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**CREATING A LOCAL SUPPLY STRATEGY FOR A FINNISH SUBSIDIARY OF GLOBAL IT
COMPANY**

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Tutkimuksen tavoitteena on hankintastrategian luominen globaalin yrityksen paikalliselle tytäryhtiölle, joka on käynnistämässä paikalliset suorat hankinnat liiketoiminnan kehittyessä ja liiketoimintaympäristön muuttuessa. Hankintojen johtamisen kirjallisuuskatsauksen avulla määritellään strategisen hankintojen johtamisen tasot ja tunnistetaan hankintastrategian elementit. Suurin osa nykyisestä tutkimuksesta keskittyy hankintojen johtamiseen suurten yritysten näkökulmasta, ja tarkoituksena on tutkia sopivatko samat periaatteet pienempien tytäryhtiöiden käyttöön. Empiirisessä osiossa selvitetään case-tutkimuksen avulla yrityksen kypsyyttä ja strategista tasoa ostamisessa, mutta lisäksi kartoitetaan tytäryhtiön tarpeita, rajoitteita ja haasteita hankintastrategiaan liittyen.

Avainsanat: hankintastrategia, hankintojen johtaminen, tytäryhtiö, suorat hankinnat

ABSTRACT

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The purpose of this thesis is to create a supply strategy for a local sales subsidiary of a global IT company that is initiating direct sourcing as its business is expanding and business environment changing. Literature is used for identifying strategic stages of purchasing and elements of supply strategy. Despite of vast amount of research in field of supply strategy most is focused on supply management and supply strategy from large parent company point-of-view. The aim of the study is to investigate whether same theoretical framework applies to smaller subsidiaries. Empiric part consist of case study that seeks to evaluate current stage of purchasing but also to map needs, restrictions and challenges that subsidiaries might face when forming a supply strategy.

Keywords: supply strategy, supply management, subsidiary, direct sourcing

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I close this chapter of my life with very relieved feelings.

Helsinki, May 22nd, 2019.

Meri Kallio

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1. INTRODUCTION

Concept of supply management gained great attention after Kraljic (1983) published his article arguing that due to technological, economic and political changes purchases contribute increasingly to cost of goods sold and thus must become a strategic function within a company. New business trends were reported in academic research. Since 80's the shift has been from "arms-length" relationships towards strategic function of a company. (Baily and Farmer, 1985) Strategic co-operation, vertical disintegration and focus on core competences were increasing (Porter, 1987; Thackray 1986; Hamel et al. 1989; Van Weele, 2010).

Van Weele (2010, 34) argues market saturation and decline have led to expanded subcontracting and turnkey solutions causing gradual shift towards strategic, value creative supplier relationships instead of cost orientation. Cost control skills of management have become critical to the company's financial success and because of significantly increased amount of outsourcing, even majority of these costs can occur from purchases. (Zsidisin et al., 2003).

Some companies recognise supply as a strategic function that can help achieve viable competitive advantage but there is still place for improvement in creating the actual supply strategies. These strategies could improve collaboration and thus create more efficiency and value (Ahtonen & Virolainen, 2009, 277). Even in companies where purchases contribute to a significant part of a company's turnover the need for actual supply strategy can be ignored by management (Lintukangas et al. 2013). Despite of purchasing's increased role strategic transformation progress has been slow (Cousins and Spekman 2003, 27). There is a gap between reality and strategy that occur not because of purchase's unnoticed importance but because of inappropriate strategy or unsuccessful purchasing strategy implementation (Knoppen & Sáenz 2015, 124-127).

There is evidence that evolvement from tactical support to proactive strategic function has contributed to company success in more complex and fluctuating business environment (Monczka et al. 1996; Carr & Pearson 2002). Although, Ellram et al. (1997, 14) also note that purchasing and supply management practices are not automatically key to corporate success if function itself is not integrated with other areas of the organisation and if company is doing poorly in other areas like supply chain, poor distribution strategy and or low quality products and services.

Increased amount of outsourcing has been calling for more strategic purchasing, or more specifically, supply management (Schneider & Wallenburg, 2013, 144).

Since the breakthrough of the strategic sourcing in 1980's, a vast amount of literature exists about more strategic purchasing and purchasing function. Organizing the purchasing function and building suitable purchasing strategy is one of the most researched topics among supply management (Schneider & Wallenburg, 2013). Although, deductive and quantitative methodologies have become common at the expense of qualitative and case-based studies leaving space for replicative studies to generalize the results of previous research in different context and timeframe (Van Weele & Van Raaij, 2014).

In addition, less attention has been paid to subsidiaries of Multinational Enterprises (MNE) that can be size of a Small and Medium-sized Enterprise (SME) locally and don't have resources or need to set up purchasing departments or offices. There might still be need for local supply strategy, depending on the level of centralization set by parent company. MNEs are competing in global market selling their products and services in multiple locations and thus can source locally, globally and intra-MNE depending on the strategic decisions made by headquarters (Athreye et al. 2016).

Subsidiaries have been researched in organisational and management studies especially from performance and power dynamics point-of-view (Morteza & Johns 2015; Oehmichen & Puck 2016, 17) focus being on parent company control and power over its subsidiaries. Subsidiary performance is influenced by the relationship between headquarters and subsidiary and local micro-environment the subsidiary is operating in, but also by its own activities (Christmann et al. 1999, 242).

This thesis seeks to investigate purchasing needs and restrictions from the perspective of local subsidiary combining global and local elements in building a supply strategy and validating earlier results of research. In the process, case company Top Management should gain valuable insight of what sort of supply strategy to implement.

1.1 Empirical background of study

Businesses around the world are facing digitalization and other fast pace technological improvements, probably the most significant ones since Industrial Revolution. As one result, ways of working in offices change. Printing, copying and scanning with devices is diminishing as less information is processed on paper instead of digital environment. In Central and Eastern Europe, 57% of document related processes are paper-based in 2018, however, print volumes are assumed to drop to 50% in only within one year. (Kleu, 2018)

This change heavily affects businesses providing office printing devices and services. Facing digital disruption, print manufacturers that have been focusing on hardware and Managed Print Services are forced to refocus their propositions by creating new products and software, expanding the partnerships outside the industry (Fernandes, 2016; Kleu 2018). Worldwide shipments of copiers, printers and multifunction devices have decreased 26% in last nine years as per of 2016, Western economies adapting to digital processes making manufacturer sales decline (Nikkei, 2018). Global multi-function device manufacturer and managed print service market is competitive and there are few multiple global players in the field accounting for the majority share of the overall market, the largest ones including HP, Canon, Ricoh, Xerox Corporation and Lexmark (Grand View Research, 2018).

Having strong roots in own production plants, many companies have focused on selling products, spare parts and later on services but markets begin to be saturated so move towards integrated solutions combining all elements are emerging (Windhahl & Lakemond, 2006, 806). Their core business shrinking, some companies have made a strategic decision to seek new areas and lines of business. This transformation means rising need to acquire products and services from third parties and partners putting a subsidiary in a position they need to start establishing supplier relationships locally.

Mintzberg & Waters (1985, 257), state strategy is “*a pattern in a stream of decisions*”. Strategies consist of strategic planning, strategic thinking and opportunistic decision making. Strategic planning is about collecting and analysing data, producing raw material for two latter processes. The idea is to create sustainable advantage over competitors by designing an integrated set of actions. (Gluck 2014) Hespig & Schiele (2015, 138) add that it is hard to create one overall strategy for purchasing function and hence a diverse set of strategies and sourcing tactics are needed for different suppliers.

According to Burns & Stalker (1961) changes in environment make companies change and due to unique context created by time, space and environment there is no one best way of organizing and appropriate solution depends highly on context and environment and that need for change in strategy rises from the changes in environment. Certain needs, restrictions and challenges emerge from business context that need to be taken into account when creating a supply strategy. In addition, the current level of strategic stage will define recommendable actions and plans for the case company. Understanding where the company is now and what it wants to achieve helps Top Management to make correct strategic choices. (Figure 1)

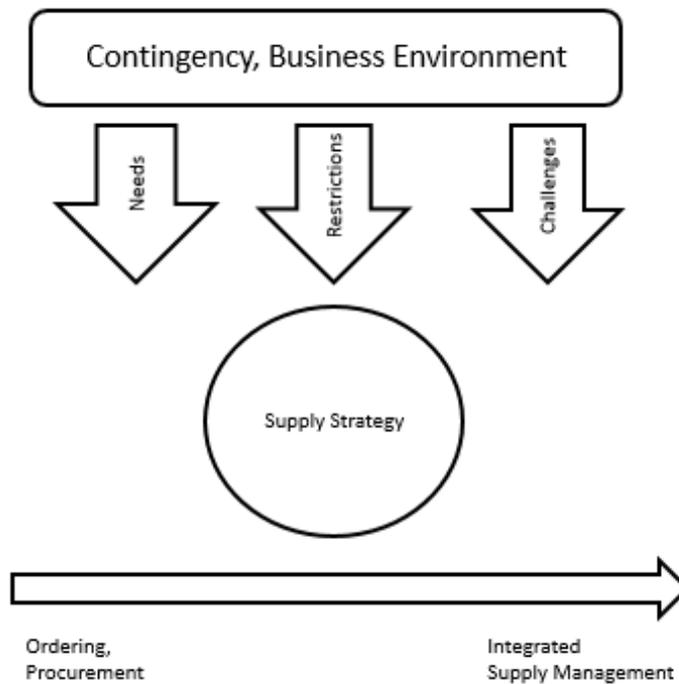


Figure 1: Outline of thesis.

Contingency and business environment create the basis of the study. These need to be mapped in order to understand needs, restrictions and challenges in purchasing in the case company. Based on these factors it should be possible to create an appropriate supply strategy. With the help of created supply strategy, case company should be able to improve their purchasing from transactional and reactive ordering towards more integrated supply management. (Figure 1).

1.2 Research questions, objectives and limitations

Research questions frame the quite wide topic of effective and well-functioning purchasing. Supply strategy might have specific restrictions regarding independent decision making in parent-subsidary setting where Europe's parent organisation may have binding contracts or other requirements.

The needed focus is especially in direct sourcing. Direct sourcing means products and services provided by suppliers and used directly during production whereas indirect sourcing relates to goods and services needed by internal groups in the company (Monczka et al. 2005, 10). Strategy should be detailed enough to be used on operative level and should ready to be implemented after Top Management review. Organizing purchases has been researched extensively. Yet, e.g. Schneider & Wallenburg (2013) conclude that there is still room for

research and gaps in existing knowledge since the strategic importance of purchases is still growing and the environment is not static but in constant change.

The main research question in this thesis is:

- *How to develop and form a supply strategy for a small subsidiary?*

Functioning supply strategy consists of multiple elements and requires understanding of current status of purchasing in the case company. Thus, there are two sub-questions for the research. First of all,

- *What are the elements of supply strategy?*

There is lot of theoretical discussion of what is meant by supply strategy and research of the topics that should be considered by the companies. In order to create a supply strategy, one should understand from which elements it consists of. There is a huge amount of existing research and literature on how purchases should be organised. Thus, the theoretical focus will be on these elements and accumulated knowledge instead of one major theory in the field of Economics. Literature includes many aspects from buy or make -decisions to employee skills, from purchase order information flow to centralized buying offices. However, including the correct elements are not the only determinants of successful strategy implementation.

Hence, other sub-question is:

- *What needs and restrictions do subsidiaries have regarding purchases?*

In order to answer the research question, it will be necessary to map the specific surroundings of the case company. Changes in environment urge the company to change in order to adapt. The last sub-question, most interesting from the case company perspective would be

Based on the elements of supply strategy, location of the case company in supply strategy development continuum and specific needs and restrictions of the case company should form the frame for appropriate supply strategy that should be applied in the case company.

Full, individual supply strategy cannot be created because parent company is partially making these decisions and controlling sourcing. The focus must be on operational level to some extent. On the other hand, some strategic elements are possible to be included. Because local subsidiary is a combination of scarce resourced SME and global company complexity also its purchase strategy and sourcing organisation consist of mixed elements.

Boundary setting between external and internal resources provides the frame. In this thesis, all supplies acquired from parent company will be viewed as internal and supplies acquired from third part external. Subsidiary is obliged to purchase products from the parent company. Also part of its resources (e.g. ERP system) comes from the parent company. However, purchasing policy and supply strategy will not be created on corporate level. The purpose of this study is to find a balanced process from subsidiary's point-of-view, taking restrictions and resources into account.

Capability development, Risk management, power-dependence in relationships and performance management are an important part of Strategic Supply Management. However, here the focus will be on how to organize the purchases and identification of strategy elements and needed capabilities. Before implementing these elements company will not be able to develop supply management and follow performance.

1.3 Research methodology

Because purchasing is currently highly de-centralized in the case company and no common rules exist, at least on local level, no one has holistic view over the company's situation and needs. There were no assumptions what the emerging themes would be. Using deductive approach and having assumptions of the areas of focus would have led to a situation where important key focus points could have been ignored. Thus inductive approach was chosen. In inductive approach to data analysis themes emerge from data and only area of study is chosen (Strauss & Corbin, 1998, 12). Data collection was carried out as semi-structured interviews. There will be certain topics that will be discussed with each informant but there are no ready options or specific questions. Financial and strategic data (such as policies, AP reports, supplier lists and presentations) were used to complement and deepen the understanding of current state of purchases and the scale and scope.

Research question is multi-dimensional and the goal is to create new process or policy based on current needs. Hence, a qualitative approach was chosen. By limiting the research scope too much and excluding areas that affect supply strategy and purchases, important needs that company and its functions have, could be limited out. The study will be a single case study researching specific organisation in specific situation and environment.

1.4 Key concepts of the study

There are several focal concepts and terms that will be used and discussed in this thesis. It is important there is clear understanding on what is meant by the terms since there are many definitions for the vocabulary used in field of purchasing.

Supply Strategy is a concept extended from purchasing and sourcing strategy which often only refer to management of flow of products and services. Supply strategy includes whole supply process and should always be based on objectives and business realities of a company and thus be integrated into other strategies of the company (Lintukangas & et al. 2013, 398). Christine et al. (1999, 663) define the concept of supply as “*holistic approach to managing operations within collaborative inter-organisation networks, allowing the formulation and implementation of rational strategies for creating, stimulating, capturing and satisfying end customer demand through innovation of products, services, supply network structures and infrastructures, in a global, dynamic environment. Collaboration is not defined in a restrictive sense; strategies may range from close interfacing (verging on integration) to marriages of convenience.*”

Subsidiary is an operational unit that is located abroad and is controlled by the Multinational Enterprise (MNE) (Birkinshaw & Jonsson 1998, 223). This definition applies well to a case company of this thesis because it is Finnish affiliate of its European parent controlling all such local companies in EMEA region. Furthermore, the case company operates in all continents and corporate headquarters is in Japan.

Direct sourcing refers to the products and services provided by suppliers and used directly during production whereas indirect sourcing relates to goods and services needed by internal groups in the company (Monczka et al. 2005, 10) and is not used directly in company’s own offering, such as office supplies (Gadde et al. 2011, 188).

1.5 The structure of the thesis

Thesis includes both theoretical and empirical part. First, the background and scope of study including limitations and key concepts are introduced. After that, theory follows. Theory builds on the frames for the topics that are covered and researched in empirical part. (Figure 2)

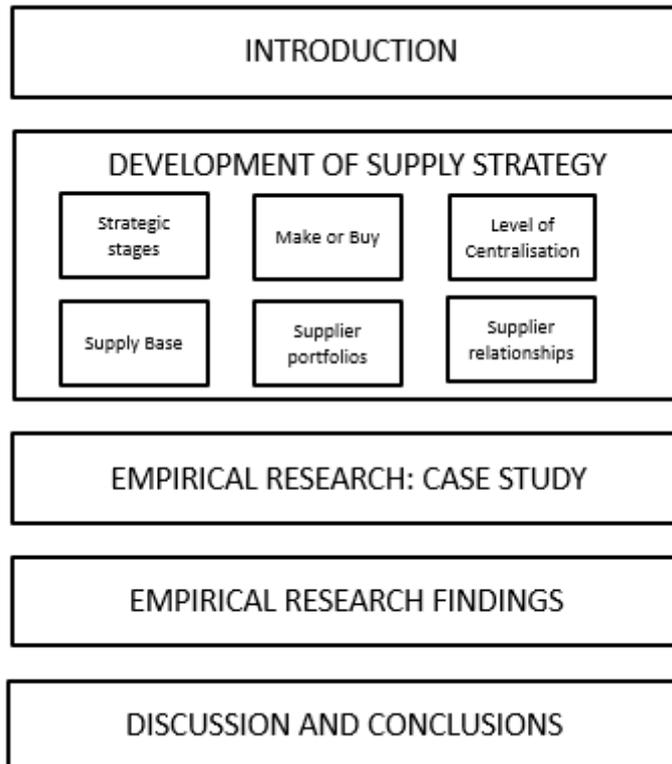


Figure 2: Thesis structure

Figure 2 shows the structure of the thesis. Theory part is a traditional literature review discovering what an organisation should take into consideration when they start to develop their purchasing and what has been written about the elements of supply strategy. First, development from dyadic arms-length procurement to supply management will be introduced shortly in order to understand the difference between two terms. The strategic development of supply management from history, organisation and strategy-level point-of-view in order to give understanding of the continuum on which the field of supply management, companies and strategies move. Secondly, theory of different elements of supply strategy are reviewed and discussed. These two parts together should answer some of the research questions in general level. Empirical part will map needs, restrictions and challenges of the case company and should reveal the current status of purchasing. Findings are then reported. The specific operating environment of the case company enables putting the theory in the context and case study findings are mirrored to theory. After that, discussion and conclusions are drawn to answer research questions and give recommendations of supply strategy in case company.

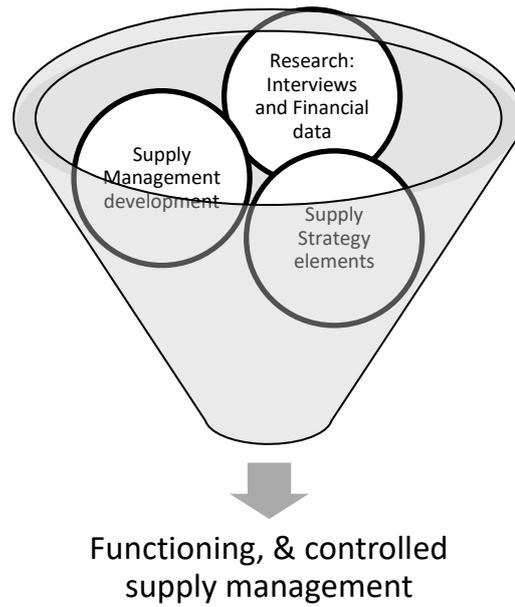


Figure 3: The research process

Empirical part is to research specific situation in specific environment to understand needs, restrictions and challenges in the case company. Empirical part material consists of decision-maker and stakeholder interviews, financial data and other corporate documents. After completing these stages it should be possible synthesize the data with theory, answer the research questions and develop an appropriate supply strategy for the case company. (Figure 3).

