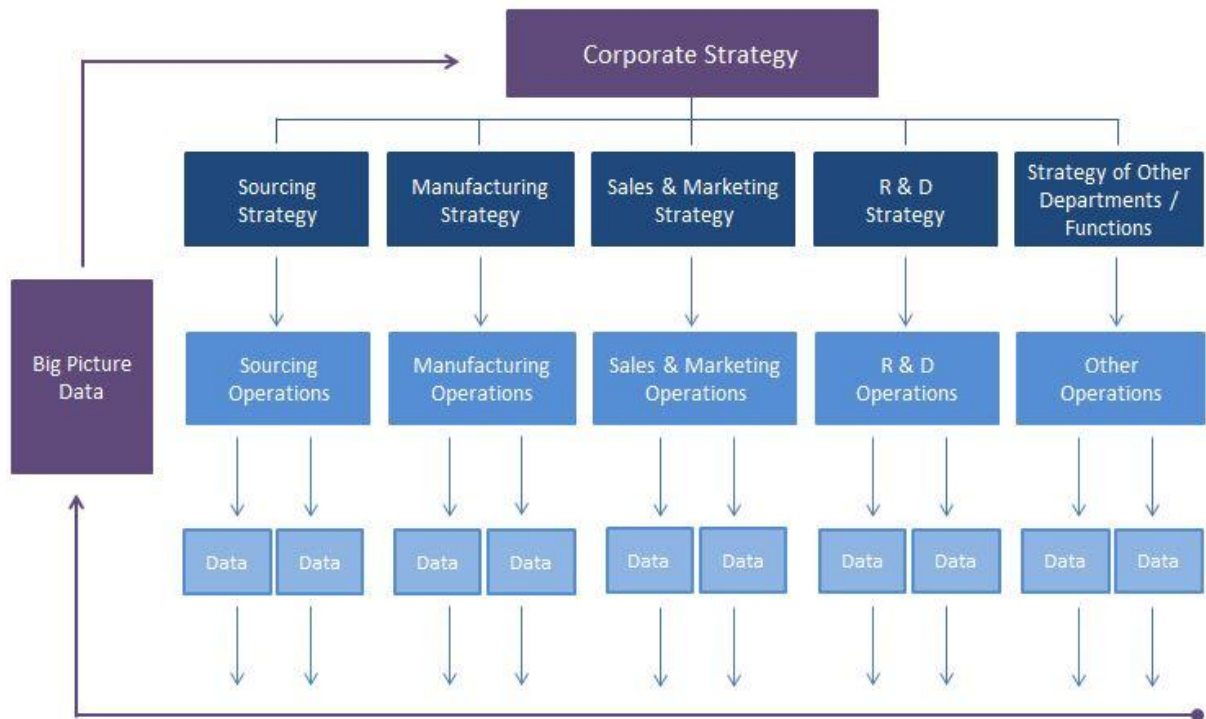
### 5.2.1 Using the Strategy Flow Model to Identify Deviations in other Departments

As discussed above, the strategy flow model which was used throughout this research was useful in identifying the key areas where sourcing activities may deviate from a perfect implementation of corporate strategy. This was especially true in areas such as communication, the paths of major initiatives, data collection, and performance measurement/reward.

While the proposed model was focused on sourcing, it would be quite simple to adjust the basic concepts of strategy flow to many other departments and functions. By doing this, firms could

map the flow of strategic goals throughout their entire set of global operations, and individual employees could more easily connect their work to the overarching goals of the organization. In fact, it may even be a useful exercise to consider how this works in all departments simultaneously. Figure 18 shows how this could be portrayed:

**Figure 18. Model of Strategy Cascading through the Entire Firm**



**SOURCE:** Thesis Author

Of course, reality is always more complex than anything a graph like this can show. For example, the flow of data is not always so clear, and corporate functions generally do not only exist in isolated silos. However, a graph like this will at least help to spurn critical thinking for executive managers in terms of how they must implement critical strategy, and what hurdles they may face along the way.

### 5.2.2 Using a Strategy Map to Communicate Corporate Strategy

As Cummins & Angwin (2011, 435-436) explained, one of the most effective ways to communicate corporate strategy is to use pictorial or graphical aids which conceptualize the core tenants in a meaningful way. Company X served as a real-world example of just how powerful visual aids can be, not only in communicating strategy, but also by providing secondary benefits

such as motivating employees. By using these sorts of tools, firms can create a more united work force and improve company-wide communication.

