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Supply Management

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INTERNATIONAL PROCUREMENT OFFICE IN VIETNAM

1st supervisor: Professor Veli Matti Virolainen

2nd supervisor: Associate Professor Katrina Lintukangas

Son Tung, Vo

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ABSTRACT

Author: Vo, Son Tung
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The objective of the thesis is to redefine the concept of International Procurement Office (IPO). Specifically, location, activities which can be assigned, advantages and disadvantages of IPO are studied. Another aim of the thesis is to explain the reasons behind IPO establishment of international corporations, from that provide a possible strategy that can be applied in the modern economy as well as some notices if companies want to implement IPO solution. The study is a qualitative research, which uses interviews as the main data collection method. During interviews, participants go through a set of questions which were designed following factors mentioned in existing literatures. these elements are examined to build an overview of the current situation of the application. Moreover, during data collection process, experts were encouraged to give their personal views and opinions on the questions and suggestions for future works. Advices for companies are also expected to be received in these discussions. So, a full manual of IPO establishment is the main target result of the research.

The concept of IPO is expanding is main result of the thesis. Firstly, while the initial idea of external procurement office is to manage purchasing activities in developing countries like China, IPOs are nowadays set up in both developed and developing countries. Secondly,

sourcing and purchasing activities are still core activities of these offices but they have currently been receiving more roles from headquarters. Main advantages and disadvantages of the strategy are also reviewed. The balance of benefits and how to define the power of these offices are two of the most important points companies need to focus in this strategy.

PREFACE

Three years in Lappeenranta has been a dream come true for me. Now it is coming to the last days, much faster than I expected. When a long and wonderful story comes to an end, I am glad to say that I always have great people stay by my side. Without them, I would not be here today.

Firstly, I would like to thank my supervisors, Professor Veli Matti Virolainen and Associate Professor Katrina Lintukangas, for all the comments, guidelines and support. I also want to thank all the experts and companies who agreed to offer me their time, knowledge and experience to complete this thesis. Without all information and advices from them, the work would not be done.

Moving to another country to study is never easy, and my time here would have been much harder without my friends: Trang, Phuong, Nhat, Vu and Duy. Thank you very much for all for your support when I got depressed and lost.

Finally, I would like to give a huge hug to my family. They are always there when I need, give me advices and encourage me to reach my goal. Thanks to my brother, Nam. You may not speak much, but all the supports from you give me lot of motivation to take further steps and follow my dream.

Espoo, 30.04.2018

Vo Son Tung

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1. INTRODUCTION

1.1. Background

In one best-selling book, *The world is flat*, Friedman (2005) argued that the world is entering new age, the age of globalization, in which it becomes smaller and flatter, with the high pressure of international competition, the disappearance of physical national borders and the spreading of new communication and information technology. Those elements force companies to find out appropriate strategies to optimize their performance, cost effectiveness and value creation. International sourcing, in which companies look for materials and services outside their national borders, presents a key success factor in this situation: company costs and performance optimization can be gained from improving purchasing activities by using wider range of sources. This strategy takes a more important role in increasing value created, since purchasing activities contribute more than a half of company's value creation, with more than 50 percent in service companies and up to 70 percent in manufactures (Zeng, 2000).

Due to the huge potential of international sourcing, companies have a growing interest towards developing and reorganizing their supply chain network to transfer from local to global sources. Increase in number of sources leads to the complexity in supply chain network, including cultural heterogeneities, difficulties in arranging conversations due to time zone difference, distant interlocutors, rules and behavior differences. Changes in business strategies and processes are needed to tackle these challenges.

There is another trend in modern global business, in which companies transfer their production from developed to developing countries, such as China, India and Vietnam to improve their competitive advantages. This movement leads to a critical question: should the company keep their original business? On one hand, they can choose keeping their existing relationships, however, their information and material flows will be extended. On the other hand, they can create new business relationship with new factories with needs of having business intelligent about environment elements in new markets. They need an emergent strategy.

Those proactive and reactive elements bring the need of reviewing company goals, objectives and strategies to adjust the way to achieve effective goods and service acquisition. These

requirements also highlight the need to identify which parts of the world are suitable, deeply understand about factors that impact purchasing process and strategies. Establishing International Procurement Offices (IPOs) is suggested as a possible solution.

This thesis is a review of activities of international companies in Vietnam, which are using IPOs as a purchasing strategy. The background of this thesis comes from the need to develop appropriate strategy for purchasing process when production and service center are moving to “low-cost” countries. Vietnam is selected as a targeted market. Known as one of the “MITI-V”, group of Asia Pacific countries includes Malaysia, Thailand, Indonesia, India and Vietnam who have potentials to replace China to become lower-cost manufacturing destinations (Deloitte, 2016), the country is where newest purchasing strategies are applied.

1.2. Literature review

In today business, global sourcing becomes a strategic opportunity for firms to keep sustainable success (Kim & Chai, 2017). The growth of global sourcing encourages researchers to study various aspects of it, including IPOs strategy (Sartor et al., 2014). There are two trends of the development of global sourcing, the increasing involvement in global market and the transfer from transactional to strategic (Jia et al., 2014). These trends lead to the implementation of IPOs as a necessary step after finishing initial stages of global sourcing process (Jia et al., 2014). Together with the increasing importance of IPO strategy in global sourcing, setting up IPOs is realized as a common strategy for international sourcing management (Sartor, 2007).

Despite the increasing importance of IPO strategy, few researches are published on this topic and most of them did not tackle it systematically and in relation with other concepts and applications (Jia et al., 2014). many definitions of IPOs were provided, such as “intermediaries”, “shared service entities”, “full-service procurement centers” etc. (Jia et al., 2014). As a result, they cannot capture all aspects of IPO strategy and activities (Jia et al., 2014b). One possible definition of IPO concept that: “an off-shore buying house or office which was established by an original equipment manufacturer (OEM) to procure raw materials, components, semi-finished parts and other input in a competitive price for global manufacturing plants” (Goh & Lau, 1998).

However, there are some problems in this definition and it needs to be updated. Firstly, this concept was developed based on a research from Western and Japanese electronics companies located in Singapore in the middle of 1990s (Goh & Lau, 1998), so it needs more examination in other countries. Secondly, the expression of “global plant” is not clear enough, it could cause misunderstanding about place of the plant, whether it could be in host country where the IPO was established (Sartor et al., 2014). And finally, recent literatures emphasize that the concept of IPOs is expanding following the increase of number of activities that are transferred from headquarter to IPOs (Sartor et al., 2014). Finding a working definition of IPOs and examining it in a new country is suggested to update the definition.

1.3. Research questions

Purchasing activities have high a contribution to company’s performance and competitive advantages, so having appropriate purchasing strategies is a key factor for any company to keep their survival and sustainable success. From the combination of the need of organizations to have an efficient way to manage purchasing process. In addition, many top international corporates are using IPOs as the main strategy of global sourcing, the aim of this paper is to give a basic overview about IPOs strategy as a possible solution for strategic making. Moreover, common reasons why companies choose IPO strategy are investigated to explain the decision. Therefore, the main question of this thesis is:

- Why do companies in Vietnam choose International Procurement Offices as their main purchasing strategy?

In order to answer the research question and company’s decision, a theory background about purchasing strategies and IPOs should be provided. In addition, the research will try to describe how IPO strategy is applied in supply chain network and how it influences the company’s activities in general. Therefore, the sub-questions are:

- What is IPO? What are common purchasing tasks operated in IPOs?
- What are advantages of using IPOs?
- What are disadvantages of using IPOs?

The reason why companies use IPOs strategy can be explained by answering the questions above. The thesis provides a basis information about how IPO strategy can operate, possible tasks that can be transferred from headquarter to IPOs and some noticeable points company should look into before starting their project. In addition, some information on Vietnam market is given to encourage international company to find out business opportunities there as a potential sourcing destination.

1.4. Research framework and key concepts

Theoretical framework of the thesis is described in figure 1. As the name of the topic is “International procurement offices in Vietnam”, main target of the thesis is to review activities of companies, evaluate the benefits, weakness and identify some suggestions during the operations. Major objective of the paper is explaining why companies choose IPOs as their strategy for global sourcing management, through providing reasons why IPOs are applied in Vietnam, current activities, benefits and problems of the sourcing methods from interviewee’s perspectives. From that, the writer will try to provide an understanding of the concept and come up with reasons company may think about when they decide to choose IPOs and their main purchasing channels.

During research process, the paper will start with some theoretical background on new trend in the global economy: globalization and its pressures forcing companies to choose global sourcing to survive. In the next step, main tools to operate sourcing activities are mentioned, which follow two trends: using a third party to operate or moving the activities to cheaper destinations. The literature also explains why companies choose offshoring, and one of its strategy is establishing IPOs as their new way to success.

After having a theoretical view of IPO and how it can be applied, the reflection of theories in business situation are analyzed through interviews with real IPOs and factories which are using IPO in Vietnam market. The paper will try to explain the IPO decision from manager’s views, include what activities can be done by IPOs, possible advantages and disadvantages of IPO strategy on company’s activities and performance. From that, a common view about IPO strategy can be completed, including what activities can be assigned to IPOs, advantage, disadvantages of the offices and notices during establishment.



Figure 1: Theoretical framework

1.4.1. Supply chain management

Companies use the concept of SCM for years to overcome challenge in minimizing costs and meeting customer's expectations (Muysinaliyev & Aktamov, 2014). The concept can cover various aspects of company's activities, including purchasing, planning, logistics, etc. Therefore, SCM was researched in many ways. Firstly, SCM is an integrated process to create sustainable value and competitive advantages via delivering customer products and services (Ibrahim et al., 2015). According to Ganeshan & Terry (1995), SCM can be a network of facilities and logistics options to transform raw materials to finished goods and distribute to end customer. In a way, SCM is considered as a group of organizations, with upstream and downstream linkages, working together to produce value of products and services in the hand of end customers (Christopher, 1998). To summarize, SCM is a strategic and systematic coordination of the business functions and tactics across them for the purposes of improving long-term performance of not only any individual company but also whole supply chain (Ibrahim et al., 2015).

1.4.2. Global supply chain

Globalization brings new operation trends and demands. Participation in global market gives opportunities to approach new low-cost options, diversity sources, new technologies and expanding capacity. However, it raises competition pressures on both buyers and suppliers in many aspects (Ibrahim et al., 2015). Globalization process is considered as the main source to lead company and manager's thinking and strategies from local to global perspectives, and the concept of supply chain management has been broadened to global supply chain management. (Wang & Song, 2017). Global supply chain can be defined as an active global supply network, which is managed by buyers (Wang & Song, 2017). According to Klassen & Whybark (1994), global supply chain can also be a network of factories and sources on a worldwide basis.

1.4.3. Strategic sourcing

Strategic sourcing is a key component of supply chain strategy (Su & Gargeya, 2012). According to Kim & Chai (2017), strategic sourcing is a process of supply network design and management to achieve chain's objectives. From the company's view, strategic sourcing is defined as the process of sourcing decision making, includes planning, implementing, managing and evaluating to meet the firm's goals and objectives (Su & Gargeya, 2012). In the objective view, the concept is processing to reduce risks and increase company's flexibilities to improve company's performance (Su & Gargeya, 2012). It can also be viewed as critical source to develop company's competitive advantages and capabilities.

1.4.4. Offshoring

The main idea of offshoring is to transfer some of company's activities to low-cost countries, mainly for economic purposes (Felice et al., 2015). It can be the relocation of production or intermediate inputs from local to a foreign country (Brandle, 2015). Or it can be defined as a process of coordinating and sourcing business tasks and functions across national borders (Musteen, 2016). Although the initial purpose is cost saving, the scope of offshoring was broadened to other aspects, such as company's benefits and product quality. As a result, companies look for benefits rather than costs while do offshoring decisions (Brandle, 2015).

1.5. Thesis structure

This thesis is organized into five main parts: introduction, theories, research methodology, empirical research and conclusion. Figure 3 presents how the paper is structured and how parts are connected to each other.

The introduction part discusses how current business situations affect company's strategies and lead firms to use IPO strategy as a choice for sustainable success. The first part also provides the basic information about the concepts and how it would be researched through the background, research questions, theory framework and related key concepts. Chapter 2 introduces the IPO strategy and its related theories and concepts: business process re-engineering and global sourcing. This chapter is based on literature review and previous theories.

Chapters 3 and 4 present how the paper is processed. Chapter 3 includes research methodology, research design, data collection plan and how data would be analyzed. The next chapter describes how the plan applied. Chapter 4 also includes summary of research findings, results of stages and implications.

Chapter 5: conclusion summarizes the theoretical parts with the answers for research questions from results. It also makes suggestions for companies and future possible topics for other researchers.

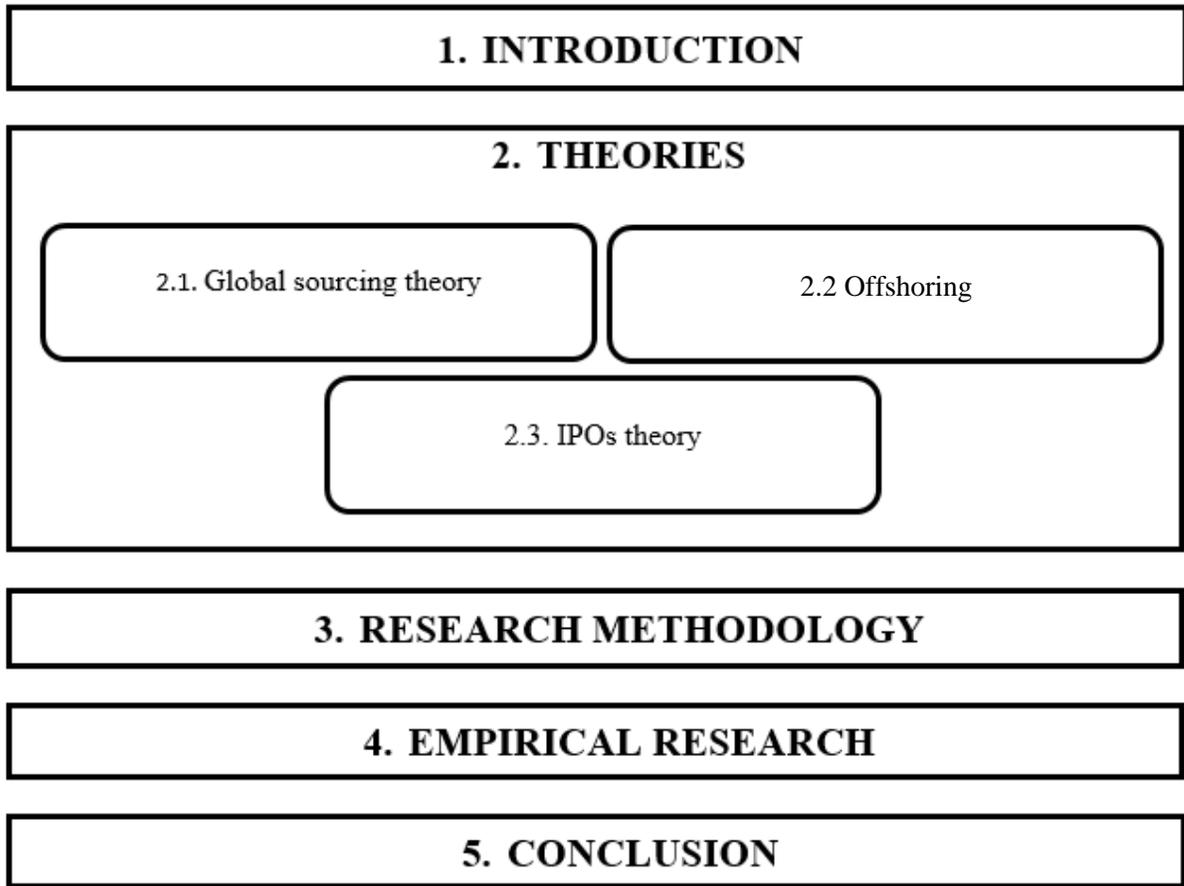


Figure 2: Thesis structure

2. IPO THEORY

2.1. Global sourcing

2.1.1. Global sourcing becomes survival strategy in globalization age

From the beginning, globalization is considered as one-way process, in which no company can avoid or choose to ignore its impacts (Senft, 2014). The process lowers both visible and invisible barriers among countries, global flows are increased, previously secured domestic markets face the risks of joining of oversea competitors and local competitors also look increase their competitive advantages via new sources (Rajagopal & Bernard, 1994). The strongest phenomenon of globalization, the establishment of trade blocs, like GATT, WTO, ASEAN and EU create free freedoms of goods, capital, people and services. Moreover, technology innovations allow the spread and accessibility of information, standardization and scaling. The internet helps global business relationship establishment and management work with low cost and time requirement (Senft, 2014).

However, globalization makes everything faster. It increases individualization and changing of customer requirements (Senft, 2014). The spread of technology allows companies to access new technology quicker, but it creates pressure of shortening technical processes and product life cycle (Senft, 2014). Therefore, companies always operate under the pressure of new coming products, new competitors or customer demand of better products. The new competition pressure forces company out of their comfort zone, where loyalty with existing businesses and other traditional domestic market elements cannot guarantee the growth and desired profitability (Rajagopal & Bernard, 1994).

Traditionally, cost advantages are recognized as the primary reason to go global (Rajagopal & Bernard, 1993). Cheaper labor, lower, rent and facility cost or even less-restricted rules and taxes outright from host countries may reduce product cost from 30 to 50 percent comparing to local choices (Rajagopal & Bernard, 1993). Nevertheless, global sourcing benefits do not involve merely cost reductions, according to Senft (2014), they can be grouped into three key factors: are price, quality and time advantages.

There is one common problem many companies face when changing from local to overseas sources: because of the combination of high competition pressures and potentials, companies make decision too fast without enough preceding consideration. After one or two successful shipments, the companies are satisfied with partner's performance and convinced that their supplier will keep their performance for years. However, problems may occur soon, like poor quality, wrong materials and capacity, wrong standards with samples. It is very hard to turn back since their production lines or other abilities are removed or using for another task after companies transfer from internal to external sources, and global sourcing can be the decision which damages or even leads to insolvency of the company. (Senft, 2014)

2.1.2. Global sourcing concept

Globalization of sourcing, or sourcing goods globally is not a new phenomenon. Many companies, especially from developed countries have been used for foreign lower-cost sources for years. However, there is one noticeable trend, in which companies increase their variation of sources in product destinations, types of items and sourcing quantity (Byrne, 2004). In this situation, these business terms "globalization", "global marketing", "global products" and other related terms have become buzzwords in economics fields and received growing interests from researchers (Holweg et al., 2011).

However, at the beginning, the term "global sourcing" was mixed in group with "global procurement" and "international sourcing". They are used synonymously in research papers until getting a consensus which provided the first concept of global sourcing. According to Monczka & Trent (1991), global sourcing is considered as the final stage of purchasing strategy evolution, when companies seek for foreign sources in their supply network. More recently, global sourcing can be seen as the sourcing agreements outside of the domestic market, no matter where products are assembled or being sold (Holweg et al., 2011).

In this thesis, the most common definition of global sourcing is used, following works of Trent & Monczka (2003) and supported by Hultman et al., (2012); Schneider et al., (2013): "integration and coordination of items and materials, designs, processes, and technologies across worldwide locations of firms and their networks". According to Trent & Monczka (2003), the concept distinguished global sourcing from international sourcing for these reasons:

differences in firm size and competitors, perspectives in strategy implementation, opportunities and threats as well as how they face and solve international problems. This concept focuses more on phases and transactions of commercial purchasing between the firm and external supplier from another country.

2.1.3. Global sourcing: Benefits and challenges

Rationale of global sourcing

There are various factors that lead to global sourcing decision, with cost reduction as the primary reason. However, companies also search for other benefits via new business relationships (Holweg et al., 2011). There are many ways to classify these reasons. In this literature, benefits of global sourcing are introduced following two grouping methods supported by Cho & Kang (2000), Trautmann, et al., (2009). According to Monczka & Trent (1991), Cho & Kang (2000), major benefits which companies look for when they use global sourcing are cost reduction, quality and availability.

Cost reduction. Firms always want to purchase quality products at a low cost, so searching for the cheapest possible sources is the primary outcome managers expect when changing from local to global sourcing (Trent & Monczka, 2003b). However, researchers also conclude that managers focus more on unit price than total cost or ownership, so managers may decide to go to global with only lower purchasing price motives (Trent & Monczka, 2003b). For mass production, providing the same materials or same quality products at lower prices is critical. It becomes more important in mature markets where differences of available products are little, a big competitive advantage can be created by cost reduction (Cho & Kang, 2000).

