

**UNIVERSITY OF KWAZULU-NATAL**



**Problems and Challenges of Global Sourcing at Defy Appliances**

**By**

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## **Dedication**

This thesis is dedicated to my late dad Mr Monty Pather and my late brothers Jason and Kamlin Pather. You are my inspiration.

## **Abstract**

Studies have shown that global sourcing is in one direction whereby global manufacturers from developed countries purchase low-cost materials and products from developing countries. Undoubtedly, one of the purchasing bases for them is China because of its abundant resources and cheap labour. That is why China is called the “Global Factory.” However, the higher demand for technical quality and an increase in manufacturing cost is driving more manufacturers to adopt a global sourcing strategy to improve their competitive advantage. That is why many South African manufacturers are currently adopting a global sourcing strategy to help optimize the use of global resources.

The purpose of this study is to analyse what problems and challenges DEFY, a domestic appliance manufacturing company in South Africa, face in the implementation of a global sourcing strategy.

The study analyses the problems encountered at Defy Appliances (Pty) Ltd when implementing a global sourcing strategy. To achieve this objective a quantitative investigation will be performed amongst employees in the relative departments within the organization that are involved in material design selection, international purchasing, global sourcing, supplier selection and overall costs gain/loss. The respondents will be selected from the following departments within the organization that is, Research & Development, Procurement, Planning, Logistics and Production Engineering. Hence a quantitative research study is adopted using a questionnaire as the research instrument.

Pursuing global sourcing is a time-consuming process and involves many challenges. In this complex situation, there is no universal compass to pursue global sourcing. Inexperienced South African manufacturers experience challenges related to logistics capabilities, selecting foreign sources, protectionism, regulations, and so on when developing policies and procedures for advanced level of global sourcing.

The important driving force for Defy Appliances pursuing global sourcing is improved technology and cost savings. The investigation and analysis carried out in the study shows that Defy will not pose a major risk in implementing global sourcing.

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# CHAPTER 1

## Introduction

### 1.1 Background

Due to rising cost of transportation, local labour requirements, and availability of low-cost material sources, manufacturers today are looking outside their home country to develop strategies for cheaper manufacturing and supply chain sourcing (George, 2006). This can be seen extensively in academic literature, where companies have been pressured to increase their global competition and develop international purchasing strategies that aim on optimizing quality, reduce pricing, satisfy implementation, reduce production process times, increase responsiveness and financial situations (Loppacher, et al., 2007).

The secondary data collected in the next chapter shows the importance of purchasing internationally to be a key factor for organizations gaining a competitive edge because of globalization. This strategy is a management style in purchasing that focuses on supplies from companies all over the globe, rather than supplies from local sources which are limiting (Trent & Monczka, 1998). Global sourcing, which is different from international purchasing in many ways, is considered as a corporate strategy aimed at universal utilization of resources and materials. Companies will need to develop a sourcing strategy based on coordination and integration of vendors across global purchasing, engineering, and operating locations regarding processes, materials, technologies and designs. This is all highly dependent on the level of global activities undertaken (Trent & Monczka, 1991).

The continuous process of a large economic interdependence among countries known as economic globalization is shown in the growing amount of cross-border trade in goods and services (Fischer, 2003). For manufacturers, it is vitally important to establish an efficient supply chain and make use of global resources to cut costs, improve the quality, and outgrow innovation. Together with the growth of globalization, global sourcing strategy is a key differentiator for demand-driven global value chain organizations to be successful (Rizza, 2007). When it comes to global sourcing, there is a notion that worldwide manufacturers from industrialised countries purchase materials for products from developing countries at low cost. Undoubtedly, the purchasing base for them is China because of its plentiful resources and its cheap labour. According to data from World Atlas.com, China was the world's leading exporter in 2014 and is growing to this date. China exported goods valued

\$2,342,310,000 US Dollars in that year. United States of America were in second place and they exported only 69% of this amount in 2014. Furthermore, a lot of famous international organizations have set up global sourcing distribution centres in China because of this. Although China has abundance of cheap labour and resources, it must be noted that it does lag the rest of the world for its quality of products and their industrial standards, which has become more and more important in today's modern market (Atlas, 2017).

## **1.2 Problem Statement**

It is known for a fact that global sourcing is currently no longer a new strategy for South African manufacturers, but for Defy Appliances, it is, after it was acquired in 2012 by a Turkish consortium Arcelik AS, who has introduced it by bringing in database of global suppliers. Defy Appliances before acquisition used to only purchase supplies domestically, so they are unfamiliar and therefore have no experience with all the processes that are involved in global sourcing. These processes are formulating criteria for supplier selection and global supply chain management. Looking at most of responses of the survey, global sourcing is relatively a new phenomenon for Defy. It can be noted that there is a serious lack of knowledge about the subject. Coming from the experienced expatriates at Defy, they must face problems like transportation, technical advancements, capacity weaknesses in production and lack of experience with management systems. Other issues are customs duties, language barriers and trade regulations. For example, the selection and control of suppliers' business processes are much more difficult due to their different positions in the world. Added to this, is cultural issues in global sourcing which are manageable, but they still should be recognized as concerns that need to be addressed (Cook, 2006). Logistics also in global sourcing brings up plenty of other problems such as delays in transportation, border-crossing procedures and extensive inventory management (Bradley, et al., 1998). Consequently, it is necessary and valuable to study what kinds of problems and challenges Defy Appliance is experiencing with regards to global sourcing.

### **1.3 Research purpose**

The purpose of this research is to analyse the implementation of global sourcing for Defy Appliances (Pty) Ltd at different stages to recognise and address the problems and challenges they would encounter when being executed. The goal is to relate and find the gap between the experiences of expatriates from Turkey with that of existing Defy employees and to identify what problems are unique to the manufacturing and develop solutions accordingly. With collection of necessary data and through thorough analyses, the aim and objectives of this research can be concluded.

### **1.4 Structure of Study**

To fulfil the purposes of the research study, 5 chapters are presented in this thesis. Chapters 1 and 5 are the introduction and conclusion respectively. These two chapters set up the framework of this entire thesis. The research problems and purpose of this thesis are presented in chapter 1 decisively. Chapter 2, the literature review, offers the reader a theoretical background of global sourcing. Its definition, the driving forces, and benefits of global sourcing are provided in depth. In addition, the status of South African manufacturing will also be introduced in this chapter. Based on this information, Chapter 2 will give an idea of what kind of problems and challenges of global sourcing have been found in previous studies. This chapter ends with a list of the most important problems and challenges about global sourcing theory. The following chapter introduces the research method used in this thesis and describe the details of the questionnaire used for the study. In Chapter 4, an analysis based on the response from the questionnaire and collected data will be discussed in detail. Results of the study will show how Defy Appliances implement global sourcing in practice and the problems and challenges of global sourcing are analysed by the theoretical and practical findings of this study. Chapter 5 ends with conclusions and recommendations for further study.

## **CHAPTER 2**

### **Literature Review**

#### **2.1 Background**

The business dictionary's definition of global sourcing is a buying strategy where the organisation seeks to find the most profitable position for making a product, even if its position is in a foreign country (Dictionary, 2017). For many organisations, global sourcing has become an economic imperative for them. With increasing competition, globalization and the desire to enter foreign markets to boost growth have led to a much higher level of international supply. However, by simply buying internationally will not provide the best solution to achieve the goals that will lead to the company's continued success. A complete and precise global sourcing strategy is needed to be executed. Even though cost reduction remains one of the primary drivers for global sourcing organizations, it is unlikely that cost savings will provide a competitive edge if your competitors are also gaining resources internationally (Jiang & Tian, 2009).

#### **2.2 Linking global sourcing to the organizations objectives**

Global sourcing is the one factor of the overall strategy of a company's purchasing department. There should be a system to determine whether a product or service needs to be outsourced or sourced locally to promote the proper functioning of the organization (Jiang & Tian, 2009).

Organization goal that transform a business to sustain a competitive advantage include:

- Becoming the lowest cost producer
- Achieving world class quality
- Maintaining constant innovation
- Minimising time to market (Jiang & Tian, 2009)



Figure 0.1: Global Sourcing Assessment Framework

Source: <http://purchasingpractice.com/a-guide-to-global-sourcing-for-competitive-advantage>

When sourcing goals are directly linked to the business, global sourcing can be a significant contributor to the success and sustainability of that business. To do this, procurement requires an assessment framework (Figure 2.1) to understand the business strategy of their organization, value chain and sources of competitive advantage to select products, appropriate venues and suppliers from global resource. Once this is clear, the buying department can then begin to strengthen new resource strategies that will assist with strengthening current sources of competitive advantage and fix new ones. There is an increased complexity found by many companies, especially companies in low-cost countries, where this is an extremely difficult global procurement process. The reality is that failures in global resource operations are the weaknesses of a company's standard tender processes. A strong robust process is critical to conduct global sourcing (Trent & Monczka, 2003).

Executing the overall global sourcing strategy framework and reaching the point to source globally is a strategic process that provides a discipline to manage a selection of suppliers and maximise value added. If not, the strategic sourcing processes reflected in these disciplines will not be long before serious problems become unavoidable. After the sourcing process is complete, the supply management is necessary to ensure that quality and integrity are maintained and to continue supplier implementation to prevent malfunctions of supply chain. Investment in time, money and resources is also required in doing so (Trent & Monczka , 2003).



Figure 0.2: From Domestic Purchasing, International Purchasing to Global Sourcing

*Source: (Jiang & Tian, 2009)*

The progress of domestic purchases to international purchases and finally to global sourcing is shown in (Figure 2.2). This can be viewed in further detail in (Figure 2.3) as a move across five different levels (domestic purchasing, international purchasing only as when needed, buying international purchasing as part of a sourcing strategy, sourcing strategies integrated across worldwide positions and global sourcing strategies integrated into functional sites and groups around the world) starting from domestic purchases of international contracts were organizations must face the longer distances that are involved like, increasing standards and regulations, fluctuation in currency, customs duty requirements, language barriers, time and cultural differences. Companies that proceed with global sourcing needs to deal with operational issues affecting international purchases, by managing a higher level of coordination and transversal cross-positioning (Trent & Monczka , 2003).



Figure 0.3: Progression levels of Domestic Purchasing, International Purchasing to Global Sourcing

Source : <http://sloanreview.mit.edu/article/achieving-excellence-in-global-sourcing/#article-authors--outside>

### 2.3 The differences between international and domestic purchasing

“Purchasing” is a process in which a company or organization tries to buy materials or products to achieve their goals. This process is basically buying sole possession of goods so that it is transferred to the buyer from the seller. Activities in purchasing include enquiring, ordering, order tracking, responsibility and accounting for the order, receipt of merchandise and payment of order. International purchasing refers to a purchase transaction between a buyer from one country and a supplier in another country. International purchasing is usually more difficult than purchasing done domestically (Trent & Monczka, 2005).

Organizations are faced with longer material channels, increased standards and regulations, fluctuations in currency, customs duty requirements, and many other variables such as different time zones and different language barriers (Trent & Monczka, 2003). International purchasing refers to the use of the global resources looking for a world-class business deal from the whole world. From the point of view of supply chain management, international purchases require companies to establish a global production chain to make a sensible purchasing plan and to purchase high quality products at a reasonable price (Monczka, et al., 2008).

In addition, it is an effective way to measure and monitor the efficiency of purchase process to minimise the total purchase cost. By the economy going globalization, competition between companies become increasingly fierce, forcing companies to improve the levels of T, Q, C, S (Time for research and development; Quality of products; Cost control; satisfaction with Service), so they can be able to operate successfully in the market (Fan, 2007). Unlike local purchases, international buying patterns have the following features:

- **Expand the scope of purchases:**

As the scope of purchasing expands to the global arena and no longer focuses only on resources available in the country, they can buy resources around the world. Therefore, it is possible for companies to get their ideal resources and products at a reasonable cost due to the abundance of potential sellers (Fan, 2007).

- **Increased purchase risk:**

Because international purchases always involve many purchases, companies often buy the goods or materials on a wider scale, requiring higher monetary transactions. Larger scale operations are exposed to higher risks due to currency fluctuations (Fan, 2007).

- **Reduced purchase price:**

Because all possible resources from around the world can be considered, the company can “look around” for high quality goods at a reasonable price through comparable cost mode (Fan, 2007).

- **The need for a systematic approach in the selection of suppliers:**

As international purchasing providers come from different parts of the world, they have different models, standards, and cultures. Therefore, it is very important for companies to develop systematic and standardized criteria and conditions to select a reliable supplier (Fan, 2007).

- **Stable buying channels:**

A global buying company collaborates with suppliers around the world due to the concept of supply chain management. Therefore, the buyer and seller are developing a strategic relationship. Therefore, this business with an international buying strategy forms a relatively stable purchase channel (Fan, 2007).

## 2.4 The differences between global sourcing and international purchasing

Global sourcing, which is different from international purchasing, involves the integration and co-ordination of common materials and items, processes, design, technology and suppliers into pro-active purchasing, engineering, and operations worldwide (Trent & Monczka , 2003). Global sourcing is not just a starting point for logistics, but also a series of managerial activities. The purpose of these activities is to achieve production or sales goals, including supplier choice, quality and quantity confirmation, price negotiation, etc. The global sourcing process is a long-term strategy that includes the evaluation and selection of potential foreign suppliers, while international purchases involve daily activities supporting production and service departments. To the international sourcing phase to purchase, the purchasing department must be elevated to a position where it can make more strategic decisions for the business (Jiang & Tian, 2009).