2 DEVELOPING A SUPPLY STRATEGY

The evolution of procurement can be seen to walk hand in hand with western industry development. For example, in 1900s purchases were often 20% of corporate expenditure whereas in the end of 1990s the figure could account for 50-70% (Morgan, 1999, 72). If indirect sourcing was taken into account, by 2010s figure could be 30-60% on IT spend alone (Luzzini et al. 2014) This indicates companies are focusing more and more on their core competences. In the beginning, established purchasing departments strictly followed the rules and regulations set by accounting function. As the years passed by, inventory and cost management responsibilities came along and purchasing was not seen purely as a hands-on task to fulfil orders. In 1960's, department and function boundaries started to diminish and integration of production planning, purchasing, logistics and distribution emerged. (Morgan 1999, 73-85)

Purchasing and Supply Management (PSM) research stresses the proactive approach compared to traditional procurement. Procurement and purchasing functions were earlier about dyadic customer-supplier "arms-length" relationships and simple business transactions but since 80's the shift has been towards strategic function of a company (Baily and Farmer, 1985; Christine et al. 1999). Purchasing became supply management highlighting cooperation with other functions to ensure competitive pricing, quality and eliminating waste shifting from fulfilling last minute requirements reactively to working with chosen, actively managed suppliers (Morgan, 1999, 90). According to Trent (2007, 4) purchasing has traditionally been reviewed as reactive transactional function inside the organisation focusing on prices and raising orders. These transactional activities include negotiation, actual buying and research.

Supply management can be viewed as a cross-functional and proactive process that involves suppliers and active management of supplier base (Trent, 2007, 4). Due to cross-functionality, there are complications in sourcing process without strategic alignment with company and sourcing strategy. Hence, common sourcing strategy needs to exist among functions to enable strategic sourcing decisions. (Moses & Åhlström, 2008, 97-98).

Supply Management differs from purchasing and means developing deeper collaboration with suppliers and being more progressive than traditional purchasing (Monczka et al. 2005, 8). By 1990s, strictly bordered functions with own tasks were conflicting with current processes taking place in business. As solution to this, Business Process Re-engineering was introduced in field to match processes and organisational structures. (Morgan, 1999, 90) Purchasing approach does not work anymore. Performance of a company is dependent on the performance of its suppliers and effectiveness in purchasing activities and purchases cannot be seen as

separate, isolated processes. (Gadde et al. 2011, 15) Thus, linking each step with each other, from customer need mapping to R&D to order fulfilment process is essential to create what is called integrated supply chain providing a value stream delivering value to end customer (Morgan, 1999, 94). This reorientation, driven by changes in business environment and thus cost structures in companies, has lifted PSM from transactional activity to strategic and important function. The role of supplier relationships and supplier management has become evident. (Araujo et al., 2016, 18) Long-term planning, collaborative supplier relationships and supply management capabilities all contribute to status of purchasing and supply management (Lintukangas et al. 2010; 192).

Theory and practice have shown that make or buy decision, core capabilities and competencies, supplier relationships and supply base management, centralization and decentralization and collaboration are the main elements of supply strategy (Ahtonen & Virolainen, 2009, 276).

Supplier related practices can be divided into internal integration and governance, supplier screening and development on chosen focus areas and external governance including inter-organisational collaboration. Based on activities performed in each dimension certain supply management profiles can be created. Some of the companies favour a proactive approach to supplier management. Compared to other profiles, who also have a supply strategy in place and who manage their suppliers actively by screening and governing, development related activities are highlighted. Proactivators are awarding excellent suppliers, share best practices with their suppliers and build supplier capacities in long collaborative partnerships. On the other hand, they are less likely to engage in collaborative initiatives with competing companies to protect their competitive advantage. (Akhavan & Beckmann, 2016)

2.1 Strategic stages of purchasing

Four different strategic stages of a purchasing function can be identified. Stages are passive, independent, supportive and integrative. In stage one, there is no strategic direction and all actions are reactions to the requests from other functions. In independent stage, some purchasing techniques and practices are in use but the strategy is not aligned with corporate strategy. In supportive stage purchasing and corporate strategies are aligned, purchasing function using techniques practices that support company to stand up in competition. Integrative stage means that purchasing strategy is an integrated effort to achieve competitive advantage. (Reck and Long, 1988, 4)

Trent (2004), suggests companies have to excel in four enabling fields before sophisticated and advanced supply strategies can be implemented: in measurement and evaluation, IT, HR Management and organisational design. Even though there can be more tempting supply management topics, effective organisational design should not be overlooked by managers.

It is important that purchase and supply management best practices are integrated within the organisation and supply chain in order used practices to be successful (Ellram et al. 2002, 14). Knoppen & Sáenz (2015, 127) suggest that a gap between supply reality and strategy is caused by pitfalls between purchasing involvement and capabilities development: no time for reflection, lack of scale and scope and unaligned incentives. Supply function must be aligned with company's strategy and organisation structure, which is influenced by environment. There are pros and cons in each organisational structure and the challenge is to capture maximum benefits and minimize the disadvantages of chosen structure in order to create efficient and effective purchasing function. (Johnson & Leenders, 2001, 10-11)

Like Reck and Long (1988) did in company level, Monczka et al. (2005, 196) identify four stages in evolving sourcing strategies. Phases start from basic progressing towards fully integrated supply chains. In the beginning, focus is on quality and cost, longer-term contracts, leveraging volumes where possible, supply base consolidation and supplier quality focus. In between there is moderate development and limited integration. In these phases company has usually centralized purchases, is forming ad hoc-supplier alliances, optimises existing supplier base, begins to source internationally progressing towards global sourcing, forms cross-functional sourcing teams, considers Total Cost of Ownership issues, takes bigger role by developing supplier's capability and parts/service standardization. In fully integrated phase the whole global supply chain has been integrated, early sourcing and E-Systems.

2.2 Make or Buy decision

Transaction Cost Economics suggest there are optimal boundaries for firms, in supply market meaning decision between market and hierarchies and certain governance structures that help organisations to function effectively and minimization of transaction costs will lead to success of a company (Williamson, 1975; Coase 1937). Make or buy is a decision between making in-house or purchasing from suppliers, setting the company boundaries. Buy decision does not mean only transactional buying but can also refer to joint ventures, vertical integration and co-operative partnerships (Saunders, 1997, 156). The decision affects company's power balance and its control over human employment and physical assets. (Saunders, 1997, 156). Value is

always a trade-off between sacrifices and benefits (Walter et al. 2001). Make or Buy decision has thus focal significance in supply management.

Shift to global economies and ever increasing demand to efficacy and operational improvement has led to an increased amount of outsourcing but at the same time, it means company is losing value as its giving away its tangible and intangible assets. (Schwarzwaelder, 2001, 4) This can lead to a risk company is losing its core value that they were making extremely well compared to their competitors. This raises question whether outsourcing has gone too far paralyzing the companies in the name of cost-savings. (Doig et al., 2001) On the other hand there is also value-creation potential of supply management if done right by understanding company's end customers, seeing supply management as strategic function collaborating with suppliers rather than as executor of arms-length supplier relationships. By managing these relationships effectively and seeking for new collaborations companies can create value instead of losing it. (Kähkönen & Lintukangas, 2012)

Some research suggest 'make' option might benefit company more because of knowledge loss and increased dependence on suppliers (Fine & Whitney 1996; Harrigan 1984; Hayes & Abernathy 1980) although they do acknowledge the complexity of the issue and the dilemma with 'one-size fits all' approach. At least as many indicate 'buy' as relevant alternative when suppliers are managed properly and focus is on collaboration and knowledge sharing instead of just cost savings (Robert et al. 2005; Schwarzwaelder 2001; Sundquist et al. 2015).

Quinn & Hilmer (1994) suggested that companies should outsource resources that are not strategically critical and focus on its core competencies. Core competency can be defined as set of knowledge or skills that is unique to competitors is limited in number, hard to imitate and in area where the company can dominate and can leverage the whole value chain profiting customers in the long run. (Quinn & Hilmer, 1994, 45-46) According to Leavy (2004, 20) two largest risks of outsourcing are losing key skills of potential future competences and/or doing it at wrong time in industry's evolution. Company considering outsourcing needs to be aware what differentiates them from others and what are the main value drivers of their own: customer intimacy, product leadership or operational excellence. On the other hand, premature exit from the market can lead to an unwished dependency on chosen supplier. This is especially important in technology driven markets.

Most supplier markets are not perfect e.g. in terms of price and quality. Outsourcing always includes transaction costs related to searching, bidding, contracting and controlling suppliers and can sometimes exceed the costs of keeping activity in-house. Managers should consider how likely company is to gain competitive edge if outsourcing is not done and what is the level of vulnerability if outsourcing fails. Secondly, managers should think how to mitigate

vulnerability by e.g. contracting suppliers. E.g. if there is high in-house knowledge and skills to create value in-house to the markets and failing this would lead to high vulnerability it might be best to keep activity in-house whereas strategically low activities with low likelihood of developing competitive edge should be outsourced (figure 4). (Quinn & Hilmer, 1994)

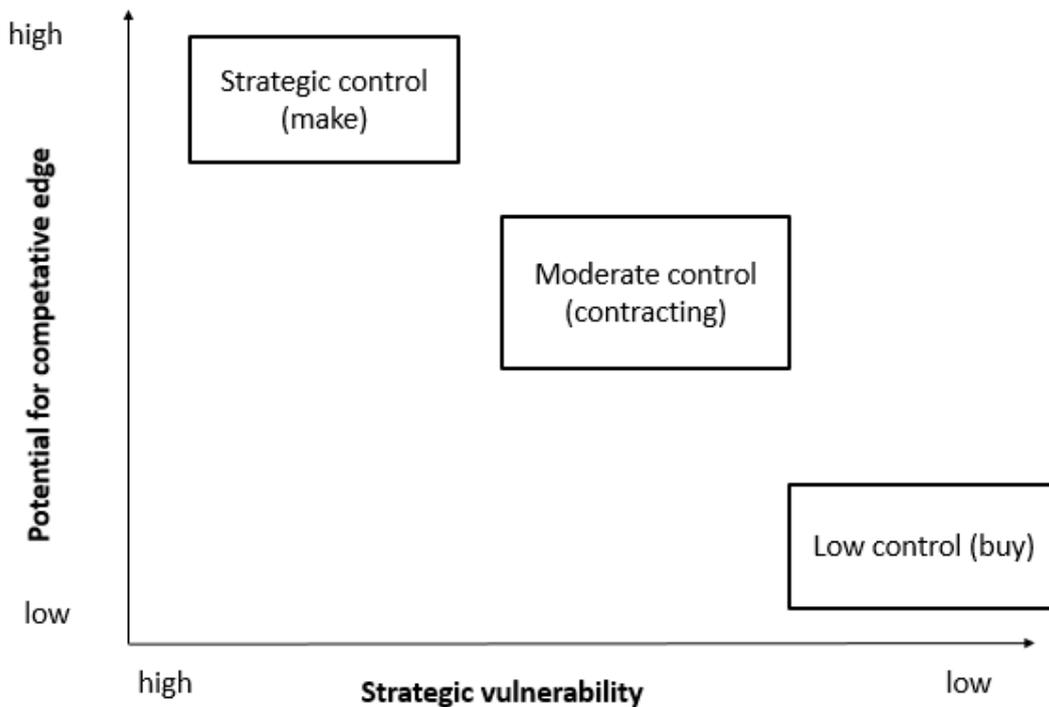


Figure 4: Competitive Advantage vs. Strategic vulnerability. Adapted from Quinn & Hilmer (1994)

Blomqvist et al (2002) view make or buy decision as continuum of partnership options where suitable choice is defined by vulnerability, asset specificity and amount of trust between partners. Like Quinn & Hilmer, Blomqvist et al. also identify other options by contracting between these two options, such as co-operation and joint ventures that equal the risk taking but is not fully vertical integration i.e. hierarchy option (make). Figure 5 describes the continuum of options and shows the firm boundaries in each case. Static transaction costs refer to costs related to asset specificity, dependence on asset holders and opportunism. Dynamic transaction costs are learning costs of suppliers and outsourced activities. Static management costs occur from monitoring and research & development related costs. Dynamic management costs are born from negotiations and teaching costs. In market option, all activities and transactions are performed by partners outside the firm boundaries. Both transaction costs are low but on the other hand, both management costs are high. There is no large risk of opportunism and strategic vulnerability but outsourced activities have higher management costs. Co-operation and joint ventures decrease the amount of vulnerability and opportunism by creating dependence and trust between the partners thus decreasing

management costs but increasing transaction costs that are now partially kept in-house and require investments. In the other end of continuum is hierarchy option that gives better control over assets hence resulting in lower management cost. Now all transaction costs are high because all knowledge and learning happens inside firm boundaries. Choosing one option always means trade-off between transaction and management costs.

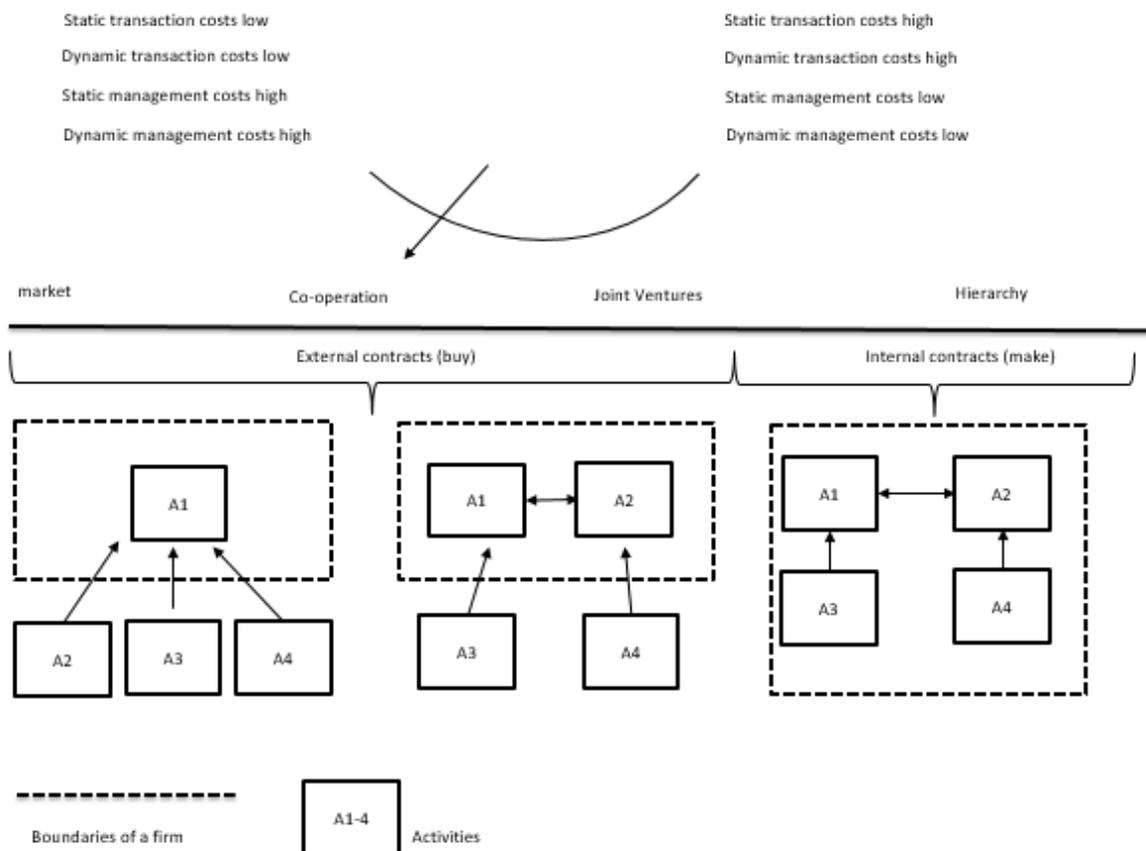


Figure 5: Continuum of partnership options. Adapted from Blomqvist et al. (2002).

Blomqvist et al. (2002) state market option should be chosen when there is minor complexity in terms of asset specificity and risk of opportunistic behaviour, there is large amount of partners available and transactions are not requiring special investments. Vice versa, vertical integration is preferred when complexity and risk of opportunistic behaviour is high, assets are of high specificity and when there is no trust to large extent between partners. Preferred choice depends on situation. Benefits from market option are smaller investments in specific assets, increased diversity and resilience, economies of scale, efficiency through strong competition and limited risk. Different kinds of partnerships let each party focus on their core competence

thus resulting in improved quality, allow coordination of knowledge, risk is shared between parties and shortens time-to-market. Hierarchy option benefits include economies of scope through learning, controlled and effective management of assets, efficient communication and exploitation of power.

2.3 Centralization, decentralization and consortium sourcing

Once company has decided to go to the market option with certain activities, coordination or centralization of purchasing activities is considered as a next step of making purchasing function more professional and thus developing a supply strategy (Spekman et al. 1999, Faes et al. 2000, 541). The debate around organisational issues focuses highly on degree of centralization (Arnold, 1999, 168).

Centralization and decentralization refer to decision-making structure in the company. Centralized purchasing in its extreme means fully controlled purchasing whereas fully decentralized purchasing refers to the level where anyone in the organisation can make buying decisions and supplier selection. In between some acceptance levels and limitations have been created. Centralized purchasing often refers to the system where purchases and supplier management have been focused to one business unit, often procurement department. Pros of centralized buying are coordinated purchase volumes, reduced amount of duplicated work and coordination ability. On the other hand, decentralized purchasing allows flexibility, speed and responsiveness. Staff also often has better understanding of operational realities and a company can assume committed ownership from its employees. (Monczka, 2005, 145-149)

In their study Matthyssens & Faes (1996) collected data from both company headquarters and local entities and identified similar advantages and disadvantages. The results show arguments in favour of centralization were seen as disadvantages in decentralization and vice versa. Those pro centralized purchasing were highlighting unified power which leads to stronger negotiation position with potential suppliers and economies of scale. Similarly, by centralising, purchasing related knowledge lead to better view of global supply market and efficient use of available skills. Centralization can also remove need for duplicate administrative work keeping management costs and need for administration lower. Those pro decentralization mentioned fear of losing cost control and better understanding of markets and local needs. This would be actually leading to better local fit and overall quality of suppliers and better terms. Also motivation of local purchasers were deemed better if they had ability to affect their job and make actual choices. (Figure 6).