There is also a consensus of researchers in global sourcing phenomenon that companies try to achieve cost advantages by using low-wage sources (Trent & Monczka, 2003b). Global sourcing is encouraged by exploitation of phenomenon that reallocating activities in supply chain to lower price destinations (Vos et al., 2016). However, according to Trent & Monczka (2003b), choosing sources by finding lowest price is more likely to aim at short-term benefits than long term strategy. In other words, this is rather tactical than coordinated decisions.

Quality. In the global business today, where everything changes so quickly product quality becomes very important for company's survival. More and more customers are willing to get good quality products even with higher prices. Reaching higher quality level via global sourcing could be a competitive strategy, allowing company to build a leading brand and increase customer loyalty. When setting priority for quality improvement, normally low-cost countries do not have advantages, companies always choose other options, such as Germany, Italy or England. (Cho & Kang, 2000). Quality advantage achievements is not only quality improvement. For some products, high quality is compulsory, for others, quality can be just "enough" (Gail, 2008). The term "quality" can be varied by type of products, region and country (Gail, 2008). So, it is important to define strategies to follow, target customers and others environment elements (Gail, 2008). In addition, cost and quality objectives can be attained by improving efficient and effective of technology (Cho & Kang, 2000).

Availability. According to Cho & Kang (2000), the biggest reason to change from local to global sourcing in many industries is unavailability of needed materials and products in domestic market. Sometimes, the need is not only about products but also includes other resources, like expertise and technology (Gail, 2008). Global sourcing can be the solution for material shortage problems, all caused by natural crisis or politics and technological elements (Gail, 2008). In fact, lack of local sources can be caused by global sourcing. Since orders move to foreign organizations, existing local sources must look for new customers to fulfill current production demand (Cho & Kang, 2000). Some companies succeed, others disappear. In addition, globalization offer opportunities for overseas suppliers to join domestic market, it creates competition pressures and, in some cases, destroy local suppliers (Cho & Kang, 2000). When companies want to back sourcing, they may not use the strategy because their previous suppliers might disappear, or these suppliers do not want to work with them anymore. In other words, this phenomenon reduces availability of local sources (Cho & Kang, 2000).

Beside cost reduction, quality and availability, there are many benefits that lead to global sourcing decision including improvement of company image and achievement of better delivery terms, lead-time, international competitiveness, etc. (Cho & Kang, 2000). These benefits can be grouped to motivations to achieve economies of scale, process and information and learning.

Economies of scale: advantage of getting lower cost by spreading the fixed cost over big quantity of products (Hollensen, 2010). In global sourcing context, economies of scale potentials come from increasing degree of volume aggregation and geographic scope. To commence with, economies of scope can be gained through adding common requirements of products and reducing number of suppliers. These requirements can be used to not only improve negotiating position of the company but also reduce risks in production and design, reduce fixed cost per product to achieve efficiency. Moreover, by combining deliveries from “relevant supply markets”, global suppliers can reduce delivery cost and increase capacity to trigger the exploitation of economies of scale. (Trautmann et al., 2009)

Economies of process: in global environment, economies of process can be understood as global standardization of work processes based on best practices (Faes et al., 2000). Benefits come from reduction of transaction volume and process complexity. The indicators reflect number of transactions and steps in global purchasing processes. In global sourcing, when numbers of supplier are reduced, companies have tendency to build strategic relationship with smaller number of suppliers. In this procedure, steps in procurement process, including special investigation and addition testing are reduced; common work processes can be created across suppliers in different areas. In other words, global procurement processes are simplified and optimized. (Trautmann et al., 2009)

Economies of information and learning: this synergy comes from the subject to leverage knowledge and information in supply chain system (Trautmann et al., 2009). Information includes purchasing knowledge, market intelligent, new technology, applications, and prevention of leaking of information regarding users, strategies and affiliates (Faes et al., 2000). The advantage of global corporation in this situation is sharing information between headquarter and sites about risks, uncertainty and other information which used in decision making process, especially when purchasing complexity is high (Trautmann et al., 2009). Thus, global sourcing gives firms more options, they can decide by themselves when purchasing complexity is low or collect information from other sites before making decision when they have too much information and knowledge to process (Trautmann et al., 2009).

Global sourcing risks

Although global sourcing becomes popular and has been receiving increasing interest from scientists, a lot of its risks still need to be solved (Handfield, 1994). These problems include logistics delays, trade regulations, quality insurances, etc. (Handfield, 1994). Christopher et al., (2011) argue that global sourcing risks could be classified into four main groups following supply chain risk: supply risks, environmental and sustainability risks, demand risks, process and control risks:

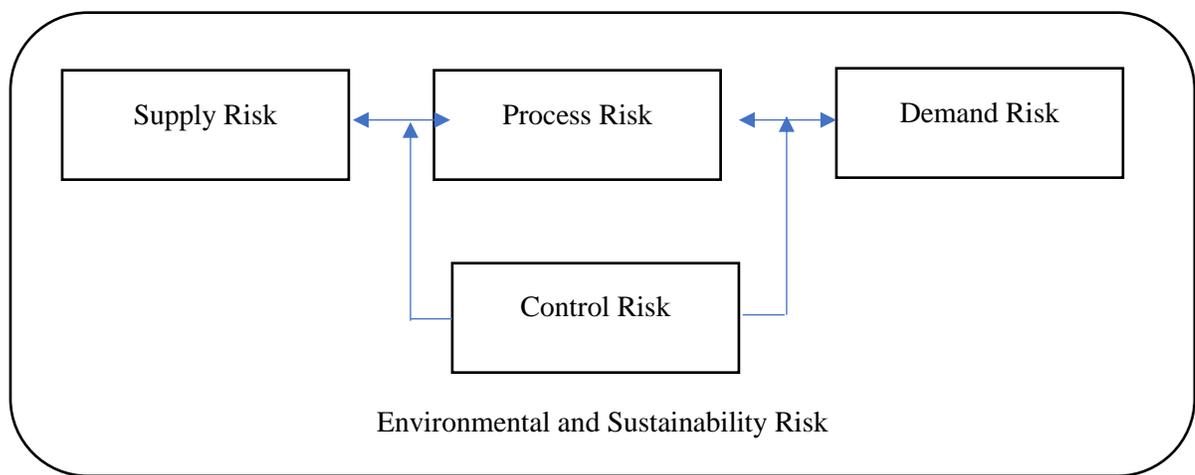


Figure 3: Sources of Risks in Supply chain (Christopher and Peck (2004))

Supply risk means disturbances of material or information flow within supply network on upstream of the firm (Christopher & Peck, 2004). Local procurement is not a simple matter, but global sourcing is more complicated and difficult (Cho & Kang, 2001). Global logistics covers larger scope with higher requirements of lead time, safety stock and management of longer distant (Cho & Kang, 2000). Global transportation can be different from the local system and network. Thus, delays can occur, supply efficiency is reduced. According to Cho & Kang (2000), managing international supply network is considered the biggest challenge of global sourcing process.

Process and control are business terms of activities, rules and assumptions to manage assets and create value through supply chain. *Process and control risks* describe disruptions or misapplications of rules in working procedures (Christopher & Peck, 2004). Using global

sourcing lengthens required time for working steps, including ordering, co-designing, manufacturing, quality controlling and shipping. Thus, global sourcing weakens adjacency in supply chain since not value-adding time occurs (Wilding & Braithwaite, 2007). Although these problems first affect the company, their consequences also have impact on other elements of upstream and downstream supply chain, or in other words, the “bullwhip effect” is triggered (Christopher et al., 2011). Also, due to moving of productions to new destination and execution of long distance relationships, responsiveness of parties can be reduced (Wilding & Braithwaite, 2007).

Demand risk is not only uncertainty in purchase quantities of end users but also disturbances to information and product flow in downstream part of supply chain, between the firm and their market (Christopher & Peck, 2004). These risks can be disruptions from new coming products, demand variations of seasonality and other factors. Demand risk can also come from consumer market and draw visible effects to global sourcing activities (Christopher et al., 2011).

Environmental and sustainability risk: Christopher & Peck (2004) provides concept of environmental risk as uncertainties having impact on all elements in global supply chain, all the focal firms, suppliers and customers in value network. These events can come from socio-political, technological or economic events (Christopher & Peck, 2004). They are sometimes predictable, however, some of them are not, so their impacts are still assessed (Christopher & Peck, 2004). To adapt company’s strategy following sustainable perspective, Christopher et al., (2011) developed the concept “environmental and sustainability risk”, in which risks may impact on the sustainable procurement of the company. These risks can be production and delivery under non-optimized situations, waste generation and other environment issues, such as greenhouse gases and CO₂ (Christopher et al., 2011).

2.1.4. Global sourcing choices: The dynamics of Offshoring and Outsourcing

In the previous part of this chapter, it is showed that every company must face a critical question in modern global economy: “What is the optimal organization and configuration for company in globalization situation?” Many of them choose global sourcing as their core activities. Sourcing strategy involves company decisions on the use of suppliers and their products and services to serve a market (Kotabe & Murray, 2004). In other words, the strategy concerns the

scenario in which business activities are operated in the local areas (onshore) or oversea (offshore) and by the company (in-house) or their parties (outsour) (Dedrick et al., 2011). Outsourcing and offshoring have close connection to answer a mutual question, what is optimal level of control and management on firm’s business activities (Mudambi & Venzin, 2010).

Contractor et al., (2011), Metters (2008), Dedrick et al., (2011) provided a common perspective on sourcing strategy: outsourcing, and offshoring are better viewed in a spectrum than category. The spectrum of sourcing decision could be studied from contractual and location point of view. From contractual aspect, sourcing activities of components and products are operated via relationships with (1) headquarter or their subsidiaries “intrafirm sourcing” (2) independent suppliers “outsour sourcing”. On location aspect, multinational firms can collect necessary resources and service domestically or from abroad “offshore sourcing” (Kotabe & Murray, 2004). The links among sourcing types are described in the paragraph below, in which the term “offshoring” refers to combination of cells (C), (D1), (D2) and “outsourcing” is value added by contractual relationships in (B2) and (D2) (Contractor et al., 2011)

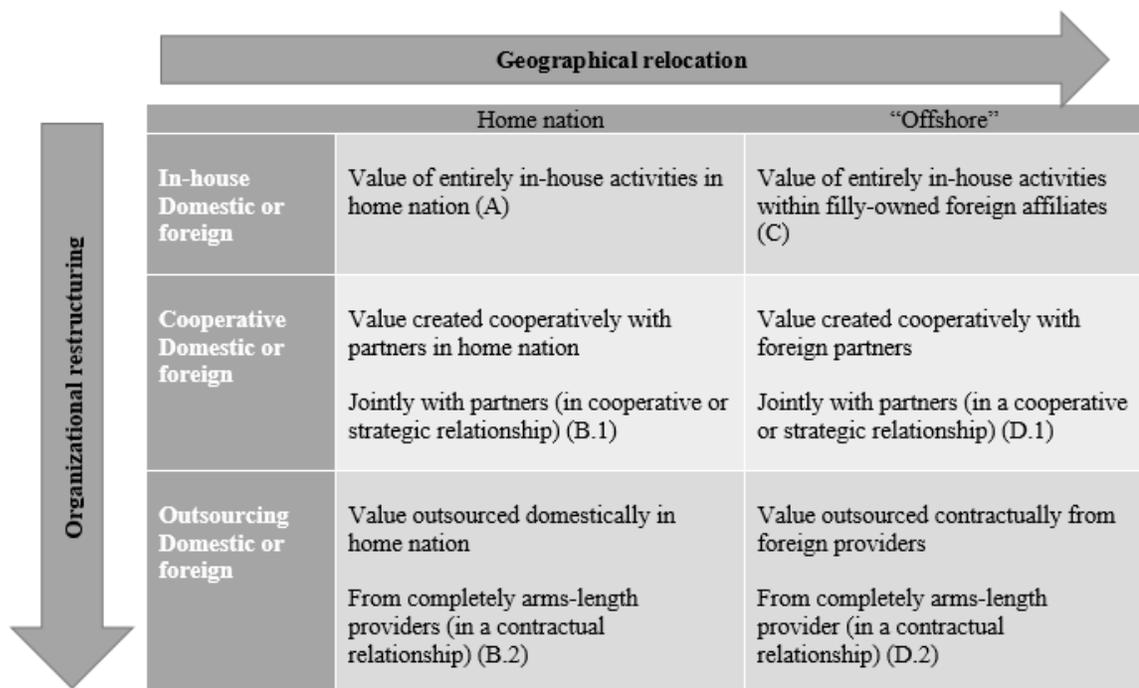


Figure 4: Global sourcing choices (Contractor et al., (2011))

The most simple and traditional way is companies add value “in-house” and in “home nation”. After that, the firm choose to move their business activities internally, both home land and subsidiaries in other countries where company can have “core competence”, usually from cost reduction (Contractor et al., 2011). In other way, companies expand their business arm-length from inhouse to outsourcing, in which they give non-core competence activities to external providers. The cooperative relationship is “half-way strategy”, between using completely in-house and contract-based suppliers. These methods have the same objective with to transfer functions which cannot achieve best performance in-house or at home to their subsidiaries and external vendors globally. (Contractor et al., 2011)

When using the strategy, companies have to not only evaluate results from analyzing complex data of business intelligence, includes costs, available infrastructure, support industrials, culture but also consider their objectives of efficiency, flexibility, performance and risks. According to Metters (2008), level of company’s outsourcing and offshoring decision corresponds to their assumed risks levels. Moreover, for major components, location decisions have less impact on company performance than how to operate global sourcing strategy. So, when examining choices, it is necessary to define clearly sourcing on “intrafirm” or “outsourcing” because it will have long term impact on sustainable success (Kotabe & Murray, 2004).

2.2. Offshoring

2.2.1. On the concepts of offshoring

In the previous part, offshoring is showed as the consequence of globalization, in which companies consider relocation of business activities to regions where their investments can get higher return (Jahns et al., 2006). Thus, it received more and more interests in the field of global supply chain strategy. However, the first concept of offshoring was first introduced in 1990 and is still being debated (Radlo, 2016). So, it is necessary to discuss about different perspectives before going to a definition of “offshoring”.

The first inaccurate understanding is that in global purchasing areas, “offshoring” and “offshore outsourcing” concepts are using interchangeably (Jahns et al., 2006). Offshoring can be understood as the relocation of business activities from home to foreign country (Pedersen et al., 2013). Outsourcing is combination of “outside”, “using” “resource”, a make-buy decision

in which managers decide to change sources of item from internal to external (from making to buying materials and products) (Jahns et al., 2006). These sources can be affiliated firms or external organizations. However, the concept of offshoring should not be limited to use external sources (Jahns et al., 2006).

Secondly, regarding scope and details of offshoring, some scientists still illustrate the concept as a phenomenon of outsourcing, reflect on geography scope. Bruce & Martz (2007) describe offshoring as a special version of outsourcing, when firms use this strategy in foreign countries or areas. It is also viewed as outsourcing activities with an oversea partner (Tadelis, 2007). However, the offshore agreement can be with both firm's unaffiliated and affiliated organization as well as be external and captive (Plankenhorn, 2008). So, the concept of offshoring need to recapture to cover all its phenomenon.

Thirdly, it is necessary to differentiate the geographic dimension of offshoring. Offshoring is transferring activities to lower-cost location (Pfannenstein, 2004) is one of inaccurate understanding. In fact, offshoring occurs also among developing countries (Helpman, 2011). Sometimes, using offshoring strategy for high-skill-intensive tasks does not raise cost effectiveness (Helpman, 2011). Also, researchers provide many definitions of geographic dimensions of offshoring: outside of "country's boundaries", "first world", "continent", etc. (Jahns et al., 2006). These definitions lead to heterogeneity in understanding and unpredicted issues when firms apply this sourcing strategy.

The concept of offshoring comes from the meaning of the adverb "offshore" (outside, far from the country) created by combination of "off" (far from the side) and shore (the coast) (Helpman, 2011). This concept was first described as the oversea relocation of production (Helpman, 2011). Offshoring can be defined as shifting business activities that were operated within national borders to affiliated or unaffiliated firms (Plankenhorn, 2008). It covers these situations:

- Transfer abroad a part of production and service within an international corporation (offshore inhouse sourcing. The company will transfer activities to their foreign affiliates. These subsidiaries can be existing or created when the firm make offshoring decisions. (OECD, 2007)

- Activities transferred abroad between company and a non-affiliated organization (offshore outsourcing) under subcontracting phenomenon. These non-affiliates can be controlled by residents of host country, by a third party or by outsourcing subsidiary of another group. (OECD, 2007)

2.2.2. Theoretical aspects of offshoring decision:

Offshoring offers new opportunities for companies in globalization environment (Roza et al., 2011). It has a strong link to “make-or-buy” decision, in which companies decide which activities they perform inhouse or use external sources (Roza et al., 2011). In this part of thesis, offshoring decision will be explained via efficiency and capability views. On efficiency cluster, offshoring strategy is leaded by efficiency and transaction cost economics theory (TCE). On the other aspect, resource-based view is used to analysis the decision.

Efficiency perspectives:

Companies can improve efficiency on operational, managerial and financial synergy classes via offshoring (Roza et al., 2011). At the beginning of offshoring relationship, if the firm uses existing infrastructure, both firm and their suppliers can optimize their own capacity, which leads to operational efficiency (Achleitner, 2001). On managerial aspect, by establishing partnership in offshoring, capital and other resources can be avoided from privileged scarcity appreciation in the market, which cannot be accessed with a single operation (Achleitner, 2001). The expansion of collaboration and partnership via offshoring also have measurable value of a certain project. (Achleitner, 2001).

Also, advantages of offshoring can be analyzed on faster and more efficiency firm’s cash flow, including risk, cost, capital and capacity issues. The most noticeable benefit of offshoring which companies always look for is cost reduction. On financial aspect, moving out business activities helps company access opportunity for lower cost of capital, factor and labor. In addition, transferring assets to partners or selling unnecessary infrastructure, tools, machine or other equipment via offshoring creates more available capital as well as reduces fixed cost and risk. Moreover, economies of scale and scope can be reached via using available resources of parties in offshoring contract, which is rarely achieved by any single firm. (Plankenhorn, 2008)

In transaction cost economics (TCE) theory, transaction cost includes cost related to search, negotiating, planning, monitoring and enforcement (Blomqvist et al., 2002). Thanks to offshoring, foreign suppliers can be managed in an intermediate market, thus reducing transaction cost (Roza et al., 2011). Firm can move business function to areas where operation cost is lower. In addition, offshore locations may offer a larger choice of vendors, which will lessen searching and negotiation cost (Mykhaylenko et al., 2015). Also, creating offshoring relationship reduces management and enforcement cost. Having a partner with mutual trust and objectives allows firms to reduce efforts in searching, approaching and negotiating new contracts. Also, parties may skip irrelevant activities, conflicting opportunities and strategies to support offshoring agreement for a long-term relationship (Plankenhorn, 2008).

Resources and capacity views

Resource-based view (RBV) theory studies the internal resources which form company's core activities and competitive advantages (Plankenhorn, 2008). These resources are considered important when they are rare, valuable, non-substitutable and imperfectly imitable, for example skilled labor, talents, capabilities or innovation in offshored location (Mykhaylenko et al., 2015). RBV theory explains motives of offshoring based on firm's willingness to have inter-organizational agreements. If company cannot prepare enough necessary resources internally or from easily-obtained way in the market, they will look for collaboration relationship. Unlike merger or acquisition, offshore offers more affordable opportunities to access availability of resources and incur more strategic options in the future (Plankenhorn, 2008). This solution offers higher advantages when targeted resources are unique and cannot be substituted when traded out (Plankenhorn, 2008). Also, offshoring is an effective strategy to optimize firm's performance from internal capabilities and resources (Roza et al., 2011).

Organizational learning theory suggests that firms gain competitive advantages by using internal knowledge. The theory changes firm's focus from transactions to the requirement of learning, innovation and optimization of capability utilization (Vivek et al., 2009). Therefore, each company has three options to success: develop knowledge internally, buy them or engage in strategic partnerships with other organizations (Plankenhorn, 2008). Like the implications from RBV view, firms choose to fill the gaps and inabilities by using offshoring relationship through

knowledge potential. The networking among companies has high effectiveness in passing information on processing complexity, market intelligence, product developments and other economic factors (Mohiuddin, 2011) Offshoring strategy plays a role in allowing access relevant information and create exchange knowledge environment among parties (Plankenhorn, 2008).