Table 0.1: The Different Sourcing Benefits between global sourcing and international purchasing

<i>Sourcing Benefits</i>	<i>Global Sourcing</i>	<i>International purchasing</i>	<i>Difference</i>
Better management of total supply chain inventory	4.29	2.74	1.55
Greater supplier responsiveness to buying unit needs	4.47	3.08	1.39
Greater standardization or consistency to the sourcing process	4.25	3.01	1.24
Greater access to product technology	4.69	3.49	1.20
Improved supplier relationships	4.61	3.46	1.15
Greater access to process technology	4.54	3.46	1.08
Greater early supplier involvement during new product/ service/development	3.86	2.80	1.06
Improved sharing of information with suppliers	4.10	3.04	1.06
Lower purchase price/cost	5.98	5.04	0.94
Higher user satisfaction with the purchasing process	4.10	3.36	0.74
Average across all benefits	4.49	3.35	1.14

**Scale: 1 = Not a realized benefit; 4 = Moderately realized benefit; 7 = Extensively realized benefit;**

*Source: Trent, R. J., & Monczka, R. M. (2003, April). Understanding integrated global sourcing. International Journal of Physical Distribution & Logistics Management, pp. 607-629.*

The difference in performance indicated in Table 2.1, between global demand and global sourcing international purchases was research carried out by Trent, R. J., & Monczka (2003) were they interviewed companies for the different types of benefits of global sourcing and it showed that these benefits were moderately realized in global purchasing (Trent & Monczka , 2003).

## 2.5 The four-stage process model of global sourcing

Internationalization of the procurement process takes place across the entire globe as organizations move from national purchases for overall coordination and integration around the world (Trent & Monczka, 1991). This work initially led to a four-stage process global supply model: (1) Only internal purchasing, (2) Foreign purchases refer to the need, (3) Foreign purchase as of the acquisition strategy and (4) Global supply integration strategy (Trent & Monczka , 2003).

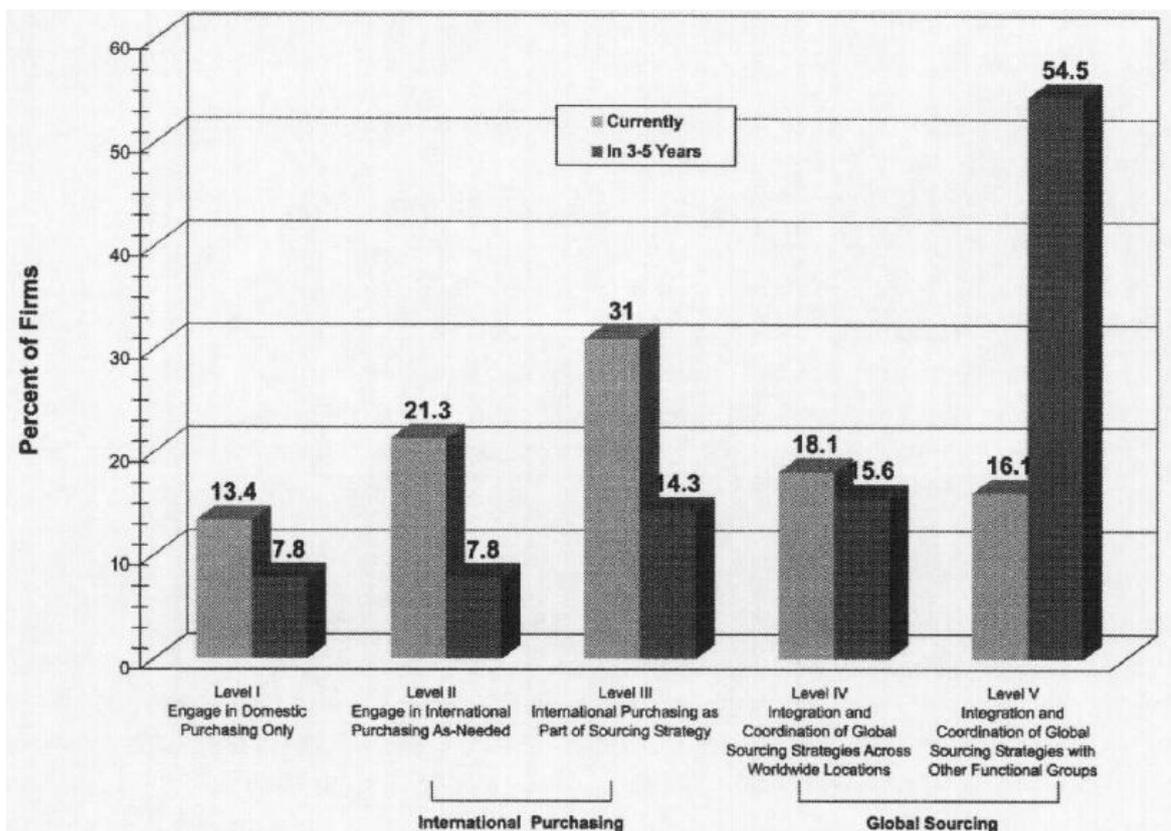


Figure 0.4: Five levels of global sourcing process

Source: Trent, R. J., & Monczka, R. M. (2003, April). Understanding integrated global sourcing. *International Journal of Physical Distribution & Logistics Management*, pp. 607-629.

The four-stage model has been revised, resulting in a new five-stage model. Figure 2-4 (Trent & Monczka , 2003) shows five levels of global sourcing development and the trend of global sourcing strategy development for the percentage of companies living at different levels of global supply. At levels IV and V, the true global sourcing processes are implemented by organizations. At these levels, a strategy is well-coordinated supply in business centres, business units and functional groups around the world, which is a sophisticated level of development strategy (Trent & Monczka , 2003). Level V is the global sourcing strategy that is horizontally tied to other functional groups, including engineering, operations, and more and more marketing. Only companies with global design capabilities, purchasing, development, and production can reach this level (Trent & Monczka , 2003).

## **2.6 Driving forces of global sourcing**

According to Porter's generic strategies, competitive strategies can be subdivided into low-cost strategy and product differentiation strategy. Both are highly linked to global sourcing strategy. There is no doubt that lower cost research has been the main engine of global sourcing. Other factors include the pursuit of higher quality, greater availability of equipment and access to technological products and processes (Monczka, et al., 2008). These factors can be classified as follows: "Pull" the driving force and the other one is "Pushing" the driving force. The "pull" factors of global sourcing are negative and passive, which means that a company is forced to seek global supply due to the pressures of international competition and high customer demand. Positive and voluntary, which means that global sourcing is an important part of business strategy and would help the company to be consistently competitive (Kotabe, 1998). The "push" the global sourcing factors evolves the "pull" global sourcing factors. To win customers preferences or gain in market share, any company will strive to offer cheaper products to its consumers. This will strengthen the brand image of that company because more consumers will purchase the products. Because of this, it becomes a necessity that companies pursue global sourcing (Kotabe, 1998).

Global sourcing strategy is determined by the company's chief administrator, and the global sourcing strategy is the significant competitive core business strategy for companies. Therefore, global sourcing should be fully coordinated with other business strategies. In other words, functional optimization is not always result of the success of any operation. Therefore, the global sourcing strategy can help companies become more competitive only to the extent that strategy can be adopted in the context of all competitive business strategies (Kotabe, 1998). "Pull" factors have profoundly influenced the development of global sourcing over the last 30 years, and this will continue in future for global sourcing activities. Multinationals undergo endless global competition pressures so they had to use global sources to counter these pressures. However, global sourcing based on pull factors usually translates into passive and negative purchasing strategy, ie focusing on the search for economic resources from the source. In the context of the global strategy caused by "pull" factors, most managers considered the global strategy as an approach that can get the benefits of low cost over a short period of time rather than a sustainable long-term competitive advantage (Kotabe, 1998).

For companies to maintain a sustainable competitive advantage, a long-term perspective is needed (Monczka & Giunipero, 1985). Buyers often underline the actual cost of purchasing and product quality rather than the total long-term total cost and improve quality control measures. This mode of passive and negative acquisition is always determined by low functional departments and these decisions are isolated from other departments in a business. This means that such acquisition decisions are only in terms of function and tactics, rather than being an integral part of any coordinated strategy. As part of the global sourcing strategy based on pull factors, the relationship between buyers and sellers is just a normal business relationship. To ensure the efficiency of marketing, buyers often purchase the same kind of materials or products from different suppliers. When it is not buying materials or products from a supplier, they can get it from another provider as a substitute. When a vendor leaves the buyer unsatisfied, one can switch to another (Kotabe, 1998). This relationship is very different from the long-term cooperation relationship that focuses on the development of buyers and sellers. Therefore, based on this reporting strategy it cannot get the overall benefits of global sourcing. With better global purchasing activity, companies get more shopping experiences than before. Because of this, the motivation of global sourcing is no longer just for business survival, but to ensure a competitive edge in cost, quality, technology, and other areas (Stevens, 1995).

Today, global sourcing has been increasingly regarded by companies as positive business activities under the pressures of global competition, as this is the integration and coordination of procurement requirements across in global business units, research articles, processes, technologies, and suppliers. According to a conducted by Stevens (1995), several major reasons for global sourcing are as follows:

- **Materials are not available in the country**

Due to geographical reasons and technology, some national manufacturers may not be available to provide specific materials. Also, they may not be able to meet the required delivery time or provide some materials due to their limited technical skills (Stevens, 1995).

- **Unsatisfactory quality of national products**

The quality of products obtained from the local market cannot meet the needs of buyers. The quality of domestic products cannot be enough for manufacturers to sell their products to international markets where they can apply stricter rules. In addition to the quality of the products themselves, perhaps the supplier cannot provide satisfactory guarantees or after-sales services to the manufacturers (Stevens, 1995).

- **Price**

Especially in developed countries, materials or supplied by national product providers may be too expensive and can get the same products at a cheaper price elsewhere (Stevens, 1995).

- **Technology**

Especially in developing countries, some companies may have no choice but to trade internationally. Otherwise, there will be access to world-class levels technology levels (Stevens, 1995).

## **2.7 The benefits of global sourcing**

Global sourcing can be defined as the global integration of acquisitions, engineering, operations, logistics, and even marketing, in the upstream part of the supply chain of a company (Trent & Monczka , 2003). It is different from the concept of international purchase. Companies that successfully implement the global sourcing strategy achieve material savings and other improvements in areas such as quality, technology vendor contributions and responsiveness from vendors (Jiang & Tian, 2009).

### **2.7.1 The basic benefits of global sourcing**

According to a previous research, it has been shown that the initial motive for global sourcing is cost savings. With the progress of globalization, product differentiation in contemporary markets is not so great, to a certain extent, leading to greater emphasis on price competition. This was particularly the case with consumer products. In addition to cost savings, many studies have also identified the quality and availability of fundamental importance to global supply issues (Cho & Kang, 2001). The current market is highly influenced and dominated by globally operating companies, resulting in a much more aggressive competition than before. In addition, the pressure of consumer demand is greater today (Trent & Monczka, 2003). For many reasons, there is a greater opportunity to provide suppliers worldwide, enabling companies to leverage unavailable technical capabilities at national level, improving product quality and availability. In addition, companies that supply the whole world are in a better competitive position. They learn how to do business in a potential market and improve their corporate image too. According to Brackwell's conclusion (2008), many companies are still purchasing decisions based mainly on unit cost. However, many companies buy global sourcing goods for other reasons, including:

- Access to new research, specialized design or intellectual capital.
- Availability of new technologies and capabilities. Many foreign companies because local providers do not have the capability and are not making the necessary investments to stay competitive.
- Plans to sell or repair locally. Some local companies to help break the barrier to entry into the local market. Or customers have now shifted the production processes to that country and want to be treated locally.
- Closeness to raw materials.
- Greater quality. Many companies praise the quality products of international origin, compared to products sourced locally. This is typically due to investments in technology providers and the ability to attract the above-mentioned global businesses (Brackwell, 2008).

### 2.7.2 Ranking of benefits from global sourcing

The benefits of global supply can be classified as shown in the following table. The score in this table shows us what kind of benefit is most significant for companies around the world, and that they are less important, too (Salleh & Mohammad, 2006).

Table 0.2 Ranked benefits of global sourcing

<b>Perceived Benefits</b>	<b>Overall Mean Score</b>
Access to higher quality goods	5.8846
Access to lower quality goods	5.8462
Access to worldwide technology	5.7307
Enhanced competitive position	5.5000
Increased number of suppliers	5.0769
Better customer service	4.7692
Helps meet counter-trade obligations	4.7308
Better delivery service	4.5769
Overall Mean Score of Perceived Benefits	5.2644

*Source: Salleh, A. L., & Mohammad, M. N. (2006). Benefits and challenges of worldwide sourcing: A study of Malaysian electrical and electronics companies. International Conference on Management for Growth and Development, (pp. 1-11). Colombo.*

From the above table, it can be concluded that access to high quality goods is considered to be the greatest benefit, followed by access to low priced goods and access to global technology. However, “helping to meet counter-trade obligations” and “best delivery service” does not consider the benefits of global sourcing. Therefore, the main advantages of global sourcing are higher quality goods, lower price goods and global technology (Salleh & Mohammad, 2006).

### **2.7.3 Different global sourcing benefits in different companies**

Presented in the previous sections, the types of benefits that companies can obtain global sourcing have been classified. However, to be to more precise, different companies have different types of benefits in different degrees depending on the characteristics and management of demographic businesses (Cho & Kang, 2001). According to the study from Jinsook Cho and Jikyeong Kang, the type and scope of benefits received from global sourcing are different in terms of:

- The size of the organization
- The type of product
- Volume of imports
- Imports percentage
- The global sourcing experience of the company
- The territory where the goods are purchased

Research shows that companies with large volumes of imports can benefit from lower pricing and product availability. Additionally, companies that import from a territory can benefit from a significantly lower cost than an importer of other territories. In addition, companies with more experience in global sourcing can easily reach foreign suppliers who can offer higher quality and lower prices (Cho & Kang, 2001).