Arguments pro centralised purchasing	Arguments pro decentralised purchasing
<ol style="list-style-type: none"> 1. Stronger negotiation position: better prices and terms 2. Economies of scale: uniformity in terms of group purchasing and procurement strategy 3. Global supply view: Subtle view of the market 4. Purchasing skills: Effective usage of available skills 5. Reduced Management costs: less administrative work and purchasing organization expenses 	<ol style="list-style-type: none"> 1. Local Management autonomy: Having control over important cost items they are responsible for 2. Local requirement fit: Close cooperation between buyers and users 3. Local supplier usage: fast service, possibly better overall terms, goodwill 4. Motivation of local buyers: Better

Figure 6: Arguments in favour of centralization and decentralization. Adapted from Matthyssens & Faes, (1996; 503-504).

Despite of consensus about benefits of each option business environments are complex and company can rarely choose one option over other. They usually need to find a suitable balance between the two options and in many companies, combination of centralization and decentralization is used (Ahtonen & Virolainen, 1999, 267).

Both centralization and decentralization are actions and organisation of purchasing happening inside company and its departments. Both are about relationship management with suppliers. (Essig, 2000). Consortium sourcing refers to horizontal cooperation or symbiosis between companies in order to achieve benefits such as lower buying and management costs, i.e. economies of scale and more efficient exploitation of human capital (Tella & Virolainen, 2005, 162). Consortium sourcing is not widely used but it can be one tool in efficient supply strategy execution (Essig, 2000, 20).

2.4 Kraljic's matrix and portfolio models

In 1983, an article called "Purchasing must become Supply Management" was published in Harvard Business Review. The article has become a corner stone in the field gaining much attention but also critics. In the article Kraljic (1983) introduced a quadrant called Kraljic's matrix classifying purchases and suppliers based on the complexity of supply market and

importance of purchase / supplier. There are numerous ways and modifications to Kraljic's matrix and ways to classify purchases and suppliers. Model has been developed further by researchers towards buyer-supplier relationship management and has also been widely adopted by practitioners due to its quite simple and easy-to-implement nature (Dubois & Pedersen 2002, 35-36). The main purpose of the portfolio models is to identify items that can cause problems and risks. Portfolios help to understand and prioritise items that need attention and problem solving. (Gelderman & Semeijn, 2006, 213)

Different portfolio models have been popular. They are often quadrants that place suppliers on some scale based on two different variables. Supplier portfolio models derive from idea that based on company purchase and supplier relationship analysis the complexity and power relationships can be revealed, based on which action plans can be developed in order to better manage the supplier base (Olsen & Ellram, 1997, 103-108). In addition to supply base, there is often large variety of acquired products and services in the companies, each of them having specific requirements and challenges. Also purchased items and services can be categorized into raw materials, supplementary materials, semi-manufactured products, components, finished products, investment goods and capital equipment, maintenance, repair and operating materials and services. (Gadde et al. 2011, 20)

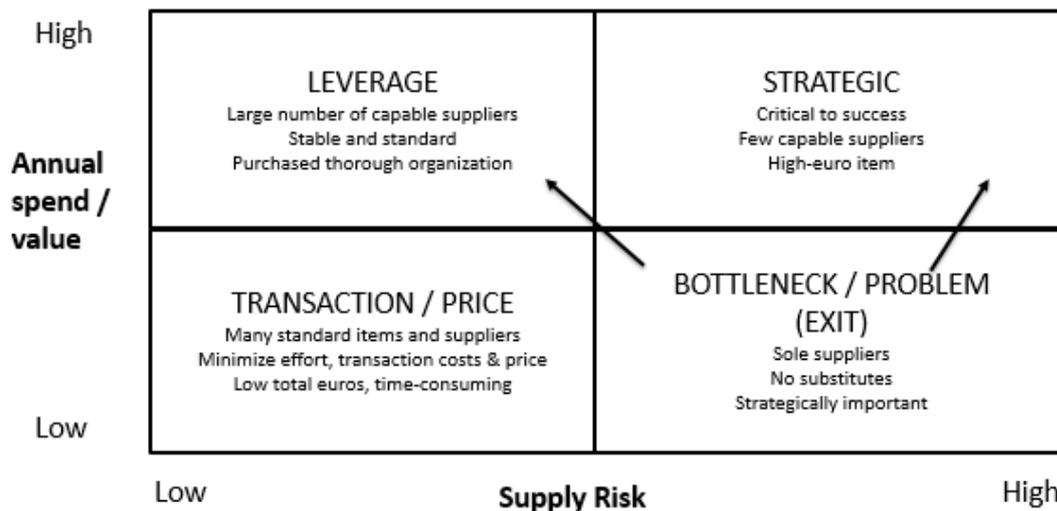


Figure 7: An example of portfolio model based on Kraljic's matrix. Adapted from Monczka et al. 2005.

One example of such classification is shown in figure 7: Suppliers are categorized based on annual spend and supply risk and then all transactions and strategic management actions are

taken based on the classification. E.g. not much effort should be spent on transaction/price suppliers; instead, the sourcing process should be as automated as possible. Regarding strategic items it makes sense to build strategic collaboration and good relationships. On the other hand, bottleneck items can be bought only from sole suppliers meaning there are no options. In this case, company should try to find more suppliers or standardize purchases because of dependency and negotiation power supplier has over the buying company. (Monczka et al, 2005, 178-179) In strategic quadrant, buyer's strategy options involve maintaining partnership, accept locked-in nature of it or terminate the relationship. With bottleneck items, dependence can be either accepted or buyer can try to reduce dependence and risk. With leverage items, buying power can be exploited or initiative to form a partnership can be used. Non-critical items are of less importance and hence pooling of requirements or individual ordering can be allowed. (Caniels & Gelderman, 2005).

Hadeler & Evans (1994) use similar quadrante approach forming the square based on complexity of the product and value potential. Supply Management often refers to strategic partnership and advanced level of supplier management as key to success. However, no company is able to form partnership with every supplier used. Strategic partnerships usually involve high management costs that can exceed the benefits. Hence, classification is needed. If product is not very technical in nature, specifications are not of high importance and value is low, simple contracts with least possible management cost should be used. On the other hand, product complexity and specification can be high but spend on them still low. The recommendation is to build close relationships with suppliers and seek the most innovative and proactive ones in their field. Global trading comes to place when spend on asset is high (such as raw materials and chemicals needed in production) but complexity still low, product differentiation between brands being in minimum. Here global view of supplier market can be worth the effort.

Qualitative case studies and questionnaires among purchasing professionals are supportive towards portfolio models that are deemed showcasing professionalism and progressiveness of purchasing function. (Gelderman & Van Weele, 2005) Portfolio approaches can help company allocate its scarce resources (Olsen & Ellram, 1997). They can provide company with framework to understand its suppliers and allow company to better focus on its supply strategy (Hadeler & Evans, 1994).

Portfolio model is a popular tool when developing a supply strategy and its usage is considered to show sophistication of purchasing function in a company but it has also gained a lot of criticism. This criticism often derives from conceptual and theoretical studies pointing out e.g. measurement issues such as actual definition of high and low supplier risk, weighting of the

factors and two-dimensionality of models simplifying complex environment de trop. (Gelderman & Van Weele, 2005) Costs savings of 10-20% have been reported by using Kraljic portfolio model as basis of purchasing decision, however, in long-term this led to difficulties because innovation and skills of suppliers decreased due to focus on price (Cousins & Spekman, 23).

2.5 Supply Base

Supply base optimisation is one of the lowest in complexity and basic procurement activities that affect supplier quality, often meaning reduction of the supplier amount (Trent & Monczka, 1999, 931). In fact, this should be a conscious choice and one of the first decisions that needs to be made regarding suppliers (Svahn & Westerlund, 2009, 174). Supply base optimization means choosing the right number and mix of suppliers trying to achieve as functional and effective supply base as possible (Trent, 2007, 174). High performing companies appear to have supply strategies in place and consider their supply base being a valuable resource (Spekman et al., 1999, 113). There are multiple combinations that company can use to optimise its supply base (figure 8).

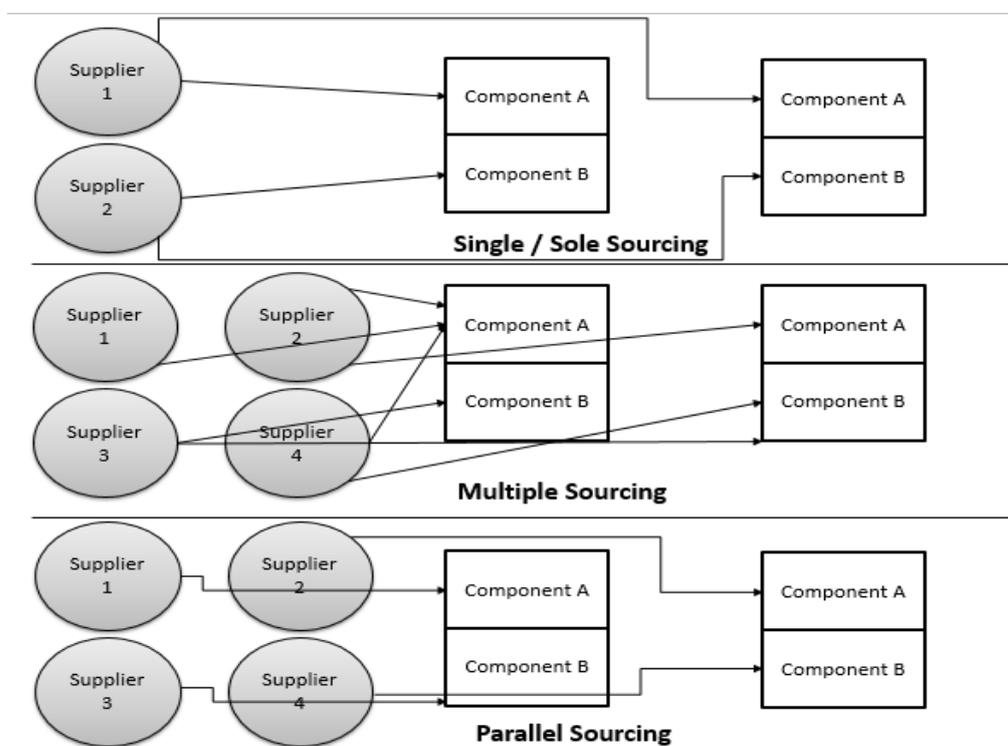


Figure 8: Alternatives of sourcing strategies. Adapted from Richardson, 1996, 343.

Minimising size of supplier base seems to have positive impact on purchasing efficiency (Seshadri, 2001, 303). Number of suppliers used often links to concepts of sole, single, multiple and parallel sourcing. Sole sourcing means acquiring certain asset from only one supplier available on the market, thus building on quality and long-term strategic partner-like relationship with supplier, on the other hand on cost of dependency (Richardson, J. 1993, 340). Single sourcing means only one supplier is used even if there would be more options on the market but also in this situation supplier has more power over buyer (Ahtonen & Virolainen 2009, 268). Multiple sourcing means situation where same assets are sourced from multiple suppliers thus decreasing risk and dependency on one supplier because of threat buyer switching supplier, lower economies of scale as trade-off. Deming, one of the most appreciated consultants is strictly pro sole sourcing whereas Richardson (1993, 348-349) discusses alternative sourcing models concluding parallel sourcing combine advantages of both sole and multiple sourcing. In parallel sourcing, multiple suppliers are used to deliver certain assets but one supplier is only used for delivering one certain component. This way, close supplier relationships can be built but buyer is not so dependent on one supplier only and is able to compare supplier performances. (Figure 8)

2.6 Location of supply base

Geographical location of suppliers is one dimension to consider when forming a supply base. Sourcing can be on domestic, international or global level and vary from commercial transactions where materials and services are bought from suppliers to more holistic approach involving integration and coordination worldwide. When local sourcing is shifted to global level and is not limited to flow of goods and services only but to processes, technologies and designs as well, companies face many new challenges such as distance, rules, language, cultural and time differences. (Trent & Monczka, 2005) Outsourcing means moving internal activities outside company boundaries and offshoring geographical location where these activities are performed, often abroad. Both have gained popularity among both academics and practitioners since the 1990s. Benefits are reduced costs and transfer of risks and responsibilities to suppliers. (Bals et al. 2016, 102)

By seeking supplier options on global scale companies have access to low-wage markets that can help reduce costs and to suppliers that are better than domestic options in terms of quality and technology giving better opportunity to gain competitive advantage (Steinle & Schiele, 2008, 3). Foreign outsourcing requires close cooperation among departments inside the company to achieve maximum benefits (Gelderman & Semeijn, 2006, 209).

Despite of increased popularity of global sourcing and opportunities it can offer to companies, also issues of e.g. transparency and supply disruption have emerged. This has led to rise of reshoring and insourcing. Starting from US, companies have been reported to move their manufacturing back to home country due to sustainability requirements of their customers, instability of global market and increased cost level in offshore locations. (Ellram, 2013) Reshoring refers to reversing actions performed earlier i.e. move of activities to closer proximity of a company and its influence. Insourcing refers bringing the activities back within company's boundaries. (Bals et al. 2016, 103).

Foerstl et al. (2016) suggest both behavioural and transactional factors can be drivers for insourcing and reshoring decisions and similarly affect all supplier location decision outcomes. Human factors includes bounded rationality, opportunistic behaviour when control to suppliers is lost and decision-making biases. Bounded rationality means that environmental complexities limit decision-maker choices and their capability to anticipate all possible contingencies and outcomes. All these can lead to higher costs than expected and affect the decision of supply base location. Transactional factors refer to environmental uncertainties, supply chain complexity and asset specificity. These can open companies to disruptions in their supply and lead to insourcing and/or reshoring. Environmental uncertainties and supply chain complexity consist of offshore regulations, volatility in the markets and cultural and geographical differences. In addition, contextual variables like industry specific factors, company strategy, capabilities and experience can all affect this decision making.

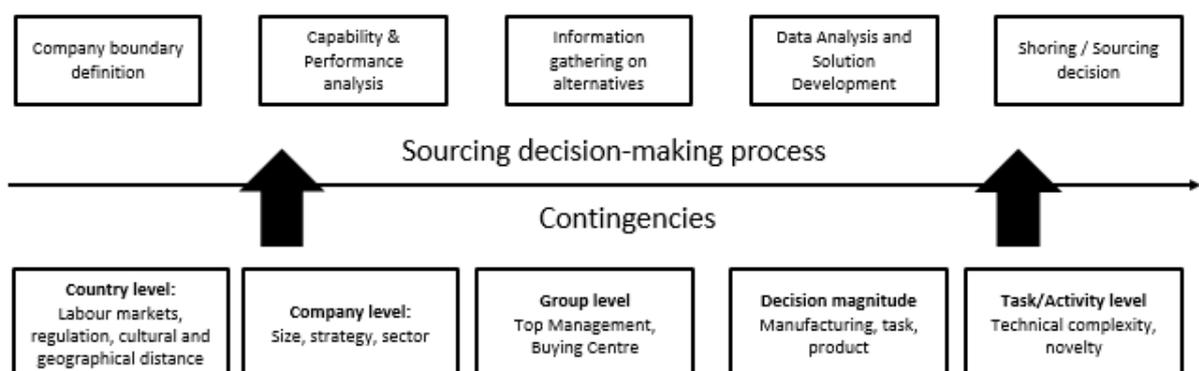


Figure 9: Sourcing decision-making process and underlying contingencies (adapted from Bals et al. 2016; 110)

Typical sourcing decision-making includes certain steps in decision making before shoring / sourcing decision is made. It starts from company boundary definition after which sourcing

capabilities of company and performance analysis of current state. When these are understood, alternatives are mapped and analysed. Based on built solutions, sourcing or shoring decision is made. All these steps are affected by underlying business context and contingencies company lives with. These go from macro level to micro level; from country level factors to asset specific details. (Figure 9)

2.7 Supplier relationships

When supply base is set and location of suppliers decided it comes to the question of how to manage different kind of suppliers and what kind of relationships to establish with them. Question of competitive versus collaborative strategy is a choice between two different sourcing relationship types and depends on company's strategic goals and both can be used at the same time (Cox, 1996, 66). Dyadic relationships can be called competitive strategy whereas in more collaborative models suppliers and customers form networks and partnerships, which is mostly the case in dynamic business environments (Ahtonen & Virolainen 2009, 268). Partnership solutions seem to arise in situations of high uncertainty, high risk and high asset specificity. This increases transaction frequency and mutual dependency opening way to risk-sharing and inter-organisational cooperation. (Blomqvist et al. 2002, 12) Diversity between supplier relationship strategies applied are smaller within Kraljic quadrants than between them. In strategic and bottleneck quadrants partnerships are more common than with leverage and non-critical items. (Caniels & Gelderman, 2005)

Market option with dyadic relationships and partnership strategy have different benefits. Markets option enables the use of economies of scale, lesser risk and less investment in specific assets, flexibility and variety are both higher and efficiency is acquired through fierce competition. Partnership benefits allow better focus on core competencies, knowledge coordination, enable creation of trust which leads to better coordination, risk is shared through separate ownership of assets, quality improvements and shorter time-to-market. (Blomqvist et al. 2002, 9) Companies can gain competitive advantage from exceptionally good supplier relationship management instead of just products or services at the buyer-supplier interface (Wagner 2006, 692).

Adopting cooperative negotiations style, collaborating with selected suppliers and committing to long-term relationships can improve purchasing performance and efficiency (Seshadri, 2001, 303). On the other hand, it should be considered whether there is an actual need or

possibility to manage all suppliers that way as there are always transaction costs included. (Monczka et al, 2005, 179; Blomqvist et al., 2002, 3)

Ramsay (2001, 261) and Quayle (2000, 131) suggest strategic purchasing and supplier management may be of a little significance to small and medium-sized enterprises (SMEs) because of size asymmetry and power issues. On the other hand, lack of power in terms of e.g. revenue or knowledge are seen as exact reason for adapting strategic importance in some SMEs and developing collaborative relationships with their suppliers can give SMEs access to resources they would otherwise not have (Pressey et al. 2009) Relationship management and networking capabilities can be a key task for SMEs. Close supplier relationships can protect from supply disruptions and reduce risk despite of bargaining power being lacking element. Due to close nature of collaborative relationship, SMEs often favoured local suppliers. (Ellegaard, 2006, 281)

Established supplier relationships and chosen collaboration strategy choice links closely with the make or buy decision and portfolio models in creation of supply strategy. As described shortly in make or buy section (figure 5), when company goes for “buy” option they have certain choices to make how to establish themselves in relation to markets and chosen governance structure. In the continuum, market option points to choosing competitive approach whereas partnerships are positioned between markets and hierarchies (Blomqvist et al. 2002, 2). Also strategic importance of the items sourced should define which strategy to choose with each supplier (Ahtonen & Virolainen, 2009, 269). Thus, all parts of supply strategy are interdependent and cannot be reviewed and discussed in complete isolation. (Figure 10).