### **5.2.3 The Value of the Matrix Structure in Sourcing**

Company X served as a great example of a firm which was able to successfully leverage a matrix structure in order to gain global economies of scale and process while remaining nimble enough to respond to the needs of local markets. Perhaps the greatest indication of this success was the fact that the global category managers at Company X were generally well-connected and on a name-to-name basis with their local counterparts who worked at the many locations spread across the globe. From my experience in the firm, it is apparent that these connections help to both improve the fluidity of cross-regional projects and to identify opportunities for leveraging, such as in the case of global frame agreements which may have otherwise gone unnoticed. The matrix structure can be a powerful tool within an organization as a whole, but perhaps even more so at the departmental level, as was demonstrated by Company X's sourcing organization.

## 6 CONCLUSION

In this paper I set out to discover how global firms ensure that sourcing activities are aligned with corporate strategy. In order to understand this process, I broke the problem down into three specific questions, which were:

- 1) *How does strategy flow through the sourcing departments of large firms?*
- 2) *What hurdles do sourcing departments face when trying to implement corporate strategy?*
- 3) *What tools are available in improving the alignment between corporate strategies and sourcing activities?*

Specifically, I wanted to answer these questions by using the example of a real life case company, and was fortunate enough have in-depth access to a large manufacturing and engineering firm which is based in the Nordic region of Europe, but active in nearly 50 markets around the globe and operated via a matrix-structured global sourcing organization.

Before I could tackle the latter questions, I had to answer the **first question by developing a model of how strategy flows through the sourcing operations** of large firms. In order to do so, I studied both the relevant literature and the real-life operations of Company X. My model, referred to as the *strategy flow model* throughout the paper, was by no means perfect or inclusive of every single factor in that complex process, but it certainly helped in identifying the landscape related to the second two questions.

Interviews with employees of Company X yielded great insight into the **second question which focused on the hurdles that sourcing departments face when trying to implement corporate strategy**. The main hurdles identified were (1) the difficulty in balancing the need for global companies to leverage spend through global frame agreements with the need to remain responsive to the sourcing requirements of their local units, (2) challenges faced by poor data quality, limited data availability and the difficulty in separating hard data from opinion, and (3) the problems related to the communication of corporate strategy and initiatives (which Company X has actually been able to largely overcome at the time of this research).

Interviews with employees of Company X also helped to **answer the third question which focused on identifying the tools used by firms to align sourcing activities with corporate strategy** (and therefore overcome the hurdles presented in the second question). Regarding the



issues of balancing global needs with local needs, Company X had successfully implemented a matrix-structured category management approach. Regarding the issues related to data quality and availability, Company X has taken actions such as installing well-defined data collection processes, deliberately ensuring that collected data is actually connected to strategic initiatives, creating specific job roles which focus on process and data management, and taking steps to improve data granularity. The final hurdle dealt with the difficulties in communicating corporate strategy to sourcing activities, and Company X has found great success through the use of a *strategy map*. This map provided the firm with a tool which has helped the sourcing professionals at Company X to understand the company's vision, its major initiatives and strategic targets, and the global trends which are impacting the industry on a global scale. A secondary benefit gained through the use of the *strategy map* was that it strengthened the bond between the firm and its individual employees and helped them to collectively work toward the same company-wide goals.

While this research was useful in providing an in-depth look into the story of how one firm implements strategy throughout its sourcing organization, I cannot argue that it is representative of all firms who face these challenges. In order to make these sort of broader claims, a comprehensive quantitative analysis would need to be completed which asked similar questions across many firms.

Additionally, this research was very much focused on the internal aspects of the firm. However, because sourcing departments are the main conduits by which firms work with external suppliers, there are certainly external elements which come into play and could be considered. For example, future research could help to explore the relationship between corporate strategy and external factors such as supplier innovation, competitive market factors and global industry trends.

Furthermore, it would be quite easy to expand this sort of research beyond sourcing-specific functions in the firm. In that case, a wider-scoped model (such as the one presented in Figure 18) could be developed which explained the ways in which strategy cascades through entire organizations as whole, as opposed to just their global sourcing operations.

Looking forward, I am interested to see how Company X will continue to deal with sourcing-related challenges and opportunities as their industry evolves and new global trends emerge. Up until this point, the company has overcome the odds by being one of the few firms to survive the

massive trend of consolidation which has occurred within their industry over the last half-century. While the future is never certain, it seems that the firm's strong leadership and pragmatic working culture have positioned them well to face future challenges.

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