### **2.8 The risks after global sourcing**

The factors that can affect the global sourcing application are the political, legal, and cultural differences between countries. In addition, companies face issues such as transport, technology and weaknesses in production capacity and lack of management systems. Other features include languages barriers, customs and trade rules. From another perspective, some global sourcing risks are naturally also shared with the risks of outsourcing. During the outsourcing process, whether it is local, there is a risk of a leak of confidential information leaking occurring and therefore, the competitive advantage of business weakens (Cho & Kang, 2001). In addition, international logistics can also be a problem for global sourcing. Transport and logistics networks may not be as reliable as in the country of origin, which may cause unexpected delays. As for the most important aspect of global sourcing, cost savings, has been shown that some of the cost reductions are not as great as expected (Trent & Monczka , 2003).

Lastly, it can be concluded that the following risks involved in global sourcing are:

- **Risk of security** - Many developing countries identified as low cost global suppliers are subject to government uncertainty or even internal political conflicts. This risk must be assessed in terms of whether the offshore supplier will be able to deliver the products successfully.
- **Risk of cost** - Because of the different time zones and the different culture barrier, there may be other hidden costs when a company adopts global sourcing. Monitoring global producers also means higher costs.
- **Risk of quality** - Global sourcing can lead to quality problems that, if not managed effectively, can damage the company's brand image and lead to huge financial sanctions.
- **Risk of intellectual property** - Knowledge of design properties, engineering, materials and other elements can be exposed in the light of day with ease, so companies must run the risk of losing intellectual property.

## **2.9 The global sourcing characteristics**

Trent and Monczka (2003) identified a set of well-defined features that characterize organizations that are particularly effective in global delivery.

### **2.9.1 Executive global sourcing commitment**

- Functional leaders participate in a global sourcing council or committee.
- A designated leader has the power to transform a global vision into reality.
- Executive gets the support for global agreements and multifunctional processes and local purchase groups.
- Global sourcing leaders make presentations to the executive committee and board of directors.
- Executive leaders recruit qualified personnel to join the global sourcing team.

### **2.9.2 Rigorous and well-defined processes**

- It has established a well-defined process that requires participants to set goals, respect the stages, and report progress to executives.
- A leader or the executive committee, with input of the participants, review and propose process improvements.

- “Lessons learned” sessions are held at the end of each project and the results are distributed to participants from all over the world.
- Global agreements are constantly monitored by review and rest if needed.

### **2.9.3 Availability of the resources needed**

- Executives make critical resources, such as qualified participants and budgets that are available to support initiatives worldwide.
- The process involves people who have the ability to adopt a global sourcing perspective rather than a local perspective.
- Relevant information is readily available to participants and project teams.

### **2.9.4 Integration through Information Technology**

- Data warehouses allow access to real-time data and information.
- A corporate level intranet provides access to documents that provide global support, guidelines, templates and upgrade status updates.
- Repositories store global agreements and contracts provide warnings about expired agreements.

### **2.9.5 Supporting for organizational design**

- A delegated executive committee or executive board oversees a global procurement process, including identifying global sourcing opportunities.
- Multifunctional project teams are responsible for the development opportunity and comprehensive supply analysis arrangements.
- Organizational design involves the separation of strategic activities such as global sourcing and operational activities such as reorganization of material routines.
- International purchasing offices support global supply requirements.
- Personal Support Sourcing is (1) close to technical and marketing teams for development of new products and (2) organizationally linked to the global sourcing team.

### **2.9.6 Structured communication approaches**

- Project teams meet regularly face to face or electronically to coordinate efforts.
- Review and coordination sessions ensure understanding and acceptance of global initiatives.
- Executives are informed regularly on progress by project teams.
- Advanced level of communication tools is available, like, videoconferencing and web-based collaboration tools.
- Project information and updates are published in the organization's intranet.

### **2.9.7 Methodologies for measuring savings**

- Finance representatives agree on a method to validate the savings of global initiatives.
- Global sourcing participants meet regularly with top-level leaders to review savings in existing agreements and ongoing asset saving activities.
- Measurement systems support calculation of:
  1. Global savings made and are required to materialized in global agreements.
  2. The impact of procurement initiatives as to do with business financial measures (e.g., performance of assets)
  3. Return on investment for individual projects
  4. The impact of global suppliers to purchase performance indicators.

Few organizations, if applicable, show all their detailed features mentioned above. However, this profile can serve as a benchmark, enabling managers to compare their current capabilities and features for best practices in global sourcing.

## **2.10 Global sourcing and supply chain management**

The global sourcing management mode of the chain has a distinct character: the value of each product is created through the entire chain, and the competitiveness of each product is determined by the competitive ability of each process in this chain (Fan, 2007). Compared to reducing the average cost by climbing production, supply chain management is a new direction in thinking and development. It allows companies to increase profits and competitiveness by redesigning business processes and establishing mutually beneficial strategic relationships with upstream and downstream partners. Therefore, this concept and supports the development of global sourcing (Fan, 2007).

Supply chain management includes planning and managing all activities related to supply, procurement, conversion, and logistics management. It is important to emphasize that it also includes co-ordination and collaboration with channel partners, which may be vendors, intermediaries, third-party service providers, and customers. Supply chain management integrates demand and supply within and between companies to produce and sell at the best cost. Global economic integration facilitates the rational allocation of global resources and is also the direct driving force for the global integration of the supply chain. Because of the rapid development of global economic integration, the economic strategy of each country is shifting from dependence on internal knowledge, human resources, basic infrastructure, commodity markets and national consumer preferences depend on the method of comparative advantages of resources, resources beyond geographical boundaries. By reallocating global resources, companies can achieve optimal efficiency and better rational allocation (Fan, 2007).

The development of information technology certainly facilitates the integration of the global supply and supply chain. Using information technologies, several decentralized business locations can connect and become an organic whole. Meanwhile, up-to-date information can be shared between the manufacturer, distributor and customer, enabling them to offer their products or services to market demand and to coordinate business processes effectively. As a result, information technology has become the core of global supply chain integration and global sourcing (Fan, 2007).

With the extension of corporate marketing boundaries and organizational boundaries, there are many revolutionary changes that take place in business management and operating system. Most specifically, the creation and development of supply chain management provides an effective and efficient approach and tools for global sourcing and the integration of the supply chain (Fan, 2007).

### **2.11 The State of Manufacturing in South Africa**

South Africa's manufacturing sector is "at a crossroads" and it is time for the country to re-evaluate its strategy according to Manufacturing Circle. For years, the industry is in decline, facing challenges around productivity, costs, working conditions, lack of skills, efficiency and new technologies. Manufacturing increased by a mere 0.3% in the first quarter of 2017, this information is based on data published by Stats SA in June 2017. It shows that manufacturing production has increased slightly compared to the same period last year but this is not good for the country in the long term. Leaders must overcome some key challenges to increase the contribution to the gross domestic product (GDP), currently at 14%. With a steady rise on unemployment currently at 27.7% is not good for South Africa's economy growth. This includes low productivity compared to international competitors such as China and Germany whose yearly GDP growth is tenfold. Also, high production labour costs and efficiency costs make South Africa manufacturing sector even more uncompetitive. Therefore, the global sourcing strategy is a right path to proceed to be sustainable and competitive in South Africa's manufacturing sector (Stats SA, 2017).

### **2.12 The model for analysing the problems and challenges of global sourcing**

According to a study conducted by Curtin (1987), global sourcing means getting involved in the international division of labour in its most elementary sense. However, no one can deny this course can be suitable for any business and industry, depending on the type of business and what kind of competitive environment they are experiencing.

### **2.12.1 Global sourcing: Is it right for you?**

The effectiveness of global sourcing is subject to many visible and implicit factors such as different cultures between various countries, the tariffs and duties, and even nationalistic attitudes. Although from a long-term strategic point of view, global sourcing may result in dramatically more competitive and visible alternative financial position, there are many important factors that we have need to consider and evaluate before companies can implement the global sourcing strategy (Curtin, 1987). After all, a fragmented approach, without corporate business plan, would be a source of confusion and would then lead to bankruptcy. Therefore, some basic rules should be considered before applying global sourcing. As we know, saving on global sourcing costs is one of the most important benefits for companies because they can get the goods at a lower unit price, so even considering global sourcing as a logical extension of its domestic tactical decision to buy. In most cases, the external supply of products can reduce costs by 50 percent of initial cost. This is leading many companies in North America and Europe to sign a purchase contract with companies that are in the Far East, rather than their local suppliers (Curtin, 1987). On the surface, the basic buying strategy as a rough resemblance to national purchases, but other factors such as administration and communication will change considerably, leading to higher costs. Therefore, in addition to the unit cost of evaluation, the implicit cost of international management and communication needs to be carefully evaluated and calculated well. Shipping and the type of bill, moreover, cannot be ignored for companies that apply global sourcing. As everyone knows, an identical component in a different condition can cost differently both the rate and transport rate. For example, it is a machined component or processing cost more? This should be carefully analysed before global sourcing strategy can be implemented (Curtin, 1987).

As mentioned earlier, communication lines are much longer when companies use offshore sourcing strategy. Thanks to the evolution of computer technology, possible more rapid design and engineering modifications are made. Therefore, the supply of a product or a part to implement technical changes will increase the cost and threaten the supply chain and critical components. Although the motivation to improve the product is admirable, these attempts can have disastrous consequences in the case of global sourcing. It is almost impossible for the companies that apply global sourcing to avoid the issues of different regulations and cultures across countries. Therefore, companies must hire a professional agency or set up a special international buying office to handle these problems. The staff

working for this department must be on the payroll of the company's direct payment and companies must ensure substantial contact and travel costs during the transfer of technology. Active and timely communication in global sourcing is very important. Companies that deal with the technical issues will be surprised when foreign products cannot match the specifications. Consequently, to avoid unexpected loss of global procurement processes, companies that have potential capacity must anticipate and evaluate many factors, both direct or indirect, before adopting a global sourcing strategy (Curtin, 1987).

### **2.12.2 Complicated logistics in global sourcing**

In global sourcing, managing international logistics is a necessary and crucial procedure. Logistics in global sourcing refers to many additional issues such as delays in shipping, border procedures and longer inventory management (Bradley, et al., 1998). In addition, the lack of holistic logistics understanding in developing countries hampers low cost procurement executives to implement global sourcing. Today, logistics management has greatly improved in developed countries. On the other hand, vendors in less developed countries have no experience with the most advanced approaches and are usually not familiar with high-level requirements, such as delivery sequences combined with Just-In-Time; Electronic communications and inventory management solutions managed by vendors. These supply chain management capabilities are important to determining the amount of benefit that a global sourcing company can derive. In addition, low-level logistics infrastructure in developing countries influences the efficiency global sourcing efficiency. Look at an example, if a company plans to buy products from China, they must consider logistics capacity in China. To be more precise, they should address the problem land transport. Roads in China are not yet as developed by European or American standards. This is because transportation infrastructure has not yet been developed at the same pace as international trading. In addition, some unroadworthy vehicles and unlicensed drivers also cause problems of logistics. While these issues are alleviated, it influences the supply chain performance of supply chain companies everywhere in China (Jiang & Tian, 2009).

### **2.12.3 Cultural and lingual difference in global sourcing**

Cultural issues in global sourcing are manageable, but they still must be recognized as a concern that should be tackled. Perfect overall administration requires mutual respect to be shown to the people, language and culture of the countries where businesses operate. It is important to take the time to learn basic knowledge about special culture and possibly learn some basic language skills, at the very least, as saying “Hello,” “Thank you” and so on. The ability to successfully collaborate with foreign companies personally contributes greatly to the development of a favourable work relationship for both parties, which is useful in maximizing the ability to achieve successful global sourcing processes. However, language barriers always threaten cultural communication and technology transfer into global sourcing. Although many suppliers from developing countries have technical and sales knowledge in English language, difficulties arise when Western experts still need to interact with professionals to discuss technical issues. The leading providers of developing country suppliers do not always have sufficient command of English or other Western countries to participate in long and detailed language exchanges. The use of translators is an option but often lack the technical knowledge to address the details of the industry or products required (Cook, 2006).

### **2.12.4 Volatile economic and political environment in global sourcing**

Local and regional economic context can be a primary risk factor for global sourcing. Due to low cost labour and other factors, developing countries could be in an uncertain economic situation (Cook, 2006). A pronounced financial crisis occurred in 2001, terrorist attacked the United States of America that led to a decline in almost every country economy and modernity declined sharply years to follow. Many banks and businesses have failed in Asian countries. Even in 2006, although many Asian countries have seen their economies revive, some have not yet fully recovered. Many European and American companies have been financially affected by this terrible event. Many American companies are not willing to invest in an overseas factory in Latin American and Africa due to the uncertainty of local economic environment. As a result, many strong companies hire experts to inspect the local economies in which they intend to stock up. Economic risks are more serious for small and medium-sized businesses. They must find reliable way to cover this risk. There are also some problems caused by government factors in global sourcing. For instance, events in the

Middle East and North African countries show that local politics can master how companies establish business relationships with the companies in these countries (Cook, 2006). According to the study of Cook (2006), more than fifty countries around the world have this political climate that is not favourable in dealing with local businesses.