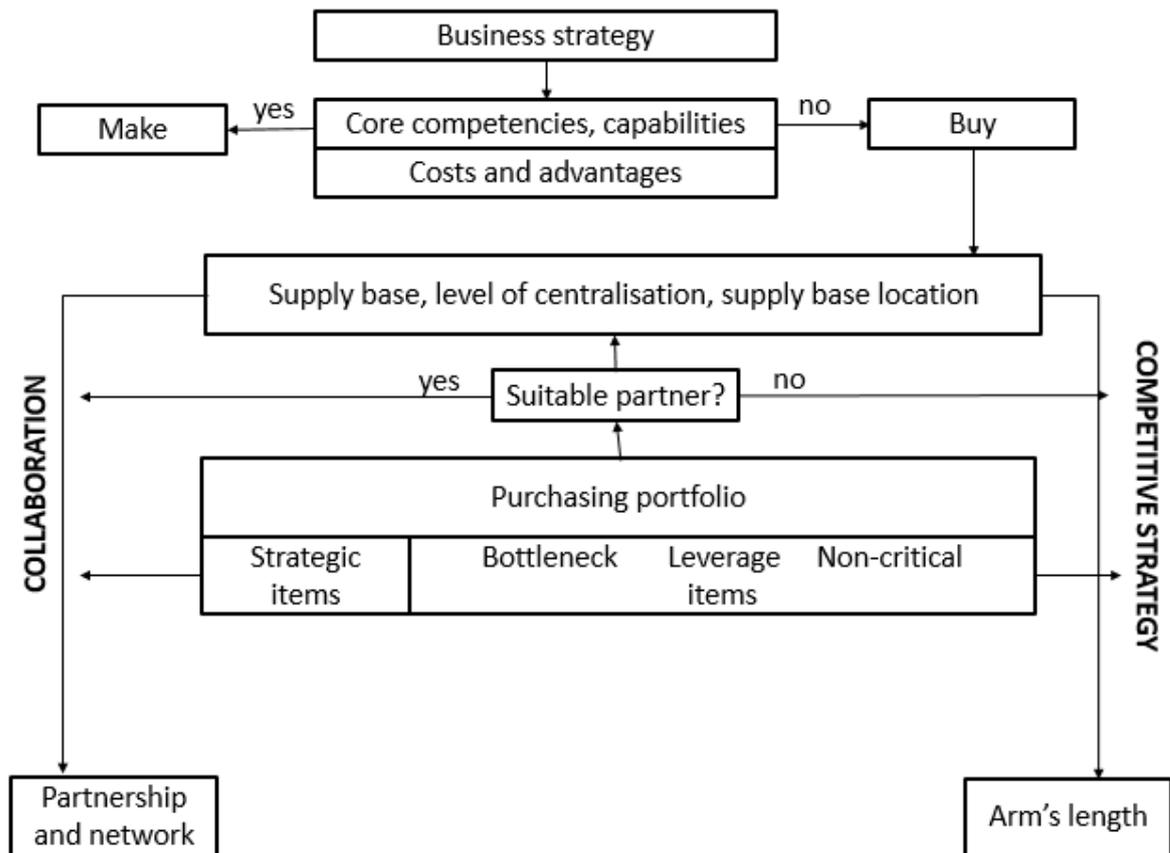


Figure 10: Formation of supply strategy. Adapted from Ahtonen & Virolainen 2009, 270.

As seen on figure 10, item position in purchasing portfolio and supplier suitability affect to the decision whether to form collaboration with suppliers. This is the case with strategic items especially. Supplier suitability to be a partner affects chosen level of centralization and where supplier should be based. In case supplier is not suitable to be a partner and acquired items are leverage or non-critical, competitive strategy would be better option. Bottleneck items are in grey area as they can have direct impact on company core operations and profitability. However, decisions always need to be based on core competencies and cost and advantage issues, which again are defined based on overall business strategy and objectives (Ahtonen & Virolainen, 2009, 275).

3 ANALYSING SUPPLY MANAGEMENT IN A GLOBAL SUBSIDIARY

Theoretical part introduced strategic stages of purchasing function and supply strategy elements. The purpose of empirical part is to conduct a research in case company. The aim is to analyze current status of purchases and map needs, challenges and restrictions that form the basis for creating a supply strategy for a local subsidiary of a MNE. Research will be carried out as case study because it enables in-depth analysis of a small group of individuals and specific circumstances.

Despite of maturity reached in the research of supply strategy, study can add to understanding of contingencies in local subsidiaries that are part of larger corporation. This setting and perspective for purchases has been studied less. There are both elements of SME and large corporation. There is less research on subsidiary supply management from the point-of-view of subsidiary when parent is not fully controlling every decision made in its affiliate.

3.1 Case company

Case company is a local operating company of global printing manufacturer and seller that has been quite independent until last few years in EMEA region. The need to create a supply strategy emerges from the changes in the case company business environment. Earlier it has been mainly local sales unit of the European parent company and ordering process has been simple and included only in-house produced solutions: Manufactured and configured products have been ordered from the European Logistics hub based on customer orders. Thus, there has not been need for direct sourcing and sourcing processes on country level. In addition, the importance of indirect sourcing may not have been noticed as important part of business strategy but as rather necessary cost that occurs from running operations in each of departments and functions in Finland.

Since its establishment in Finland in early 2000s, the case company has mostly been a sales unit of global parent company products and services. On global scale, corporation is employing 100 000+ people worldwide in all continents and its revenue was almost 20 billion euros in 2015. Its core products are office equipment and it has roots in printing and copying business. Europe is one of the Regional Headquarters. Corporate headquarters is located in Asia. Local subsidiary employs 100+ persons and its revenue was 20+ million euros in 2015. Local subsidiary is functioning fully in B2B field and does not sell its products to consumers.

As case brand has been focusing on providing customers with portfolio of their own. As parent company has decided to remain a manufacturer as well, local entity has had neither need nor

interest to pay attention on purchasing processes. It has no roots in professional purchasing or separate purchasing department on country level despite of the fact there has always been a purchaser whose role has been to place orders to suppliers and check invoices, mostly relating to indirect purchases. Now that market is changing and subsidiaries are allowed to – and also need to - include third party products and services in their offering as part of business solutions, top management has realised impact of purchases on sales marginal and profitability. Awareness and interest towards well managed supply management locally has increased as consequence. At the moment, local company is lacking purchase organisation, purchasing policy and supply strategy.

In current core business model, local operating company is buying core products and software from its European parent that again has access to global supply chains. The corporation itself has own production and sites all over the world, mostly in Asia. All needed materials and parts are acquired by production sites that deliver ready products for operating companies. Global level supply chains and procurement practices have been outlined from this study as local operating company has no control over them. Ready products come as given for them. The study will focus on local level 3rd party purchases. Focus will be on direct sourcing but indirect sourcing practices will be mapped as well to understand the strategic stage of purchasing as whole in local subsidiary. Despite of being a global company, small operating company in Finland has limited and scarce resources, especially in administration. Management of the local subsidiary feels that there is a need for purchase strategy and purchasing policy but at the same time, company does not want to give away too much of its flexibility and there is a fear of more bureaucratic processes. Hence, case company needs to balance between control and flexibility.

Currently, there are two persons placing purchase orders for suppliers. All sourcing decisions are made by Business Managers in the limit of their budgets but there are no common rules regarding sourcing. Many products and services are acquired ad hoc due to lack of proactive purchasing. There are no restrictions to the usage of suppliers. This has led to a supplier base of over 500 suppliers which no one actively manages. Often Accounting Department adds supplier to supplier base when purchase invoice is received and needs to be paid.

In addition, anyone in personnel is allowed to buy products and services with approval of their supervisor as long as the sum is not exceeding 500 euros. In this case, staff can acquire products and services, pay them themselves and raise expense claim to the subsidiary afterwards. This practice makes supplier base and expenditure almost impossible to follow because expense claims are paid to employees not suppliers. There is no one officially

assigned to take care of purchasing and managing suppliers or expenditure related to purchases.

3.2 Case research

Case study is an empirical investigation of phenomenon within real life context, data consisting of multiple sources (Robson, 2002, 178) and can be defined as “*an intensive study of a single unit for the purpose of understanding a larger class of (similar) units*” (Gerring, 2004, 342). In case research, difference and boundaries between researched phenomenon and the context in which it is studied is not evident. As research strategy it can answer “how” and “why” questions (Yin, 2003). Case study is an analysis of the practices of those who are present in the case. Hence, it provides an opportunity to apprehend practices and actions of particular people or groups in the context they happen. (Miles, 2015, 315)

Case study cannot be used to model causal relations or build a theory. It has been criticized for being a weak research methodology, mostly due to lack of generalizability. Alternately, when the purpose is to develop and extend understanding of what is already known, issue of generalization evaporates. (Miles, 2015, 310) Elements of supply strategy are one of most researched topics in the field of supply management and there is quite solid understanding of what the elements are. There is no need for generalization or theory creation. Main research question is “how to develop and form a supply strategy for a small subsidiary?” to which a case study can possibly answer. Also, the purpose is to add understanding in existing theory and how it applies in specific, less researched context. Hence, case study was chosen.

3.3 Data collection

As case study data consists of multiple information sources in real life context and seeks to understand phenomenon in depth, interviews, ERP data about purchases and other corporate internal documents were used. The chosen method for interviews was a semi-structured interview. In semi-structured interviews there are a list of topics and questions but the topics may change depending on interview. Order of questions may also vary and additional questions may be asked since the interview situation resembles discussion rather than standardized interview. (Saunders et al. 2009, 320-321) This approach was chosen in interviews as needs, restrictions and challenges were unknown and having strict questionnaires could have outlined important factors.

Interviewees were selected based on their involvement on current sourcing activities which was based on supplier invoice approver list from company's Accounts Payable database. It was confirmed they deal with purchases prior to agreeing to interview. Interviewees included personnel from all business units and employees from grass-root operational level to Managing Director of the company. Despite of focus being on direct sourcing, also indirect sourcing decision-makers were in the scope of research. The aim was to get a holistic view of the current status of purchasing from all departments and functions involved in sourcing process or decision making. Firstly, 360 degree point-of-view helps to collect all possible needs related to purchases inside the organisation and can help to find synergies in a small company with scarce resources. Secondly, including indirect sourcing can help understand boundaries and control between parent organisation and subsidiary. Last, it guarantees that results are not based on one person's subjective point-of-view or bias. Chosen informants and their relation to sourcing activities in case company are presented in table 1.

Table 1. List of interviewees

Informant	Business Unit	Position in company	Relationship to sourcing
A	Accounting	Placing PO:s to suppliers and in the system, PO acceptor role	Operational: Indirect and direct sourcing
B	Order Processing	Placing PO:s to suppliers and in the system	Operational: Direct sourcing
C	Presales	Technical Support Manager	Decision Maker: Direct / Indirect sourcing
D	HR & Quality	HR Manager	Decision Maker: Indirect sourcing
E	Marketing	Marketing Manager	Decision Maker: Indirect sourcing
F	Sales	Business Manager 1, Communication Services	Decision Maker: Direct sourcing
G	IT, local	IT Manager, local	Operational: Indirect sourcing
H	HR & Quality	Quality Manager	Policies: Quality, ISO standards
I	Accounting	Accounting Manager	Controller: Accounts Payable
J	Sales	Business Manager 2, IT Services	Decision Maker: Direct sourcing
K	IT EMEA	IT Manager, EMEA	Decision Maker: Indirect sourcing
L	Services	Field Service Manager	Decision Maker: Direct / Indirect sourcing
M	Sales	Major Account Manager, CS & ITS	Operational: Direct sourcing
N	Management	Managing Director, Finland subsidiary	Top Management
O	Management	Senior Manager, Back Office	Middle Management, operations

Interviewees were also asked about contacts who could provide valuable information on the topic. This way the risk of eliminating key informants was reduced. Interviews were seen to be completed when no new names appeared. By applying this method, original list of 9 interviewees grew up to 15 interviewees as the interviews progressed. The growing understanding of current issues also helped to track valuable sources, such as Top Management.

The focus was on direct sourcing issues but as interviews were only semi-structured also indirect sourcing and its challenges emerged. Direct sourcing has direct impact on profitability of new business lines and as the business is new, not tacit, undocumented knowledge exists unlike in indirect part of sourcing. As a result, whole sales force working on new business areas were interviewed to get deeper understanding in new business.

Because supply strategies should be integrated with corporate and business unit level strategies and on the other hand complement e.g. marketing and operating strategies (Monczka et al. 2005, 166-171), it proved to be necessary to interview Management as well. Thus, subsidiary Managing Director (N), Back Office Senior Manager (O) and Marketing Manager (E) were interviewed about their views on strategy and higher level visions of the direction company is aiming at (table 1).

Topics in the interviews included basic questions about the work of the business unit. The interviewee and their linkage to purchases in organisation was discussed. This was the last qualification to go on with the interview and proved that chosen informants had valuable information about purchasing. Other questions depended on the discussion but topics such as pros and cons in current sourcing model, challenges that have been faced, needs now and in future and possibly sourcing competences were discussed. (Appendix 1)

3.4 Data Analysis

Interviews were recorded and each lasted between 40-90 minutes. Each interview was transcribed in full and totalled in 183 pages of material after transcription. Informants were provided a possibility to review their interview and compliment and correct. After informant's approval, final version of the interview was added to master file and printed for later use. Data was kept in locked space and each informant was assigned a letter instead of name to guarantee anonymity. Transcribed data was printed and coded. Since the data was not consistent in sense that not all same questions were asked from the informants, it needed to be classified and sorted in order to be able to analyse it.

Reading gathered data carefully is important part of inductive coding. In general inductive approach theory building is usually restricted to introducing and describing the most significant categories. Actual data coding begins with categorizing text segments under codes emerging from data. Amount of codes decreases as coding progresses. (Thomas, 2006, 240-242) Thus, data was read through couple of times in order to understand the emerging themes. First level coding was done by splitting data to indirect and direct sourcing. On second level, the tags followed theoretical part of the thesis and included supply strategy elements. Based on research question, needs, challenges and restrictions related to purchasing were tagged separately. (Appendix 2).

Other research material, such as financial data and sourcing related documents were used to validate facts from the interviews and to do additional analysis. Spend analysis during finance year 2015 were combined with supplier lists so that it was possible to objectively analyse e.g. volumes and scope of sourcing. Unfortunately, purchased product based information was not available. On item classification, interviewee's were trusted. Also all documents creating restrictions and building frame to supply strategy were noted. This would include documents such as standard handbook, laws and European set policies.

Spend reports were combined with supplier register. Item based lists were not available but each decision maker was asked what they are sourcing from each supplier. Suppliers and item risks were estimated based on interviews.

4 RESEARCH FINDINGS

Key findings from interviews, purchasing data from ERP system and other corporate documentation are reported in this chapter. This portrays current status of purchasing and supply strategy forming in the case company in specific operational circumstances it is acting in.

Case company's core business is in a turbulent phase due to rapid technology development. Digitalization is striking industries whose business is based on printing and knowledge transfer on paper. The core market is highly mature with many competitors. The competition is getting fiercer in remaining core business and price erosion is evident. Less and less paper is used in the offices and printing has dramatically decreased. Digitalization has had revolutionary effects in all information flows: less prints, copies and scans are made. Workflows have become electronic and e-business is emerging. This means less need for traditional office equipment. Hence, the industry is actively seeking new lines of businesses. One stream is developing from office printing hardware seller towards holistic IT solution provider including all office equipment from digital workflows to "turn-key" conference rooms with modern communication systems, software and IT services. The parent company is at least currently not able or willing to produce all these products, services and licences so they need to be acquired externally.

Case company's boundaries are not easy to draw since it is a subsidiary. Its outcome and profitability can be controlled by the parent organisation since major part of the revenue generates from office printing core business: Equipment and part of services purchased from parent organisation. The case company has been mainly sales organisation in Finland, representing parent and its products. Regarding indirect sourcing, there are more and more mutual Scandinavian or European level contracts negotiated. Despite of increasing control and centralization by parent, in direct sourcing side - at least for now - local affiliates are having more autonomy in business and allowed to acquire 3rd party items and services almost without parent control. Since direct sourcing is quite new to the business case company is seeking ways to manage purchasing effectively. Unlike in indirect sourcing side, direct sourcing has more impact to sales profitability which is in high interest of local sales driven top management. In direct sourcing decision impact is more easily measurable and allocable than in indirect sourcing. This situation and change has raised local top management interest in improving supply management in the case company. However, due to local subsidiary size and resources also indirect sourcing practices were mapped at the same time to understand if synergies could be found.

4.1 Strategic stage of purchasing

In the beginning, prior to interviews some of the interviewees declined to have a connection with sourcing activities because they “did not work in new line of business and thus did not buy anything”. When asked about e.g. premises, maintenance, cleaning, IT items, tools and trainings and who is making decisions regarding these, they were in charge. It seems that Finnish word “ostot” (purchasing) was associated with direct sourcing only and insourcing was seen as necessary expense that just occurs. On the other hand, this was not the case with all decision-makers within indirect sourcing and it was clear to some they are doing sourcing decisions. This was the case especially in HR & Quality and Marketing units.

Company’s overall strategic objectives were well known among all informants. They had clear understanding where company is heading and how their own job linked to achieving strategic goals. When asked about supply or purchasing strategy, first thing mentioned among all informants was purchasing policy in sense of approval limits and control of purchases. About half of the informants stated there is a limit of 500 € for managers after which all purchases need to be approved by either business unit director or Managing Director. However, other half of informants did not recognise this practice at all and stated there is no existing purchasing policy or guidelines to sourcing. Regardless of split to indirect and direct sourcing, there was certainly huge variance between the perception of purchasing policy and process in the organisation.

New acceptance limits had been set in order to reduce bureaucracy and top management involvement in purchases below 2000 € but these new limits were not recognised by any of the interviewed business units – except in Accounting that had set the rules. As mentioned above, half of the interviewees knew the old acceptance and purchasing process and followed it. Some said the process and rules were unclear and poorly communicated. Some had heard that indirect purchases were not done by anyone at the moment and were wondering how that is possible. When discussed with top management and accounting, such situation did not exist in the company despite of organisational and role changes across the organisation. Nevertheless, it was perceived situation by some. People were not aware where to look for information about the purchasing policy or guidelines. All interviewees knew two people were placing purchase orders and had used help of them if needed.

When discussing purchasing strategy further, cost and quality were the most discussed factors among informants. Indirect sourcing decision makers had to make their own annual budgets

so they needed to estimate costs and follow them to some extent. Direct sourcing Account and Business Managers were responsible for customer case profitability but otherwise they were free to source whatever and wherever without guidelines. Results showed there were no common practices related to purchasing or if there were, they had not been communicated clearly throughout the organisation and did not exist in written. Code of conduct was available on corporate level and provided very general level guidance regarding bribery, good business etiquette and whistle blowing process. However, there was no strict control whether these guidelines were followed in purchasing related decisions.