In other perspective, some researchers argue that firms can develop competitive advantages via their own supply chain network, in which members work together to achieve the best performance, thus each of them can maximize their own value added (Mohiuddin, 2011). This approach can be considered as relationship-based view, including relationships, network and interactions between two or more parties (Vivek et al., 2009). This theoretical evolution supports the trend that firms are changing offshoring priority objective from cost saving to value creation to get into a long term strategic relationship (Mohiuddin, 2011). These relationships are built from trust and commitment on the mutual view on costs, benefits, communication, shared values and opportunistic behaviors (Vivek et al., 2009).

It is clearly seen that there are connections among these theories regarding reasons for companies to choose offshoring strategy. The dynamics of these theories create broadened view on how to develop competitive advantages through internal and external resources. In addition, learning, innovation, efficiency, flexibility and collaboration are important goals leading to this decision. Also, firm's motivation can move from cost saving to value adding and opportunism hedging to integrated efficiency by trust and commitments. However, these views just describe implicit motives of offshoring, and these motives still need to be transferred to specific target to be easily measured and monitored. On the next part, specific objectives will be discussed.

2.2.3. Offshoring motives

On the previous part, some theories were illustrated to explain implicit motives, or in other words, theoretical foundations which companies can look for to build their own objectives and goals as well as consider offshoring decision. Also, some scientists did empirical researches about common company's objectives. Some objective clusters, include reducing costs are mentioned. Firms can develop their strategy based on both implicit and explicit motives.

Cost saving: in the perspective of transaction cost economics theory (TCE), cost saving is most frequently the objective firms want to achieve by offshoring. In case of USA and German

companies, more than a half of labor cost can be saved via the strategy (Farrell, 2005). More than 70 percentage of companies consider offshoring as their prime objective (Plankenhorn, 2008). Articles supported by Plankenhorn (2008), Roza et al., (2011) also show that economic advantage is not achieved only by using cheaper labor force, it can be reached from reducing in communication related costs, setup costs, or from differences in tax, supplier's potential margin and economies of scope.

However, in terms of cost advantages, there are two questions should be raised which activities should be sent to offshore location and how to balance cost saving and benefits from offshoring decision. According to Plankenhorn (2008), one possible example could be the education gap: the differences between "university-educated, young, skilled" employees, when firms cannot offshore because their target location can provide cheap but low quality of employees. Moreover, using offshoring strategy requires extra business steps/activities, so it can increase transaction costs, which will offset the saving (Roza et al., 2011).

Advantages on focus on core: this objective comes from the idea that some firm's activities, including customer services, data handing, information management, etc. can be operated in the same processes. In other words, they are general activities, which can be decoupled and processed outside by professional agents (Kedia & Mukherjee, 2009). Company's vertical integration is reduced, the organization has more space and resources to focus on small set of core activities (Plankenhorn, 2008). Well-developed core activities can lead to core competencies and competitive advantages and help companies keep and increase their market share (Kedia & Mukherjee, 2009). As a result, companies have right to optimize their efficiency by focusing on small group of activities and letting other firms do the rest (Plankenhorn, 2008).

Flexibility is also one of the common benefits from offshoring. Flexibility is the ability to transform company's activities and perform new things (Kedia & Mukherjee, 2009). Benefits from reducing assets, threats of demand fluctuations, skill requirements are the main factors encouraging company's offshoring strategy (Plankenhorn, 2008). From financial view, offshoring allows company to remove non-core activities and fixed assets. The more specific assets a company has, the more difficult it is to make a new investment or to face a peak demand. Skill requirement are also an element of offshoring motives. To approach the needed skills to

make companies' processes more flexible, a company can choose offshoring as a solution. However, offshoring has negative attractiveness when the firm sets priority on keeping the company's dependency and core competencies. Also, offshoring brings advantage when company can move their activities out of strictly regulated countries and static labor market, where they cannot adjust their employees easily (Plankenhorn, 2008).

Location-related advantages: country-specific attractiveness is one of the most highlighted motives of offshoring. These advantages can come from country's environment elements, such as policies, infrastructures, etc. India, Malaysia and the Philippines can offer university graduated employees to work in call centers at a low salary, this would not be possible in developed countries. Thanks to difference in time zones, works can be processed continuously at night. For example, a doctor can take X-ray plates, send them to other countries to analyze and when he goes to the office next morning, the results are ready. Most countries have their own trade and tariff barriers to protect their economy, and offshoring is an effective solution to break the wall. (Kedia & Mukherjee, 2009).

Besides these advantages, other literatures discuss other motives, like improved quality, service or knowledge learning. Motives and their relations are showed in the matrix below. It also so that some benefits and motives of offshoring can occur in home country location, which leads to the usage of local offshore strategy, when a company moves their activity out, but not out of country bounders.

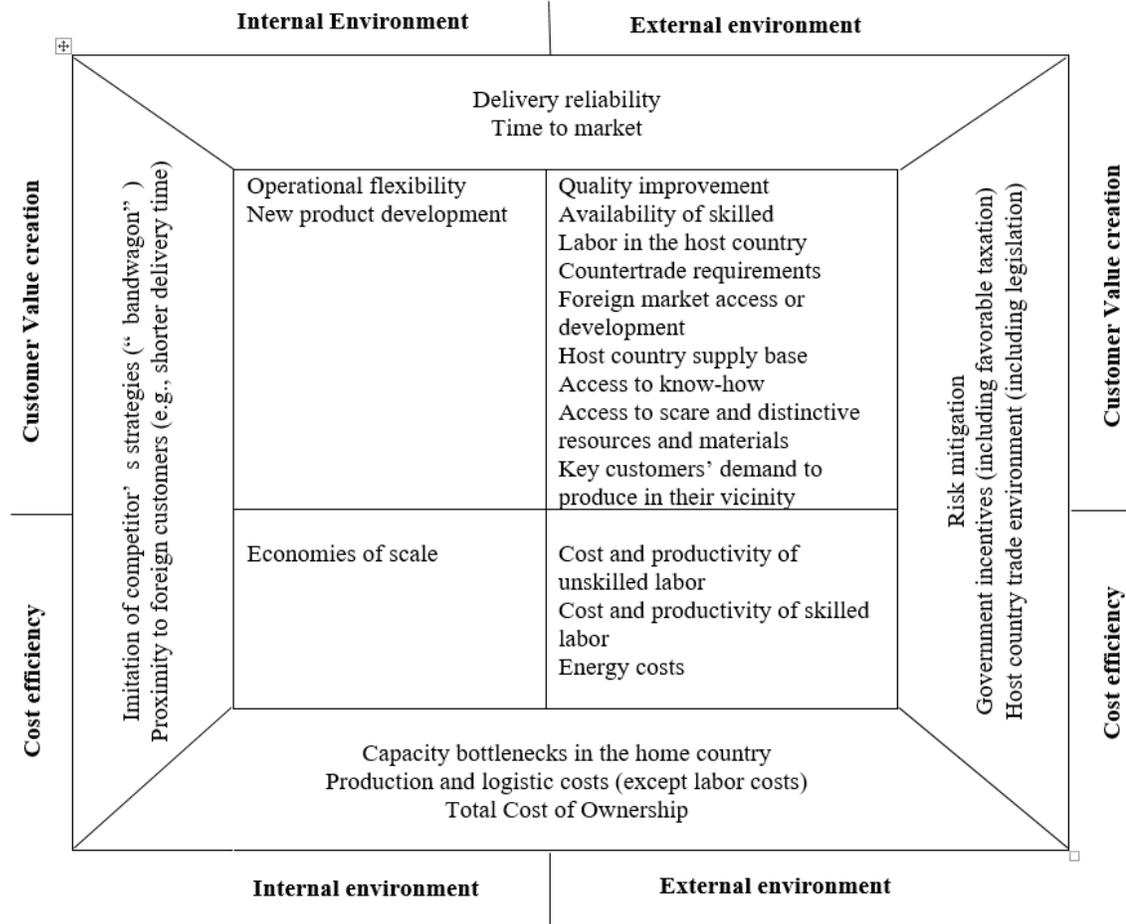


Figure 5: Offshoring motives (Plankenhorn (2008))

2.2.4. Risks

Offshoring drives companies to a new complexity level of benefits and risk management due to transferring from local to global operations and moving business activities from internal to external. Some articles presented that offshoring risks occur when companies use a third party to operate their business, which is close to standard outsourcing risks (FDIC, 2004). So, it is clearly seen that the dimensions of offshoring risks need to be improved following the expansion of offshoring concept. (Kumar et al., 2009). (FDIC, 2004) introduced an effective way to classify offshoring risks based on company's critical areas of competency, including delivery performance and relationship field. In this method, delivery performance is separated to groups

of strategic, operational and credit risks. Factors influencing firm's brand are grouped into country, compliance and reputation related causes.

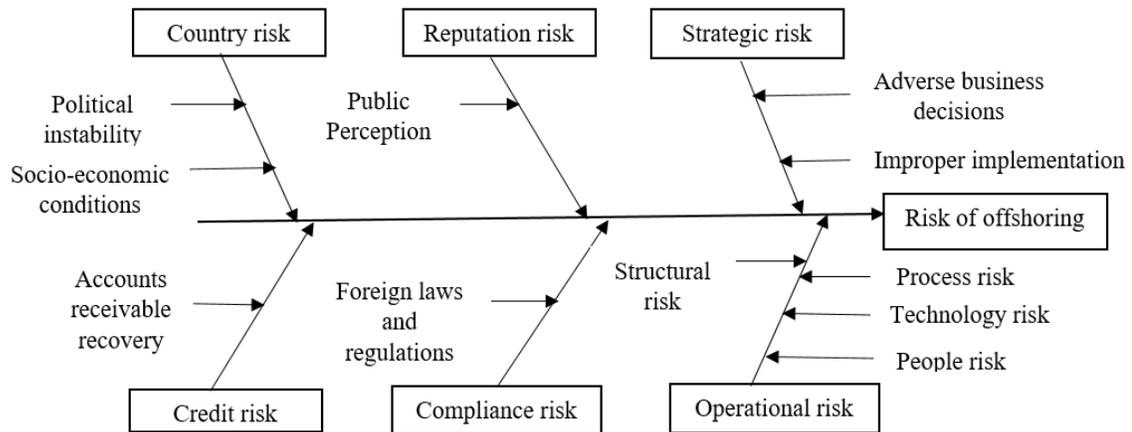


Figure 6: Offshoring risks (Kumar, et al., (2009))

The first posed group is *strategic risk*, which is considered as the most significant threat, because it affects both short and long-term planning of the firm. Strategic risks are related to the leak of intellectual property (IP), trade secrets or special process techniques (Massini et al., 2010). When a company offshores a business activity, sharing of business information is always a part of the agreement. Sometimes, it is necessary to share information on unique techniques, innovative processes or new product development plans (Kumar et al., 2009). Success offshore agreement includes the prevention of the risk that a party uses this information for their own products and sell to other customers, leaks the information or sells information to other competitors. Also, sharing and communicating to get mutual visions and long-term goals should be concentrated to reduce mismatch in working, misunderstanding, to improve trust and avoid unexpected activities from all parties (Ellram et al., 2008).

Operational risk has strong connection with uncertainties in quality service, production cost or process operations. Sources of this risk include people, technology and process problems (Kumar et al., 2009). People risk has a strong link with differences in cultures and education level between home country and host countries. Technology risk is connected with business relationships and the transfer of work processes between the company and its vendors (Kumar et al., 2009). Processes problems come from the ineffectiveness and inefficiency of business measurements (Kumar et al., 2009). In addition, operation risk can come from mismatch in firm

structure between parties in offshoring agreement, which lead to unexpected problems in network relationships and processes. The root causes of operational risk are mentioned as lack of planning, strategic preparation or incompleteness of contract specifications (FDIC, 2004). Companies can reduce uncertainties and transaction costs from day-to-day monitoring by carefully preparing visions, strategies and negotiation process to get clear mutual views and requirements (Ellram et al., 2008).

Compliance risk relates to the uncertainties of company's income due to regulations, nonconformance with standards and policies or violations of laws (FDIC, 2004). Various sets of laws are applied for working in different countries (Kumar et al., 2009). When joining an overseas market, conflicts between company's activities and standards of ethics and laws in host areas can easily incur. If the company does not consider thoroughly enough, failures will lead to danger of breaking laws (FDIC, 2004). Studying market volatility risk, classifying and preparing solutions to reduce risk is necessary (Ellram et al., 2008).

Reputation risk effects on capital arises or earning on company's markets (FDIC, 2004). Normally, offshoring is viewed as a negative business phenomenon with home field, since it encourages the transfer of jobs, business activities and organizations from a country to others (Kumar et al., 2009). As a result, it causes loss of jobs and increasing unemployment rates, which might harm economy development and social welfare. company's brand and sales may be hurt by offshoring decisions if customers put a pressure to keep production in the home country (Kumar et al., 2009). Moreover, reputation risk may come if a company's vendor has a reputation problem. in 2010 Apple had to face a serious PR problem when their main offshore factory received complaints on overly-strenuous working conditions and employment of teenager workers (Bush, 2010).

In fact, when using offshoring activities, many companies underestimate *credit risk* (Kumar et al., 2009). The risk may occur when a party cannot meet their financial responsibility following offshore agreement (FDIC, 2004). Another problem may come from restricts in policies and laws. For example, the risk can come from restrict in recouping receivables. Some countries do not allow reclaiming money from a past-due account (Kumar et al., 2009). So, credit risk is different among countries and becoming more complex for global organizations (Kumar et al.,

2009). So, companies need a good preparation as well as an appropriate financial monitoring with their partners to avoid unexpected events (FDIC, 2004).

Country risk includes problems from socio-economic conditions, political elements and other issues related to a particular country (Kumar et al., 2009). The most mentioned risk is political uncertainty. Some countries cannot attract foreign investor because of civil unrest. In this situation, war is an element which reduces ability and productive environment in the area (Kumar et al., 2009). Moreover, imperfect relationship among countries can also have a negative impact. The conflict can be between home and host country (FDIC, 2004) or host country and their neighbors (Ellram et al., 2008). Firms need to take an eye on the political risk of interruptions of processes and services during operation business due to nation's relationships (Ellram et al., 2008).

2.3. IPO

2.3.1. IPO as a part of global sourcing stages

Global sourcing brings company benefits and survival; however, it requires high integration and proactive coordination level of worldwide purchasing on common materials, designs, technologies, processes and supplier management (Trent & Monczka, 2003b). The IPO concept received many interests in explaining how company can gain advantages by analyzing their expanding business process, mostly by using two common dimensions: development from transactional to strategic sourcing and spreading their business activities to access global market (Jia et al., 2014b). In both views, establishment of IPOs is defined as a necessary step that companies need to consider from international to global (Jia et al., 2014).

The strategic view describes establishment of IPOs as an important requirement when purchasing activities become more complex (Giunipero & Monczka, 1997). When spending for purchasing increases, the company realizes the need to minimize transaction and production cost, or in other words, improve their activity efficiencies (Giunipero & Monczka, 1997). Establishing an IPO is viewed as a commitment to global sourcing strategy, by playing the role of allocating buyers, managing or support purchasing activities (Trent & Monczka, 2003). Also, the office can take responsibility for deciding the type of business relationship among headquarter, subsidiaries and suppliers (Giunipero & Monczka, 1997).

On the second aspect, researchers take view on a firm's expanding procurement horizons, with several levels of purchasing and global sourcing (Rajagopal & Bernard, 1993). This perspective comes with a view from "traditional" purchasing activities to a creative and proactive methods to operate global sourcing (Rajagopal & Bernard, 1994). These researchers also indicate that each steps or movement of company on global sourcing management is decided on a set of objectives, constraints and commitments with their vendors (Rajagopal & Bernard, 1993). The globalization of company may be considered as a process from when a firm only uses local market to has complex sourcing network from different countries. In this thesis, I would like to introduce a model supported by Rajagopal & Bernard (1993), Trent & Monczka (2003b), which studies globalization process of company from their activities and peaks because it is easier to help companies realize the level or their business activities and provide a basic view about effectiveness of their strategies and what happens next on their future development.

Level 1, *domestic sourcing*, is the stage when firms use only local sources, because they perceive global sources unnecessary, do not see priorities or do not have experience (Trent & Monczka, 2002). Domestic suppliers can fulfill all company's requirements (Trent & Monczka, 2002). At this level, purchasing's role in the company is still limited to price and delivery management, it is seen as a service function for the rest of the company (Rajagopal & Bernard, 1993).

In the next level, companies purchase from their suppliers or market's available distributors, or in other name, *indirect importing* method (Trent & Monczka, 2002). suppliers are in charge of managing international transaction (Trent & Monczka, 2002) or the company can use simple offshore purchasing (Rajagopal & Bernard, 1993). Rajagopal & Bernard (1993) also notice another phenomenon at this level, when company use foreign agents or distributors to get materials and products, or direct importing. This method will increase the risk in quality and delivery of products. In addition, when company must depend on a small number of suppliers, the decision has limited flexibility and effectiveness on company's performance, too (Rajagopal & Bernard, 1993).

Third level of globalization participation is when companies realize benefits of global sourcing, mostly on potential performance improvement they can achieve (Trent & Monczka, 2002). Company can *purchase goods and products through their overseas subsidiaries or other*

organization units to increase the amount of received information and effectiveness of procurement activities (Rajagopal & Bernard, 1993). Besides having key functions like source identification and shipment support, the subsidiaries can provide additional services like market intelligence collection and trade barrier reductions. (Rajagopal & Bernard, 1993). At this level, purchasing activities may be not well coordinated, each subsidiary works independently, mainly on cost reduction purpose (Trent & Monczka, 2002).

If basic offers from supporting units and subsidiaries are not enough for company's plans and visions, they will move to the next level of strategy. *Integration and coordination* appear among business units across the world (Trent & Monczka, 2002). IPOs can take the role of buying parts, components and supporting other tasks within production and product development (Rajagopal & Bernard, 1993). This level requires a worldwide standard of information system, personal skill and knowledge, communication channel, structure and management (Trent & Monczka, 2003b). The firm has a complex set of sourcing approaches through its affiances and relationships (Trent & Monczka, 2002).

To adopt with higher requirements on economies of scale and cost efficiencies, the company can still use *IPO*, *joint venture* or make *directly investments* to strengthen competitive advantages (Rajagopal & Bernard, 1993). The primary motive of this decision is to create a cross-organization integration and coordination of common items, technologies, designs and suppliers. These cross-side relationships with subsidiaries and suppliers are assigned to designing, building, sourcing or even production to bring company to a global operation level (Trent & Monczka, 2002).

The model can be considered as a continuum of domestic versus global sourcing orientation, in which in one choice, the organization just focuses on their local market and skips foreign parties. In another option, the firm improve their process by establishing new organizations, integrations and coordination. However, greater effectiveness comes together with higher risks and requirements. A good control is necessary for this development, and the company should not skip any stage in this process.

2.3.2. IPO definition

Global sourcing grows to be a critical strategy in current economy (Goh & Lau, 1998). Together with benefits, the strategy has their own risks in terms of strategy, operation and reputation. Setting up an IPO offers a safe, friendly with political elements option in working areas, minimal cultural and ethical issue, stable trade conditions (Goh & Lau, 1998). Moreover, IPO becomes a critical success factor for global sourcing activities, when it plays an important role in supply chain management of more than 85% of surveyed global companies which use the strategy in the late 2000s (Sartor et al., 2014).

Although having received many research interests, IPO concept is still mixed in a bunch of keywords, like “International Purchasing Offices”, “International Sourcing Offices”, “International Organizations”, “International Procurement Organizations”, “International Procurement Offices”, and other terms used to described IPOs, including “Regional Purchasing Offices”, “Foreign Procurement Offices”, “Sourcing Hubs”, etc. the concept received different labels but is mainly switching between “International Purchasing Office” and “International Procurement Office”. (Sartor et al., 2014)

Following scope of services, IPO has been defined differently in various approaches. Goh & Lau (1998) introduced the first concept of IPO a buying house or offshore buying office to procure raw materials, components, parts, semi-finished items and other industrial inputs created by an OEM. The major goal of an IPO is to procure following demand of OEM and improve purchasing efficiencies through cost reduction (Goh & Lau, 1998). Besides, IPO supports parties in product audits and shipments. IPO can be seen as a shared service hub specialized in sourcing goods and services, managing orders and logistics activities (Mulani, 2002). IPO can be used for monitoring and evaluating business relationship between the firm and suppliers located in an area (Humphreys et al., 1998). IPO can also be a specialized team for sourcing, logistics and order management (Fernie et al., 2009) (Byrne, 2004). Another perspective looks at IPO as a full-service procurement center in charge of a geographic region with advantage in accessing products and technologies, delivery management and communication channel (Monczka et al., 2008).