### **2.12.5 Fluctuation of currency exchange rate in global sourcing**

In global sourcing, money moves between countries of origin and foreign partners. Currency stability facilitates and makes international trade easier, while instability makes it more complex and presents risk. If trade is in tens of millions of dollars, a deviation of 0.5% of the exchange rate may affect the effectiveness of global sourcing strategy and profitability of the entire supply chain. In addition, a deviation of 4% could result in a disastrous end. For large multinational corporations, they often have specific staff in the financial departments responsible for collecting and managing information on currency valuations. But for the small businesses that want to make purchases globally, they usually do not have the specific financial experts, but they still must establish an internal management system or outsource the work of forecasting and hedging against currency fluctuations. But on the other hand, if companies can make prudent use of the risk of monetary fluctuation, companies can sometimes be in a favourable position for proper money management (Cook, 2006).

### **2.12.6 Different standards and regulations in global sourcing**

Because of the various stages of industrialization in different countries, industry standards vary between countries. Therefore, assessing situations and clarifying the differences are very important and necessary prior to joint stock company designs with suppliers that can use different technical standards. But, too much time is needed for suppliers to understand the complicated explanations of the industry standards required, which can be self-explanatory in the buyer's country. Although many international economic organizations are trying to bring different standards together to facilitate international cooperation, existing industrial standards that are not synchronized with standards or expectations may still cause expensive problems and even global supply failure. In addition to the different rules, special circulation rules also directly and indirectly influence global sourcing and often make it complicated. The major regulations that impact global sourcing are tariffs and quotas (Sowinski, 1999). Non-tariff restrictions, including documentation requirements for

complicated border crossing processes and many types of international trade policies, are also challenging challenges facing foreign buyers.

Governments make use of tariffs and fees for two purposes: first, to get revenue and second to make foreign goods more expensive to protect national products. The latter is increasingly important today. Various restrictions under the laws of international trade are also examples of protectionism. These regulations hinder the protectionism to improve global procurement processes (Jiang & Tian, 2009).

### **2.12.7 Supplier selection complexity in global sourcing**

How to manage global sourcing with effective efficiency are further challenges. Selecting the right supplier is a key aspect in the overall implementation of global sourcing. Unlike dealing with domestic providers, the costs involved in finding, selecting, and evaluating foreign suppliers can be prohibitive. The selection and evaluation of suppliers have an important role in the chain process and are crucial to the success of a production company (Hartley & Choi, 1996). There are several methods for selecting suppliers that persist in the world of contemporary business. Supplier selection is a fundamental decision that a buyer makes and is also a very critical. The process of selecting a group of relevant suppliers for important materials that could affect the company's competitive advantage is complex and based on multiple criteria.

The factors that companies should consider in choosing suppliers suggested by Wisner in 2005 are as follows;

- Product and process technologies
- Willingness to share technologies and information
- Quality
- Cost
- Reliability
- Order system and cycle time
- Capacity
- Communication capability
- Location
- Service (Wisner, et al., 2005)

Several companies have different criteria based on their products, offered price, quality, current delivery time, after-sale service, eventually the answer changes supplier's position and supplier financial status, etc. (Ting & Cho, 2008). After determining what criteria should be involved in the selection process, choosing a method for calculating or evaluating eligible providers is complex. For the vendor selection method, the Analytical Hierarchy Process is a popular method used to solve issues that have multiple criteria. This method is applied by many researchers and practitioners. It is a widely used technique which has received much attention as this process involves quantitative and qualitative criteria. It will provide decision-makers with a way to structure this complicated process as a hierarchy that includes three phases: Objective, size and criteria (Tian, 2009).

There are many other ways a company needs to consider and combine to determine the standards with which suppliers are selected. How many vendors to use for each purchased item is another challenge for the buyer. In theory, companies need to use a single source or as little as possible to allow the development of close relationships with the best vendors. However, increasing dependence on a single vendor, the company increases the risk of poor performing supplier delivering that will result in production stoppages or ultimately leading to poor quality finished goods (Jiang & Tian, 2009).

#### **2.12.8 Crucial factors of achieving global sourcing**

What types of factors are associated with successful global sourcing? According to Monczka, Trent and Petersen's analysis, the following eight related sourcing factors have revealed desirable global results (Monczka, et al., 2008):

- Global sourcing initiatives need a defined process. This process should be supervised by a leader of the executive or steering committee. Continuous review and improvement of global procurement process is one of the best practices.
- Coordination of decisions in the middle with a central perspective to support the integration and coordination process, leading to an effective response to global competition.
- It is more likely that site-based or decentralized site-based control will reduce total cost of ownership, improve stock management along the supply chain, and improve overall performance to external customers.

- Real-time communication tools simplify a complex process, especially when participants are geographically dispersed. Successful global sourcing requires not only access to information, but also the will to share information.
- Availability of critical resources, including travel and other living expenses, required necessary information and data, qualified personnel, and staff time to develop global strategies.
- Lack of qualified people is one of the most serious issues when organizations seek global opportunities.
- Procurement and administration systems offer a better way of accessing data, leading to internal systems supporting specific supply organization needs.
- The international purchasing office (IPO) acts as a complete acquisition centre offering support services within a geographic region (Monczka, et al., 2008).

### **2.13 Summary**

This chapter clearly makes understanding the clarity of global sourcing and its definition, the mode of global sourcing, the benefits and risks of global sourcing as well as the problems and challenges of global sourcing, according to the previous studies in this area. In addition, the problems and challenges of global sourcing need to be considered while we appreciate the benefits of global sourcing. However, what has been found in previous studies on the problems and challenges of global sourcing is based on Western corporations, while there some articles on what kind of problems and challenges are faced by South African producers in pursuing global sourcing are not readily available. So, the questions can be asked are there any South African manufacturers dealing with the same problems and challenges as western companies face in global procurement processes? Or is there something special for producers in South Africa? To study the purpose of this thesis, these two questions will be investigated and analysed in the next chapter.

## CHAPTER 3

### Research Methodology

#### 3.1 Introduction

The main purpose of this study was to analyse the problems and challenges that Defy Appliance will come across when the global sourcing strategy is implemented. From reviewing literature and recognizing the strategy behind the problems and challenges of implementing global sourcing, it is important to disclose practical problems.

Research will be done by posing questions relative to the problem statement and then seek answers from the relevant respondents at Defy Appliance. The data collected will be analysed in detail so that suitable conclusions can be drawn. To understand how data is collected and how it will be analysed, the research design instrument engaged will be discussed. For the purposes of this study, quantitative method to do research will be used.

Below are some of the dominate questions on research methodologies that are asked:

- Why does research have to be conducted?
- What are the different types of research methodologies?
- Why this dissertation used this specific research methodology and its relevance to the research topic addressed?

Research can be conducted in many ways relevant to gather enough information so that a better and more informed decision can be made. Gathering of all information is done in a disciplined approach that ensures that the findings can be repeated and validated. This information can be tested and confirmed by future studies.

#### 3.2 Aim and objectives of the research

Research was conducted to gather information about the problems and challenges that could arise in the organization when global sourcing is implemented. The more information we have the better informed our decisions are. Scientific research is a way of information gathering that is done in a disciplined approach to ensure the findings can be produced and its validity can be tested and confirmed (Bryman & Bell, 2007). The research performed in this study tries to determine whether there is a common understanding of what global sourcing is amongst the employees at Defy.

### **3.3 The Objectives**

- Determine whether the Defy employees have a basic and common understanding of global sourcing.
- Determine if the leaders of the organisation have the same sentiments of global sourcing.
- Analyse the execution of global sourcing in Defy Appliances at various stages order to identify and look through the problems and challenges caused therein.
- Compare the experiences of expatriates from Turkey with that of existing Defy employees,
- Identify what problems are unique and develop relevant solutions accordingly.

Through data collection and statistical analysing, the aim and objectives of the study can be concluded.

### **3.4 Pilot Testing**

Sekaran & Bougie (2014) advise that prior on sending the questionnaire to all the participants chosen for the study, the researcher must test on a small sample size before. By doing this can help reveal the unforeseen errors in the questions and have it corrected. It will also provide some solutions that can supply a range of possible answers to open-ended questions. Based on this, and for this study, pilot testing of the questionnaire with 10 employees from the sample population. Ambiguity, grammar errors and language were corrected after feedback and the questionnaire was ready for circulation. The pilot test also tested the reliability of the research instrument.

### **3.5 Data Collection Strategies**

At the commencement of this project, the research proposal was required to be submitted to the school. Upon the supervisor's approval, the study could proceed. A gatekeeper's letter was attained from CEO of the organisation (Appendix 2) on the school's request for the study to be conducted at the organization the researcher worked. The questions for the survey were drawn up and comprised of a cover-letter and a questionnaire (Appendix 1 and 5 respectively). After meeting supervisor's approval, an ethical clearance (Appendix 6) from the university's authority was needed to be approved to commence with the research. A

cover-letter was drawn up to provide information about the investigation to be carried out and the reasons for conducting it. This was served to the respondents to seek prior consent before commencing with the survey. Following approval by the head of the organization's information technology department, the link: <https://kuben.questionpro.com> was emailed to the relevant members of staff of the organization. The email also contained a set of instructions on how to access the site. All respondents have access to the internet. Therefore, every staff member from the relevant departments was given the opportunity of participation. Non-relevant staff members were excluded from participating in the survey. It is recommended that MBA students must obtain a minimum of 80 responses when a questionnaire is used for data collection. For this research, the population size from all relevant departments chosen was 103 respondents that were studied including management.

### **3.6 Research Design and Methods**

Research design is the framework that has been created to find answers to research questions. A research design method is a set of procedures used in collecting data and analysing measures of the variables specified in the research problem (Sekaran & Bougie, 2014).

#### **3.6.1 Inductive or Deductive methods**

The main difference between inductive and deductive approaches to research is whether research starts with an observation or if it starts with a hypothesis derived from a new theory (Wallen, 1996). The inductive method requires no theoretical studies are required before the research. Theory is developed based on structures and patterns that could be achieved from empirical data (Sekaran & Bougie, 2014). The benefit of research using inductive methods is when new areas of science is explored and there are no past theories of the subject, then these new theories are constructed based on what is observed. The other and second approach is deductive approach, which is a hypothesis-testing process. Deductive approach methods are useful in quantitative studies. Using a questionnaire is an example of a deductive and quantitative method. Since there is not much previous study relating to South African manufacturers implementing global sourcing, the research will be from previous study of this field from manufactures from other countries.

### **3.6.2 Qualitative versus Quantitative**

The two types of research methodology to gather information is Qualitative and Quantitative (Campbell, Donald and Stanley, Julian, 1963). Bryman and Bell (2007) defines quantitative research as a distinctive research strategy that emphasizes quantification in the collection and analysis of data. A description can be made as entailing the collected numerical data and exhibiting a view between theory and research, in which the purpose is the evaluation of theories. The aim of quantitative research method is to supplement the body of knowledge through creation of formal theory that explains the phenomenon (Bryman & Bell, 2007).

Qualitative research is when a large amount of information and data is gathered, in many instances, too much of information is collected (Bryman & Bell, 2007). The real problem of qualitative research is not so much the collection of data but rather the making of valuable data that is useful and relevant to the purpose of the research design. The qualitative data is often messy because of a lack of clarity in the collection of data that is required to seek answers to the research questions (Richards, 2005). To handle and organize the work of the data being collected, researchers should divide the questions into different categories to simplify the process (Hardy & Bryman, 2004). Qualitative research work is when data not expressed in numbers, is gathered, interpreted and analysed further to make useful conclusions. It offers the opportunity to communicate with participants via an interview, while a quantitative research needs standardized measures that is expressed in numbers to test and verify the facts (Berkeley, 2005).

In general, qualitative research is based on three different kinds of data collection methods: interviews, observation and written documents (Patton, 2002). This research study adopted a quantitative research methodology. Due to lack of access to resources and time limitations for carrying out interviews, it was decided to use a questionnaire survey as a means of gathering data.

### **3.7 Data collection**

Two methods were used for collection of data for this study. The first is primary data, which collection was done through a questionnaire. The secondary data was the other and that was collected through literature review. The questionnaire was created and sent to

relevant departments in the organisation dealing or are involved in sourcing in some way or another. Research & Development, Procurement, Planning, Logistics and Production Engineering were the five selected departments of the organization. The reason was to view the situation of global sourcing in Defy Appliance through the widest lens possible, which is helpful to analyse the problems and challenges of global sourcing within a comprehensive perspective. For improving the reliability of data collected, more than one person from each department answered the questionnaire.

### **3.7.1 The Questionnaire**

A questionnaire survey is an analysis method performed mostly by academics. A questionnaire is quick and is the most efficient way to gather information from many respondents. It is completed by a chosen set of respondents and is very useful when many questions are to be answered. There are two types of questionnaires that can be used separately or simultaneously. A structured questionnaire and open-ended questionnaire (Sekaran & Bougie, 2014). A structured questionnaire uses a uniform list of questions which covers all questions related to the study being researched. Each aspect of the study should be described in features of importance, frequency, difficulty and its relationship to performance.

Advantages of questionnaire method are:

- It is quick and easy to obtain the relevant data.
- Can get huge amount of information in a short period of time.
- Responders do not need to be trained to answer the questions.
- Depending on study it is generally not an expensive method of collecting data (Sekaran & Bougie, 2014).

Disadvantages of questionnaire method are:

- The quality of information gathered is related to the quality of the questionnaire.
- Often needs follow-up and reminders to answer the survey.
- Can be difficult to construct.
- Responses may be incomplete (Sekaran & Bougie, 2014).