Any elements of supply strategy were not mentioned by informants when the topic of purchasing strategy was brought up without further clarification. What was also lacking was collaboration between business units. All units partly sourced overlapping items and activities for their own needs. There was no consolidation of supply base or endeavour to leverage the volumes inside local operating company. On the other hand, even if there had been, a department or a responsible person managing and coordinating all business unit needs would not exist. Business unit managers felt they would lose flexibility and stated no one else would be able to understand their needs. They also supposed their needs were unique to other business units. In indirect sourcing purchased items and services were seemed as an obligatory cost and each decision-maker had own ways dealing with cost management. In direct sourcing side account managers would have happily given away the responsibility to make supply related decisions and purchase orders as long as they could still choose the actual brands and technical specs used in solutions.

One issue that emerged in multiple interviews was that neither direct nor indirect sourcing decision-makers always contacted the purchaser when something needed to be sourced. This led to a situation Accounting and Back Office only were aware of e.g. new suppliers and purchasing orders by the time supplier sent invoice for already delivered product or service. Accounting was sure not all supplier choices had been optimal and that some purchases were questionable and it was not clear what was sourced and why. They suspected business unit directors approved invoices without understanding or asking what their sub-ordinates had actually sourced. Accounting also spent a lot of time chasing people before they could scan invoices to approval flow because supplier invoices had no purchase order numbers or other references. Accounting doubted direct sourcing were not managed correctly due to this fact and thus cases could be less profitable than they actually were. Their opinion was this was because Sales oriented people were less considerate to accuracy and cost and they were the ones who made or supply related decisions. Accounting had not considered informing suppliers invoices would not be paid without purchasing order reference.

In direct sourcing, all three informants knew sales order and official purchase order number was a pre-requisite to purchasing from which the order-delivery chain in the ERP system began. They all admitted the complete process was only followed occasionally because due to customer's delivery schedules they had not time to wait. Customer needs were placed above compliance and additional administrative work caused in the case company. New Business sourcing process improvements were closely tied to ordering process due to technology and ERP that was designed to core business a decade ago when change in printing volumes was not yet evident. Rapid development in technology had led to a situation that current ordering process was not fully compatible for holistic IT solution sales involving purchases from suppliers. Flexibility was missing: any changes or cancellations of purchase orders were not possible after sales order has been submitted. This was perceived as challenge but not as an obstacle for effective purchasing. System did not allow project or milestone invoicing at all. ERP system being designed for company's own products current process was reviewed time-consuming and inflexible. This is why "creative sourcing processes" as described per one informant were needed. (Figure 11).

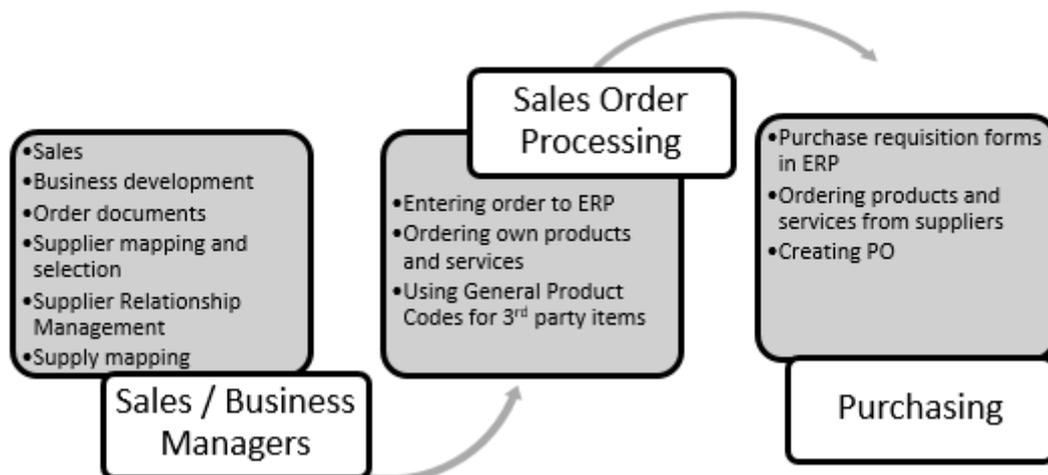


Figure 11: Current direct sourcing process

Sales and business managers were responsible for scanning suppliers and negotiating contracts with them. They were in charge of business development that involved all supply management related activities. Supplier selection was heavily emphasised on technical features and facts. Also supplier relationships were managed by them. They had sales targets they needed to meet. Once customer placed an order, business and account managers were gathering required order documentation and placing an order to sales order processing team. At this stage, supplier item codes and used suppliers needed to be known as well. These were

however not managed by sales order processing team who used generic item codes in case company's system. Supplier item codes and quantities were a separate attachment to the sales order. After order submission, case company own products and services were ordered via ERP and after that shipped from European parent. Purchaser was running a daily list of purchase requisitions from ERP that showed orders with generic item codes. Then they reviewed order documentation and checked used suppliers and items that were to be ordered. They changed purchasing requisition into a purchase order in the system and placed purchase orders to relevant suppliers. (Figure 11)

There was a bottleneck in sales order processing due to limited resources. Higher value core business orders were often prioritised over smaller new business orders. For that reason, it could take even a week before order was entered in the system. At that stage, supplier stock levels and prices could be different to the time when sales placed the order. Delivery could be so close that it appeared business managers had already ordered some items and services from suppliers without relevant purchase order numbers. For that reason, occurred cost was never linked to sales case and case profitability was distorted. Employees placing purchase orders worked on two different departments, in Accounting (indirect sourcing) and Back Office (direct sourcing). They were processing actual purchase orders placed by other departments i.e. reacting to needs of organisation. Their role was purely transactional. Purchase order number system in ERP was in use for direct sourcing but not for indirect sourcing.

Direct sourcing, affecting highly on profitability of new solutions because of sourced products and services counting 80% of the solution, were in its infancy. It was evident after all the interviews that there was no coordinated purchasing function or purchasing management that would be responsible for whole supply management. Some interviewees described there being no purchasing function at all – rather an ordering function. Purchasing process itself was perceived the biggest pitfall especially in direct sourcing process. This was the concern among business managers. They admitted not having purchasing competence or even interest towards it despite of making decisions of used suppliers with no guidelines and control. This was seen problematic because it was the opposite of what they should be spending their time on: Selling and developing the business. This emphasized the biggest pitfall in the current supply management process. New business sourcing activities and supplier relationships laid on the shoulders of sales. Sales did not have time and interest to focus on sourcing activities. No one was doing proactive supplier search or bidding, there was no consolidated follow up of sourcing costs and very limited time was allocated to manage the existing supplier relationships.

There were no limitations in 3rd party solutions sold, which had already caused issues. For example, inappropriate purchases that could not be used in final solution had been made. Direct sourcing volumes still being low, this had not had several impact yet. Business managers were choosing the brands and business partners but there were many channels to acquire their products and services. Business managers were willing to keep the control of used brands and solutions but they perceived problematic to always find the wholesalers or suppliers appropriate for the case. They also showed little commitment to following up the costs and actual profitability of the cases. On the other hand, they said that at the learning stage of the new business it was understandable to have shortcomings and smaller profits. Supplier performance was managed and followed by no one centrally and no supply strategy existed. One interviewee was asked about the current and target situation and commented *“From ordering towards sourcing would be cool.”*

There were some strategic elements in purchasing processes and decisions, mostly in indirect sourcing large contracts negotiated and accepted by Top Management. However, the level of understanding of the principles of supply management varied dramatically from one business unit to another. Also as expected, there were differences in needs and purchasing volumes between the business units. Organisational understanding of what is purchasing and what is not emerged. Many challenges regarding current status of purchasing were identified. The most significant ones were mostly related to new business line and thus to direct sourcing beginning from the competence to actual purchasing process.

4.2 Make or Buy decisions

Make or buy decisions were not made very actively in the case company. Indirect outsourcing decisions had been made but organisational design was defined mostly by parent company. Core competences were estimated to some extent but defined on group level. Local make-or-buy decisions seemed to be rather intuitive or based on available resources rather than on calculations or give-away analyses of assets. Ad hoc nature of many purchases showed here too: whatever was needed whenever was sourced.

Regarding physical products, on global and group level, company had kept all its brand's production in-house and fully decided which parts and items were manufactured as so called “core products” that subsidiaries were to order from European Parent. European Parent Company was then selling and shipping core products to its subsidiaries across EMEA based

on local customer sales orders. The new offerings required hardware that is not offered by the Group. In this area, make-or-buy decision could not be made in local company as it is prerequisite given by parent and local subsidiaries are selling units of parent without own production. All third party items related to new offerings and solutions were thus obligatory to be purchased from suppliers.

In indirect sourcing side, European parent was mostly defining what in-house resources local company should in minimum have. These were usually specialist or management roles like technical 3rd line supports or IT Managers. Competences that linked to company's core products and their maintenance like in-house service was European parent decision. Part of the back office activities were performed in European Shared Service Centres. Shared Services were not sourced outside the company but was another subsidiary of parent. Service was usually kept in-house and external partners were only used to help with peak seasons if there was a risk customer SLAs could not have been reached. On local level, e.g. HR made recruitments themselves if they had capacity and competence. Reception, property management, switch and transportation had been in-house but outsourced years ago. Similarly, Marketing occasionally used external partners to certain CRM projects or Marketing campaigns. Competence was often basis for the decision and quality was highlighted by both Units.

All make-or-buy decisions were more or less choices between market and hierarchy. No co-operation or joint ventures with external companies and suppliers were found. However, shared services and shared resources with parent company and its other subsidiaries existed. There had been unsuccessful co-operation between central supply chain management and Nordic level logistics provider. Case company was obliged to source certain back office services from Shared Services and enter the expensive logistics contract. Thus, these were not local level make-or-buy decisions.

Case company had in-house service but their resources were sized to installing and maintaining core product base. New business solutions required new type of competence and tools in installation and maintenance side. For that reason, new business solution activities were outsourced from 3rd party partners providing needed service. There were one to two partners that had enough competence to perform such installations and were operating all over Finland. When asked, no calculations had been completed to check whether acquiring such competence would be more profitable or create competitive advantage to the case company.

Line of business was new to local company, volumes were low and there was not enough solid base to state such activities would be core competence of local company yet. If any installation activity could be performed by in-house engineer they were preferably used.

In direct sourcing cases, service was making decision by geographical availability of resource, needed competence and based on price. Sometimes, decision of outsourcing was not made by service but already by sales-man or business manager in advance. They used same suppliers as services. There were some patterns that could be identified. In service there was not enough competence to do certain activities as it was not core competence of the company. Possible future changes in this had not been considered yet. Service was quite dependent on installation competencies of two chosen suppliers in new line of business because they had decided to 'buy' instead of investing on own resource.

4.3 Centralization, decentralization and consortium sourcing

According to interviewed Managing Director, local companies had been more independent in the early operating years. Still, purchasing was quite highly decentralized on EMEA level but European Parent had multiple projects going on to centralise and streamline more across EMEA local companies. Centralization had started around 2010 when a plan to move all local companies across EMEA to use the same ERP system was published. In 2012 after go live, part of the back office tasks were moved to Shared Service Centres and IT organisation centrally managed. After this centralization had continued one support activity at time. There was an ongoing project to centralise HR systems and travel management partners used in EMEA region. Also plans to harmonise car fleets, HR partners, and payroll existed. Parent company was looking for local procurement contacts which indicated there could be closer collaboration plans between the parent and local companies and the sharing of knowledge and best practices.

There was a clear split between indirect and direct sourcing. Currently parent focus seemed to be in indirect sourcing side. The only examples provided of European level contracts that had to be followed and could not be affected by local companies were found in indirect sourcing side. Investigating further, actually fewer binding contracts existed than employees initially perceived. On the other hand, corporation shared services were an example of resource sharing and compulsory outsourcing activity.

IT was now reporting directly to European parent and this showed as European level contracts that defined e.g. laptop, mobile and other IT infra & accessory brands and suppliers that were to be used. Local IT was rather executing strategy and choices of European parent than

making any sourcing decisions. Only exception were small accessories. Despite of there being constant need for small IT accessories, tools and hardware supplies such as memory cards, headsets and cables, no official contracts had been negotiated with the stores providing the items. These purchases were seen as minor and having no affect to business. Based on AP reports this seemed to be true.

IT had faced problems with chosen EMEA level mobile partner because they were not operating in Finland. Thus, IT had found a local partner which then had to establish a partnership with European mobile partner before they could be used in Finland. There was an additional stakeholder added as case company was not allowed to operate directly with local service provider. Also the difference between countries was seen as obstacle in centralized buying model. IT had also suffered quality issues because Nordic countries had very different expectations about IT support, mobile and network speed than some larger Central or Southern European countries.

3rd Party Logistics provider (3PL) choice led from the parent company was the most recent addition to European centralization project and supply chain streamline project. After one year, Nordic level contract had realised the cons of centralized sourcing for the local company. With new logistics provider annual logistics related spend had increased with 500 000 €. Compared to local provider used before, logistics related costs had grown exponentially. Due to high effect on local P&L, Top Management had reported the situation to the parent. According to Managing Director, usually the only result was local company could apply for some kind of symbolic compensation. This time, due to exponential cost increase, contract was reversed and local company was allowed to conduct a search for local logistics provider in Finland. Returning to the old partner had not been possible because due to their size they did not meet the criteria set by parent company. This time local back office had been more engaged in new partner search and negotiations. Through tendering and negotiations acceptable local level partner had just been found and used for few months.

In regards of direct sourcing, some recommended suppliers were published by parent company but no obligations existed when contracts were reviewed. However, even some of the decision-makers in new business line were not knowing they actually had no obligation to use certain suppliers as distributors. The parent company had mostly given only recommendations and negotiated some EMEA level contracts and prices that subsidiary Business Managers were free to use if they found them the most appropriate solution.

Any centralization of local purchasing could not be identified. There was evidently lack of control and out-to-date information about current processes, control and invoice acceptance

limits. The communication of the processes and policies – if they existed – had not been sufficient enough. More importantly, there was no active, centralized control on supplier base or supplier spend. Purchases were highly decentralized and volume benefits could have been lost in some cases because business units were not aware other units sourced same items.

Inside case company boundaries, the idea of centralized purchasing function creating supply strategy and managing all purchasing were immensely objected by sourcing decision makers and supported by administrative and accounting personnel. Concept raised concerns among others. The most significant one was fear of losing flexibility and autonomy. Presales and service organisations were most anxious about concept of local centralization. They mostly needed to do purchases when something had gone wrong and not according to the plans, in installation situations for example. Or if the maintenance staff lost or broke their tools, they needed to be purchased ad hoc.

Fear of bureaucracy due to already heavy corporate processes were also mentioned multiple times in the interviews. Direct sourcing managers were not fully against the idea of someone else managing supplier base and making supply related decisions on behalf of them as long as they could have a say in technical solutions used. They were more afraid centralized purchasing function would result in even more complicated and inflexible sales process. Service said they would not be willing to give up a habit of engineers acquiring tools and parts at their own expense and then claiming the cost to the case company afterwards. Choosing certain partners from where engineers could purchase the tools and parts on company account was seen impossible because ad hoc situations could happen all around Finland. Geographical distances are long and places sparsely populated. Thus, nationwide chains that have specialised shops in every village and town are rare. Accounting was unwilling to trust corporate credit cards to the maintenance staff. Annual expenses claimed by whole service unit afterwards were less than 10 000 € based on accounting reports.

There were doubts if purchasing function managing supply would understand the actual needs of each business unit. Business unit managers claimed to be the best experts in their field. Current purchaser competence to make especially technology based sourcing decisions, capacity of finding and managing relevant suppliers was heavily questioned. Hiring e.g. purchase manager was not seen as solution either because purchasing volumes were relatively low and range of managed goods and services wide. This was consensus among all informants from sales to accounting. The Accounts Payable data showed that annual purchases were worth 3,5 million euros. Portfolios and supply base were wide as will be reported in chapters 4.5 and 4.6.

The concept of local centralization was deemed quite black and white among all informants. Either all decisions were to be made in business units or in purchasing function. There was fear their voice would no longer be heard in any of decisions which would lead to decreased quality and uncontrolled cost increase. This seemed to be based on bad experiences from parent company centralization projects. Fourteen out fifteen interviewees were concerned about the sourcing competences in the organisation – not of their own but that of the others. Or - in case that interviewees admitted they needed more guidance in purchasing - they had not been receiving appropriate training to their sourcing tasks. Purchasing competence was mostly restricted to understanding of purchasing affecting the profitability and the importance of reliable suppliers and relationships.

Consortium sourcing had not been considered. Sales informants were familiar with the term because some of their customers used purchasing consortiums for their IT purchases and thus case company was having a contract with consortium instead of end customer. The idea of using consortium sourcing was seen far-fetched because of low volume of local purchases. Some also mentioned they did not like the thought of passing confidential information outside company boundaries.

If company boundaries are drawn inside corporation between countries, parent company was practicing idea of consortium between subsidiaries by producing back office services in internal service centres and by consolidating most IT purchases. Shared services enabled lower management cost and more effective human resource allocation among the group. Top management of the case company confirmed these were realised on group level and local subsidiaries did not benefit from it through recharge policy of parent. Other informants had negative experiences from collaboration quality. Total cost of ownership was questioned in terms of potentially lost business and customer satisfaction. If boundaries were drawn on corporation level so that whole corporation was seen as one company, consortium sourcing with external companies did not exist.

4.4 Supplier selection and portfolios

Both indirect and direct sourcing decision makers and business units were relatively free to choose the suppliers they would use. None of the interviewees used any framework or standardised selection criteria in selection process. Neither were they familiar with portfolio models or categories in supplier selection or management process. Due to high decentralization of purchases across departments and lack of dedicated purchaser in the case

company no categories or portfolio management existed. Tendering or even price comparison was a rare occasion and not a required process by neither case company nor European parent. When conducting a search in company intranet, European purchasing policy was in fact published as part of Finance Manual but this did not emerge in any of the interviews. It had recommendations about e.g. tendering process. However, no documentation was required and control of supplier selection lacked on local level.