To summarize, several articles consider IPOs as an offshore office used for managing procurement and other related activities, such as sourcing, logistics and audit. However, these

support activities are not clearly defined while the set is complex, and a wide range of company's activities can be assigned to IPOs (R&D, contract review, business intelligence, etc.). Moreover, another conflict among studies is that, while some articles define IPO as an offshore office (Goh & Lau, 1998), others confirm that IPO can be set up in OEM's country (Jia et al., 2014b). It leads to the requirement to update the concept of IPO in modern economy. That requirement is a major motivation for this paper.

2.3.3. Roles and activities performed by IPOs

Roles and activities which can be taken by IPOs makes the solution has competitive advantages for proactive strategy decision. The ability is reason why establishing IPOs stand out of available purchasing strategies when top managers decide to expand or switching boundaries among global plants and other supply bases (Jia et al., 2014b). To provide a basic view, I develop a list of possible roles and activities collected from existing literatures.

Supplier management

Supplier management is considered the most important responsibility of an IPO (Jia et al., 2014b). At the beginning of global production relocation process, companies transfer their production process to low cost regions, where required parts and components were not developed (Goh & Lau, 1998). To overcome this challenge, some companies source all the parts, others choose to develop new local supplier network. The work includes supplier selection, relationship management and supplier development.

The supplier selection of IPO is similar to standard process of other purchasing functions, in both main process and selection criteria (Jia et al., 2014b). The supplier selection process includes potential supplier analysis, request for quotations, audits and decision making (Jia et al., 2014b). Moreover, same set of criteria is used, mainly focusing on cost, flexibility, references from partners and other companies and supplier's location (Jia et al., 2014b). From collected information, IPOs create a characterization list that describes profile and business of available suppliers (Sartor, 2006). A supplier is selected by a joint decision of the IPO and headquarter (Sartor, 2006).

IPOs can stand between suppliers and buyer, monitoring and fostering business relationships. The IPO can allocate and structure the supplier network (Goh & Lau, 1998) (Sartor et al., 2015).

Network structuring plays more than an important role in supply efficiency improvement (Sartor et al., 2015). Another activity of IPOs is supplier monitoring, when IPOs work with suppliers regarding production and logistics process, to avoid disruptions in supply chain and ensure that suppliers can provide products and services on time, with the right quantity and acceptable quality (Sartor et al., 2015). IPOs may create a joint conference in planning, problem solving, trust building and information sharing. It is even more important, when the firm decides to go to market which has unique business culture, like in China, the company need “guanxi” management (Sartor et al., 2015).

Supplier development is another highlighted activity (Sartor et al., 2015). One of the benefits from IPOs is matching vendors’ capacity with demand from various manufacturing locations from all over the world through commitments (Goh & Lau, 1998). With suppliers in developing country, the activity becomes particularly important, since local firms do not have enough ability and capacity to fulfill OEM’s needs (Sartor et al., 2015). These vendors need supports from buyer to not only meet quality and quantity requirements but also reduce production cost (Goh & Lau, 1998). These supports contain technological, information transfer (product standards, processes and market intelligence) and management transfer (quality management, production management, lean, JIT and six sigma standards) (Sartor et al., 2015).

Supply chain operations

Many articles mentioned negotiation role of IPOs, since IPOs can reduce geographic and cultural gaps between suppliers and buyer (Sartor, 2006). IPOs take part in defining agreements, drawing up contracts, negotiating and signing contracts (Sartor, 2006) (Pedersen, 2005). IPOs not only manage negotiation process but also make final decisions (Sartor et al., 2015). The importance of negotiation activities raises significantly, following two reasons. First, globalizations give more cost saving and competition pressure, therefore an effective and careful negotiation can lead to the achievement on purchasing cost target (Sartor, 2006). Second, capacity improvement of suppliers through global sourcing and supply activities to the OEM leads to increasing bargaining power of these vendors (Sartor, 2006). Negotiation gap between the firm and their suppliers is minimized through IPO’s communication channels (Sartor, et al.,

2015). Pedersen (2005) suggests that IPOs can negotiate and develop long term contracts for not only their regional plants but also whole firm's global production network.

Information flow management: The is to ensure that parties understand all communication and improve business intelligence of the firms (Humphreys et al., 1998). Humphreys et al., (1998) noticed that IPOs could stay in the middle of the firm, factories and suppliers. They were not only about relationship management but also about manage information flow process. The reason is from the characteristics of IPOs, when the geographical and cultural distance between IPOs and suppliers is low (Sartor, 2006). In addition, IPOs can be the eyes and ears of the company (Carbone, 2002). The Scope of information collected via IPOs expands from potential and new suppliers to market intelligence (Sartor et al., 2015). Moreover, IPOs can take part in countering intellectual property violations (Sartor et al., 2015). This function of IPOs is more important when the firm wants to open a new business in markets like China, where testing the risk of information leak is a part of new supplier evaluation (Sartor et al., 2015).

Logistics coordination has been considered an important role. Mulani (2002) showed that IPOs can increase responsiveness of local suppliers, improve lead time, and reduce sourcing cycle time. IPOs take part in pre-shipment controls, customs support, logistics assistance on tracking and sometimes work as a warehousing provider (Jia et al., 2014b) (Sartor, 2006). Moreover, thanks to the ability of IPOs to combine orders, many plants can work together to create a big promising order amount with a supplier, then separate the order into shipments to plants in various areas. Small and frequent shipments are necessary to improve efficiency of whole process through JIT concept (Goh & Lau, 1998).

Other activities

Sales support activities: IPOs can play a role in bringing sales stores and supply system together (Jia et al., 2014b). The office coordinates production plan and relationship among parties in supply chain and led policy for global production system (Jia et al., 2014b) (Sartor, 2006). Some other sales relevant activities of IPOs are named by Jia et al., (2014), including promotion for sales, countertrade management and marketing support. Sales support activities appear in the last evolution model of IPOs (Jia et al., 2014b). IPOs improve the connection between company's purchasing and sales activities, especially when IPOs are located in a country where

they have to use countertrade agreements, or the company needs to use sourcing as a tool to improve their commercial presence (Jia et al., 2014).

Internal advisor is also important: Some scientists mentioned culture conflict and other business issues between home country and sourcing destinations (Goh & Lau, 1998) (Kumar et al., 2009) (Gail, 2008). Business intelligence collected via IPOs can increase company's knowledge to overcome these issues (Sartor et al., 2015). However, according to Sartor et al., (2015), IPOs can be an internal advisor for business intelligence and decision making. IPOs can give advices about sourcing strategy, in which the firm and global plants can change sources to domestic preferences or collect information on working processes in IPO's working areas. From that they provide innovative and better practices to apply in main factory or other global plants (Sartor et al., 2015). In some cases, IPOs could become a supply policy maker (Sartor et al., 2015),

IPOs may allow the firm to have financial advantages, in particular governance incentives, such as lower interest rate, customs and duty waives, license fee and other operational fee reductions (Sartor et al., 2014). However, these activities are not clearly described (Sartor et al., 2014). Appearance of IPOs is important when defining contracts, deciding shipping terms and solving legal issues during contract implementation process (Sartor, et al., 2014). In addition, IPOs can be a team builder (Pedersen, 2005) or recruiting and training center. IPOs provide on-site training through visiting suppliers or implying coaching and direct supervision for employees (Jia et al., 2014).

In summary, researches show that the importance of IPOs is increasing for the past few years (Sartor et al., 2015). The activities assigned for IPOs can be classified depending on stages or types of the IPOs (Jia et al., 2014). These levels of IPOs are defined from when company use IPO just for sourcing tasks until it can be considered as a full-function offshore supply department (Jia et al., 2014). Stages of IPOs can be defined according to the number, breadth and depth of activities performed by IPOs. Jia et al., (2014) observe that companies normally follow shown in Figure 7 to develop the activities of IPOs and optimize supply chain, so these stages can be applied for the evolution of firm's global sourcing strategy.

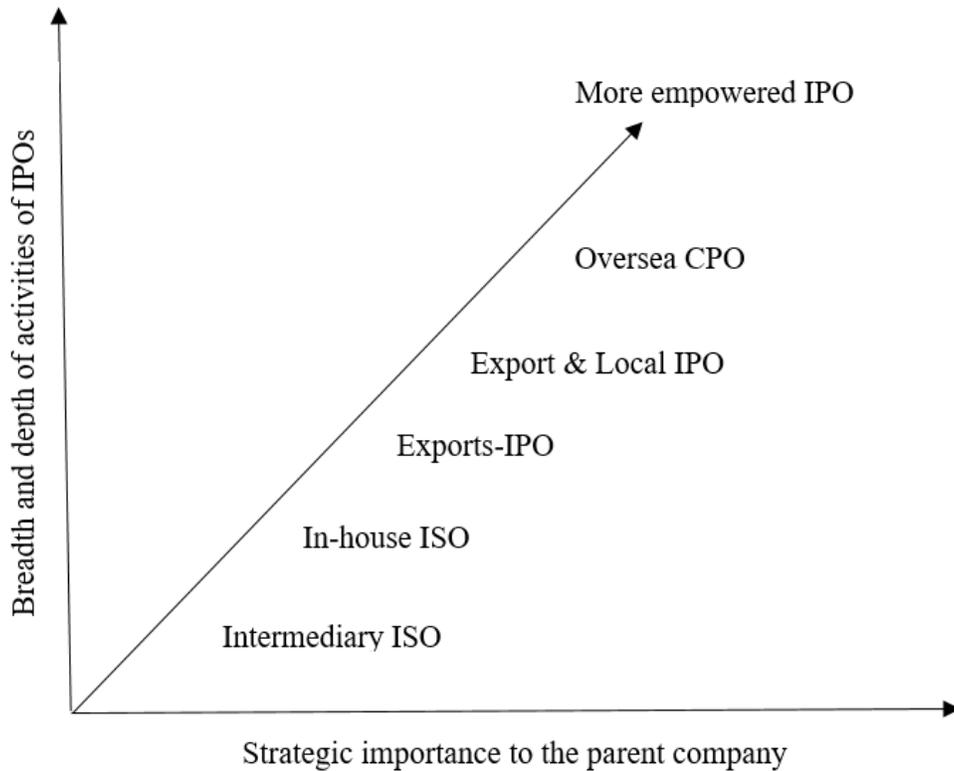


Figure 7: Levels of IPOs (Jia et al., (2014))

2.3.4. Setting up an IPO

Since a few decades, many multinational firms have established IPOs to eliminate the necessity of business broker in strategic sourcing areas (Schuster, 2006). Each IPO has its own specific tasks and objectives, however, to establish an IPO, companies need to go through four main phases, including sending employees to the target market, location choice, team building and work distribution (Sartor et al., 2014).

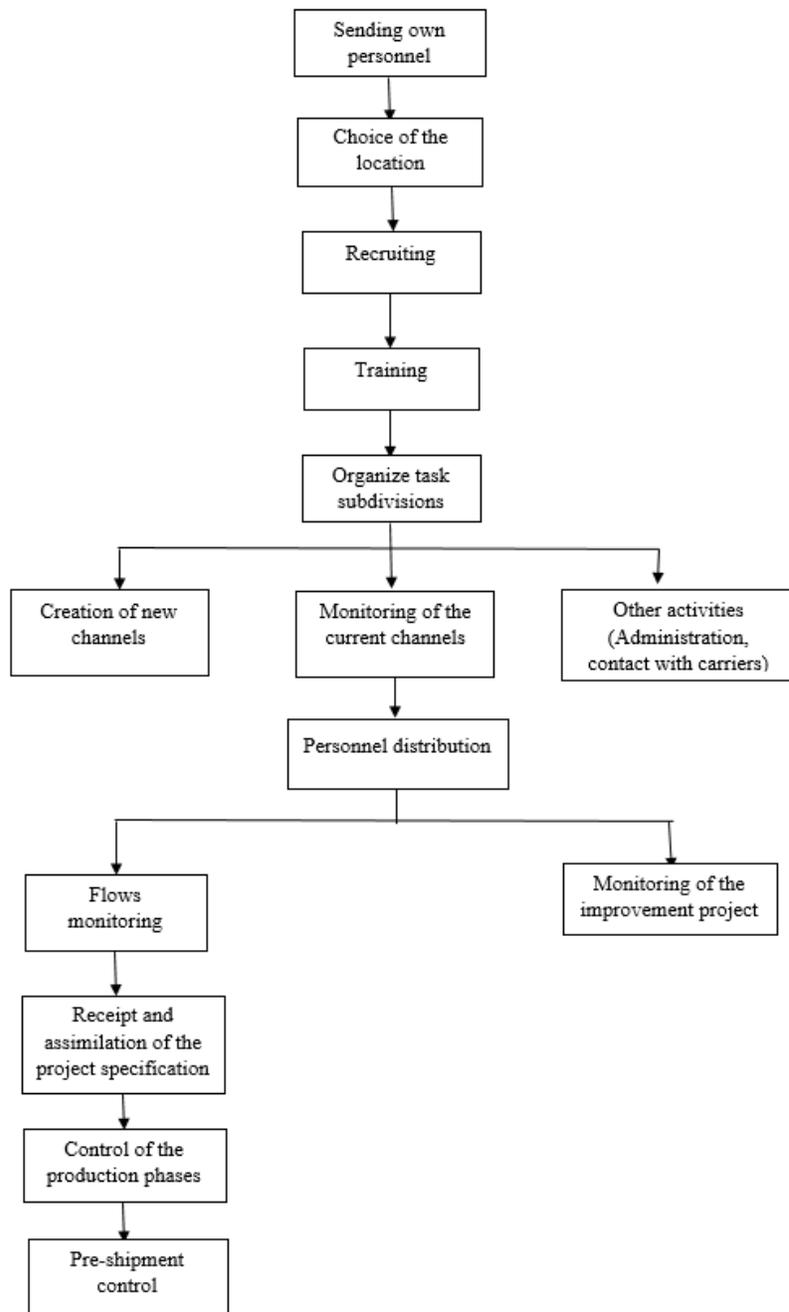


Figure 8: Steps to establish an IPO (Nassimbeni et al., (2014))

To overcome conflicts in business environment and culture, sending *company's personnel to the target market* is necessary (Sartor, 2006) (Sartor et al., 2014). The team collects business information to analyze opportunities and challenges of establishing IPOs in the area. This

activity may follow process of market analysis. The phase is more critical when a company wants to set up an IPO in China, where company presence is considered a success factor for global sourcing strategy (Byrne, 2002). China is a huge country with continuous changes in industrial system and policies. The infrastructure, procedures and economic elements are different from other parts of the world (Sartor, 2006). Although sending employees to do the market research is difficult and costly, it has not received much attention and the process of the phase is still unclear (Sartor et al., 2014).

Location choice for IPO creation depends on the environment of target market (Goh & Lau, 1998). According to Sartor et al., (2014), main factors to consider may be similar to elements for location decision for other functions, including distance to potential business suppliers and sources, infrastructure and logistics system, opportunities and risks, labor sources and other environmental elements. Among these factors, some companies put higher weight on existing network operations and land rent cost (Schuster, 2006), cheap labor source and technology (Goh & Lau, 1998), local staff quality (Pedersen, 2005). Differences in weight of factors leads to the fact that an effective analytical model for IPO location choice has not been fully developed and the importance of factors has not been clearly defined (Sartor et al., 2014). possible concerns for the company from existing literature are: What are main factors for a good location of IPO and what is different in choosing location for an IPO and other business functions (Sartor et al., 2014)? The answers may different depending on applied country and specific firm.

Developing high quality of staffs in IPOs is the next step (Sartor et al., 2014). According to Pedersen (2005), this is a critical step, thus needs company's focus and careful actions, because the lack of consideration may lead to damages of IPO's operations and productivity. On leadership level, executives and managers are often hired during IPO location selection process (Lanham, 2004). Involving firm's stakeholders in recruitment increases the chance to success, since they also take part in IPO's operations and evaluation. In this stage, based on the area IPOs are in charge, preferred age and nationalities of candidate are different, normally local IPOs take advantages of recruiting people from the country, and US-American, European or Australian managers are more fit for regional offices (Lanham, 2004). On the staff level, local quality engineers and purchasers are target groups. Their advantages include education level, experience, communication and culture knowledge on business operations and network (Sartor,

2006). Recruiting English-speaking employees is mentioned problem due to the necessary of interpretation between head quarter and IPO, however, language education quality in IPO's area is not appropriate (Sartor, 2006). Many companies offer incentives to overcome this problem, such as bonus, accommodation support, training opportunity and other benefits (Lanham, 2004) *Work distribution* is separated into three main activities, developing, monitoring purchasing channels and management tasks (Sartor et al., 2014). Duties are assigned and coordinated between headquarter and the office itself (Sartor, 2006). Specific tasks are illustrated in the previous part of the thesis. However, there is one noticeable point in this section: when employees in headquarter work with people in purchasing hubs, respect is important. Losing face from bad stature or public embarrassment leads to conflicts and damages in working relationships with IPOs (Pedersen, 2005).

2.3.5. Strengths

When going global, companies have many choices, including importing directly, via agent or using IPOs (Kumar et al., 2009). Reasons why IPO strategy stand among the choices has been discussed in literatures and empirical researches. On this part of thesis, I will summarize main reasons why companies choose the strategy, mainly cost, performance, relationship and information sharing.

Normally, IPOs charge their mother company a certain commissions fee for their operating cost. It is hard for IPOs to cover all their cost by commissions, thus normally they require financial supports from their headquarter (Goh & Lau, 1998). However, cost reduction is still widely mentioned (Goh & Lau, 1998) (Sartor et al., 2014) (Mulani, 2002). Cost reduction is reached via bidding activity (Sartor et al., 2014). Another source of the reduction is minimization of purchasing price and hidden costs. Common hidden costs of purchasing process include freight, duties, insurance, inventory, travel and accommodations for parties during negotiation. These costs can be minimized through using IPOs, when IPOs can replace the role of headquarter with advantages of cultural and geographical distances (Goh & Lau, 1998). Goh & Lau (1998) mentioned price reduction by combining small orders from plants over the world to create bulk orders: IPOs enables the firm to choose a vendor with a big order amount and discounts than multiple sources for their global manufacture network. Also, IPOs allow firm to get better

control in a specific area and approach to a bigger network of suppliers, which lead to purchasing price reduction due to competition among vendors (Sartor, 2006).

IPOs offer the best chance to improve firm's performance (Byrne, 2004) through increased responsiveness, flexibility and reduced time for steps in supply chain (Sartor et al., 2015). With the role in the middle of maker-buyer relationship, an IPO can help increase communication speed (Forrest, 2008), specifically get faster answers or prepare reactions for questions from other departments (Carbone, 2002). Moreover, with the implementation of IPO strategy, the company increases the complexity of sources, broaden its supplier network (Byrne, 2004) and open the links among factories over the world (Carbone, 2002). Big number of suppliers in the network allows company to outsource from different makers and get more flexible shipments with more available products and better inventory management (Carbone, 2002). Also, centralized procurement activities via IPO establishment reduce conflict in benefits among factories, duplicated tasks and variation of proposals from a company to their suppliers, so that the firm can achieve better negotiation results (Carbone, 2002), reduce negotiation, sourcing (Sartor et al., 2015) and ordering time (Monczka et al., 2008).

Using IPOs is an effective way to improve business relationships (Humphreys et al., 1998). Relationship achievements are described as the improvement in supplier, internal and government relationships (Sartor et al., 2015). It can be connector between buyer and makers (Humphreys et al., 1998) or be an allocation center for business relationships (Goldstein et al., 2011). On supplier relationship management, companies often follow two main trends. On one hand, companies try to get benefits from transactional relationship, in which they use a big number of suppliers and small orders (Goh & Lau, 1998). The idea is to benefit from reducing power of suppliers and raising competition among suppliers (Goh & Lau, 1998). On the other hand, other companies choose to focus on a small set of vendors and target advantage of working together with suppliers, commitment and sustainability (Goh & Lau, 1998). However, it is difficult for a single factory to have enough power to keep strategic relationship with suppliers. According to Goh & Lau (1998), IPO offers the opportunity to overcome the struggle. IPO is also a shorter approach to government's incentives (Sartor et al., 2015) like tax reductions or loans (Goh & Lau, 1998). IPO's relationships help company overcome any import/export problem (Carbone, 2002). The last aspect of relationship benefits emerges when companies

review their activities before and after using IPOs, there are connections and co-working among employees from various factories in their network (Forrest, 2008). The phenomenon strengthens company's culture, relationships and power (Forrest, 2008).