In this study, in order to analyse and observe the situation about the implementation of global sourcing in Defy Appliances, a structured questionnaire was utilised for collecting data from participating respondents. The questionnaire as the survey technique was made up of 32 questions that were specifically related to global sourcing. Almost all the questions were multiple choice that allowed for a quick comparison of results which made presentation of data easy. All respondents were given the questionnaire electronically via email. In the email was a link to the site where they can complete the questionnaire online. All data from completed questionnaires are processed by the websites software QuestionPro® which can generate reports as per the researcher needs. The questionnaire was designed in such a way to answer the research objectives.

The questionnaire assessed each department's understanding of the five levels of global sourcing implementation which was formulated by a study done by Trent and Monczka. The questions were posed directly about complexity and the scope of Defy's purchasing processes. It also addressed the relations and levels of integration of the purchasing offices and officers already available. From the questions, it could establish the amount of experience the respondents had with global sourcing. Through a simple question "How long they had been engaging in the practice of global sourcing?". The factors that motivate companies abroad to global source were looked at from the literature review. This further explored the issues already faced by those companies. The focus was on problems relating to culture differences, logistics, language barriers, fluctuations of currency, standards and regulations, and supplier selection. These issues were considered because they seem as been the most important challenges already faced by the companies implementing global sourcing. A few questions in the questionnaire are not directly related to global sourcing and that is because these questions serve as a subsidiary function for achieving the study objectives. In addition, they can facilitate the questionnaire to be more continual and understandable.

### **3.8 Literature study**

Literature review is the best approach for secondary data for study. The advantage of a literature review is that it creates a basket of knowledge in a theoretical area on the subject in study and this could be obtained swiftly. In this thesis, literature studies were utilized to gain knowledge of global sourcing and its benefits and challenges when being implemented. The sources of information for secondary data were mainly obtained from printed books, journals and relative articles from e-library (Sekaran & Bougie, 2014).

### **3.9 Validation of Data**

For consistency of measure, reliability of the data obtained will be tested (Bryman & Bell, 2007). Pallant (2007), refers to reliability as ‘test –retest’. This is done by testing the same set of respondents on two different occasions. The results are then calculated in correlation between the two scores obtained. If the ‘test –retest’ correlations are high, then it indicates a more reliable scale. According to Pallant (2007), validity is defined as a degree to which a scale measures what it is supposed to measure. It is measurement validity as to whether that concept measured, is true (Bryman & Bell, 2007). Validity implies that the correct things are measured if and only if the correct data is used. The powerful technique used is triangulation. Triangulation enables a researcher to validate data through cross-verification from two or more sources. This technique offers more than one view of the problems because people were in various departments in the organization even though the questionnaire was answered by more than two persons from the same department. The answers to the questions were then put together and compared with each other. By this, the outcome could be reached. The validity of the research undertaken is increased with this method of triangulation (Björklund & Paulsson, 2003). A study with high reliability would produce exactly outcome if the study were to be done a second-time round (Björklund & Paulsson, 2003).

### **3.10 Analysis of the data**

The software program used in this study is QuestionPro®. QuestionPro® has a built-in data analysis facility that can output results from the data collected. The data collected from all the respondents can be used to generate various reports. These reports may-be exported as graphs, charts in MicroSoft Word format, spreadsheets and graphs in MicroSoft Excel format, or as a statistical data file. Furthermore, QuestionPro has a cross-tabulations, hence the data of this study was exported as a Statistical Package for the Social Sciences (SPSS) data file and was further analysed using the software package. The output of the statistical conclusions addressed in the following chapter will be inferred to the broader population and conclusions drawn thereafter.

### **3.11 Limitations**

The major limitation in this research was time to gather the data. Also, a huge constraint was getting the respondents to respond to the questionnaire timeously. It took a lot of time and effort to get the respondents to answer the survey for this research. The resource used to gather the data was very effective although it restricted the sample to people with internet access only.

### **3.12 Summary**

The methodology is such that it requires a scientific method of research. As this study is based on quantitative research, data will be subjected to statistical analysis. From this study, conclusions will be drawn and recommendations made on the problems and challenges of global sourcing. There are not many studies carried out on this subject in South Africa and therefore it is new. These results will add some insight into previous studies of similar subject and nature.

## CHAPTER 4

### Presentation and Discussion of Results

#### 4.1 Introduction

The chapter begins by giving a brief demography of Defy employees. It then probes the awareness and / or understanding that the participants have regarding Defy and its operations. Thereafter, the results are analysed and discussed in relation to the study's overall objective, namely to assess the problems and challenges that DEFY, a domestic appliance manufacturing company in South Africa, faces in the implementation of a global sourcing strategy. This objective is split into two objectives. The first looks at the challenges faced with global sourcing. The second assesses the problems experienced in developing global sourcing.

#### 4.2 Demographics

In this section, the study purposed to establish what the participants' work backgrounds were. In so doing, it looked at the departments from which they hailed, how long they had worked in their relevant departments and their span of control. These are all presented in the upcoming paragraphs. In total, 50 respondents participated in the study.

#### 4.3 Department where employed to carry out the survey

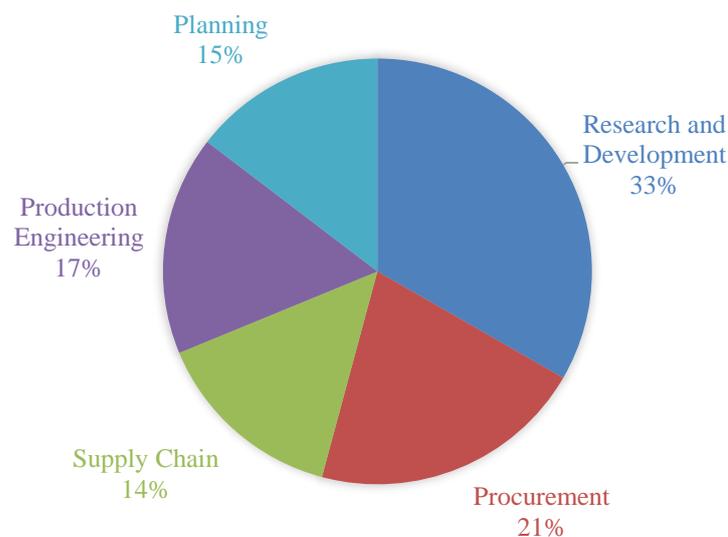


Figure 0.1: Department where employed

A total of 50 participants responded to this question. As seen in Figure 4.1, study participants came from 5 departments within Defy. Participants most often came from the Research and Development Department (33%). Procurement and Production Engineering departments had the second and third highest number of participants with 21% and 17% employed by these departments respectively. The Planning (15%) and Supply Chain (14%) departments had the least representation of all 5 departments.

#### 4.3.1 Years worked in present department?

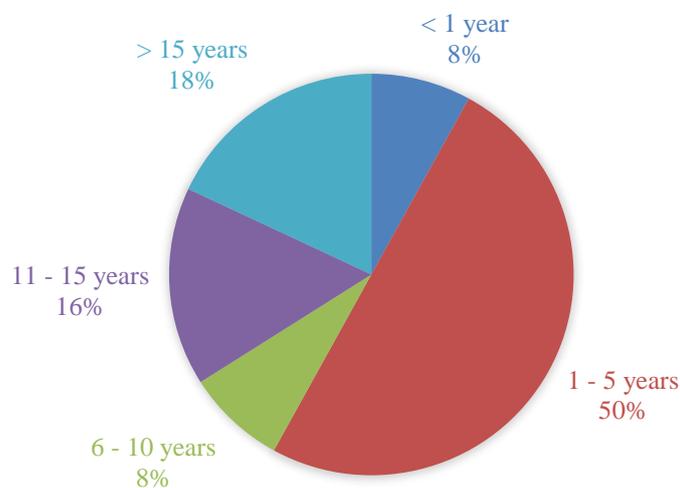


Figure 0.2: Number of years worked in present department

Of the 50 study participants, 50% of them had between 1 to 5 years' work experience in their present departments (see Figure 4.2). Thirty four percent of the respondents had more than 10 years' work experience in their respective departments. Eight percent were new to their departments, having less than a year's experience in their departments. Similarly, only 8% of them had 6 to 10 years' work experience in their departments.

### 4.3.2 Span of control

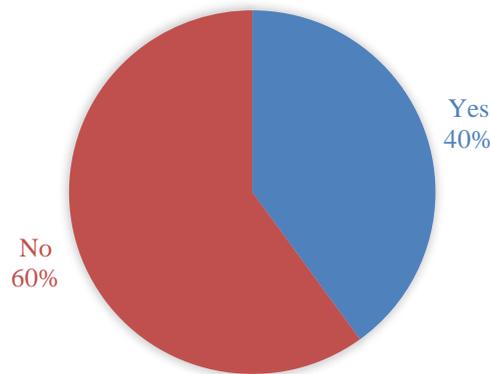


Figure 0.3: Part of management

As illustrated in Figure 4.3, the majority of the 50 respondents were not part of the organisation's management structure. In fact, only 40% of them formed part of the management structure.

In terms of the hierarchical level / rank held by their highest international purchasing officer, 40% of the participants indicated that their officers held the rank of Head of Department (results not shown). A further 36% indicated that their officers sat on the Management Board, while 15% stated that theirs was at the Divisional Director level. A little over 6% indicated that their highest ranked officer was at the lower levels in comparison to the above-mentioned, while 1 participant indicated that this option did not apply to their operations.

### 4.4 Awareness of Defy's purchasing activities

In this section, participants were asked a series of questions pertaining Defy's purchasing activities. The purpose was to assess the state of employee awareness of the organisation's operations.

#### 4.4.1 Which level of purchasing is Defy operating?

Here participants were asked what they thought Defy’s purchasing operations were. Five levels were presented from which participants were to make their selections. These are described in Table 4.1 with participant responses presented in Figure 4.4.

Table 0.1: Description of the levels of Defy’s purchasing operations

Level: Description
Level 1: Engage in domestic purchasing only
Level 2: Engage in international purchasing as needed
Level 3: International purchasing as part of sourcing strategy
Level 4: Integration and coordination of global sourcing strategies across worldwide locations
Level 5: Integration and coordination of global sourcing strategies with other functional groups

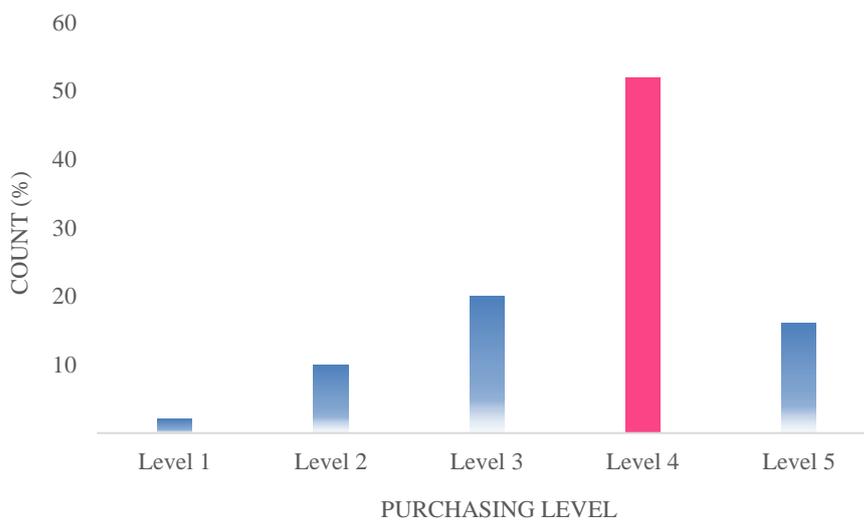


Figure 0.4: Awareness of Defy’s purchasing operations

As seen in Figure 4.4, there was quite a bit of variation in what employees believed the scope of Defy’s purchasing operations were. Slightly over 50% believed that Defy operated at the “Integration and coordination of global sourcing strategies across worldwide locations” level (i.e. Level 4). Twenty percent believed that international purchasing was part of Defy’s sourcing strategy (i.e. Level 3), while 16% thought that Defy integrated and coordinated its global sourcing strategies with other functional groups (i.e. Level 5). Only 1 of the participants felt that Defy was only involved in domestic purchasing operations and not involved in any degree with global purchasing.

#### 4.4.2 Defy's shift from domestic to an international supplier for goods required

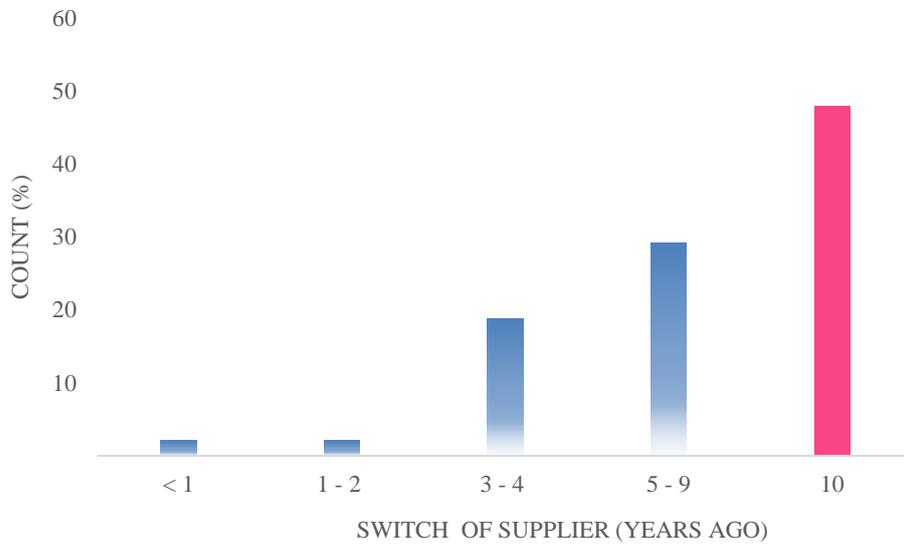


Figure 0.5: Switching from domestic to international supplier of required goods

When asked how long ago Defy changed from a domestic to an international supplier of goods required by employees, 48% of them indicated that this transition took place at least 10 years ago (see Figure 4.5). This was followed by 29% believing that this change occurred 5 to 9 years ago and 19% stating that this happened 3 to 4 years ago. Approximately 4% believed that this transition was a very recent event that must have happened, at most, 2 years ago.