Supplier selections were mostly based on needs that varied from one business unit to another. When asked about decision from where to source, price was always mentioned first. However, when the discussion continued interviewees often noticed price was not actually the only selection criteria, not even primarily definitive many times. Indirect sourcing focus was on automation, quality and relationship management whereas direct sourcing decision makers appreciated price and availability. (Table 2)

Table 2. Perceived needs across the departments doing purchases

Business Unit	Top Need
Back Office	Automated process, price
HR & Quality	Quality
IT	Quality, automated process
Marketing	Relationship Management
Presales	Availability, ad hoc
New Business, Services	Price and availability
New Business, Solutions	Price and availability
Service	Price and availability

Back Office was sourcing items like office supplies, beverages and ID cards for employees and appreciated automated process. They wanted to use as little time as possible to perform these activities and automation was appreciated over price. Back office related purchases were estimated to be of low importance (pens, beverages, office supplies). Supplier selection and purchasing were seen as necessary, unavoidable activity. They had chosen a supplier that followed item levels on behalf of back office proactively and re-filled automatically. Also regular, monthly orders were popular. Legal and financial consultancy services were chosen by expertise and references of supplier not by price. E.g. using low quality legal advisor could have led to enormous cost eventually.

The exception to this was 3rd party Logistics provider (3PL) which had proved to be very expensive deal on Nordic level with multinational supplier. Automated process was not expected with 3PL. Due to volumes and direct effect on case company, profitability had been

the most dominant factor when new local partner was searched. Although it must be mentioned there were also competence related factors that had limited the choice radically. Case company deliveries were technical and certain amount of technical capability was required from drivers. They were performing “light installations” and quick end user trainings.

HR was the only unit that did not find low price the most important. They highlighted quality and always considered total cost of ownership rather than strict price of item or service that was sourced. HR sourced often specialised services and established long term partnerships once contracts were signed, e.g. Recruitment partners and employee health care. In these decisions, HR defined quality over the price as key criteria in their decisions. HR was the most concerned about quality because their purchases affected directly employee wellbeing. HR department also met large variety of service providers in order to understand the market and evaluate potential partners and solutions. They were making supplier choices rather strategically but not necessarily thinking about it consciously or using tools for it. They reported having follow-up and performance meetings with chosen suppliers and actively seeking for innovation and new ways of collaboration. For example, occupational healthcare partners and leasing car partners were perceived as such rather than just suppliers.

IT related purchases were estimated to be either of low importance (cables, USB memory sticks, headsets) or managed on European level (servers, laptops, mobile phones for employees, programmes used). Like back office, also IT appreciated automated processes and used web shops and portals as much as possible when they needed to make local sourcing decisions. For obligatory European level contracts, they used company provided web-shops to order laptops or mobile phones. Programmes, servers and other IT infra also came as given to local IT so they had no possibility nor interest to consider these sourcing decisions. These were made on parent level.

Examining the stage of purchasing function locally, it became evident that almost all departments mentioned cost and quality as core drivers in their purchasing decision making. Only exception to this was marketing, who considered their choices from relationship management point-of-view rather than cost or quality. Marketing approached sourcing from relationship management and network perspective: they were seeking partnerships that both parties benefitted. This meant also placing orders to local company’s customers to improve own sales. This was a forbidden practice in purchasing policy.

Contrary to managers that controlled indirect purchases, newer branch of business managers mentioned price but also focused on availability. Direct sourcing decision-makers emphasised

the availability as important factor because order process was considered slow and bureaucratic leading to delivery times that were not top class in this new line of business. Purchases were very reactive and ad hoc. It seemed there were restrictions to effective supply management set by the technology. Although, some noted it might not be the technology but staff incompetency to use and follow defined process. The current ERP and ordering system had been planned to fulfil the needs of core business by effective ordering of the equipment shipped out of the parent company stock. The same ordering process applied to new business orders as well, meaning that the name of the supplier and exact item codes needed to be in place at the time of order because system created PO for external items based on the Sales Order. (Figure 11) Large core business orders kept being prioritised over smaller new business orders, which in turn meant that orders were waiting to be processed even for a week. At this stage delivery and installation promised to customer were close or already delayed that availability became the most determinant factor in supplier selection.

In addition, because it was the task of sales to find suppliers, the selected wholesalers could be out of stock at the moment of the order. Even if items were available by the time sales order was 'locked'. Purchasing order handlers were not trying to find alternative suppliers because then the order should have been returned to Sales and be re-entered from the beginning. This caused further delays in customer deliveries. They were not noticing Sales about delays. Now a delivery coordinator had been put in place to ensure smoother deliveries and to communicate schedules and delays to customers and internal stakeholders. This was seen as one main reason that availability was defining decisions. Quality and certain brands were playing a large role in solution design. However, since the business was mainly working through several distributors and resellers, it was not the largest factor anymore when considering where and from which supplier to buy.

There were few partners that were used most often but also random choices of suppliers purely based on current product availability. It was consensus within all three informants from direct sourcing that improvements of current ordering process and adding resource could also improve sourcing processes and enable portfolio approach, moving sourcing to proactive direction.

Price and availability were extremely important factors for service. Also availability was of high importance. If 3rd party service providers were needed to repair customer's machines there were certain lead times and if they needed 3rd party spare parts, cables or tools, they needed them immediately. They had long-term relationships with suppliers they used in these situations.

Service organisation was using sub-contractors to work for them in the areas without case company's maintenance staff or at peak seasons. In new business, there was need to buy certain works that were not core competence of case company such as network cabling. In sub-contracting quality and price were the most significant considerations because it should be close to "make"-level prices. The customer assumed all maintenance was guaranteed by the case company as per contractual obligations to customer and thus quality could not be overlooked.

The results revealed most emphasis had been on price and availability. The perception of good purchasing practices mostly concerned the price and ad hoc purchases based on availability were seen as main barrier to effective purchasing. Purchase order placers only raised purchase orders based on the requests from other business units. Analysis and categorisation of supplier spend revealed that split between indirect and direct sourcing spend was enormous despite of new business growing all the time. Direct sourcing spend was 10% of total whereas indirect covered 85%. Less than 1% were suppliers that were used by both channels and 5% of this spend was unknown. Expense claims added to both spend categories but it was impossible to analyse how much the contribution to direct sourcing was because this information was not separable from indirect expense claims like travelling expenses. From all interviewed business units service reported the claim practice as 'business as usual'. Their claims were 10 000 € in total annually so the phenomenon seemed to be minor.

There were no existing categorisations or reports about acquired items and services. By combining list of suppliers and accounts payable reports it was possible to form a spend report per supplier. Once supplier was created in company's ERP system it was assigned to a default auditor group. Auditor group determined which business unit would primarily approve invoice from the supplier. It must be noted auditor group can distort the analysis slightly because same supplier can be used for both indirect and direct sourcing and also because auditor group does not strictly follow business units. Indirect sourcing accounted for the majority of supplier spend within last 12 months. Many suppliers created last minute were added to Finance auditor group but it did not necessarily mean Finance would have been responsible for the sourcing decision and cost occurred. Based on data, it was impossible to tell which of these suppliers actually related to which area of sourcing. Split of spend between auditor groups and thus business units can be seen in figure 12.

Sum of Spend amount 12 months

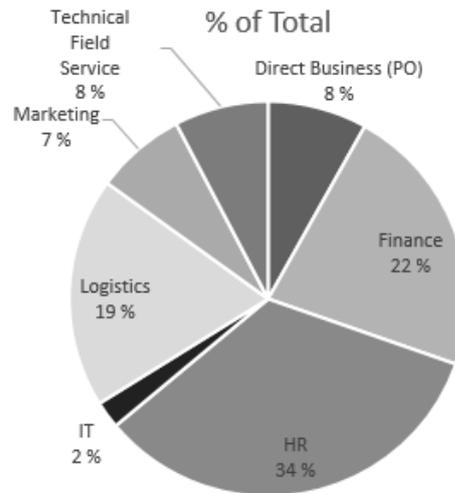


Figure 12: Percentage of total annual supplier spend by auditor group

New business related direct sourcing item spend was still relatively low (<10% on items and 8% on field service) compared to other supplier costs. Logistics related spend was tied to business and its volumes so it is part of direct sourcing. The data is from the first year of new 3PL used which had significantly increased logistics related spend. HR was most significant unit in indirect sourcing side. Second largest was Finance, contributing to around one fifth of costs occurred. (Figure 12)

Direct sourcing supplier amount was limited: only 12 suppliers were identified. About half of the sourcing spend were on hardware and other half on software and services. Direct spend largest segment was software and licenses but these were also used for so called core business machines. Categories were quite limited as delivered solutions had not been very complicated yet. (Figure 13)

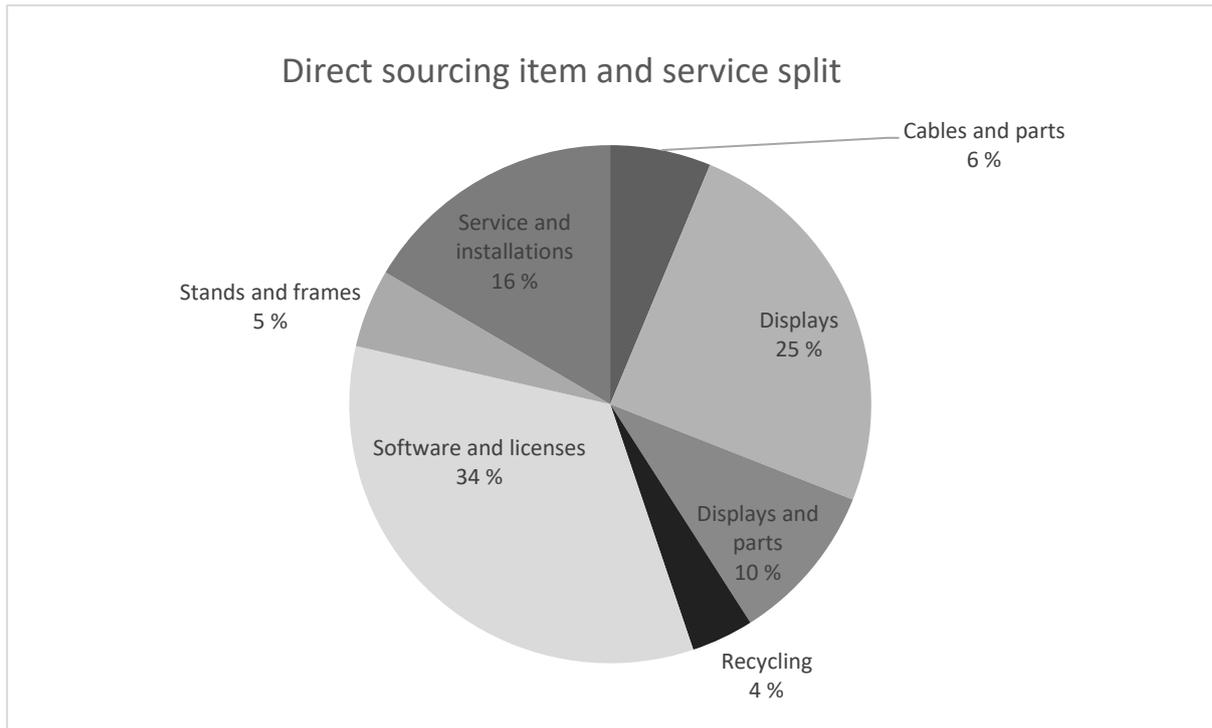


Figure 13: Purchased items and services by direct sourcing.

Displays and parts formed majority of purchases. With one supplier, it was impossible to distinguish from Accounts Payable reports which cost was for displays and which to parts so it was assigned its own category. Service and installations covered 16% of spend which is quite high as it did not include core business installations. Stands and frames and cables and parts formed approx. 10% of all spend. (Figure 13)

Furthermore, to understand main items and services purchased supplier lists were reviewed with finance and key decision makers to understand what were the main items or services purchased from certain suppliers. Also split between indirect and direct spend was made as there was large difference in volumes and nature of purchases were different between these channels.

In indirect sourcing side variety of sourced items and services was huge. Also spend was larger compared to direct sourcing. Amount of suppliers was 213 which is significant amount of whole supplier base. Major contributors to indirect spend were insurances, logistics & warehousing, car fleet management. These covered over half of the indirect spend. Some other significant categories were outsourced service and installations, property management, consulting and training, employee related items such as lunch cards, mobile phones and credit cards that totalled a bit over one fourth of whole indirect spend. Majority of main items and services were controlled by either Back Office Finance or HR. (Figure 14)

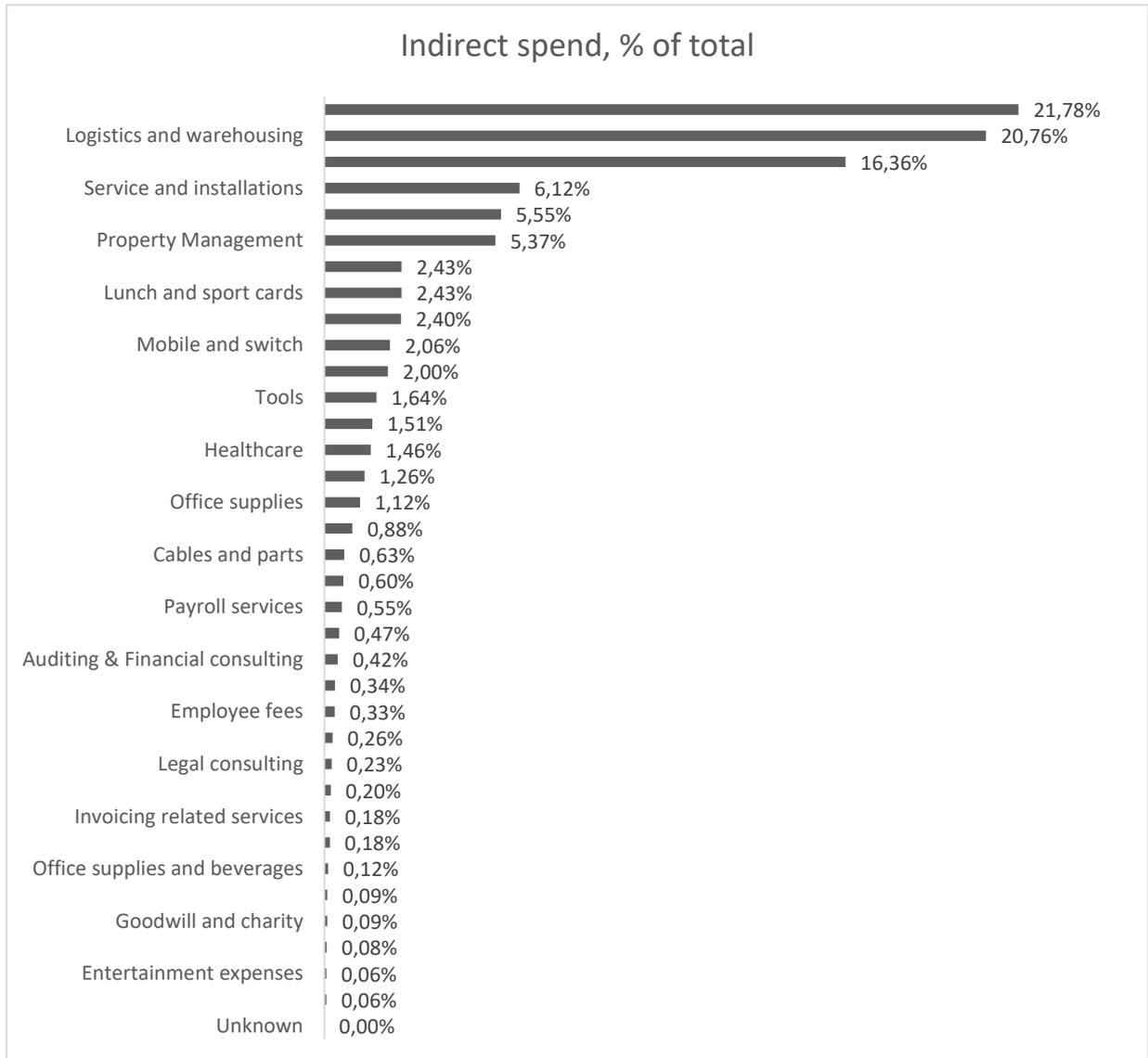


Figure 14: Purchased items and services by indirect sourcing

Overlapping item and service volumes between direct and indirect sourcing were not significant from spend perspective. These items and services were also estimated to be non-critical based on indirect sourcing interviews and following direct sourcing analysis.

Estimation of related supply risk of direct sourcing item or service was asked from some of the informants when supplier lists were reviewed. This analysis was limited to direct sourcing only since the highest demand was to form the supply strategy in direct sourcing. Indirect sourcing side was mapped only to get holistic understanding of purchasing stage and to see if there could be synergies or support opportunities in case purchasing resource and capability was improved. Informants were asked to estimate supply risk to high or low depending on item importance to final solution. (Table 3)

Table 3: Supply risk classification of direct sourcing items and services

Supplied item / service	Major channel	Supply Risk
Cables and parts	Direct	low
Displays	Direct	low
Parts	Direct	high
Recycling	Direct	low
Service and installations	Direct	high
Software and licenses	Direct	high
Stands and frames	Direct	high

Cables and certain parts were estimated to possessing low risk along with recycling of reversed materials. Displays were important part of solutions but global quality brands that were used could be acquired from multiple suppliers even nationwide. There were some parts that were essential in almost every solution and low quality parts could have caused solution not to work. One supplier was used for these parts. Stands and frames were sourced from sole supplier as well as they were perceived the only option on the market manufacturing custom-made frames and stands to solutions. Software & licenses were critical to success and often sold only by software companies that had developed it. Service and installation were outsourced and if they failed the risk was estimated to be high because of defects and customer dissatisfaction.

It is remarkable that all interviewees viewed all supply related challenges highly internal. No one mentioned problems with suppliers even when asked about the topic. Problems were considered minor compared to internal challenges. However, this did not necessarily mean that there would not be development areas with suppliers – also in indirect side. Now no one focused solely on supplier management, portfolio model creation and management. Strategic approach was lacking and people might not want to admit they had done bad decisions in supplier selections.

4.5 Current supply base

Company's current supply base consisted of 390 suppliers. European parent unit from which core products were purchased and centralized supply chain management pre-configuring and shipping out machines were excluded from the data because they were not external suppliers. Total spend to supplier invoices locally within last 12 months was 3,7 million euros which is approx. 18% of case company's annual revenue. Out of 390 existing suppliers in supply base, 166 had not been used within last 12 months. From cost perspective, top ten suppliers based

on euros contributed 60% to the euros paid to suppliers. Remaining 224 were responsible for 40% of the costs occurred.