Better information flow management is another benefit from IPOs strategy (Sartor et al., 2014). IPOs can be cultural brokers, when they create easier and more effective communication channels as well as improve culture integration (Sartor et al., 2015). In a country with special demand on know-how and technology transfer, like China with unique language system, culture and sometimes violation of IP rights, the benefits from IPO become clearer (Sartor, et al., 2014) (Nassimbeni et al., 2014). Strong communication channels, small geographical and cultural gap and countertrade agreement from IPOs are effective solutions. With the existence of IPOs, companies also capture better market information stable relations with local market's organizations (Sartor et al., 2015) and firm's presence (Byrne, 2004). IPOs can break the wall among company's factories over the world, organize a system of information sharing and create a platform for communication (Forrest, 2008).

Besides these advantages, geographical and cultural proximity leads to many other advantages of the strategy compared to other choices, including better legal protection, higher efficiency in quality control, vendor selection and logistics coordination, better financial benefit and technology approaches (Byrne, 2004) (Carbone, 2002) (Rajagopal & Bernard, 1994) (Goh & Lau, 1998). These strengths have been discussed in both theoretical and empirical works (Sartor et al., 2014), with the aim to explain motives of companies when choosing the strategy.

2.3.6. Weakness

Together with strength of IPOs, many papers highlight the weakness of the strategy compared to other choices, such as importing via agents or use importing directly from overseas suppliers. In my thesis, I would like to classify these problems into three main groups: cost, culture and operations related problems.

Cost of IPO activities are reviewed in many studies (Giunipero & Monczka, 1997) (Byrne, 2004) (Sartor, 2006). Basically, the costs of IPO activities include wages, rent, utility cost, taxes, communication and expatriates cost (Sartor, et al., 2014). In addition, hidden cost from countries may be applied on IPO's operations (Pedersen, 2005). To cover the cost of operations, IPOs

charge a commission for every agreement (Goldstein et al., 2011). Every company decides its commission rate following its business situation, which varies from 1% to 5%. In fact, most company cannot cover IPO operation costs from commission. With more than 80% of IPOs cannot collect enough funding from agreements, they have three main options: increase commission fees (Goldstein et al., 2011), increase the trading amount (Sartor, 2006) or request financial support from main office (Goh & Lau, 1998). However, each solution leads to different problems, like pressure of annual trading volumes.

Regarding cultural conflict, although an IPO can reduce the gap between the company and their suppliers, the office itself causes the same problem in the connection with the headquarter (Reese, 2008) (Avery, 2002). Employees from expatriates and main office may have difficulties when working together (Sartor et al., 2014). One important skill of an IPO staff is language speaking, but good communication is not enough for a good business operation (Reese, 2008). Local staffs and managers had their own background and cultural elements before joining the company, therefore standardizing working style and method may not be effective (Reese, 2008). Also, suppliers also have their own culture problems. So, IPOs should receive the right and flexibility to adopt and suggest changing policies in headquarter (Reese, 2008)

Finally, the problem in work distribution and coordination should be noticed (Sartor et al., 2014). The problem can come from the struggle in transferring tasks from headquarter to IPOs, when managers underestimate the importance of the process (Sartor, 2006). Work distribution may have trouble when the company meets the attrition rates in the target market (Reese, 2008). It is hard to make the company lean, it always has to prepare some spare space or employees for annual leave of their employees. Another challenge for leaders is the working level of staffs in headquarter and IPOs. Company usually choose the process that local staffs will negotiate the contract, but the final decision are made from home country based on suggestions of IPOs (Goh & Lau, 1998). However, if the final choice conflicts with IPO's suggestions, or main office wants to change terms and condition from negotiation result without a careful explanation or consideration, it will damage the relationship with not only suppliers but also IPOs (Pedersen, 2005).

3. RESEARCH METHODOLOGY AND DATA COLLECTION PLAN

3.1. Research methodology

Business research method is always used to reduce risks via gathering, sorting and analyzing data for decision-making process (Sreejesh et al., 2014). Quantitative research method is appropriate to answer clear and unambiguous questions and problems. It shows advantages when dealing with “factual” data, with isolated and defined variables. In contrast, qualitative method is better to analyze uncountable and unmeasurable data, like experience, meaning and perspectives (Hammarberg et al., 2016). The key difference between these two research methods is flexibility. Tools in quantitative research, such as questionnaires and surveys keep participants’ answers in the same order and fixed range of possible responses. Qualitative method is the more flexible option. By using open questions, researchers and their participants have more chances to share greater detail than the simple options “yes” or “no”. (Mack et al., 2005)

The thesis is a qualitative research. The method uses open-ended questions and allows participants to respond in their own words. Therefore, they can answer more types of questions than “yes”, “no” or the level of the phenomenon (Sreejesh et al., 2014). By answering questions why or how, qualitative research method is the best suited to examine and provide new ways of working and how new practices influence daily interactions and working processes (Garcia and Gluesing, 2013). Qualitative research is especially appropriate in international business process re-engineering, since it helps explain integrations in organizations, knowledge sharing and transferring as well as the impacts on company’s performance and operations (Garcia and Gluesing, 2013).

There are many possible ways to collect data for qualitative research, including interviews, participation observations, narrative stories, artifacts and secondary documents (Garcia and Gluesing, 2013). Also, researchers can choose suitable research techniques among various options. In my thesis, interviews were used to collect databases, considering the flexibility to meet the participants (Tuomi and Sarajärvi, 2009). Parties in the interview can ask again for a question explanation, explain or remove unclear points in questions and answers (Tuomi and Sarajärvi, 2009). Moreover, the method allows changes in themes and questions following real

situations as well as encourages interviewees to give their own perspectives about the research area (Tuomi and Sarajärvi, 2009). interviewing is an efficient study method to gain rich and empirical data (Eriksson and Kovalainen, 2008).

3.2. Description of interviewees

At the beginning of the study, a careful selection of the participants for interviews was conducted. Invitations and surveys were sent to companies which are using IPO as one of their supply strategies. The companies can be a headquarter, factory or IPO operating in Vietnam market. In this section, I will try to collect information from both sides of the working process organizations which use IPOs and IPO's perspectives. After receiving confirmations from these companies, interviews were conducted with 8 employees from 5 foreign companies in private sector, working in garment, electronics and automotive industries. They were selected from different economic fields to provide more views of IPO's operations via various working styles and business models. The table below presents a summary of the interviewees.

Table 1: Summary of the interviewees

Interviewee	Title	Company	Industry	Category
A	Trading senior staff	X	Automotive	IPO
B	Assistant manager		Automotive	IPO
C	Sales manager	Y	Electronics	IPO
D	Sourcing manager		Electronics	IPO
E	Purchasing senior staff	Z	Electronics, steel, construction	Factory
F	Purchasing senior staff	T	Electronics	Factory
G	Purchasing senior staff		Electronics	Factory
H	Supply leader	U	Garment	IPO

Interviewees were different in terms of organization and management level. they come from both operational and managerial levels: 4 managers and 4 senior staffs. Targeted companies are very different in size and working fields. Since the strategy and Vietnam economy were not developed enough, all firms are foreign, which have factories or set up IPOs in Vietnam. From the characteristics of IPO of being developed to support procurement activities of an OEM, these supply chain systems belong to big corporations with turnover of billions of euros. In Vietnam market, their offices normally have under 100 officers and factories have more than 100 thousand workers. The purpose of variety in size and level of organizations was to research intensively working business models, to explained decisions in the topic of IPO establishment and operations. The selection of participants supports this objective.

Interviewees A and B are working in a IPO of a large automotive company, which supplies many types of products from different industries: steel, resin, light metals and machinery. Interviewees C and D are sales and sourcing managers of an IPO in Vietnam market. Their main factory operates in electronics industry; however, they supply maintenance, repair, operations (MRO) items for mobile device and vacuum cleaner production. E, F, G are staffs in electronics factories in Vietnam, purchasing different materials from Japan, Korea and China. H is a supply leader of an IPO in garment area, who coordinates supply production from suppliers in Vietnam to global market.

These interviewees come from different kind of firms, with different background and working styles. However, in this thesis, these firms have been grouped in two main categories: IPOs and companies who use IPO strategy. These companies represent electronics, automotive, mechanic and garment industries, which altogether account for more than 75% export volume of Vietnam in 2016 (Vietnam Customs, 2017). Interviewees A, B, C, D, H are working in IPOs, interviewees E, F, G are working in factories which using IPOs as their supply strategy. They will answer questions from the point of view of their organizations. In addition, in the paper, both materials for mass production and MRO items are investigated. It will help to understand operations from both sides of views, purchasing material for mass production or MRO items. Also, working with materials and MRO items is useful when reader consider applications of the strategy in real economy.

3.3. Data collection plan

Data collection is organized into three main steps, using interview as the main tool, online platform and software as supporting communication channels. The main objectives of the tasks are to collect information on current and future activities of firms as well as interviewees' opinion about advantages and disadvantages of IPO strategies to give suggestions to the company's planning processes. Companies in Vietnam market are selected as study target. To give views about IPO strategies and activities, both manufactures (who have demand to use the IPO strategy) and IPOs in Vietnam were contacted beforehand. Differences in working areas and characteristics in decision making process help to cover the largest possible study areas.

The first step of data collection is conducted by web-based questionnaires and invitations sent via emails. In this stage participants received an email with questionnaire and some interview instructions. The idea of this step is that global sourcing in Vietnam and IPO strategies are not developed enough, and IPO in each international corporation has its own name, with different working method. Sending questions and instructions beforehand provide participants with a basic knowledge on the research problem, so that they can compare these questions with company's activities and decide whether to join the interview. In these emails, companies are asked about industries, types of the companies and basic information about IPOs strategies in their organization. Questionnaire mentioned what activities of IPOs their company are operating and their opinions of possible advantages/disadvantages. After receiving information and available schedules from these companies, companies to be interviewed were selected and processed to the next stage.

From 7 companies which responded, 5 of them were selected for the next round. The others could not arrange suitable time for the interviews or just want to complete the questionnaire and skip interview step. Because the IPO concept is quite new in Vietnam market, questions may not give enough information for their answers, these companies were skipped. Duration of interviews was planned to be about three hours and the interviews were recorded. Same themes were used in these interviews, which aim to easiness in comparing interviewees' perspectives. During the interviews, participants were encouraged to explain their choices and opinions about the research topic. in fact, durations of the interviews varied from 2 to 5hours. In total, nearly

20 hours of interviews were recorded, remarkable points also noted in the questionnaires during the work. Analysis of the interview data was done by comparing answers in different themes.

4. EMPIRICAL

The interviews were conducted with experts and managers who were able to participate and have working background related to the topic. They work in factories or in IPOs in Vietnam market. Interviewees went through a designed theme and questionnaire based on theory. The process aims to compare theory and current operations of the firms which use IPO strategy in Vietnam, from that complete a practical view about the strategy and contribute to the development of IPO concept. Although same themes and questions were used for all the discussions, some of the participants did not answer all the questions because. In some case they might not have enough insights on IPOs in other countries; or they skipped questions when they thought that they have not reached the level of top managers to have views for the responses. Framework of the interviews is presented in the table below.

Table 2: Interview themes

Themes	Sub questions
Company and Interviewee profile	Company's basic information
	Interviewee's position and main duties
	IPO network
	Company's main sourcing strategy
IPO's activities	Activities
	Contributions of IPO to supply chain's operation
	How the investigated company can implement the strategy
Establishment of IPO	Steps
	Remarkable strategy and problems during the process
Strength	Main advantages of IPO strategy
	Reasons why companies choose the strategy
	Future plan of companies to boost these benefits
Weakness	Main issues
	How do IPOs cover their operations cost
Sustainability	IPO and sustainability
	Scope of these strategies (if any)
IPO strategy in overall	Supply chain of company in general
	New concept: re-direct sourcing? How to overcome IPO's weaknesses?

The themes and sub-questions were designed to be a mix of questionnaire and questions for the in-depth interviews. The main reason is to provide a clear structure of the discussion and avoid misunderstanding between parties in the interview. Basic questions are the same in all interviews; however, during the interview, participants were encouraged to state their opinions. Sometimes the orders of questions were changed, and some questions were removed in a way to fit the situation. Example questions are presented in Appendix.

4.1. Interviewed case companies

The first theme of the interviews is “company and interviewee’s profile”. The theme was designed to collect more information about the investigated supply chain system and basic information of IPO applications in the organization.

Regarding supply chain network, all targeted companies have large global supply chain networks. All of them have a big setup of suppliers, when company X reported smallest number of suppliers, about 50. Other companies manage from 100 to more than 500 suppliers located in many countries. Company X has IPOs in over 20 countries and regions. Company Y has nearly 10 IPOs worldwide. Information received from employees of companies Z, T, U shows that they also have their own factories in many countries and a IPO network to supply goods and materials for these factories.

In terms of countries where companies have IPOs and the markets they oversee, company X has its IPO in each factory location, one IPO can be in charge of purchasing activities for more than one mills. Companies Y, Z, T use IPOs to monitor areas where there are a big number of suppliers or high potential of sources. Specifically, they usually have IPOs in China, Vietnam, Japan, the US and Europe. Company U has IPOs in Europe, China, Vietnam, IPOs to manage purchasing activities in some other countries in Asia, Africa and Mexico following their main production locations.

All companies use global sourcing as their main sourcing strategy, thus IPOs are important. However, they have different ways to operate procurement activities via IPOs. Company X has a strong commitment between IPOs and factories, in which factories have to buy all products which their purchasing offices are able to supply. Factories of IPO Y can choose whether to use

products from the IPO or source by themselves. Company Z is a new factory in Vietnam and has just been operating for more than three years. It set up IPOs for MRO supply, bidding for service purchasing and direct procurement for mass production materials. Factory T implements a combination of direct purchasing and buying via IPOs. Company U set up IPOs in their main sourcing areas and only purchases via IPOs.

Company X uses IPO at the home country to allocate supply chain, decide suppliers (except suppliers who supply spot orders) and monitor supply activities. Company Y builds global database of materials and suppliers, allowing IPOs to search and manage sources in their areas. They can access to global data to find available global suppliers if they cannot buy material locally. Company Z also gives local IPOs rights to choose suppliers and materials according to requirements from main customers. In company T, IPO works as a connector only. The company has its own sourcing team in home country, who allocate and decide all procurement activities in the corporation. Any local sourcing from IPOs and factories must get approval from headquarters' sourcing team. In company U, has planning and supply chain department in the home country sends order to IPOs, then staffs in IPOs can choose suitable suppliers. However, supply chain department in the home country has the right to evaluate and audit suppliers, decide whether to continue or stop business with them. In all companies, purchasing via IPO always received priorities: Companies X and U requested purchasing via IPOs only when requests to check available of products in advances with IPOs are refused or offers from IPOs are too expensive comparing with terms and conditions sent by direct suppliers.

Table 3: Case company's basic information

Company's basic information	
Company basic information	Global company with big supply network in many countries
IPO's network	IPOs do not work independently, they are normally built to be a network of IPOs
	Companies have a center to control activities of IPOs network IPOs in Asia, Europe, American and sometimes Africa
Company's main sourcing strategy	IPO as an important part of global sourcing strategy
	Factories can choose whether they process via IPO or not
	Purchasing via IPO receives strategic priorities from HQ

In general, investigated companies have quite optimized supply chain strategy with large global network. IPOs play an important role in these companies, and the strategy in these company is developed for a long time. Business model and way to operate activities via procurement offices are quite complete. Therefore, researching from these organizations can describe a wide view on applications of the new sourcing strategy.

4.2. IPO's activities

In this section, questions are organized into two types: survey and open-ended parts. In the survey part, interviewees go through activities of IPOs from theories, and rate level from 1-9 for how the processes are implemented and how important the activity is to the company's supply chain. In such scale, level 1 is assigned to processes which are not developed or not important, level 9 for complete and very important process.

4.2.1. Supplier management

Almost all firms consider *supply selection* is an important function of IPOs but the process in IPOs are still not developed as its importance. All companies and their IPOs received instructions and global manual for supplier selection process. Nevertheless, some IPOs said that these instructions are not suitable for their areas, and they are on the way to improve them. One interviewee responds that quality of supplier selection decides the survival of IPO; a good process to choose suppliers is in place for critical items. However, for other items, purchasers choose suppliers based on their received information and experience, they do not apply any common process, audit or clear standard to evaluate before starting the business. An MRO sales manager claims that her office always gets urgent demand from factory, so in many case, they must skip steps in their supplier selection process and choose the supplier which can supply in the shortest time instead of the best one. Processes of MRO sales manager's firm are good, but it needs to be improved a lot to meet their requirements and business characteristics. In one company, although the IPOs and factories realized the importance of the activity and that the quality of supplier impacts directly on the performance of IPOs, they are just in charge of collecting information on available suppliers and headquarters (HQ) will do the rest. Assigning suppliers being done by HQ is the reason why experts from company T and X do not set high importance of functions of IPO system to their supply chain.

One interviewee responds that results of *supplier monitoring* is a highly important part of IPO's performance. However, the process of activities of supplier monitoring is in different levels. In one company, IPOs are just connectors and logistics supporter, the system allows purchasers of factories to contact directly to suppliers. Participant G commented that direct monitoring gives them better control and responsibility of uncertainties in the supply of goods and services. With short time order, like spots order for MRO or contract under one year, supplier monitoring is less important. These monitoring activities have been skipped or monitored and evaluated at the first time of business relationship. In supply chain system of the trading assistant manager's firm, supplier monitoring is divided between the local IPO and HQ. In the IPO, supplier monitoring is considered less important, and the operators only do basic tasks without a clearly process. In case of garment office, process is fully developed and considered high priority since the parent company transfers all responsibility of supplier management to local branches.

For supplier development, one interviewee uses *audit* and feedback as main tools. Another company just keeps and follows information of product portfolio and capacity to know about availability and flexibility of its vendors. Some responses from participants show that IPOs and their HQ work together to send forecasts and future views of business relationship to encourage suppliers to increase their capacity and optimize operations. Supplier development is normally done through collaboration among factories as customers, HQ and IPOs to provide plan and commitments, since the name and power of main office and factories put more pressure of innovation on vendors. This way of work distribution can lead to wrong action when employees pass all responsibilities to headquarter, and consequently weaken their voice to suppliers. As a special case, expert H sticks IPO's benefits to supplier's performance and requires their person-in-charge work closely with supplier's factories to keep continuous optimization.

Effective communication is always one of the companies' concentrations. More than half of the companies develop multiple communication channels with their suppliers via IPO. Phone calls, email are common tools. Some responses mention the existence of supplier management system, in which suppliers can check status of item approval, order, shipping and payment. Almost all companies have good communication channel among IPOs, suppliers and OEM. One remarkable point is that if the IPOs have full responsibility on their communication channels,

they always set it on high importance level (8 or 9). But in some companies, to reduce communication time among OEM and suppliers, IPOs allows both direct and indirect contacts via sourcing hub. In these firms, importance level of establishing communication channel is lower.

Broadening supplier network is one of the core functions of any procurement organization. However, the activity in foreign procurement offices gets different perspectives from top managers. A participant who works in an IPO specializing in MRO procurement said that although the company understand the importance of supplier network, their order management focuses on spots orders. Thus, normally the main strategy is to focus on tier 1-supplier development, meaning trying to have more suppliers rather than managing the network of suppliers. In one company, IPO's duties are limited to collecting and analyzing business intelligence; the rest of supplier network development activities are in main office's hand. In contrast, other companies choose to emphasize the role of IPOs in the relationship with vendor for mass production material. In their opinion, managing a better network results in better benefits and sustainability of supply chain. One interviewee mentioned annual meeting with suppliers and other support policies from headquarter and IPOs to encourage suppliers develop their networks. It is even possible to work with suppliers in tier 2 or 3 to overcome difficulties or vision mutual future. some IPOs prepare and improve their list of suppliers in advance while others only start the process when they receive inquiries. In addition, for core and critical items, instead of looking for new suppliers, some companies choose establishing new or joint ventures organizations to fulfill their demand.

From the characteristics of sourcing hubs of focusing only on procurement, in technology transferring field, offices work like *connectors* across R&D centers, headquarter, factories and vendors. Main operations include receiving samples, passing information related to standards, technical drawings and other process information. Sometimes, IPOs organize workshops for parties to share their new technology or process innovation. Two of the investigated organizations have technical support department, but they work more like technical consultancy: they consult suppliers on process optimization, quality control and problem solving. One manager mentioned projects where they co-operate with an external organization to develop a

special service for main factories, but these experts also said that in some special cases, working directly among R&D departments is more suitable.