#### 4.4.3 The relationships between Defy and foreign suppliers

To ascertain whether participants had an awareness of the type of relationship that existed between Defy and its foreign suppliers, they were asked to select one of four options that typified Defy's relationship with its foreign suppliers. Their responses are presented in Figure 4.6.

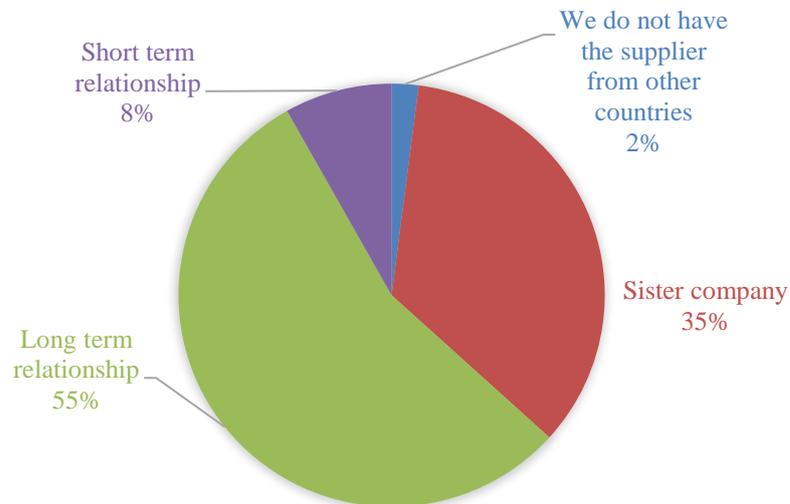


Figure 0.6: Relationship with foreign suppliers

As seen in Figure 4.6, most of the respondents indicated that they believed that Defy had a long-term relationship with their foreign suppliers. This is evidenced by 55% of them selecting this option. Thirty five percent of the participants thought that Defy's relationship with its foreign suppliers was a much closer one as they fell under one broad umbrella as sister companies. On the hand, 8% of them believed that the relationship with foreign suppliers was a short term one. Only one participant indicated that the organisation did not have any foreign suppliers.

#### 4.4.4 The types of materials purchased mainly from global sourcing?

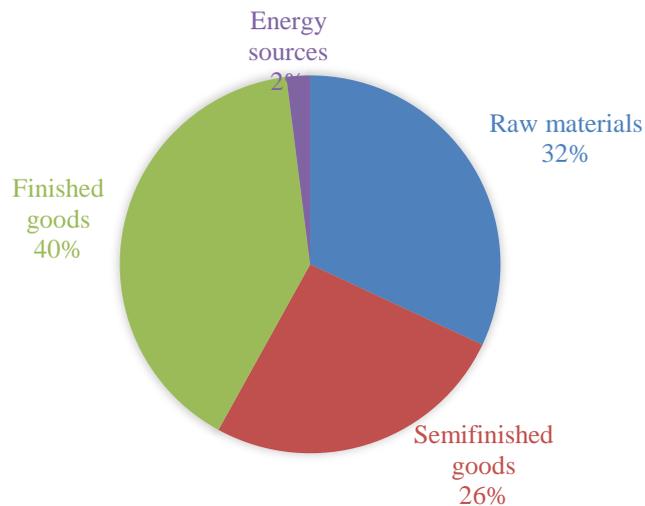


Figure 0.7: Materials most often purchased from global sourcing

As visualised in Figure 4.7, finished goods were the most often purchased materials of the 4 types of goods purchased through global sourcing. This is evidenced by 40% of the respondents selecting this material as the main one that they purchased. Raw materials were the second most frequently purchased material (32%), followed by semi-finished goods (26%) and lastly by energy sources (2%).

The majority (59.2%) of the respondents indicated that they often had to increase their materials inventory levels when purchasing materials from abroad (results not shown). However, these increases were not that intense. In contrast, 30.6% of them indicated that they had to significantly increase their materials inventory levels. The remaining 10.2% of participants indicated that their materials inventory levels remained unaffected by purchases from abroad.

#### 4.4.5 Percentage of global sourcing vs local sourcing

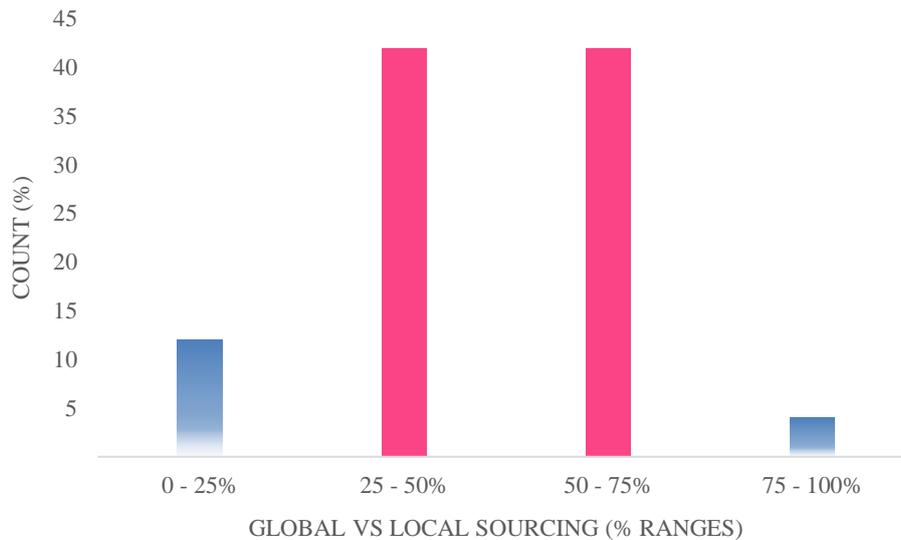


Figure 0.8: Defy's global verse local sourcing

As seen if Figure 4.8, most participants felt that either 25%-50% or 50%-75% of Defy's purchasing was sourced globally. In other words, 42% of the participants believed that 50%-75% of purchases were globally sourced; and 42% felt that 50%-75% of purchases were sourced locally. Four percent of them felt that 75%-100% of purchases were globally sourced, while the remaining 12% of participants believed the converse to be true.

#### 4.5 Objectives

The overall objective of this study was to analyse the problems and challenges being encountered at Defy Appliances (Pty) Ltd when implementing a global sourcing strategy

##### 4.5.1 Objective 1: Obstacles with global sourcing

Pursuing global sourcing is a process which takes a long time and involves many obstacles to be overcome. This section seeks to establish what obstacles employees need to be aware of when sourcing globally. Three approaches were used to identify as many obstacles or challenges as possible faced by participants with global sourcing. The first approach used a construct containing 12 questions. This entailed participants selecting their responses from a 3-point scale. The second asked them to select from a list of 5 known global sourcing challenges and the third approach asked them to select as many challenges as they could from a list of challenges faced by their industry. In some instances, it was necessary that

these approaches overlapped. This was important for 2 reasons. The first was to ensure that there was consistency in the selection or an obstacle. The second was to accommodate the possibility that a participant might have missed a challenge in error. Each of these constructs will be presented and analysed in the upcoming sections.

#### **4.5.1.1 Risks and challenges faced with global sourcing**

With the first approach, the reliability of the construct was first performed. This was achieved by calculating the constructs' Cronbach's Alpha (measure of reliability). The Cronbach's Alpha is a statistical tool that is used to measure a construct's (i.e. a group of statements and questions pooled together for addressing a concept, objective or goal) internal consistency and reliability for its intended purpose. It has a value scale between 0 and 1, with reliability increasing as 1 is approached. Typically, a value between 0.65 and 0.8 (inclusive) is considered a good indication of a construct's reliability. Values below 0.65 are considered unreliable, while values slightly below 1 suggests the possibility of redundancies existing between the 1 or more elements making up the construct. The Cronbach's Alphas are presented in Table 4.2. with participant responses tabulated in Table 4.3.

Table 0.2: Reliability of construct for challenges faced with global sourcing

Question	Cronbach's Alpha if Item Deleted	Overall Cronbach's Alpha (n=12)
Do you suffer the risk of fluctuation in currency exchange rates when you do global sourcing?	0.701	0.694
Did you face to the challenge of finding qualified foreign sources when you do global sourcing?	0.657	
Did you face to the challenge of logistics problems when you do global sourcing?	0.658	
Did you encounter the risk of a supply interruption from a foreign source of critical required materials?	0.635	
Did you reduce the landed cost of goods by sourcing from a supplier with a higher unit cost?	0.691	
Did the foreign supplier have significant quality issues with materials shipped to you?	0.688	
Do you have any cultural issue between you and the vendor or potential vendor led to instability of the relationship?	0.663	
Do the different standards between different countries affect the processes of global sourcing in Defy?	0.664	
Do any regulations such as customs duties affect the processes of global sourcing in Defy?	0.687	
Does Defy conduct an audit of a potential vendor overseas?	0.678	
Have you ever replaced a preferred vendor because the changes in exchange rates?	0.696	
Has a miscommunication with a foreign supplier ever led to a conflict with that supplier?	0.678	

As seen in Table 4.2, the reliability of the construct for assessing the challenges faced with global sourcing is good (i.e.  $\alpha = 0.694$ ). This means that the elements used in the construct, taken jointly, are suitable for the purposes of extracting global challenges in this instance. The only element that would give rise to a slight increase in the reliability of the construct, if removed from the construct, is the “risk of fluctuation in currency exchange rates”. Removing this element would cause the  $\alpha$ -value of the construct to slightly increase to 0.701. Deleting any of the other elements would cause a slight decrease in the overall  $\alpha$ -value. Since deleting any one of the elements would not affect the  $\alpha$ -value of the construct

by much, this reinforces the suitability of all the elements in the construct for the intended purpose of assessing the challenges faced with global sourcing. The responses received for this construct are tabulated in Table 4.3.

Table 0.3: Risks and challenges faced with global sourcing

Risk and / or Challenge	Not at all	Yes, but a little	Yes, and intensively	Total (n)
The risk of fluctuation in currency exchange rates when global sourcing?	1	6	40	47
The challenge of finding qualified foreign sources when you do global sourcing?	10	26	10	46
The challenge of logistics problems when you do global sourcing?	10	27	11	48
Did you encounter the risk of a supply interruption from a foreign source of critical required materials?	7	27	11	45
Did you reduce the landed cost of goods by sourcing from a supplier with a higher unit cost?	20	21	7	48
Did the foreign supplier have significant quality issues with materials shipped to you?	15	30	2	47
Do you have any cultural issue between you and the vendor or potential vendor led to instability of the relationship?	29	13	4	46
Do the different standards between different countries affect the processes of global sourcing in Defy?	10	28	10	48
Do any regulations such as customs duties affect the processes of global sourcing in Defy?	5	18	26	49
Does Defy conduct an audit of a potential vendor overseas?	11	26	10	47
Have you ever replaced a preferred vendor because the changes in exchange rates?	11	29	5	45
Has a miscommunication with a foreign supplier ever led to a conflict with that supplier?	19	28	1	48

As shown in Table 4.3, only 2 of the 12 challenges and / or risks had the highest frequency of respondents feeling very strongly about them (i.e. responding “yes and intensively”) as challenges that they experienced with global sourcing. The risk of fluctuation in exchange rates when sourcing globally was the most significant of these with 85%, of the 47 participants, that responded to this question, selecting this option. The second of these was the impact that regulations, such as customs duties, had on the process of global sourcing. Here 26 of the 49 responses received (i.e. 53%) highlighted this as a significant global sourcing challenge for them. Ninety percent of the remaining 10 risks / challenges were most

frequently thought to have little impact on the organisation’s global sourcing activities. These challenges included finding qualified foreign sources, logistical challenges, interruption in the supply of critical materials from foreign sources, cost reductions on landed goods from global suppliers, quality issues with supplied goods, different standards that existed between different sourcing countries; lack of auditing of potential overseas vendors, termination of vendor(s) due to variations in exchange rates; and miscommunication with foreign supplier(s) leading to conflict. The only proposed challenge that most participants had never experienced were cultural clashes with foreign suppliers that had led to instability of the relationship with the vendors / suppliers. Here 63% of the 46 received responses indicating as much.

#### 4.5.1.2 Greatest sourcing challenge faced when global sourcing?

In the second approach, participants were asked to select from 6 challenges the challenge which they thought was their greatest. Their responses are illustrated in Figure 4.9.