Supply base had knowingly never been cleaned up. Finance department was in charge of creating suppliers but in practice, anyone could add a supplier by e-mailing Finance department. Suppliers were not actively managed except of default auditor group assignment during creation process. Finance department also noted they were often simply obliged to add a supplier because someone in the company had already purchased something and supplier needed to be added in order to pay the supplier invoice. If invoice had no clear reference or they did not find relevant business manager to approve the cost they assigned Finance as default auditor group. Thus finance auditor group data could include purchases of other business units as well and it was known based on interviews that some direct sourcing decisions were very ad hoc and not routed via purchasers. For this reason, Finance spend was further classified with one of the informants from Finance. Suppliers with 0 spend within last 12 months were left out of analysis. (Table 4)

Table 4: Split of finance related supplier spend

Detail of Finance spend	% of spend amount in €, last 12 months
Entertainment	0,50 %
Finance	20,94 %
HR	0,74 %
Insurance	30,17 %
Legal	0,89 %
Marketing / Translation	0,15 %
Office supplies	3,60 %
Property	16,15 %
Service supplies	0,27 %
Training	0,23 %
Unknown	26,34 %
Grand Total	100,00 %

Finance auditor group relevance seemed to be in line as other significant costs were related to Finance and their area of control like insurance, legal and property. One interesting observation is that unknown spend was over one fourth of this auditor group's supplier spend. (Table 4) This category consisted of supplier spend that finance had been unable to assign to any auditor group during supplier invoice receipt. It must be also noticed that unknown category consisted of 165 suppliers altogether but there were only 35 suppliers that had been used within last 12 months. As per European Finance manual, Finance were in charge of overall costs of the local company and supplier creation and control.

None of the business units had actively thought about sole/single sourcing, multiple sourcing and parallel sourcing because purchasing was mostly ad hoc or strategic partnership established with one partner and decentralized across business units. Service was the only unit that was dependent on one supplier due to supplier's capability in installations in certain area of Finland. On the other hand, they had not proactively mapped the alternatives because they "just knew" this was only option based on their management experience. The current one was used due to proven track record and long-term partnership and only perceived to be the only option on the market. Other units mostly used multiple and parallel sourcing but this was rather based on ad hoc nature of purchases rather than being conscious strategic decision.

Amount of suppliers used on acquired item/service level can be seen on figure 15. Suppliers with zero spend last year were left out of analysis. The result strengthens the finding that significant amount of spend is unknown. These are a collection of 35 suppliers that have been used during last 12 months. This category also forms the largest variety of suppliers but it cannot be known whether this related to indirect, direct sourcing or both.

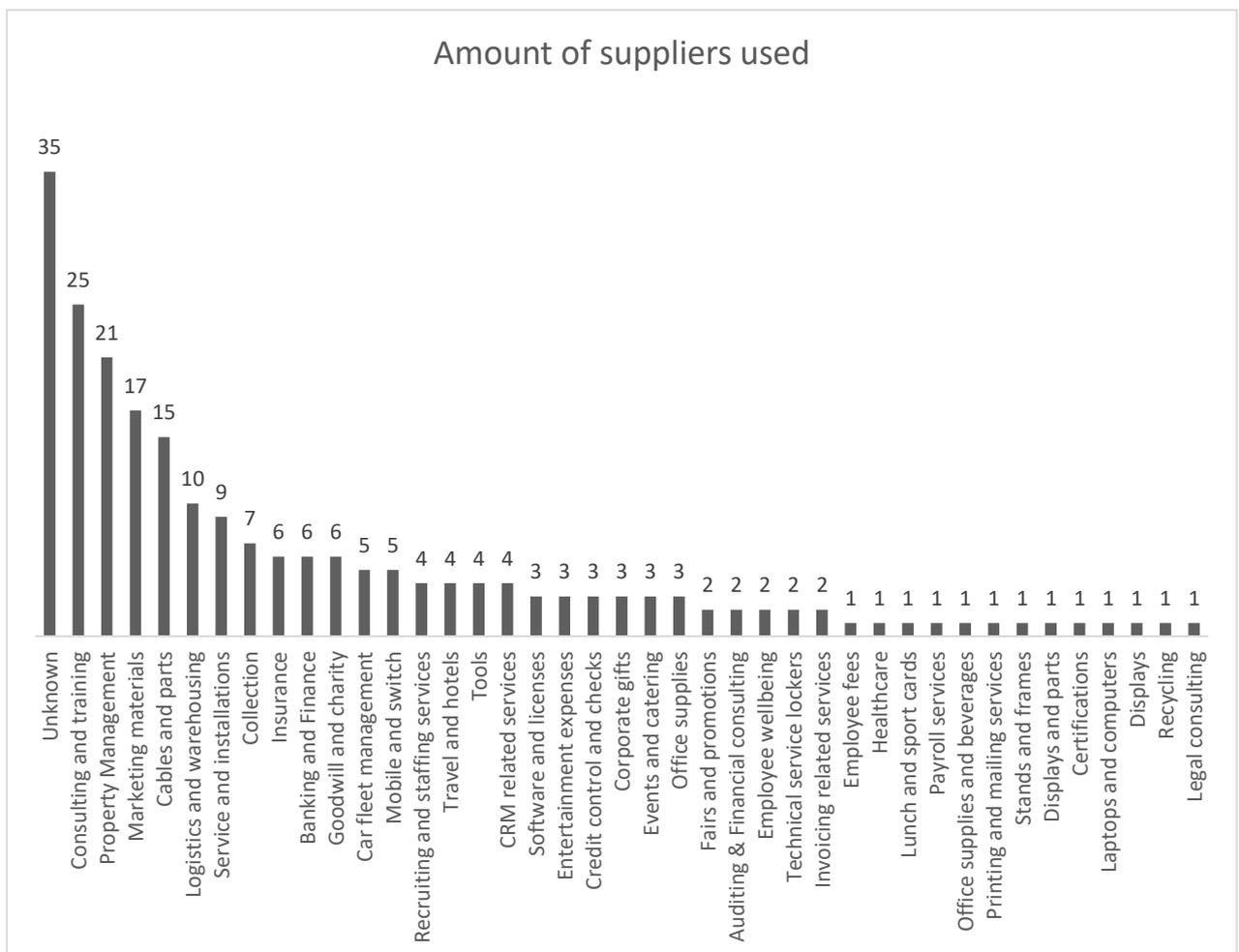


Figure 15: Amount of suppliers used per purchased item/service

The second largest category was related to consulting and training. This was because each business unit was deciding which consulting and training services they would use. Need could be from very specific area so multiple partners had been used. Property management involves everything from cleaning and maintenance to premise rentals. Case company had small service offices around Finland and it seemed no nationwide partner had been used to produce property management related services. Fourth largest amount of suppliers used were found in marketing most likely because manager was eager to enhance business by using customers as suppliers. Cables, parts and tools were acquired ad hoc but amount of suppliers would probably be even larger if service expense claims could have been classified. Despite of company having 3PL regional warehousing services for service unit had to be acquired from other partners. Occasionally other carriers were used to urgent deliveries if 3PL was fully booked.

Thirteen items / services could be identified where only one supplier had been used within last 12 months. Half were related to HR and as they explained, they preferred choosing one partner in certain areas that were more manageable and could improve human resource management in the case company. This included e.g. healthcare and payroll services. Direct sourcing relied much on one or two suppliers but according to interviews this was not necessary or conscious choice except for stand and frame provider that was perceived only option in the market. IT was obliged to use certain laptop provide by parent company. Back office used one supplier for certain office supplies and beverages because they wanted to automate the process as much as possible and did not want to spend time on supplier management.

4.6 Location of supply base

Supplier address data was used to generate understanding of current supplier base location. Analysis shows 95,6 % of suppliers were located in Finland from which majority in metropolitan area of Finland in Helsinki, Espoo or Vantaa. Suppliers in Finland furthered >90% of annual purchasing spend. Only eight offshore suppliers were found all located in EU. Out of this eight three had not been used in the last 12 months. (Table 5)

Table 5: Supply base location

Supplier Location	Amount of suppliers	% of total supplier amount	Contribution to spend in €
Czech Republic	1	0,4 %	0,1 %
Denmark	1	0,4 %	0,0 %
Finland, metropolitan	129	58,1 %	65,6 %
Finland, other	85	37,4 %	27,8 %
France	1	0,4 %	0,0 %
Germany	1	0,4 %	1,2 %
Ireland	1	0,4 %	3,4 %
Netherlands	1	0,4 %	0,1 %
Sweden	3	1,3 %	1,8 %
United Kingdom	1	0,4 %	0,0 %
Grand Total	224	100,0 %	100,0 %

Understanding of local business context were important to interviewees who sourced services. In technical field service on-site job was performed on-site all across Finland. HR pointed out understanding of local job market, laws and regulations were extremely important to guarantee quality and reliability. Marketing used local suppliers because they were also company customers that were located in Finland. IT was forced to use suppliers defined by Europe. For the IT accessories they used the easiest option that was Finnish web shop. They had not given much thought to finding suppliers due to low volumes both in terms of cost and quantity.

Pre-Sales and Sales mentioned time and lack of resources as key restriction to find new suppliers in direct sourcing side. They had mostly no special reason to use local suppliers or distributors although they mentioned importance of quick delivery times. No local stock was kept and due to complex order entry and processing of purchases were made close to customer delivery and installation.

Certain administrative jobs had been offshored to Service Centres abroad within corporate boundaries. This as such was not part of the current supply base location but the topic emerged in many of the interviews when offshoring and insourcing were discussed. Experiences from obligatory offshoring were negative. Sometimes costs occurred had increased for the case company and relationship establishment and lack of face-to-face was mentioned as con. The most highlighted part was lower quality and cost-efficiency was questioned. Evidently, company had lost one of its major customers because of invoicing issues. The direction of European parent was towards centralising, offshoring and outsourcing. The loss of

independence in decision making was a challenge mentioned by many. In strategic relationships with suppliers close proximity was seen as an asset. Decision makers were reluctant to consider other choices in their own sourcing decisions. With non-critical items the proximity of current suppliers was due to lack of resource. It was admitted mapping of cheaper choices could be done but decision-makers themselves did not have time to do that. This was because evaluation of delivery terms, shipping terms, quality and price comparisons were seen laborious.

4.7 Supplier relationships

Some interviewees recognised the importance of the supplier relationship management but due to lack of personnel dedicated to purchasing or supply management, possibilities to relationship management were seen highly limited. Main suppliers in indirect sourcing were managed by Business Unit Managers and sourcing decision makers. In this segment, there was mostly follow up of suppliers in form of spend analysis and regular follow up meetings. Also good relationship with suppliers were mentioned by many Business Units. It was highlighted that professional circles in Finland are small and thus you knew the suppliers often personally. People among the branch knew each other through networking.

In indirect sourcing side, HR negotiated deals worth hundreds of thousands of euros annually but also contracts that affected employees closely. Thus, they emphasized customized solutions without standardization and each purchase being unique. The focus was on quality and the needs that could vary a lot. They had faced difficulties with suppliers but since the deals were of high amounts suppliers had been willing to improve their performance. Highest spend supplier performance was reviewed in monthly follow-up meetings with e.g. Health Service provider and Payroll. HR saw these relationships as collaborative partnerships that required initiatives from both parties and handing out confidential information in order to improve.

IT had no chance to negotiate the mobile, network structure and computer contracts since these were negotiated in Europe level. They had faced some difficulties but good relationships with local providers had helped them to resolve any emerging issues. This was seen necessary because employees not having functioning laptops or mobile phones could create significant losses to case company i.e. create a bottleneck despite of being in indirect category. IT accessory suppliers and other local sourcing decisions were perceived small in terms of volumes and spend. Thus these suppliers were treated as arms-length relationships based on

order transactions only. Case was similar in back office and with office supplies, for example. Items were seen as non-critical to business.

Back Office was actively managing and tracking performance of 3rd party Logistics provider (3PL). They had regular meetings and good personal relationships in every level of both organisations. They had also initiatives to integrate both company's IT systems and create interfaces between ERP systems. Any process gaps or disturbances were raised by both parties and collaboration was still building. Sometimes occurred cost was paid by case company, sometimes by 3PL and sometimes by both parties. The target was efficient deliveries to company. With new logistics provider, case company was a significant customer and needed reference for 3PL. This was perceived as benefit in case company. Previous 3rd party Logistics Provider was not only more expensive but also more inflexible and not interested in improving relationship with Finnish affiliate. This was perceived to be because of size asymmetry.

Marketing was closely highlighting the importance of relationships. They viewed the relationship through sales focused lenses. Supplier relationships were actively managed by placing orders to case company customers. This was in hope that they would then again place orders to case company. As mentioned earlier, such relationship management model is forbidden in purchasing policy by European parent company. Marketing decision-maker did not see anything wrong in this approach because it helped to improve business through win-win situations and because neither party was not obliged to place an order to each other. This approach was mostly used when it came to Marketing materials. CRM and consulting related suppliers were treated rather arms-length.

Direct sourcing focused on managing relationships with foremen. This is, for example display brands and importers. They could ask for bids that were then valid for specific brand displays with any of the used suppliers (IT wholesalers or distributors). Follow-up and business opportunity meetings were held regularly. Size asymmetry was recognised as Business Managers said they were highly dependent on foremen as case company business was very minor compared to large players in Finland. This affected terms and prices that case company could get with current volumes. However, as volumes were expected to grow, Business Managers highlighted the importance of establishing relationships. Stands and other items were purchased from same supplier that was smaller in terms of size and revenue than the case company. As these were tailored solutions that were claimed to not be available from anywhere else supplier had power over case company. Delays in production and deliveries could have created bottlenecks to whole delivery of solution. Tailored items were designed in collaboration. Similarly to IT and Back Office, cables and part suppliers were treated as non-critical and arms-length.

Service used specific suppliers to provide installation and maintenance services and actively managed the relationship with them. They used to have follow-up meetings and performance reviews. Sometimes training was provided by case company in order to add to understanding and know-how of case company brand machine maintenance. In new business area where case company had competence issues, vice versa trainings were not provided by supplier.

5 DISCUSSION

Theory of supply strategy development and parts of supply strategy were presented in chapter two. It has been researched on large companies for the most part. The starting point of this thesis was contingency and unique circumstances subsidiaries operate in. The purpose of the empirical case study was to map needs, restrictions and challenges related to purchases in the case company in order to form relevant supply strategy for the case company. Findings were reported above. In this chapter, theoretical framework is synthesized and compared with findings.

As suggested by Christman et al. (1999) subsidiary performance is influenced by parent company but also by local actions to some extent. Company spend on purchases could total even 30-70% already in 90's (Morgan, 1999; Luzzini et al. 2014). It appears case company spend is relatively low, 18% of expenditure. This is when purchases are considered on local level i.e. case company can actively affect sourcing decisions. Figures don't include intercompany purchases from parent or other internal entities. The result could partly explain why purchasing function did not exist in the case company and why the initiative to improve purchasing processes and supply strategies had emerged only recently in late 2010s.

Purchasing is rather transactional whereas supply management includes proactive management of suppliers, is aligned with company overall strategy and is cross-functional, integrated effort to pursue strategic goals of the company. (Monczka et al., 2005; Trent, 2007; Gadde et al. 2011) Interviews revealed that there was no existing supply strategy in the case company. Purchasing activities were ad hoc especially in direct sourcing side. Few business units had considered reflecting company overall strategy in their purchases as purchasing was not seen as strategic function of the company. Holistic, proactive management of suppliers among all business units could not be identified and there was lack of cross-functional collaboration and integration.

Concepts of make or buy, core capabilities, supply base management, centralization versus decentralization and supplier relationship management were alien to most of interviewees. It does not mean they did not consider these elements when they were making purchases. However, if strategy is "*a pattern in a stream of decisions*" (Mintzberg & Waters, 1985) and consist of planning, strategic thinking and opportunistic decision making no pattern could be found. Sourcing decisions were rather based on common sense, urgent needs and previous experiences than conscious strategy.

Reck and Long (1988) suggested strategic stages of purchasing can be classified to passive, independent, supportive and integrative based on nature of purchasing transactions. As local purchasing decision-making was split across business units instead of purchasing function and strategic thinking seemed to vary from one unit to another they were compared separately. Still, when comparing these stages to purchasing related activities identified in the case company it is evident that overall, purchasing is not on very strategic level in the case company. (Table 6).

Table 6: Purchasing related activities in different business units in the case company based on classification of strategic stages of purchasing as per Reck and Long (1988).

Business Unit	Focus	Passive	Independent	Supportive	Integrative
		Reactive, quality & cost	Purchase practices exist, no alignment with strategy	Practices used to support company in competition Aligned with overall strategy	Practices aim to competitive advantage Aligned with overall strategy
Back Office	Indirect	x		x	
Purchasing coordinators	Direct & indirect	x			
HR & Quality	Indirect			x	
IT EMEA	Indirect			x	
Marketing	Indirect		x		
Presales	Indirect & Direct		x		
Sales	Direct	x			
Services	Indirect & Direct	x			
Top Management	Indirect & Direct			x	

As mentioned there was variance between business units how strategically purchasing and sourcing was approached but regardless, no cross-functional, integrated efforts could be found. Purchasing related activities were very reactive in the most of the business units. Especially in direct sourcing purchasing was very reactive and ad hoc. It appeared the more parent company had centralized and controlled purchasing activities the more it was on strategic level. This was evident with top management, HR and IT and in back office in regards of 3PL management.

Direct sourcing was relatively new in the case company and that expectedly showed in results as the nature of these activities were mostly passive with one exception with presales part. Back Office, HR, IT and Top Management that had to follow parent organisation contracts and managed largest volume contracts had existing yet not documented purchasing practices like active supplier management. There was alignment with corporate strategy to help supply management achieve overall corporate goals. There were also initiatives to improve through

collaboration to stand up in the competition. Cross-functional collaboration within the case company and purchasing function to support business units were lacking. Proactivators identified by Akhavan & Beckmann (2016) awarding excellent suppliers, sharing best practices with their suppliers and building supplier capacities in long collaborative partnerships could not be identified as such in the case company. Some elements of related activities could be found in HR and with 3PL management but it did not cover the whole company. This could propose supply management is relevant or possible for the large companies only or that smaller companies could perform better if they applied supply management practices. Lack of resource and low volumes were mentioned multiple times in interviews which could suggest purchasing is either given low strategic importance or is simply not an option to a small subsidiary.

As mentioned by Moses & Åhlström (2008), issues in sourcing process will emerge without common sourcing strategy among functions. Trent (2004), suggests companies have to excel in measurement and evaluation, IT, HR Management and organisational design before integrative supply strategy can be implemented. This seemed to be well in line with circumstances in the case company. Purchasing function did not exist and was split among two departments. All purchases were not handled by them that had resulted in large amount of unknown spend. Purchasing was very transactional and reactive and in direct sourcing side the root cause for this hardship was perceived to be inflexible IT system. Both reasons could also explain why supply strategy did not exist in the case company.

Compared to theory that proposed make-or-buy decision is one of the most important parts of supply strategy (Saunders 1997; Walter et al. 2001) it was of less significance in the case company that was a subsidiary of a parent company. This was probably not because there would not be a risk of hollowing out or high asset specificity in the subsidiary but because parent company had most control over the decision. It suggests make-or-buy decision is so much of strategic importance indeed that this control will be kept on parent level. It appeared company boundary definition is blurred in parent-subsidary setting and depends on level of analysis. Subsidiaries can be using other internal entities and resources of corporation. As in this case subsidiary had no control over these decisions and the purpose was to create local supply strategy these activities were excluded from the analysis. Service decision to buy is in line what Levy (2004) arguments about unwished dependency on chosen supplier. Reason for this make-or-buy decision was low volume of new business. No documented calculations of this existed.