From interviews, there are mutual views among companies on *commitment with external organizations*. All interviewees agree that commitments are essential for a sustainable relationship and long-term success. When a big international corporation invests into a country, it has to develop a new network of new factory and all local sources, as well as its own capabilities, in parallel encourage existing strategic vendor to invest in establishing factory at the new destination. In all cases, long-term commitments contribute significantly to close the deal among the firm and potential vendors. In reality, these company separate business for mass and MRO materials. On the one hand, for MRO items, although managers realize the importance of commitments, companies do not want to make any promise to external firms, instead they use spot orders or bidding for contract less than 1 year. On the other hand, to guarantee supply ability, quality and origin of mass production materials, basic agreements and fix-price sub-contracts are commonly used. The company keep a long-term relationship and re-negotiate price every three months based on real global business situation and production status of their suppliers. Stable purchasing terms and short lead time offered by IPOs through these commitments give huge benefits to improve competitive advantages.

Normally an IPO starts its *duties in new product development* at the time it receives a new inquiry, new model plan, or bill of materials (BOM) from the headquarter, purchasing or R&D department of factories. They can collect materials for testing and line test production or prepare input following new model release plan. Contribution of IPOs can vary due to different types of materials, i.e. Whether the material is new. If the materials already existed in IPO's portfolio, major work will be merely to ensure timely supply. Otherwise, the IPO has to begin sourcing process for the new material. Furthermore, a participant gave an example when her IPO had to join the development process of inputs to meet factory's requirement because the goods or service is unique and need contributions from parties. As in another opinion, "whether the contribution of IPO in new product development is simple or complex depends on the type of essential materials".

4.2.2. Supply chain operations

In the next section, the questions are regarding IPOs' activities that can contribute to supply chain operations.

All researched companies have fully implemented *bidding process*. However, since they normally need time to process the information from factory or have to wait for orders or other requests from the main factory, application of bidding processes in IPOs are very different. The company can choose among many ways of process in their operations: full-process, including tenderer, bidding, etc. or simple processes in which they request quotations from existing suppliers and make decision based on the offered conditions. In case of urgent supply, supplier which is able to send products on time will be chosen. However, all companies prefer keeping long term relationship with their suppliers, so bidding is not taken too much concentration. They often use bidding in buying services or MRO items.

Questions about importance of *negotiation* split the interviewees' opinions. All of the participants responded that in their supply chain, the negotiation process begins after they cannot get their target in bidding, when they want to buy a new material from an existing vendor or changing price within their purchasing portfolio. Although all companies have a clear standard and manual, only half of them think that their negotiation process is important and complete, others think that IPOs make little contribution or they problems with managing activities. Participants explained that in their system, all negotiation about product price belong to headquarters' responsibility. In many IPOs, they have to deal with many types of suppliers with different working methods, so they just provide simple guidelines to their employees. a manager said, "how the negotiation goes, and its result depend on the ability of employees".

In modern world, the importance of *information flow management* of IPOs is reduced. Communication tools like international phone calls, emails, cross-platform instant messaging and voice (VoIP) software make appearance of IPOs unnecessary. Moreover, international corporations use platforms to connect/link suppliers, forwarders and factories to keep track of orders, shipping status, payment and other functions. These systems enable immediate checking from anywhere, parties can check their needed information right after the others upload. The role of IPOs is important when the supplier's location is far away from main factories, in this

case sourcing hubs can improve discussion time and quality in information flow. In the opinion of one interviewee, employees can work like “window person”, who can check information before transferring. For example, after receiving a claim from factory about quality problem, an IPO can check whether it is fault from customer or not before passing information to supplier, which helps reduce effort for investigation. Existence of IPOs may not make information flow faster, but with better accuracy and quality. Regarding types of information to be collected, all IPOs solely focus on searching for new suppliers. Some of them collect market intelligence, however, it is used only for their own office to predict trends or better prepare for next periods rather than giving a better view of the whole supply chain.

All of the companies have strong processes and realize the importance of *intellectual property avoidance*. All IPOs and factories organize code of conduct lectures and make agreement between company, IPOs with their employees and suppliers. Documents are leveraged following their importance and impact on company’s business. One IPO inputs information and document management in its annual audit to work with its customers and organize workshops and meetings on how to improve effectiveness of information protection. Another IPO requires strong commitment and close monitoring on the usage of materials and technologies in production to avoid mixes or using resources to competitors or other customers of their vendors.

Companies use *logistics coordination* from IPOs as an important element to get better shipping terms with suppliers. All researched companies aim for FOB terms for overseas shipments and EXW for local delivery. From the delivery place in these contracts to factories, logistics processes are handled by person-in-charge in IPOs. With highly realized importance of logistics coordination, some of IPOs in my research provide warehousing service to customers. Main idea of the strategy is that companies have space to combine shipments from different suppliers to reduce management effort and shipping cost. In addition, warehousing service helps improve availability of products and reduce risks as IPOs can store some safety stock for the customers. Furthermore, one reviewed IPOs network opened a bonded-warehouse system, from which imported goods can be delivered to a place near factories during customs clearance process. By that way factories can receive materials in the shortest time.

IPOs often receive a *big order from their factories and split it* to many small contracts to suppliers. The order distribution has advantages when the company wants to keep strategic relationship with more than one suppliers for a specific item. Parallel sourcing strategy means that suppliers will be separated to supply various models or factories in different areas. Strategic relationships are established, at the same time IPOs can cover shortages when they face any supply disruption. In half of the researched systems, shares of the cake are decided by headquarter: main office sends rates to local offices every three months and make amendment if there is any uncertainty or change in plans. Other IPOs can change quotas for their suppliers after auditing and monitoring supplier's processes and capabilities. A manager said: "order distribution is an effective tool to reduce risks and benefit from competitions between suppliers".

4.2.3. Other activities

On sales and promotion supports, researched IPOs do not operate any real activity to push sales quality of final products of supply chain. All interviewees respond that their responsibility for final output is limited to customer services, replacements and preparation of spare parts. However, more than half of the companies have plans to expand business over existing customers in the chain to optimize utilization of resources, sources and facilities. One company has just established a sales and marketing department to search for customers outside the chain. However, activities and results from the department are unclear. Another garment IPO confirmed that it has recently established a new department to sell the company's products in Vietnam market. This part will be separated from the company and operate independently when the setup is finished. Another company allows IPOs to sell to other markets with flexible commission fees, normally significantly higher than the fixed ratio in business with factories. The term "sales" of IPOs may different from the theories. In modern business, IPOs can broaden their business to external customer of the chain. However, they rarely do any promotion activities and do not have strategic focus in these activities.

Internal advising becomes important when the IPO has the right to choose suppliers for their supply in a specific area. One interviewee mentioned the meetings every morning of managers and their members as well as weekly and monthly meeting of managers and IPO's director to

discuss activities and possible tasks to be added to improve daily processes. Results of these meeting will be sent to other brands of company as strategy-making references. In another company, purchasers take full responsibility for supplying materials, so they can make their own supplier selections and management decisions. Also, reports and meetings between purchaser in IPOs and supply chain controllers in HQ regarding production abilities of supplier's factories play an important role in choosing annual production volume and area of suppliers. However, for two of these companies the HQ in the home country controls all sourcing activities and encourages suppliers from home country to invest in the factory's areas. In this case, IPO's advising role is quite slight.

In the theory, which IPOs may help firms *obtain many government incentives*, for examples, financial incentives like lower interest, easier loan application or exceptions in import and export process, tax benefits, etc. However, in Vietnam market, incentives approach is not considered an important function. All participants do not see a clear impact or do not put any effort in the activities. One manager mentioned that the IPO do not receive any incentive from the government, while another said that in their operations, the IPO must use the reputation of the main factory to push the process more smoothly. In almost all cases, interviewees think that government tends to encourage international corporations to invest into production in Vietnam. Thus, Vietnam authorized organization offers much more benefits for factories than trading offices. Sometimes IPOs have to use the name or process import/export activities through factories to get incentives. Only one participant gave an example when the overseas IPO can help to get export license for special materials.

On legal aspect, including *legal support* and contract design activities, all companies have their own clear processes and manual for employees to follow. Basic agreements are used in all companies and the companies use their power as a big party to force local small suppliers to accept terms and conditions in the agreements. Depending on power relation between potential supplier and IPO, the agreement can be negotiated or re-written. Only one organization uses a central sourcing department in headquarter to negotiate all contract and agreements. However, in the firm, before finishing terms and conditions in legal papers, lawyer and strategic purchaser in HQ use comments and reports from IPOs as one of the important references. More than half of the investigated firms established a legal department in IPOs to make contracts, update

policies or give advices to all supply chain system while the rest use law consultants hired by IPOs to get legal support.

For *recruitment and training*, all participating companies have clear processes. All responses show that all IPOs have their own developed processes for human resources development. However, through the interviews, the levels of contribution of IPOs to firm's labor force development are different. All IPOs organize programs, workshops and conferences for their own employees. Training documents and methods are applied for global IPO system. Participants also mentioned differences between training programs organized for staffs and managers: experts and managers have training periods overseas, while staffs are only trained locally. Another interviewee gave an example of training an activity, when IPOs offer short term workshops in their offices for purchasers from factories to understand global supply chain processes and relationships among factories and IPOs. Moreover, training time in IPOs is compulsory and important for all top purchasing managers in headquarter to be promoted.

The interviewed experts went through the list of activities and evaluated the importance and how they are developed in their organizations. Their responses are summarized in Table and Figure 4. The list is designed following the groups of activities divided in the theory part. The scales of prioritization ranges from 1 to 9, in which 1 is "not important at all" and 9 is "extremely important". For the level of processes, 1 is "no process existing at all" and 9 is "fully developed". The gap between the importance and the current level of process is investigated by using the gaps analysis. The gap value is positive if the current level of process is higher than the importance in the expert's view. In contrast, the gap is negative if the expert think that the activity is not as developed as it needs to be.

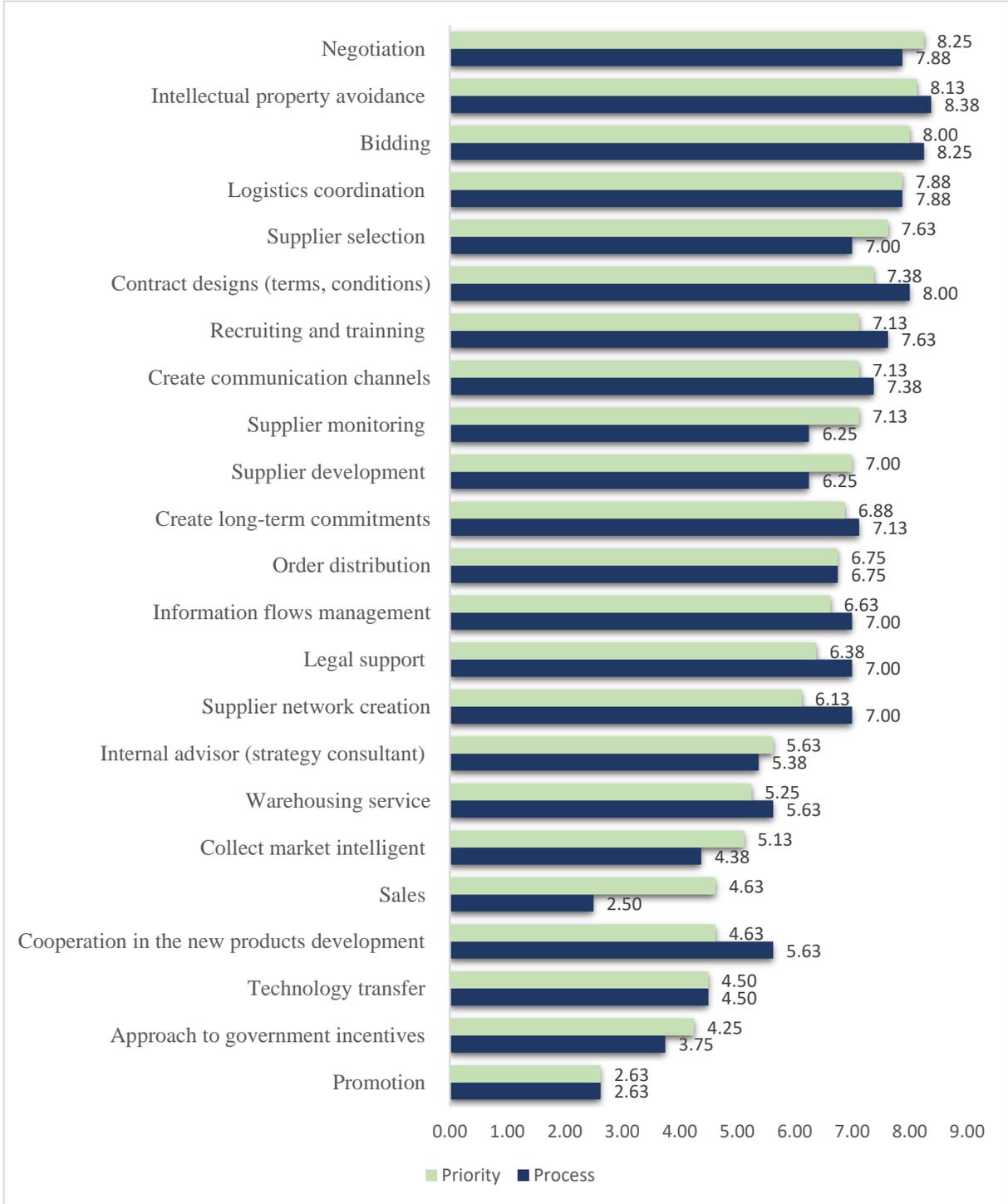


Figure 9: Results of evaluation of important of IPO's activities

Table 4: Results of evaluation of important of IPO's activities

		Process	Std.dev (process)	Priority	Std.Dev (Priority)	Gap	Std. Dev Gap
Supplier management	Supplier selection	7.00	1.22	7.63	1.11	-0.63	1.73
	Supplier monitoring	6.25	1.39	7.13	1.69	-0.88	1.54
	Supplier development	6.25	1.30	7.00	0.71	-0.75	1.64
	Communication channel creation	7.38	0.86	7.13	1.05	0.25	1.48
	Supplier network creation	7.00	0.87	6.13	1.27	0.88	1.17
	Technology transfer	4.50	1.80	4.50	1.66	0.00	1.00
	Long-term commitment creation	7.13	1.17	6.88	1.05	0.25	1.39
	Cooperation in new product development	5.63	1.22	4.63	2.06	1.00	2.06
Supply chain operations	Bidding	8.25	0.83	8.00	1.12	0.25	0.66
	Negotiation	7.88	1.27	8.25	0.66	-0.38	0.99
	Information flow management	7.00	1.22	6.63	1.32	0.38	1.41
	Market intelligence collection	4.38	0.70	5.13	1.90	-0.75	1.56
	Intellectual property avoidance	8.38	0.48	8.13	0.78	0.25	0.97
	Logistics coordination	7.88	0.60	7.88	1.17	0.00	1.32
	Warehousing service	5.63	3.12	5.25	3.15	0.38	1.11
	Order distribution	6.75	0.97	6.75	1.30	0.00	1.22
Other activities	Sales	2.50	0.50	4.63	1.65	-2.13	1.54
	Promotion	2.63	0.99	2.63	0.99	0.00	1.73
	Internal advising (strategy consultant)	5.38	1.22	5.63	1.73	-0.25	1.48
	Approach to government incentives	3.75	0.97	4.25	1.79	-0.50	1.50
	Legal support	7.00	0.71	6.38	1.22	0.63	1.22
	Contract design (terms and conditions)	8.00	0.87	7.38	0.86	0.63	0.99
	Recruiting and training	7.63	0.86	7.13	0.93	0.50	1.32

The Result shows that companies put much effort in intellectual property avoidance, bidding, contract design, negotiation and logistics coordination; while manuals and other tools to collect market intelligence, approach to government incentives, sales and promotions are not developed. The most important activities are negotiation, intellectual property protection,

bidding and logistics coordination. The result also shows that companies do not think that sales, promotion and approach to government incentives and participation in technology transfer are core functions of IPOs.

Common activities are defined by analyzing the mean and standard deviation of factors. Companies have mutual perspective on negotiation, supplier development, intellectual property protection and contract design. Activities like warehousing service, cooperation in new product development and market intelligence collection receive different considerations. The importance levels of these activities are around 4 to 5 and standard deviation of process indicator is high. It means companies have different choices when deciding whether to move these activities from factories or HQ to IPOs. Providing warehousing service is a strong example, when discussion during interviews and analysis result shows a mutual result: the activities bring to some organizations significant benefits while others think that it will be better to let factory handle all logistics activities.

The gap between priority and process level is quite low, almost under 1 in absolute value. It can be explained by the fact that the investigated companies had used the strategy for a long time before they opened an IPO in Vietnam or chose Vietnam as a production destination. So, they had time to develop global strategies and processes as well as solve problems during the operations. However, there is an exceptional case in the gap evaluation, when the gap for sales activities is quite high (-2.13). It is an evidence of changing strategy in operations of IPO. Some IPOs confirm that they are developing sales and marketing strategies and plan to broaden their customer list out of existing factories and other departments in the supply chain. A manager said, it would be a new way to maximize the benefit from competitive advantages of IPOs and reduce dependence on factories and create pressure to optimize IPO's operations.

In the next part of the interview, experts were asked about activities their IPOs can provide beyond the list. Some companies mentioned that IPOs can take part in quality control. Although The activity could be a part of supplier monitoring, it is important in some IPOs. For example, in the garment company, IPOs have technical department which is responsible for quality control, process consulting and problem-solving support. In company X, IPOs and HQ issued standards for all their main materials, IPOs may work as a party who guarantee for input

materials through IPOs via annually quality control tests. In these tests, they will receive samples from suppliers and send it to independent authorized organization to check the materials and compare with company's standards. In addition, IPOs of company X manage not only suppliers in tier 1 but also ones in further ties through providing warehousing service. In the strategy, IPOs supply raw materials for suppliers and buy semi-products before sending to main factories. The main idea of providing warehousing service is to guarantee the quality and quantity of input materials, reduce risks and increase flexibility.

4.3. Establishing an IPO

In this section, experts were asked about IPO establishment processes through two main aspects: steps and factors influencing the decision. A scale is used to evaluate these impacts. Interviewees rated the importance level of factors from 1 to 9, 1 is "not important at all/not existing" and 9 is "extremely important".

Almost companies have a common perspective on the first step of IPO establishment. In this step, *companies send their employees to various destinations* to investigate local market, potential suppliers, labor force, political elements and other factors to evaluate possible benefits. Companies confirmed that this step is compulsory. The process takes years before an office is officially run, even if a company wants to open a new office in an existing market. This year company X opened a new office in Ho Chi Minh City, Vietnam. Although the firm has an IPO in Hanoi with many similarities, and information can be easily collected, they still spend 2 years on investigation. In interviews, only company Z does not have this step, because in its system IPOs will go together with factories all over the world, and the IPOs are placed in the destinations accordingly.

In the theory part, the main idea of an *IPO establishment* is to approach and manage local suppliers, therefore companies tend to choose the place near their suppliers. All experts still think that looking for new suppliers and business opportunities is a strong influenced factor. But results from interviews also show a difference: all responses do not consider distance to major suppliers is important because there are new technologies to manage suppliers' activities, such as ERP system, email, telephone and GPS to follow shipments. All the responses agree that the distance between IPO and main suppliers should be under 150km, so that they can easy go to

have a face-to-face meeting and come back within a working day. Such proximity also allows IPOs to react on time in case of unfavorable incidents, do audit or case investigation.

The development of communication and information technology has a huge impact on the choice of location for IPOs. In the past, results from practical researches and literatures show that operational cost including labor wage, rent, taxes take an important part in company's decision (Byrne, 2004) (Sartor, 2006). However, all of the experts said that they could monitor activities of supplier, send requests and check results of their requests in real time via online communication channels between factories, suppliers and IPOs. In their opinion, two main factors influencing location choice is labor source and infrastructures. A sourcing manager said: "because working characteristics of IPO, management system becomes extremely important, so IPOs must be established in areas with good infrastructure of communication technology and traffic system". modern IPOs are typically placed in urban areas, where they can recruit competent employees and have a good connection to all stakeholders.