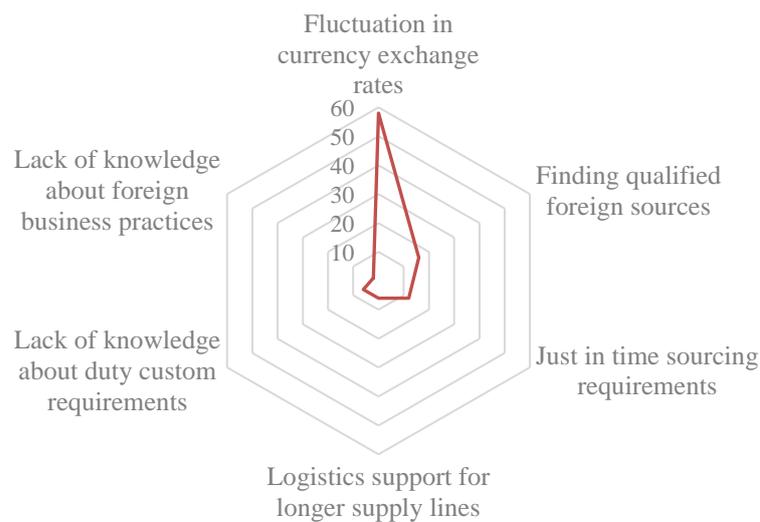


Figure 0.9: Greatest challenge with global sourcing

As shown in Figure 4.9, fluctuations in the exchange rate was ranked the greatest single challenge faced by participants. This is evidenced by 58% of the respondents selecting this as their most significant challenge. This finding is consistent with that in section 4.4.1, which also identified currency fluctuations as the greatest challenge with global sourcing. Finding qualified foreign sources was identified as the second greatest challenge (16%) experienced by participants with global sourcing, while “just in time” sourcing requirements was ranked

the third greatest challenge (12%). Customs duties and logistics support for longer supply lines were ranked among the least of the participants' challenges, with only 3(6%) participants selecting each as a significant challenge of theirs. One participant indicated that the lack of knowledge about foreign business practices was their greatest challenge.

#### 4.5.1.3 The most important competitive factors in the industry

Participants were then asked to select as many competitive factors that they encountered in their industry, in relation to the global arena, from a list of 6 known factors. This means that all the selections were summed up, since respondents could select as many as they thought applied to them. A total of 194 selections were made. These are depicted in Figure 4.10.

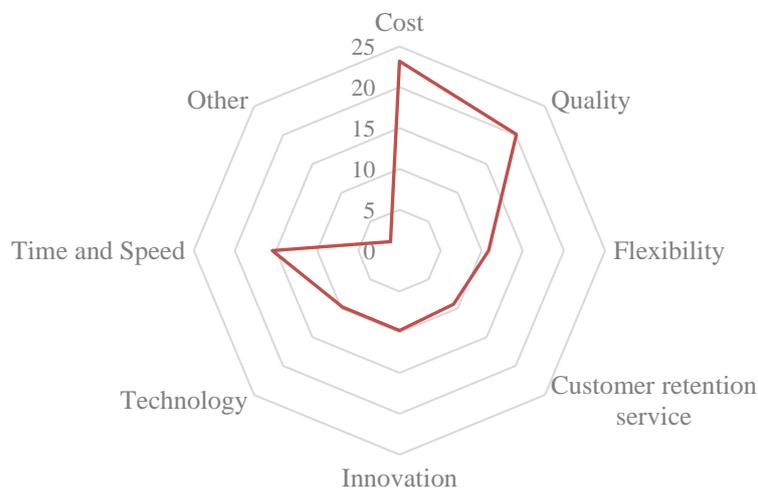


Figure 0.10: Competitive factors faced in the industry

Figure 4.10 shows the factors as a percentage of the total selections made. In other words, each factor is presented as a percentage of the 194 “hits”. Cost was the most frequently selected competitive factor chosen. Forty-five participants selected this as a competitive factor. In terms of overall selection, cost made up 23.2% of the 194 selections. This factor was followed by quality (20.1%), time and speed (15.5%) and flexibility (10.8%). Technology (9.8%), Innovation (9.8%) and customer retention services (9.3%) ranged as equally important in terms of their frequencies of selection.

#### 4.5.2 Objective 2: Individual problems experienced by inexperienced South African manufacturers in developing advanced levels of global sourcing.

Inexperienced South African manufacturers must deal with individual problems in order to develop an advanced level of global sourcing.

##### 4.5.2.1 Utilizing a 3PL when purchasing materials from other countries?

To assess whether respondents made use of 3PL when purchasing materials from other countries, they were asked to indicate how frequently they used it to made their purchases. Their responses are shown in Figure 4.11.

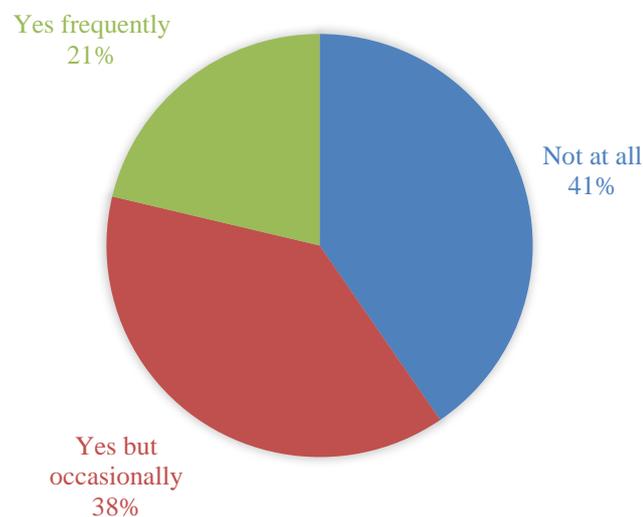


Figure 0.11: Frequency of 3PL use for global purchasing

As seen in Figure 4.11, fifty nine percent of respondents made use of 3PL for their materials imports. These, however, varied in the degree with which they made use of 3PL, with most of them (in this group) stating that they used it infrequently (i.e. 38% of the 50 participants). On the other hand, 21% of the participants indicated that they used 3PL for their global materials purchases quite frequently. The remaining 41% of respondents indicated that they did not use 3PL at all for their global purchasing.

### 4.5.3 Defy’s current competitive position relative to its main competitors

In this section participants were asked to rate Defy’s current competitive position or performance in a few key areas relative to their main competitors. Their responses are tabulated in Table 4.4.

Table 0.4: Current competitive position of Defy relative to main competitors

Area of interest	Much Worse	Worse	Same	Better	Much Better	Cannot say	Total (n)
Cost	0	9	8	15	14	0	46
Quality	1	8	12	10	14	0	45
Flexibility	1	2	15	10	15	2	45
Customer retention/services	1	1	10	15	14	4	45
Innovation		9	13	14	9		45
Technology	2	5	12	12	13	1	45
Time & Speed	1	3	12	15	13	1	45

Based on participants’ responses as reflected in Table 4.4, Defy appeared to have a competitive edge over its main competitors in all the categories. This can be seen in more than 50% of them indicating that the organisation’s competitive edge was better to much better than its competitors. There, however, appeared to be some indecision about the organisation’s flexibility relative to its competitors. This is so because the highest number of participants indicated that it was either the same as or much better than its competitors. Nonetheless, most of them indicated that Defy was better positioned than its main competitors. Despite this being the case, quite a notable number of participants felt that cost, quality and innovation were areas in which Defy trailed its competitors.

#### 4.5.4 Important factors for organization's decision to pursue global sourcing

In this section study participants were asked to indicate for each of 12 factors, the degree of importance that these had on the organisation's decision to pursue global sourcing. Results are tabulated in Table 4.5.

Table 0.5: Factors influencing organisation's decision to pursue global sourcing

Factor	Important	Not Important	I do not Know	Total (n)
Cost savings	46	0	2	48
Increased quality of procured goods	39	4	3	46
Access to more advanced technology, innovative goods	38	6	3	47
More flexibility concerning supply sources	37	7	3	47
Faster product development cycles	32	9	4	45
Reducing supply risks	39	2	6	47
Product only available abroad	23	9	13	45
Compliance with import quotas	29	10	6	45
Opening up of new sales markets	31	9	6	46
Prevention of delivery bottleneck	26	10	10	46
Sourcing of middle/low tech goods	23	14	9	46
Sourcing of high tech goods	32	9	5	46

As seen in Table 4.5, participants most often indicated that all of the tabulated factors were important in the organisation's decision to pursue global sourcing. The factors considered most important were cost savings (96%), increased quality of procured goods (85%), reducing supply risks (83%), access to more advanced technology, innovative goods (81%) and more flexibility concerning supply sources (79%). The least important contributory factors for the move to global sourcing were thought to be the product being only available abroad (51%) and the sourcing of middle / low tech goods (50%).

#### **4.6 Summary**

This section presented, analysed and discussed the results of this study. It found that the fluctuating currency exchange rates and regulations were the greatest risks when sourcing globally. Cultural issues with foreign suppliers were not perceived to be much of a risk. In addition, the exchange rates and finding qualified foreign sources greatest global sourcing challenge. In terms of the greatest competitive factors in the industry, cost and quality were rated the highest. Defy was also pitched to being at a better competitive position over its main competitors. The company was thought to offer better quality product that was competitively priced and had better customer retention. Several factors were also identified as reasons for pursuing global sourcing. Most notably were cost savings, increased quality, reduced supply risk and flexibility. The next chapter will draw the study to its close by presenting conclusions reached and making recommendations based on the findings.

## **CHAPTER 5**

### **Recommendations and Conclusions**

#### **5.1 Introduction**

A strong manufacturing sector for South Africa is of vital importance as it helps grow the economy. Manufacturing itself accounts for 15% of the country's Gross Domestic Product (GDP). The sector employs around 1.7 million people and for every R1 invested in manufacturing, there is R1.13 of value addition to the economy. However, global sourcing plays a negative impact as organizations tend to use this strategy for sustainability in this sector. This poses a severe threat to economy growth. Stats reveal that more than 300 000 South African manufacturing jobs have been lost or exported to other countries since the beginning of 2008, because majority of the major manufacturers are global sourcing from China and abroad. More than half a million small business owners have closed up business in 5 years between 2010 and 2015.

#### **5.2 Recommendations**

It was found from this study that there are several important issues that need to be considered for a successful global sourcing strategy. Like different cultures and fluctuations of currency according to previous researchers. For Defy Appliances, these problems and challenges must be faced and more attention should be paid to the challenges that arise from transporting capabilities, foreign supply selection and the government that apply customs duty free regulations and standards.

Turkish expatriates with their global experience should consider enriching their fellow local employees of the organization's international procurement offices based in Turkey. The officers are already in one centralized position to coordinate international purchases as part of a global sourcing strategy. This should be shared and passed on to local employees. In summary, the business methods in going forward with global sourcing at Defy Appliances are displaying both opportunities and challenges that is very meaningful and significant for globalization.

For further academic study, it is recommended that selection of suppliers in global sourcing for South African manufactures should be studied and researched more in depth. This should be done to develop criteria that are systematic to familiarize with software programs like E-commerce. This is by far the most serious of many other challenges for manufactures to produce in search of global sourcing strategy. Global sourcing always requires revising. Hence Trent and Monczka (2005:27) points out this significance of constantly evaluating and measuring the benefits of global sourcing processes. Attaining excellence in global sourcing can be achieved through knowledge enrichment. By employing skilled and experienced personnel in global sourcing so that they can train the current workforce is also a reasonable alternative to get employees more knowledgeable.

When it comes to successfully implementing global sourcing, technology is a major factor and failure to do so may result in more expenses and reduced benefits of the sourcing strategy. The implementation of an advanced software system can see most manufacturers who source globally save on costs, increase their product quality and ensure shorter lead times. Defy can reduce these challenges and successfully implement this strategy firstly by structuring the organization carefully and be prepared to make investments when needed. Before creating or developing the structure of the global sourcing department, management needs to clearly understand the current level of the procurement department and their knowledge, business culture and local cultures. The organization must also be well recognized, especially with the employees concerned. Really good investment in communication technology is of vital importance besides having investments allocated for travelling abroad for training and assignments with head office current supply chain department.

### 5.3 Conclusions

From the investigations in chapter 4, the important driving force for Defy Appliances pursuing global sourcing is improved technology and cost savings. The theoretical part of this study shows that business firms are determined to bring all different types of standards together to expedite for international support. The current industrial standards can be costly and that can cause the failure of global sourcing implementation. However, from analysis and the investigations carried out, the problems with regulations and Standards did not pose a major risk at Defy.

The results also denote the importance of supplier selection when implementing global sourcing. Furthermore, from the questionnaire, it can be concluded that the choice of processes for suppliers in global sourcing is a huge challenge for Defy Appliances. To be specific, the lack of sourcing and creating a contracting system is impeding the development of global sourcing for Defy Appliances. The use of E-Commerce systematically is the groundwork of contracting and sourcing. Defy Appliances needs to be responsive at the fact that global sourcing is a buying model that uses software like E-Commerce, which is a prerequisite for executing the global sourcing strategy. There is help and support in the E-Commerce software which as modes for supplier selection that is a challenge into selecting a supplier in global sourcing.

Today's the world is going through a decline in economy or a recession that is caused by financial disaster mainly due to politics. For a sustainable business, organizations must look at cost saving initiatives and sourcing becomes the most vital of them all. More and more manufacturers will take part in the activities of globalization because of this. Defy Appliances will have to be active and very much influential in the global sourcing strategy, which is not only beneficial for them to get a competitive advantage, but also meaningful for the South African economy by optimising global resources more reasonably and efficiently. However, carrying forward global sourcing is a long and complicated process and there are many setbacks that need to overcome. The situation is complicating when global sourcing is pursued and there is no universal compass that can be followed to make implementation easy.