This leads directly to the question of centralization, decentralization and consortiums. Benefits of centralized sourcing are coordinated purchase volumes, less duplicate work and coordination whereas disadvantages similarly include inflexibility, slow processes and

unresponsiveness and vice versa with decentralization (Matthysens & Faes, 1996, Monczka, 2005). Ahtonen & Virolainen (2009) concluded suitable balance between these two are most used approach in companies. Pros and cons suggested by literature applied well to the case company both on group and local level centralization. Centralization had happened on group level to some extent and affected subsidiary directly in indirect sourcing. On local level, there was no centralization at all. Group level centralization decisions had resulted mostly in disadvantages in subsidiary as benefits were reached on group level. IT, logistics and back office centralizations had reduced flexibility, increased cost and lowered quality as group had no sight to operational realities of subsidiary. Business unit decision-makers were reluctant to centralising on local level. Reasons given were almost directly from the arguments pro decentralized purchasing by Matthysens & Faes (1996): local management autonomy, local requirement fit and local supplier usage. Also negative experiences from group level had affected manager's opinions. Consortium sourcing being rare in companies (Essig, 2000) applied to case company as well since it had not been considered.

Despite of popularity of portfolio models (Olsen & Ellram, 1997) they had not been used in the case company at all. Simple portfolio for direct sourcing was built based on framework from Monczka (2005). Spend report and interviewee risk estimates were used to create the model and supplied items and services placed in quadrant. (Figure 16)

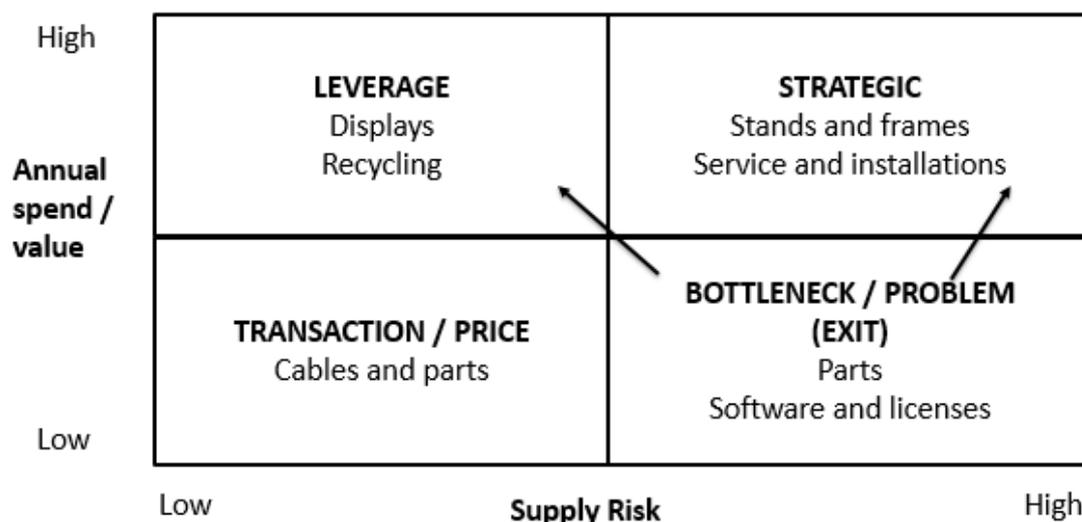


Figure 16: Direct sourcing portfolio.

Results support the fact that portfolio models can help companies classify their purchases and that they should be managed differently. Even with low volumes and small sized business items and services could be placed in each quadrant. Displays and reverse material recycling

were leverage items and by focusing display purchases on one supplier case company could try to exploit their buying power or establish partnerships. With recycling, the risk was estimated to be low but in fact there was only one relevant company in Finland that could meet environment standard set by parent. This shows how subjective risk evaluation can distort results. Cables and support materials were of low cost and risk, could be purchased anytime anywhere and thus could continue being treated as non-critical items. Stands and frames and service and installations were strategic items as per portfolio. This holds truth because both were used in new business solutions and were critical to business success. There were only few capable suppliers available and they were expensive. Certain parts and software and licenses were also critical to success, there were sole suppliers providing items and solutions would not work without them. As annual spend on these were still low, it is likely that later on these would become strategic items if case company did not find ways to manage supply risk.

Portfolios had not been used in the subsidiary before and purchasing maturity was in its infancy it is hard to evaluate portfolio model criticism relevance. It is hard to tell whether the criticism of over-simplification, excessive focus on cost and subjective perception of supply risk and weight factors (Gelderman & Van Weele, 2005) would be of relevance in subsidiary. Even if supply risk evaluations are subjective perceptions of business managers and two-dimension model is simple it could help the case company that is not managing suppliers at all. Also because volumes are low and purchasing resources scarce in subsidiary portfolio model could provide management with easy-to-use tool to manage purchases on more strategic level. As direct sourcing volumes grow models could be further improved if necessary.

Active management of supply base and reduction of supplier amount can have positive impact on company performance (Trent & Monczka, 1999; Seshadri, 2001). Putting amount of registered suppliers into perspective, supply base is wide compared to the size of subsidiary and supply base minimisation could be needed. Majority of suppliers had not been used within last year. There was also high unknown spend which could affect spend amounts of other purchases if they could be classified. Sole, single, multiple and parallel sourcing as options suggested by Richardson (1993) existed in the case company. However, these seemed to be result of decentralized buying and reactive nature of purchases rather than strategic decisions. After supplier reduction, case company could benefit actively applying different models. In some cases, multiple sourcing was used unnecessarily whereas sometimes single sourcing was possibly forming part of supply risk. As suggested by theory, sole sourcing was a rare occasion.

In regards of supplier base location it was on very domestic level. Gelderman & Semeijn (2006) suggest international and global sourcing requires close cooperation between departments to

achieve maximum benefits and this could be limitation for the case company. In that sense, local supplier base can be easier to manage for a subsidiary with scarce resources. Lack of resource and coordination were mentioned as reason not searching and scanning suppliers abroad. Contingencies mentioned by Bals et al. (2016) were country level, company level, group level, decision magnitude and task/activity level (Figure 9). Company level contingencies seemed to be the most determinant in the case company: Small size of subsidiary limited its options to effectively manage and exploit global markets. Also geographical and cultural distance were mentioned as close proximity of suppliers made them manageable. Similarly, only few possible suppliers were geographically available in certain parts of Finland. Decision magnitude like task and products to be sourced also had effect on sourcing decisions. SMEs favouring local suppliers (Ellegaard, 2006) seemed to apply to small subsidiary as well as case company decision-makers tend to use suppliers they knew and had made business earlier.

Most limiting restriction was available management resource when it came to supplier relationship management. Dyadic relationships were favoured with most suppliers because purchasing relationships were based on transactional orders to suppliers. On the other hand, due to low volumes and case company size, decision makers did not see they had enough power to negotiate about strategic partnerships with lot larger suppliers. This result supports suggestions of strategic purchasing and supplier management being irrelevant to SMEs (Quayle, 2000; Ramsay, 2001). As such case company is not strictly SME but its volumes in purchases and size in Finland are. In addition, supply management was no one's main task and benefits were not deemed to exceed transaction costs occurred from more proactive approach to supplier management, as proposed by Blomqvist et al. (2002) and Monczka et al. (2005). On the other hand, latter was only perception in the case company. It could still benefit from evaluating management costs.

Formation of supply strategy by Ahtonen and Virolainen (2009) and interdependence of different parts covered the topic of supply strategy well. (Figure 10). When different parts of supply strategy were discussed with informants and data categorised, it was hard to define under which subtitle findings should be reported. Business strategy, core competence definition and cost/advantage analysis were done on parent level so make or buy decisions were largely out of reach of the case company. This seems do differentiate supply strategy creation in subsidiary setting and limiting make or buy decisions and thus make part of supply base unmanageable. Local decisions were of less significance but still contributed to one fifth of supplier expense. Supply base size and location choices were affecting decisions of competitive strategy and collaboration less. Suitability of suppliers were not estimated actively because supply management had not been approached strategically. Level of centralization played more important role in these decisions as parent level control was centralized in indirect

sourcing decisions but highly decentralized in local decisions. This resulted in too large supply base and ad hoc acquiring of items. Purchasing portfolios did not exist but decision makers made decisions based on evaluation of item strategic significance and managed strategic item and bottleneck item suppliers with more collaborative approach than leverage and non-critical items. This supported proposal of Caniels and Gelderman (2005).

6 CONCLUSIONS

The aim of this thesis was to investigate how to develop and form a supply strategy for a small subsidiary. Theory was used to identify elements of supply strategy. Needs, restrictions and challenges in subsidiary environment were mapped in order to form an appropriate supply strategy based on these contingencies.

6.1 Main results

Formation of supply strategy decisions were currently not conscious or documented and strategic stage of purchasing was on transactional level. Due to changes in business environment need for supply strategy had emerged. Three research questions were formed.

One research question was *what are the elements of supply strategy?* Due to maturity of research in elements of supply strategy, literature was used to define the elements. They are make-or-buy decision, level of centralization / consortiums, collaboration vs. competitive strategy, supply base management and supplier relationship management.

Second research question mapped the contingencies and business environment subsidiaries operate in: *What needs and restrictions do subsidiaries have regarding purchases?* Needs were very similar to any company purchases: price, quality, availability and level of needed management. Restrictions were mostly related to limited resources that could be allocated for active supply management and parent company control over local subsidiary. Also company's ERP for order management set some restrictions to current supplier management but by adding training and resource these system related issues could probably be tackled by adding training and purchasing capability in the case company.

Main research question was *how to develop and form a supply strategy for a small subsidiary?* Subsidiary setting set some limitations compared to larger companies making some of the considerations more irrelevant due to size asymmetry and parent company control.

Product level make or buy decisions are made in Europe and subsidiary cannot affect them. However, case company has possibility to affect its service offering, e.g. IT Support and subcontracting of work. Regarding make or buy decisions, discussion related to new business is not yet relevant since the revenues are so small that they do not enable acquirement of installation expertise. In future, it might be reasonable to acquire also maintenance and installation staff related to new business since printing is decreasing and new business should become case company's core business one day. This can take years so the make or buy

decisions are not an urgency. Regarding indirect purchases, make or buy decisions are more and more managed by parent company. This process seems more strategic with calculations and cost analysis and estimation of ROI. Subsidiary could try to build better relationships to parent organisation and try to engage more in supplier related decisions but it might be difficult due to small size of subsidiary. It is one of the smallest in Europe.

Case company has pretty wide supplier base of around 400 suppliers. New ones were added all the time and suppliers used via expense claim are not even counted. Approximately half of these suppliers was used during finance year. There is definitely space for supply base optimization and “clean up” of supplier base.

Also building more detailed supplier portfolio for direct and indirect purchases separately would be helpful in the beginning in order to understand which relationships require improvement and with which suppliers focus should be on process automation, for example. Two-dimension portfolios might be limited to capture all nuances of supplier relationships but they can be used to get hold of supply management fundamentals when sourcing resource and capability is limited. Tool is easy-to-use and gives guidance to business decision makers where to pay attention with each acquired item and service.

After supply base optimization and categorization it will be easier to say with which suppliers to collaborate with and build deeper relationships and with which to use arm’s length relationships and more traditional transactional costs. However, the direction of sales force in new business is correct and relationship with direct purchase related suppliers should be developed further because these assets and services are critical to business.

Regarding centralization, it probably makes no sense to centralize already bureaucratic processes. In case of centralization, objection from business managers was so high that change should be managed actively to tackle change resistance and convince managers centralization is a good choice. Current competency level of purchasing staff would not be on required level to realize the benefits. However, control, follow up and support should be improved. There is no such buying expertise in the company that would enable the coverage of all sourced items and services. The best knowledge lies in business units. At the moment company’s resources do not allow to hire purchasing specialist in each field but some resource could be allocated to analyzing and supporting business unit managers in their decision-making processes. This does not mean centralization of decision-making process but rather follow up and control and relationship building with suppliers. Supplier base management, contract negotiations and management, indirect and direct cost management, risk mapping and other supply management related tasks would pay off, especially in future.

Regarding direct purchases, situation should be changed. Too much responsibility lays on shoulders of Business Managers and Sales force. They should definitely not be the ones to select suppliers, find places for purchases and manage supplier relationships. Business itself needs to grow and develop and giving the responsibility of suppliers to sales slows down this development. In addition, if the only need for current purchasing function is to raise purchase orders, this responsibility can be given to business units as well since it's 5% of the whole process. It does not make savings and does not add any value. Proactive supply management would do that.

Currently, as no supply strategy exists and knowledge of organisation regarding purchases is limited, no preparedness for consortium buying exists. Also current relationships are not in such developed stage. However, this option might be realistic in future. The case company is not the only one who is struggling with declining business. Also consortium buying with other subsidiaries might be reality in future. However, this is again Europe level decision and since direct sourcing is related to business and stocks are avoided, it is not likely that 3rd party parts would be bought. However, there might be international delivery projects when consortium buying becomes possible. Outside the company boundaries, key persons already know important players in field of new IT business. For example, one competitor has accepted the case company as partner in certain fields of business despite of the difficulties in the beginning of the negotiations.

System seems to cause some troubles in the area of new business. System is not fully understood but neither designed for new kind of business. This should be the first concern in developing the purchasing processes since it is affecting profitability and limiting effective supplier management and supplier relationship improvement. System improvements are led by Europe's parent organisation but concentration in effective usage of current system and even making workarounds might be handy at this point. Created portfolio could support decision-makers to decide on which suppliers and items to focus on when time is limited.

Indirect sourcing all in all includes elements of strategic sourcing and it is not case company's biggest pitfall. Big contracts are negotiated and managed professionally: However, know-how varies from Business Unit to Business Unit. Training, workshop or knowledge sharing for Business Managers should be considered. Indirect purchase spending is not followed and this should be improved. Also purchasing guidelines, responsibilities during process and acceptance limits should be communicated to the employees in all levels of hierarchy. Written documentation of purchasing practices and policy in company intra is needed. Purchasing best practices, bidding guidelines and other relevant material like budgets that some Business Managers have could be shared.

Another recommendation relates to contract management. Also supplier contracts should be consolidated to one document bank. This reduces the risk when there are changes in organisation or somebody leaves. Despite of company not having big problems with suppliers it is also always a risk. Contracts can also be managed proactively to follow when they expire and can be terminated. It would also be according to good practices to have proper documentation and maintenance of documents.

6.2 Managerial implications for the case company

If resource allocated to purchases cannot be currently added, existing purchasing related documentation should be gathered to one place and all decision-makers be trained to make sourcing decisions. European level purchasing policy, code of conduct and local acceptance limits should be accessible. Supplier contracts should not be stored by business unit managers but by Finance. Easy way to add control is to train decision makers on process of supplier creation and scanning. Suppliers should be informed their invoices will not be paid without relevant purchase orders to stop unknown spend from generating and to track true profitability of new business cases. As some of the supplier choices were in grey area and in principle against corporate purchasing policy, management awareness of supply strategy and policies should be increased.

Despite of limited resources and low volumes of direct sourcing it should be considered whether New Business Managers that should be selling and developing business should be doing all parts of supplier selection and management. When business grows better robust fundamentals of supplier management can help case company achieve its strategic targets. Business Managers can focus on their core task instead of managing suppliers with 'left hand'. By improving ordering process of new business, sense of urgency and ad hoc can be decreased and thus enable more proactive supply management based approach to sourcing.

6.3 Validity and reliability

It emerged during interviews that some informants discussed the issues more openly than others. Thus, it is possible that truth was not told. Human mind always tries to explain and justify its own choices. Hence, asking people how they are dealing with purchases might lead

to situation they are not telling the actual operational truth but rather their ideal of purchasing process.

In interview based research, especially with semi-structured option when there are not ready questions, there is a risk interviewer induces the answers de trop. Avoiding this requires a lot of experience and conscious question processing. In this study, the writer admits she is not an experienced interviewer. Despite of trying to avoid questions that lead to certain answer it is possible that research data contains such information. Very limited financial supplier related data was available and it was not optimal for creating portfolio model as there was large amount of unknown spend.

In addition, end customer needs are important in Supply Management and strategic management. In this study, only people inside the company boundaries were interviewed and their needs used to develop and create appropriate supply strategy for the company. Customer view is missing to some extent from the results. However, four interviewees were from Sales and deal with customers daily to provide with this perspective.

6.4 Suggestions for further research

Supply strategy is a much researched topic but the research mainstream has focused on large company supply strategies and direct sourcing. Study revealed subsidiaries cannot necessarily make independent decisions in all elements of supply strategy because of parent control. Company boundary definition was more blurred and harder to define: is subsidiary an independent company or only part of larger company (corporation)? As research from the point-of-view of subsidiary is still rare in literature similar case studies could be performed in other companies to see whether some contingencies in this setting can be found to create adjusted supply strategy for subsidiaries. On the other hand, from parent company point-of-view it can decide how much to give autonomy to local units.

Since it turned out that not all centralization decisions were profitable on case company level, parent-subsidiary setting could also provide good environment for researching centralization pros and cons. Even if the purpose is to realise the profits on corporate level, useful information could be collected by giving the voice to local subsidiaries.

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APPENDICES

Appendix 1: Interview topics and general questions

Interview topics:

1. General information
 - a. Role in the case company
 - b. Role in sourcing related operations/decisions in the case company
 - c. Understanding of overall strategy
2. Current sourcing process and practices in the case company
 - a. Purchasing strategy / policy
 - b. Purchasing controls
 - c. Organisational structure and purchasing related communication
 - d. Sourcing related decision-making
3. Current sourcing process in own sourcing related tasks / decisions
 - a. What items and services are purchased?
 - b. Own business unit needs in sourcing process / decision making
 - c. Own business unit challenges in sourcing process / decision making
 - d. Own business unit restrictions in sourcing process / decision making
4. Strategic elements in own sourcing related tasks / decisions
 - a. How decisions of whether to make in-house or buy from suppliers are made
 - b. EMEA parent / Purchasing / Collaboration role in decision-making
 - c. Supplier selection process and drivers
 - d. Supplier management process and relationships with chosen suppliers

Appendix 2: Data coding tags

1st level tags:

1. Indirect Sourcing
2. Direct Sourcing

2nd level tags

1. Make-or-Buy
2. Centralization
3. Supply base
4. Items
5. Supplier selection
6. Supplier relationship

3rd level tags:

1. Needs
2. Challenges
3. Restrictions