All interviewees agreed that following steps after location decision including *recruitment and training* of employee, and clear definition of responsibilities between IPOs, headquarters and factories play an important role in IPO's successful operation in both short and long term. All interview results show that firms process these steps carefully and in a strict sequence. First, personnel assigned by HQ recruit managers and send them to train in the home country before sending them back and finding people in lower levels to officially launch the office. Moreover, the global training programs are imported to be implemented in the beginning, and later are adjusted to fit with the culture and working style in Vietnam. A sourcing manager said: "first employees are locomotive of the IPO. If their quality is bad, the whole IPO will be bad". All *responsibilities and working processes* across IPOs, HQ and factories are clearly defined.

Table 5 shows the results through numbers in chronological order, starting from when the company decides that an IPO is needed until when the IPOs can work as normal. In the table, sending employees to collect market data, finding location choice based on potential sources, labor force, technology, recruiting employees and defining working process among departments are important steps. They received the point of over 7 out of 9 with small fluctuation of responses. In contrast, experts have different perspectives about importance of some factors.

For example, the biggest gap between expert's answers are taxes (standard deviation 3.33), distance to suppliers (2.42), ethics (2.25). This is explained by the difference in the main objective of IPOs, which is to manage material flow or to reduce purchasing costs. In some IPOs, their main objective is to help stakeholders receive the best information quality, reduce bullwhip effect and improve flexibility of supply chain. Commissions of these IPOs are very small (about 0.3%). They do not have much financial key performance indicators, in other words, they do not take cost effectiveness as an important objective. In contrast, some IPOs ask for high commission rate (about 5%) for some services (warehousing, shipping, customs support and import/export licenses). In these IPOs, impacts from taxes, distances to suppliers or other cost factors are important.

Table 5: Results of IPO's establishment steps

Steps	Category	Mean	Std.dev	
2.1	Sending employees to find target location	7.83	1.17	
2.2	Location choice	Potential sources and opportunities	8.00	0.89
		Distance to suppliers	5.67	2.42
		Wage	5.00	1.55
		Rent	5.33	1.75
		Other costs	4.67	1.97
		Taxes	5.33	3.33
		Labor source	7.33	0.82
		Technology and infrastructures	7.50	0.84
		Ethics	5.67	2.25
		Political stability	6.00	2.10
2.3	Recruitment and training	Recruitment	7.50	0.84
		Training	7.83	0.75
2.4	Work distribution	Clear separate works for HQ and IPOs	7.67	1.21

Interviewees were asked about some noticeable points during the establishment and operations of IPOs. Firstly, questions about quality of employees and how to keep them work in IPOs for a long time are mentioned. Since the main characteristic of IPOs is that they work in global environment, English skill is mandatory for all employees. And to ease the communication between IPOs and headquarter, the offices in Vietnam give incentives to employees as a

motivation for them to learn the home country's language. Company X offers special positions and small financial supports to employees who are willing to learn Japanese. Staffs in company Y, Z have a fixed bonus rate if they can use Korean for work, which is up to 30% of monthly salary. Company T offers free language courses in main factory and fixed bonus. Moreover, if the people have more than 3 years working in main factory or Vietnam IPO, they can attend free intensive courses with duration from 3 to 6 months. To help officers focus on the language study, the firm gives accommodation and full salary during the study time. Office G gives priority for applicants who completed studies in France or can speak French.

In all hubs in Vietnam, to keep the stability in working process and management, managers keep “just enough” members for their team. It means that these IPOs do not give any space for job quitting, including maternity leave. However, employees are still likely to change job after a certain time. So, in studied cases, besides basic salary, top managers offer lunch, support, transportation or other bonuses to retain their employees. Rewards like gifts and medals to people who work for a long time is common. Especially, bonuses and financial supports for relocated expats in IPOs are abundant. Assigned employees from home country normally get accommodation for their family, tuition fee for their children in any school in Vietnam, private cars, drivers and other supports from IPOs. All participants confirmed that supports for the assigned people account for remarkable parts in annual spending of IPOs.

4.4. Advantages

In previous parts of the thesis, the IPO establishment decision in Vietnam was explained from theoretical and possible task transferred aspects. In this section, other major reasons for companies to choose IPOs as their main global sourcing strategy are searched from benefit views, including cost, performance, relationship, information management and other advantages.

4.4.1. Cost advantages

Reducing purchasing price by combining small into bulk orders is one of the main positive effect from Vietnam IPOs. An expert explained that every company fix profit margin for their products. Thanks to global IPO system, the firm can combine orders from various factories to

create one big request. The company can ask suppliers to reduce their profit ratios to exchange big for and stable orders. Moreover, price reduction is a strategy which a supplier may apply to strengthen long term relationship with big parties. Another manager mentioned another reason of price reduction. Long term relationship with their core suppliers enables her company to negotiate fix profit margin and get discount on every purchase order. However, she also stated a threat that suppliers will not provide best price and service, knowing that they are monopoly. Because of the agreement, it takes long time and much effort to pressure the partners or switch to new vendors. A participant said: “purchasing price advantage via bulk order is the main reason why their Vietnam office exists”.

Lower transaction cost is another important benefit from IPOs. All IPOs can minimize transaction cost by operating in a network. For example, IPO Y does not work independently, but in a IPO system with gigantic shared database about vendors, availability of products, financial indicators and other information. If a factory needs a product which already exists in the system, they can purchase it without any fee for searching, negotiation and signing contract. Moreover, all IPOs in Vietnam use global price when they negotiate with local suppliers. It means that instead of all factories and IPOs over the world negotiating for a material, one IPO makes base price for all, which will be adjusted to come up with final price. The changes are different, for example, in office X the adjustment may be from FOB to CIF price to different countries while company T uses the base price as reference to local IPOs to negotiate their price. Vietnam IPO can use prices of similar materials from same vendor in Korea market to make Vietnam prices with discounts due to differences in production costs. The method can be applied only when the material is supplied by a local vendor, but they belong to a Korean corporation, and the Korean brand agreed based price with Korean IPO of company. However, prices from other suppliers can be used as effective references in negotiation. It will eliminate duplicates tasks when they need to update price or buy a new material for more than one factories. Interviewee D said that although price for more than half of their purchasing portfolio can be found online, some of core and expensive materials need a long negotiation process. By using employees in Vietnam office, they can save a lot of money such as wage, transportation and accommodations for experts from HQ.

Besides purchasing prices and transaction cost, IPO's activities contribute to *other cost reductions*. A common phenomenon in all IPOs and factories in Vietnam is that IPOs help change shipping term from CIF and FOB. By that way purchasing cost is reduced and purchasers can lower their safety stock level, which altogether minimize financial cost. Two interviewees mention warehouse service, which impacts on total cost by reducing safety stock and other additional costs in the chains. An IPO provides bonded warehousing service, in which imported products can be collected and delivered to a place near main factory during customs clearance. Logistics time is reduced, it is a good condition to reduce safety stock and use cheaper shipping methods. Another IPO in Vietnam supplies raw materials to tier 1-2-3 suppliers in Vietnam markets and fix the profits margin for them. Suppliers do not have to keep much stock, which helps IPO save total cost of the chain. Another manager mentioned that the IPO is able to combine shipments from different vendors into one shipment to reduce shipping and custom fees. Interviewee H said that IPO may reduce company's cost and effort to manage and follow suppliers in many countries. Small suppliers will be managed by IPOs instead of purchasing department in factories. It is especially beneficial in case the material is produced in a small workshop with under 10 workers.

4.4.2. Performance advantages

The first reviewed advantage in this part is increasing *responsiveness, flexibility and delivery reliability*. Except one IPO which offers warehousing service, all investigated IPOs use commitment to request suppliers to keep raw materials and products in stock more than their order quantity or make-to-stock with forecast from suppliers. In office X, they keep materials for vendors, suppliers do not have to produce in advance. So, responsiveness of suppliers is guaranteed. When working with suppliers, person-in-charge in IPO can know how many time suppliers need from they receive material to finish production process. So, after combining this time with necessary time to make or change production plan, the IPO know when their suppliers can ship out the orders easily. It has more effects when supply chain has to face to an urgent case, the IPO can know what they have to do to catch plan or adjust production plan of suppliers and main factory to supply finished products as end customer's demand. Moreover, no semi-finished product stock and just in time (JIT) strategy allows the office to use obsolete stocks for

other models or suppliers, thus increase flexibility. One interviewee mentioned that one of the benefits of international procurement system, with shared database and network with offices around the world is a gigantic network of suppliers and product portfolio as well as fastest information transfer. It allows IPO to supply materials in the fastest way even if the purchaser does not know exactly their requirements. For example, if the purchaser needs a machine or material without clear specifications, the IPO can find an existing similar product or request suggestions from supplier network. Another manager mentioned the function of IPO to monitor suppliers without differences in destinations and time zone. They can work with vendors immediately in case of problem in production or delivery.

One responder confirmed that IPO helps *sourcing process become faster* in searching for new suppliers, negotiation and signing contracts, thanks to their huge shared database and networks. Participants agreed that with global database on suppliers and products, IPOs can help them have better suppliers and free right to choose sources from local to overseas vendors. Another expert confirmed that IPO keeps relations and long-term commitments with suppliers. When a new factory needs a new product, they just need to send a quotation to the factory and notice of changing order quantity with suppliers. Another expert said that IPO searches for local suppliers faster than his factory because the team in factory does not have enough knowledge about market and available producers. People from garment company say that they have many Chinese raw material suppliers, some of which are not able to work in English or French. There are many occasions when they let the Taiwan office take responsibility for sourcing in China. However, one interviewee thinks that IPOs do not have much impact on sourcing activities, because her company use central sourcing department in HQ. IPOs only take part in collecting and passing information across parties and HQ will negotiate and finish purchasing contracts.

Regarding material *quality and problem solving*, one participant said that one of the main objectives to establish an IPO is to make material quality better by controlling material flow from raw material to semi-finished product. The IPO also improves problem-solving process by checking before sharing related information. Parties in the chain will not have to worry about the accuracy of information before finding solutions as well as prevent feedbacks and claims for errors. That also improves mutual trust among parties. Another responder mentioned the

effectiveness of IPO's global database. IPOs can apply results or solutions of an existing case in another country to problems in Vietnam market. Expert D said that problem solving process is more effective when there are one more party joins and follows the process. IPO of participant E may improve material quality through choosing better vendors. They understand small suppliers better than the factory does.

Easy payment: One interviewee said that when joining a supply chain system among IPOs, suppliers and factories receive guarantees from each other. In her IPO, the office and Vietnam factory use money transfer instead of L/C or other payment methods. It saves time and cost for operating financial flow. Another expert talked about grouping payment effect of IPOs, which helps her IPO save money for factories by reducing the number of money transfers among parties, especially global transfer across different bank systems. One expert said that IPOs can standardize payment term among themselves, factory and suppliers, which makes financial cycle of companies more transparent and reduce mistakes in paying for suppliers. However, in some IPOs, because the power of the company is strong, it is easy to ask vendors to accept their conditions, so sending money via IPOs take less time and cost. All interviewees confirmed the advantages of IPOs in legal protection since they are specialized in trading job. Their development in contract designs and understanding in import/export policies can help factories avoid problems.

4.4.3. Relationships advantages

IPOs play a role in *simplifying and intensifying the relationships* among suppliers and factories. All IPOs stand in the middle of the process and have standards and rules to represent end customers and HQ to work with suppliers. However, the results show difference in relationship management with local and overseas suppliers. Experts think that the role of relationship management of IPO with overseas suppliers is important. However, regarding relationship with local vendors, some companies said that the presence of IPO makes it more complicated and ineffective. Sometimes, it causes collapse in the relationship. In other words, some companies do not favor that IPOs manage their local vendors. One expert gave an example to prove IPO's contribution to reducing complexity of supply chain. If there is only one factory with 10 suppliers, the presence of IPO will not be necessary. However, if there are 10 factories and 10

suppliers, the network is very complex, and the number of connections is very big. With an IPO staying in the middle of system, the *number of links will be reduced* dramatically. *Strategic relationships will be strengthened* with the appearance of IPOs through increased procurement frequency and volume. However, the advantage is not too important because all international corporations which want to use IPOs have big name and good reputation. Therefore, when buying infrequently or in small orders, appearance of IPO is more necessary.

Interviewees provided some reasons to explain why *cultural distance reduction* role was important in the past but is currently decreasing. There are conflicts between people from different countries, so the firm cannot apply understanding from one to other countries. Using local staffs to work with suppliers is more effective. But in the modern world, it is easy to contact across countries. It is common that when a purchaser receive confirmation from suppliers and IPO, he tends to double check with suppliers, so in some supply chain system, a person in factory keep communication with person-in-charge in both IPO and supplier for a specific material become common. Thanks to these communication, cultural gap among these employees is decrease. In addition, when a company wants to export or import products or services, they must learn global behavior rules. So nowadays, cultural conflicts among parties in international business are quite small.

The *contribution of IPOs to relationship between the firm and other organizations (except suppliers)* and among departments in corporation was discussed in these interviews. All responders think that their IPOs realize the importance of relationship with other organizations such as banks, customs department or internal departments but they do not have clear strategies to approach or they use a third party to represent them. Workshops and training courses are organized but they show noticeable impacts only within the scope of IPOs system, not with other parties. Therefore, all interviewees rated medium numbers for these activities.

4.4.4. Information management

From interview results, it is clearly seen that all targeted firms use IPO as a general information transfer center or an *information sharing platform*. IPO stay in the middle of information flow between the firm and its suppliers. All information is delivered following developed processes with full set of manuals, rules and agreements. In one supply chain, IPO allows factories to

directly contact suppliers to discuss about materials or urgent problems. The role of speeding up communication is limited in normal operations when IPO combines requests from factories and sends once every two weeks to suppliers. It helps supplier's *response faster and more accurately*. Some companies request their purchasers to contact via IPOs. Thanks to short distance and similarity in time zone, these IPOs can follow the case in a better way. However, some experts said that they have a lot of online tools to help them contact producers, such as email, telephone or cross-platform instant messaging and voice over IP service. Connection among factories and local vendors or overseas parties who are friendly with new technology is easier, and "window person" role of IPOs is not necessary.

Interviewees have different perspectives on the importance of IPOs in *collecting market information*. All of them think that the role of IPO is limited to collecting information on available sources or new products/technology. However, each IPO has different contribution based on which industry they are operating in. In this paper, electric IPOs and companies think that they need their trading offices to always look for new sources or broaden their network. Especially, people who are in charge of MRO items think that *expanding supply ability* is a core activity. In contrast, textile companies prefer sticking to their existing suppliers. The automotive IPO confirmed that in its purchasing system, it takes a long time to join the supply chain and supply core products. So, if they need to change sources, they normally contact existing suppliers in their network in advance. For example, when they had a localization project to receive incentives and reduce export barriers, they requested sources from Vietnam brands or request Japanese supplier to invest into Vietnam. Collection of market information in these companies does not receive much attention.

4.4.5. Other benefits

In this part, participants were asked to review advantages of IPOs on risk management, resources approach and branding improvement.

Again, one participant mentioned the global database in *uncertainty and problem management*. The system allows employees to access, check and solve problem together in one platform; solutions and notices are always available to be checked and applied to other cases. Manager H said that IPO can monitor all activities of suppliers and factories and send a warning in advance

if they see any problem. Having one more party to follow problem solving puts more pressure to make it faster. Expert A said that her IPO use warehousing as a main solution. Long term forecast is sent directly from main factory to Vietnam IPO. The person in the office will compare it with forecast from customers to avoid mistakes and bullwhip effect during forecasting or over-ordering for safety stock. Moreover, changes in production plan are noticed directly to raw material suppliers, so mainly all uncertainties in the market will be mitigated in the fastest way. Controlling more than one steps in the supply chain also allows the office to track root causes of any problem, thus improve the time and effectiveness of solutions.

In interviewees' perspective, there are more advantages companies can achieve via IPO, such as approach to technology and products, increased company's appearance in an area or contribution to company's name, reputation and brand. However, they are quite slight and do not get much consideration from managers. A brief result of interviews is presented in Table 6, in which experts rated in the scale from 1 to 9 for the perspective of their organizations on IPO's positive effect. In the scale, 1 means no impact and 9 means important advantages:

Table 6: Results of IPO's advantages evaluation

No	Category	Details	Level	Std.dev
4.1	Cost	Price reduction via bulk order	8.29	1.11
		Lower transaction cost in purchasing processes	7.29	1.50
		Other cost reduction	7.86	1.46
4.2	Performance	Increased responsiveness and flexibility	6.43	0.98
		Increased delivery reliability	7.43	1.40
		Shorter negotiation time	6.71	1.38
		Shorter sourcing cycle	7.00	1.29
		Better vendor selection	6.86	1.46
		Establishment of supply base for both domestic and international makers	6.14	1.21
		Coordination of all overseas activities and entities	7.14	0.69
		Faster and more accurate expediting	6.43	0.53
		Broadened network of suppliers/ availability of sources	7.71	1.38
		Quick problem management	6.43	1.99
		High level of quality control	6.57	1.13
		More legal protection	6.57	1.13
Easier payment	7.57	0.98		

4.3	Relationship	Direct interface with suppliers/stronger relationship with suppliers	7.00	1.29
		Connector between suppliers and customer	7.29	1.60
		Reduced links among suppliers/factories	7.43	1.27
		Create strategic relationships from increasing power of company	7.43	1.72
		Cultural distance reduction	4.71	1.80
		Relationship with other organizations (such as government)	4.86	1.35
		Increased communication among employees from different countries	5.00	2.16
4.4	Information management	Creation of communication channels/standardized communication process	6.29	1.80
		Faster communication channels	6.57	1.40
		Effective communication channels	7.00	1.00
		Platform for information sharing within company and with suppliers	5.71	1.89
		Better market information	5.29	1.38
4.5	Others	Prepared reaction to possible uncertainty	6.29	2.29
		Risk reduction	6.57	1.99
		Buying without customs duties in Free Industrial Zone	1.14	0.38
		Dedicated overseas resources	5.71	1.38
		Greater access to product and process technology	4.43	2.82
		More visibility	3.14	2.19
		Corporate presence in a region	4.57	2.15

All possible advantages of IPOs were examined. The mean indicating how companies perceive impact of sourcing offices varied from 1 to 9. Experts' answers reveal that 13 possible advantages are very important and only 6 are under average level. One possible advantage "Buying without customs duties in Free Industrial Zone (FIZ)" gets the score of 1 (std.dev 0.38) because Vietnam does not legalize the procedure. In the business with the overseas suppliers, normally prices and process differences between factory in free industrial zone and normal are not bring much impacts on logistic line and time.

Similar to information noted in theory part and additional questions in the interviews, financial advantage is the main objective of IPO establishment and operations. Cost reduction through bulk ordering (8.29; rank 1), other cost reductions (7.86; rank 2), easier payment (7.57; rank 4)

and lower transaction cost (7.29; rank 8). The result can be considered as a proof for the theory of global sourcing, offshoring and IPOs that the biggest motivation of the strategy is to adapt to new trends in global economy and against the pressure of cheaper products and services from developing countries as well as to use the advantages of resources in these countries. Following advantages related to finance, the factors of sourcing and communications also get high attention. These advantages receive rates of over 6.5 and most of them have std.dev around 1. It can be seen as a proof of a mutual perspective of various global corporations on the reasons to establish these procurement hubs. In summary, main results show that cost, sourcing and communication are main objectives of the decision.

Besides “incentives in buying in FIZ” was limited by laws, branding contribution and cultural gap reductions advantages received smallest scores, including “more visibility” (3.14) “company’s presence in a region” (4.57) and “cultural distance reduction” (4.71). These results were explained in the interviews that the companies have global brands and huge reputation, so suppliers and end customers concentrate on the operations of factories or stores much more than activities of IPOs. In addition, when in global business, common terms and rules are applied among members around the world, so possible mistakes from the problem are prevented beforehand.

The biggest variation in the interviewees’ responses belongs to “Greater access to products and process technology” (Std.dev: 2.82) and “better vendor selection” (Std.dev: 2.65). Low importance level of “access to new technology” is explained by the difference in the changing speed of technology. Technology level in Vietnam is still low and production process of the industries do not change much. However, in the interviews, some further questions were raised to explain why some companies do not think that IPOs can help them choose better vendors. Two reasons were stated. Firstly, some experts think that IPO is an independent organization from factory, so there are benefit conflicts between IPO and factory, or factory thinks that IPO did not choose the best supplier. Secondly, the gap in interviewees’ perspectives for importance level of better vendor selection advantage of IPO comes from the difference in work distribution between HQ and IPO. In one investigated system, vendor selection and material allocation belong to the responsibility of the headquarter.

4.5. Weaknesses

The aim of this part is to discuss possible negative factors of the decision to help top managers complete their view on the strategy and have better planning or contingency plan for uncertainties. Questions are divided into three main groups: cost, culture and work distribution.

Five types of *cost* are reviewed in interviews: wage, rent, utility, tax and other costs. Using labor and price comparative advantages of Vietnam market, wage and utility costs are not a big problem and do not impact much on material price. However, rent and tax received different perspectives. All investigated IPOs in Vietnam and sourcing offices of reviewed factories are located in big cities, such as Hanoi, Hongkong, Taipei and Singapore. these aspects are provided by experts on the impact of taxes. Firstly, taxes impact directly on price and profit of IPOs. Secondly, tax policies in Vietnam are not stable, so offices must spend a lot on risk management. Finally, Vietnam government has policies and incentives to encourage production of factories. So, some IPOs use factory's relationship and brand to proceed import/export activities and reduce taxes.

To cover operating costs, IPOs use commission fee on every trade they process of 0.5 to 5 percent on sales invoice. In all researched cases, covering cost of IPOs is always a serious problem. One interviewee said that HQ gives support and allows losses of IPO in the first three years. However, from the fourth year, maintaining a stable trading amount becomes a real challenge because IPO's sales quantity depends on global factories in the system. All IPOs put strong pressure to reduce operating costs to employees. In some IPOs, top managers ask for cost-down plan in both short term and long term. In all researched sourcing offices, managers have plan to approach external customers to solve the financial problem and optimize benefits from IPO's core competitive advantages. However, in all IPOs in Vietnam, contribution of new business does not account for important part in total profit.

Discussions show that there is still *cultural difference* in the relationship between HQ, IPOs, factories and suppliers. A participant talked about the conflict in task monitoring and problem solving. His manager requests a lot of reports or problem analyses and responsibility defining before finding a solution while people in Vietnam always try find a solution and solve problem before defining which party take responsibility and fee of solving the case as well as working

to prevent reoccurs. One IPO in Vietnam stated that they do not have any problem in daily jobs, but when sending materials to overseas factories, they face problems related to working time and holiday difference among countries. For example, materials from Korea must be pre-ordered before mid-autumn occasion due to long holiday. It affects global capability and material coordination of IPOs. Some people said that they can feel these conflicts, but they do not impact much on the office's operations.

An IPO works as an independent organization with its own financial cycle, business model and objectives. Although the main idea of IPO establishment sticks to the benefit of the whole supply chain, the office has its own way to evaluate operations and results. In addition, working in a destination which has a lot of differences from the main country leads to a lot of *conflicts among IPOs, factories and HQ's perspectives*. These reasons were noted by experts during the interviews as sources for two problems: inefficiencies in transferring tasks and conflicts in decisions among stakeholders. In fact, conflicts in decisions on sources, amount of orders and problem solving occur in all parties, including suppliers, purchasers and staffs in sourcing hubs. The problem gets the level of threats of about 6.71 out of 9 and is ranked as the second biggest problem in IPO operations. The last problem is reviewed in the thesis is attrition problem in IPOs, which is not too important because these offices are typically located in places where great labor source is available. Managers can easily replace an employee with a new person within notice period. The table below describes results of the section.

Table 7: Results of IPO's disadvantages evaluation

No.	Category	Details	Level	Std.dev
5.1	Cost	Wage	4.57	1.72
		Rent	6.14	1.27
		Utility	5.29	1.38
		Taxes	6.86	1.35
		Other costs	4.71	1.38
		Pressure to get trade amount to cover costs	6.86	1.95
5.2	Culture	Connections/cultural conflicts with headquarter and other IPOs	4.14	1.21
		Conflict with company's philosophy/cultures/working style	3.86	1.57
		Conflict in working styles/culture with suppliers	5.29	1.50
5.3	Work distribution and coordination	Transferring tasks from HQ to IPOs	5.86	1.07
		Conflicts in decision between IPOs and purchasers	6.71	1.60
		Attrition problem	3.86	1.86

4.6. Overall

In the last part of interviews, participants were asked about their perspectives on their company's supply chain operations, specifically how is the current performance, what are main contributions of IPOs, the future of IPOs in the system and how the company adapt with sustainability trend in the modern global economy. The aim of this section is to find new ways to develop the strategy and complete the concept of IPO.

All reviewed supply chain systems receive positive comments from participants. *All of them think that the current supply chain is good.* The main benefit of the strategy is to help firms save cost, improve capacity and flexibility of the chain. Nevertheless, some remarkable points need to be focused on. The First problem is the balance between maintaining long term commitment and keeping competition among suppliers. Giving long term commitment means that it takes long time to replace a key supplier with a new one. There are cases that the vendor does not offer the best quality or have negative behaviors. However, IPOs cannot take reaction in short term because of prior agreements and commitments with suppliers. Secondly, although these

companies are considered to have the most effective supply chains not only in Vietnam but also all over the world, there are fields IPO need to improve, including communication channels, rules and manuals for operations.

Interviewees came up with a mutual perspective that the strategy brings huge benefits to the firm and supply chain. However, all of the experts agreed that suppliers, especially with ones who have their own business power in the network, may not want to work with IPOs. A question was raised during the interviews that how companies can request their vendors to join this system, or in other words, what the firm offers to keep the strategy work. To answer this question, interviewees mentioned their commitment for big purchase quantity to create big orders. By that way, suppliers do not have to worry that other factories in customer's system will order from their competitors. Also, the power of the company is increased, thus vendors are forced to use the strategy. A company creates strict rules and request their purchasers to work via IPOs. If a company wants to sell materials to the factory, it must work with IPOs. In one system, IPO is considered as a great way to sell products into the chain, when potential suppliers can use it as a tool to overcome restrictions in export laws or OEM's requirements in terms of financial status, capability, sustainability, etc. It is especially important if the company is very small but offers unique products. The orders may be spot, and the OEM does not want to remove barriers in business to avoid future problems related to fake sources.

Next questions are regarding the comparison with other global sourcing tools. Experts were asked for their opinions in what makes IPO stand out in comparison with other solutions. Three experts state "*control ability*" as the main reason. Their IPOs can monitor directly inputs/outputs, thus ensure stable price, low risk and high flexibility. One manager mentioned economies of scope and benefits from global network to achieve lower cost and bigger market share. A participant said that: "Although working with trading companies allow the firm to take advantage of their strengths in terms of network and specialized operations, the profit must be shared between the parties. By implementing IPO, the firm can obtain comparable benefits while still earning the whole profit".

During the interviews one concern arises that: does any party in supply chain want to get out of the agreement? In other words, is there any *back-sourcing decision* from members in supply

chain? There is a huge expectation that although IPO is a new and efficient strategy, back-sourcing is a common phenomenon. it occurs in three out of five corporations in the research. The automotive IPO is planning to transfer back from controlling by IPO to the factory in Vietnam since strategic suppliers think that the presence of Vietnam procurement office increases price and communication time. In another system, except core materials supplied by IPOs, the main factory uses their sources for many items or use bidding to get the best offer. One corporation allows purchasers to freely switch between direct and indirect procurement. Specifically, for suppliers with purchasing volume of over 2 million USD, the employee can choose to manage them directly if he thinks that it is better for controlling.

5. CONCLUSIONS

The purpose of the research is to provide a theoretical and practical view on the concept of IPO and how it is applied in Vietnam market. Data for literature review was collected, analyzed and reorganized following the evolvement of the concept in its development history. Although the main concept of IPO is still receiving various perspectives from scientists, a simple understanding and template of strategy was built and examined through interviews between with purchasing experts in global corporations in Vietnam. This chapter is a summary of literature review and empirical study, in which results of the comparison between theory and current situations is used to answer the main research questions. Also, to complete understanding and scope of the strategy, sub-research questions will be answered.

5.1. Main results

The main question “Why do companies in Vietnam choose International Procurement Office as their main sourcing strategy?” was responded by combining answers of sub-research questions, in which sub-research questions of the thesis is considered as major databases of decision-making process, include what strategy is, how to perform it and what is its impacts.

- What is IPO? What are common purchasing tasks operated in IPOs?

The theory part shows the development of the IPO concept. The scope of activities was first limited to sourcing and buying activities. Recently, the concept is developed to a full-service procurement center, which operates sourcing, purchasing, supplier management, logistics and other management activities. In addition, scientists confirmed that the definition is likely to expand in the future. The perception was proved through interviews. Besides sourcing and buying activities, all reviewed corporations assign many types of activities. Moreover, to maximize benefits from competitive advantages and adapt to new requirements from modern global economy, top managers have plan to broaden their services in the near future.

Building an IPO may be similar to establishment of other offshoring offices, which includes three main steps: searching for business opportunities, establishing the office and job transferring. There is one remarkable point: companies do not use a single IPO, they always use a network of procurement hubs. However, through interviews, there is one main difference

between current situation and literature review: location of an IPO. In the theory, IPO was first used to join and manage procurement activities in developing countries, especially in China. Thus, IPO should be located in big cities and in developing countries. But as what the interviews reveal, IPO destination can be anywhere, both developed and developing countries. Also, according to responders, there are two main strategies companies choose to build network of IPOs: following main factories or major sources. In one way, when company sets up a new factory, they will send personnel to establish a sourcing office in the invested area to support the operations of the mill. It can be near or inside the OEM. In the other way, international corporations set up an IPO at the place of sources, and the office will oversee all potential vendors in their management area.

From literature review, 23 activities organized in three main groups were sent to ask for expert opinions. After reviewing activities in the list, it is showed that IPOs still focus on core activities, which is the reasons for their first introduction, including sourcing, purchasing, logistics coordinator, information, supplier and communication management. Other activities such as approaching to government incentives or cooperating in new product development are not applied in all researched organizations. All investigated IPOs appeared have plan to broaden their activities. So, it is not possible to clarify all activities transferred to an IPO based on the theoretical list. Firms should think about their business characteristics and requirements, from that defining which critical skills and knowledge they need and start to expand operations of IPOs. Based on these kinds of information, companies can create a plan which fits their business situation and development strategy in the future.

Before making any decision, top managers need to evaluate impact of the strategy on the firm's business. However, it is challenging for any expert to provide a list of factors and their effects, so a list and guideline was provided during the interviews to help interviewees in evaluation of the importance of impacts. Following is the discussion for the remaining sub research questions.

- What are the advantages of using IPOs?

The most important benefit, according to the experts and scientists, is cost reduction. Goh and Lau (1998), Sartor, et al., (2014) share a mutual perspective about sources of financial advantages, mainly bidding and order combination, in which bidding is more important.

However, experts gave different answers: combination of order and transactions and other transaction cost play a more important. It can be explained by the fact that under high competition pressure in modern global economy, companies cannot work independently, they have to stand closer to create a network. So main focus of procurement strategy of these firms is changing from transaction to relationship benefits. Although bidding and price reduction are still important, researched firms offer opportunities for their vendors to become strategic partners. Sources of financial benefits changed from bidding to incentives of partners and bulk ordering, reducing spending and risk management. Currently, in many companies, core materials are supplied by a small number of fixed vendors, bidding is just applied for spot and infrequent orders.

After benefits of IPO establishment are reviewed, major effects of these procurement offices such as cost, performance, relationship and information. These advantages are quite similar to impacts from sourcing consortia, in which reduced links between parties leads to lower transaction cost and sharing common benefits from lower price and resources utilization. Moreover, the similarity of these phenomenon continues in next stage of traditional IPO, when some of the organizations plan to work with their partner to create procurement joint venture to have bigger power in the market. However, using shared resources may cause problems when few factories over the world have demand on a critical material. So, having a global sourcing center to allocate resources may be a great solution to coordinate benefits and voices among global brands.

These advantages are changing not fixed for all firms. For example, with the introduction of new communication tools like email and VoIP services, sending information via IPOs may be slower than contacting directly. So many factories in the research request direct communication channels, not only in urgent but also in normal situations. Even though it is impossible to define and measure all benefits from the strategy, all companies who want to use the strategy need to think about possible tools to evaluate these factors and use feedbacks to redesign activities to optimize benefits.

When considering new strategy, top managers cannot look only for benefits, they also need to know about possible fees, risks and uncertainties. That is the root of third sub-research question below, when possible negative impacts are reviewed to create balance of impacts of the strategy:

- What are the disadvantages of using IPOs?

Although IPOs bring a lot advantages to firm's business, it is not easy to measure them by indicators. In other words, it is difficult for a company to estimate these effects on financial aspects. In contrast, establishment of IPOs has visible impacts on corporation's operating and material costs due to IPO's operating cost and impact of their commission on material price. To cover operating cost, IPOs requires commissions from 0.05 to 5 percent. Under high cost reduction pressure, these commissions make stakeholders questions the necessity of having IPOs among suppliers and factories. Defining an appropriate commission rate becomes very important, because if the company makes it too low, IPOs will be against huge pressure to keep their operations. However, if the commission is too high, price offered by these offices will not be competitive. In some cases, the firm even receives inquiries about transferring price activities by authorized organizations.

Decision conflicts among HQ, factories and IPOs is another remarkable problem. Although investigated organizations strongly focus on how to distribute works and responsibilities, there are still struggles in daily operations. Currently, any information can be accessed from foreign countries via internet and people from various areas can be contacted directly without any timing delay. If HQ does not give any responsibility to IPOs, or these offices worked solely as information transferring points, their role will disappear. However, if they have their own power in decision making, conflicts in views, culture and key performance indicators among parties can lead to inconsistencies. Conflicts and the invisible roles in network operations are the main reasons why some parties want to remove IPOs. Assigning appropriate power to IPOs is important.

5.2. Limitations and future researches

The name of IPO was first mentioned at the beginning of 1990s, however, only a few articles focused on this concept and its relation to relevant topics such as international sourcing, offshoring and global operation (Sartor, et al., 2014). Moreover, in these studies the concept of

IPO is unclear and mixed with relevant terms. So the first limitation of this topic comes from the fact that the concept of IPO is under development process, in other words, many possible tasks, which could be operated by IPOs, have not been identified and researched. Therefore, companies should use the results of this research flexibly and put the innovation as an important part of IPO operations.

The strategy is made for long-term periods and the establishment of IPO takes even years. Therefore, with limited time of about 6 months for a master thesis, there is not enough time to study about all aspects of IPO strategy. This thesis only focuses on the concept of IPO, the operational advantages and disadvantages of the decision to company's activities, as well as attempts to provide possible tasks, which other companies can follow. Other aspects of strategy suggestion such as implementation, monitoring, and evaluation, are not included.

The third limitation comes from the limited case company. Due to limitation in time and other resources, the research only focuses on companies operating in certain industries in Vietnam market. Although they are international companies having offices and activities in many countries, only activities in Vietnam are analyzed. The paper did not cover all fields in the industry. So, the results of the paper are suggested for related or similar areas or company sizes, since every industry has its own characteristics and requirements.

The first possible way to continue the paper is broadening the research areas. In this paper, due to lack of resources, the research could not study a big number of companies and industries. The next research could expand investigated group of participants. Secondly, changes in technology impact on operations of any company. Thus, the second way to get deeper in the topic is to study how changing global business factors influence operations or development strategy of external procurement offices. Finally, a new trend in global economy has been witnessed that companies want to bring offshored activities back home. Some companies want to bring the jobs of IPOs back to their home country. This can also be a promising topic for future researches.

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APPENDIX

Sample of interview questions:

Theme 1: Company & Interviewee profiles

Q1: Can you introduce basic information about yourself? (Name, company, position)

Q2: Which type does your company belong to? (IPO, trading, headquarter or factory use an IPO?)

Q3: Which industry are your company operating in?

Q4: How many suppliers do you manage?

Q5: Can you describe your network of IPOs? In which geographical area does your company have IPOs?

Vietnam
China
Other countries in Asia
America
Europe
Africa

Q6: What Is your company's global sourcing strategy?

Direct Import
Import via agents
Buying Via IPOs
Mix between direct and IPO Purchasing

Theme 2: IPOs activities

Activities		Level of process (1-9)	Importance level (1-9)
2.1	Supplier management	Supplier selection	
		Supplier monitoring	
		Supplier development	
		Communication channel creation	
		Supplier network creation	
		Technology transfer	
		Long-term commitment creation	
		Cooperation in new product development	
2.2	Supply chain operation	Bidding	
		Negotiation	
		Information flow management	
		Market intelligent collection	
		Intellectual property avoidance	
		Logistics coordination	
		Warehousing service	
		Order distribution	
2.3	Other activities	Sales	
		Promotion	
		Internal advisor (strategy consultant)	
		Approach to government incentives	
		Legal support	
		Contract design (terms and conditions)	
		Recruiting and training	

Additional questions:

Q1: Beside these activities, what activities do you think that your company is working on?

Q2: In your opinion, what value does the IPO contribute to supply chain value?

Q3: Which business competencies and strategic capabilities need to be leveraged to achieve this?

Q4: In your opinion, which activities is the most important to the operations of the company?

Theme 3: Establishing an IPO

Category		Exist? (Y/N)	Importance level (1-9)
3.1	Sending employees to find target location		
3.2	Location choice	Potential sources and opportunities	
		Distance to suppliers	
		Wage	
		Rent	
		Other costs	
		Taxes	
		Labor source	
		Technology	
		Ethics	
		Political stability	
3.3	Recruitment and training	Recruitment	
		Training	
3.4	Work distribution	Clear separate works for HQ and IPOs	

Additional questions:

Q1: What is main factors to consider when choosing location of IPOs in your company?

Q2: What is the difference between establishment of an IPO with that of other functions (sales, production, etc.)

Q3: Does you company give better offers for employees who have language skills?

Q4: Does your company recruit just enough personnel or hire more than needed as a preparation for leave or other reasons?

Q5: Does your companies offer any support to employees (bonus, accommodation, training, etc.)?

Q6: Does your company have any plan to broaden activities of IPOs?

Theme 4: Advantages

Category			Existed? (Y/N)	Important level (1-9)
4.1	Cost	Price reduction via bulk order		
		Lower transaction cost in purchasing processes		
		Other cost reduction		
4.2	Performance	Increased responsiveness and flexibility		
		Increased delivery reliability		
		Shorter negotiation time		
		Shorter sourcing cycle		
		Better vendor selection		
		Establishment of supply base for both domestic and international makers		
		Coordination of the overseas activities and entities		
		Faster and more accurate expediting		
		Broadened network of suppliers/ availability of sources		
		Quick problem management		
		High level of quality control		
		More legal protection		
Easier payment				
4.3	Relationship	Direct interface with suppliers/stronger relationship with suppliers		
		Connector between suppliers and customer		
		Reduced links among suppliers/factories		
		Create strategic relationships from increasing power of companies		
		Cultural distance reduction		
		Relationship with other organizations (such as government)		
		Increased communications among employees from different countries		
4.4	Information management	Creation of communication channels/standardized communication process		
		Faster communication channels		
		Effective communication channels		

		Flat form for information sharing within company and with suppliers		
		Better market information		
4.5	Others	Prepared reaction to possible uncertainty		
		Risk reduction		
		Buying without customs duties in Free Industrial Zone		
		Dedicated overseas resources		
		Greater access to product and process technology		
		More visibility		
		Corporate presence in a region		

Additional questions:

Q1: Besides the mentioned costs, what cost advantages from IPOs benefit your firm?

Q2: In your opinion, which elements are key sources for these achievements?

Q3: Does your company have any plan to boost these benefits?

Q4: Which advantages do you think make IPO stand out in comparison to other strategies?

Theme 5: Weakness

Category		Existed? (Y/N)	Important level (1-9)
5.1	Cost	Wage	
		Rent	
		Utility	
		Taxes	
		Other cost	
		Pressure to get trade amount to cover cost	
5.2	Culture	Connections/ cultural conflicts with headquarter and other IPOs	
		Conflict with company's philosophy/cultures/working styles	
		Conflict in working styles/cultures with suppliers	
5.3	Work distribution and coordination	Transferring tasks from HQ to IPOs	
		Conflicts in decision between IPOs and purchasers	
		Attrition problem	

Additional questions:

Q1: How does your company/IPO cover the cost of IPO operations?

Q2: Do you feel any pressure from IPOs to cover the operating cost?

Q3: Do you have any problem when working with IPOs/purchasers?

Q4: Do you face any conflict in decision with your colleagues from other branches?

Theme 6: Overall

Q1: How do you rate supply chain of company in overall?

Q2: In which fields do you think IPOs contribute to company's operations?

Q3: Is any party (HQ, IPOs, suppliers) likely to move back from IPOs to direct sourcing? Why?

Q4: Do you have any suggestion for better operations?

Q5: Can the company's mindset be described as sustainability-focused?