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## **APPENDIX 1: Informed Consent Letter 3C**

**UNIVERSITY OF KWAZULU-NATAL**  
**GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

Dear Respondent,

**MBA Research Project**

**Researcher:** Mr. Kubendran Pather (060 9763882)

**Supervisor:** Dr. Abdulla Kader (082 9010225)

**Research Office:** Ms Zarina Bullyraj (031 2603587)

I, **KUBENDRAN PATHER** an MBA student, at the Graduate School of Business and Leadership, of the University of KwaZulu Natal. You are invited to participate in a research project entitled **PROBLEMS AND CHALLENGES OF GLOBAL SOURCING AT DEFY APPLIANCES**

The aim of this study is to analyze the problems and challenges that Defy Appliance (Pty) Ltd face as a major appliance manufacturing company in South Africa in executing the global sourcing strategy

Through your participation I hope to understand the problems and challenges of global sourcing that Defy faces. The results of the focus group are intended to contribute to a better understanding of global sourcing and how its overall impact in the business.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about **15** minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Researcher's

signature

A handwritten signature in black ink, consisting of a large, stylized 'A' followed by a smaller, more complex scribble.

Date

**This page is to be retained by participant**

**UNIVERSITY OF KWAZULU-NATAL  
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

**MBA Research Project**

**Researcher:** Kubendran Pather (060 976 3882)

**Supervisor:** Dr. Abdulla Kader (082 9010225)

**Research Office:** Ms Zarina Bullyraj (031 2603587)

**CONSENT**

I,.....(full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT

DATE

.....

.....

**This page is to be retained by researcher**

## **APPENDIX 2: Gatekeeper's Letter**



www.defy.co.za

DEFY APPLIANCES (PTY) LTD  
Reg. No. 2007/006715/07

155 Teakwood Road, Jacobs, 4092  
P.O. Box 12004, Jacobs, 4092, K.S.A

T: +27 31 460 9711  
F: +27 31 460 9999

DIRECTIONS: L. Coşoğlu, F.K. Ekiroğlu, H.H. Bulgarlı, F. İsen, M.K. Balıoğlu, H. Koza'n (Turkish)

### ACCESS LETTER REQUESTING PERMISSION TO CONDUCT RESEARCH

University of KwaZulu-Natal  
Graduate School of Business and Leadership  
Durban  
4000  
South Africa

DEFY APPLIANCES (PTY) LTD  
The Chief Executive Officer

Date: 21<sup>st</sup> Jun 2016

Dear Mr HAKAN KOZAN,

#### REQUEST FOR PERMISSION TO CONDUCT RESEARCH

I am a registered Master in Business Administration student at the University of KwaZulu-Natal. My supervisor is Dr. Abdulla Kader. Part requirement for completion of the degree is to write a thesis.

The proposed topic of my research is : *Problems and Challenges of Global Sourcing for a South African Manufacturer. Defy Appliances (Pty) Ltd.*

The objectives of the study are: *Is to analyze the problems and challenges that Defy Appliance (Pty) Ltd face as a major appliance manufacturing company in South Africa in executing the global sourcing strategy.*

I am hereby seeking your consent to reprint in my thesis information based upon the operations of Defy Appliances (Pty) Ltd. The information will include processes involved in each department, Organizational structures, documentation utilized and feedback from questionnaires conducted with the employees from their respective departments. To assist you in reaching a decision, I have attached to this letter:

- (a) A copy of an ethical clearance certificate issued by the University
- (b) A copy the research instrument which I intend using in my research

Upon completion of the study, I undertake to provide you with a bound copy of the dissertation.

Your permission to conduct this study will be greatly appreciated.

Yours sincerely,

Student Signature:

Date:

21-06-2016

Permission Granted :

Date:

22/06/2016



Arçelik A.Ş.

## **APPENDIX 3: Invitation Email**

**From:** Kubendran Pather  
**Sent:** 06 December 2016 03:00 PM  
**To:** Defy Users

Hello All,

I would like to invite you to participate in my research project entitled,

**PROBLEMS AND CHALLENGES OF GLOBAL SOURCING FOR A SOUTH AFRICAN MANUFACTURER – DEFY APPLIANCES (PTY) LTD**

This is a requirement for my degree Masters in Business Administration at the Graduate School of Business and Leadership, of the University of Kwa-Zulu Natal. The aim of this study is to analyse the problems and challenges that Defy Appliance (Pty) Ltd face as a major appliance manufacturing company in South Africa in executing the global sourcing strategy. Through your participation I hope to understand the problems and challenges of global sourcing that Defy faces. The results of the focus group are intended to contribute to a better understanding of global sourcing and its overall impact in the business.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN. If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me on ext.9871 or by email.

The survey should take you about **15** minutes to complete. I hope you will take the time to complete this survey.

Thank you in advance for your valuable insights. Your input will be used to ensure that we

continue to meet the needs of Defy Appliances. I appreciate your trust and look forward to what the results of the survey is.

Please click on this link to complete the survey: <https://kuben.questionpro.com>

Thanks,

Kind Regards,

**Kuben Pather** | Cooling Systems Design Manager | Defy Appliances (PTY) LTD

135 Teakwood Road, Jacobs, Durban, 4052

Office (Direct): +27 31 460 9871 | Fax : +27 31 460 9978 | Cell: 060 976 3882

E –mail : [kubendran.pather@defy.co.za](mailto:kubendran.pather@defy.co.za) | Web site: [www.defy.co.za](http://www.defy.co.za)



## **APPENDIX 4: QuestionPro® Dashboard**

## Word-Import - 1 - Dashboard

VIEWED <b>129</b>	STARTED <b>50</b>	COMPLETED <b>50</b>	COMPLETION RATE <b>100%</b>	DROP-OUTS <b>0</b>	TIME TO COMPLETE <b>15 mins</b>
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### Response Distribution

World | US | Canada | Europe

Countries	Responses
ZA	96.00%
ET	2.00%
TR	2.00%
<b>Total</b>	<b>100.00%</b>

## **APPENDIX 5: Questionnaire**

**1. In which department do you work at Defy Appliances?**

- A. Research and Development
- B. Procurement
- C. Supply Chain
- D. Production Engineering
- E. Planning

**2. For how many years have you worked in your present department?**

- A. < 1 year
- B. 1 – 5 years
- C. 6 – 10 years
- D. 11 – 15 years
- E. > 15 years

**3. Are you part of management?**

- A. Yes
- B. No

**4. Which level of purchasing is Defy operating?**

Level 1: Engage in domestics purchasing only

Level 2: Engage in international purchasing as-needed

Level 3: International purchasing as part of sourcing strategy

Level 4: Integration and coordination of global sourcing strategies across world locations

Level 5: Integration and coordination of global sourcing strategies with other functional groups

**5. When did Defy switch from a domestic to an international supplier for the goods you require?**

10 years ago

5 to 9 years ago

3 to 4 years ago

1 to 2 years ago

Just now

Not yet

**6. What kinds of materials you mainly purchase from global sourcing?**

- A. Raw materials
- B. Semi-finished goods
- C. Finished goods
- D. Energy sources

- 7. Do you know what the percentage of Global source vs Local source?**
- A. 0-25%
  - B. 25-50%
  - C. 50-75%
  - D. 75-100%
- 8. Do you suffer the risk of fluctuation in currency exchange rates when you do global sourcing?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 9. Did you face to the challenge of finding qualified foreign sources when you do global sourcing?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 10. Did you face to the challenge of logistics problems when you do global sourcing?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 11. Did you encounter the risk of a supply interruption from a foreign source of critical required materials?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 12. Did you reduce the landed cost of goods by sourcing from a supplier with a higher unit cost?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 13. Did the foreign supplier have significant quality issues with materials shipped to you?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively

- 14. Do you have any cultural issue between you and the vendor or potential vendor led to instability of the relationship?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 15. Do the different standards between different countries affect the processes of global sourcing in Defy?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 16. Do any regulations such as customs duties affect the processes of global sourcing in Defy?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 17. If you have the suppliers from other countries, what are the relationships between Defy and the foreign suppliers?**
- A. We do not have the supplier from other countries
  - B. Sister company
  - C. Long term relationship
  - D. Short term relationship
  - E. Just for one time
- 18. What is the most priority when you select a foreign supplier?**
- A. High quality
  - B. Low price
  - C. High technology
  - D. After service
- 19. Did you have to increase the material inventory levels when you purchase these materials from abroad?**
- A. Not at all
  - B. Yes, but a little
  - C. Yes, and intensively
- 20. Do you utilize intermodal transportation for the key material you purchased from abroad?**
- A. Not at all
  - B. Yes, but occasionally
  - C. Yes, frequently

**21. Please clarify the greatest sourcing challenge you have faced when you do global sourcing?**

- Fluctuation in currency exchange rates
- Finding qualified foreign sources
- Just-in-time sourcing requirements
- Logistics support for longer supply lines.
- Lack of knowledge about duty/custom requirements
- Lack of knowledge about foreign business practices
- Culture/language difference affecting communication
- Nationalistic attitudes and behaviour
- Understanding the political environment
- Other, please specify

**22. Do you utilize a 3PL when you purchase materials from other countries?**

- Not at all
- Yes, but occasionally.
- Yes, frequently

**23. Does Defy conduct an audit of a potential vendor overseas?**

- Not at all
- Yes, but occasionally
- Yes, frequently

**24. Can you learn some knowledge about the foreign market when you do global sourcing from there?**

- Not at all
- Yes, but a little
- Yes, and intensively

**25. Have you ever replaced a preferred vendor because the changes in exchange rates?**

- Not at all
- Yes, but occasionally
- Yes, frequently

**26. Has a miscommunication with a foreign supplier ever led to a conflict with that supplier?**

- Not at all
- Yes, but occasionally
- Yes, frequently

**27. Did you set up an international procurement office to identify suppliers and manage global sourcing processes?**

Yes

No, but we are planning to

No, and we do not need it

**28. Which are the most important competitive factors in the industry (Select all that apply)?**

Cost

Quality

Flexibility

Customer retention/service

Innovation

Technology

Time and Speed

Other

**29. Compared to Defy's main competitors, please rate the current competitive position of your company in each of the following areas.**

A. Cost

Much Worse

Worse

Same

Better

Much Better

Cannot say

B. Quality

Much Worse

Worse

Same

Better

Much Better

Cannot say

C. Flexibility

Much Worse

Worse

Same

Better

Much Better

Cannot say

D. Customer retention/services

Much Worse

Worse

Same  
Better  
Much Better  
Cannot say

E. Innovation

Much Worse  
Worse  
Same  
Better  
Much Better  
Cannot say

F. Technology

Much Worse  
Worse  
Same  
Better  
Much Better  
Cannot say

G. Time & Speed

Much Worse  
Worse  
Same  
Better  
Much Better  
Cannot say

H. Other

Much Worse  
Worse  
Same  
Better  
Much Better  
Cannot say

**30. On which hierarchical level is the International Purchasing Officer with the highest rank in your company situated?**

Level 1 – Management Board  
Level 2 – Divisional Director  
Level 3 – Head of Department  
Level 4 – All lower levels  
N/A

**31. What importance did the following factors have for your supply organisation's original decision to pursue global sourcing?**

- A. Cost savings
  - Important
  - Not Important
  - I do not Know
- B. Increased quality of procured goods
  - Important
  - Not Important
  - I do not Know
- C. Access to more advanced technology, innovative goods
  - Important
  - Not Important
  - I do not Know
- D. More flexibility concerning supply sources
  - Important
  - Not Important
  - I do not Know
- E. Faster product development cycles
  - Important
  - Not Important
  - I do not Know
- F. Reducing supply risks
  - Important
  - Not Important
  - I do not Know
- G. Product only available abroad
  - Important
  - Not Important
  - I do not Know
- H. Compliance with import quotas
  - Important
  - Not Important
  - I do not Know
- I. Opening up of new sales markets
  - Important
  - Not Important
  - I do not Know
- G. Prevention of delivery bottleneck
  - Important
  - Not Important
  - I do not Know
- K. Sourcing of middle/low tech goods

Important  
Not Important  
I do not Know

L. Sourcing of high tech goods

Important  
Not Important  
I do not Know

**32. Compared to other companies in your industry, how do you rate the strategic global sourcing behaviour which has significant influence on your overall procurement strategy?**

First mover  
Early Adopter  
Follower  
Wait-and-see attitude  
N/A

## **APPENDIX 6: Ethical Clearance**



28 September 2017

**Mr Kubendran Pather (9608413)**  
Graduate School of Business & Leadership  
Westville Campus

Dear Mr Pather,

**Protocol reference number: HSS/1012/016M**  
**New project title: Problems and Challenges of Global Sourcing at Defy Appliances**

**Approval Notification – Amendment Application**

This letter serves to notify you that your application and request for an amendment received on 21 September 2017 has now been approved as follows:

- Change in Title

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.**

The ethical clearance certificate is only valid for period of 3 years from the date of original issue. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours faithfully

.....  
**Dr Shenuka Singh (Chair)**

/ms

Cc Supervisor: Dr Abdulla Kader  
Cc Academic Leader Research: Dr Muhammad Hoque  
Cc School Administrator: Ms Zarina Bullyraj

---

**Humanities & Social Sciences Research Ethics Committee**

**Dr Shenuka Singh (Chair)**

**Westville Campus, Govan Mbeki Building**

Postal Address: Private Bag X54001, Durban 4000

Telephone: +27 (0) 31 260 3587/8350/4557 Facsimile: +27 (0) 31 260 4809 Email: [ximbap@ukzn.ac.za](mailto:ximbap@ukzn.ac.za) / [snymanm@ukzn.ac.za](mailto:snymanm@ukzn.ac.za) / [mohunp@ukzn.ac.za](mailto:mohunp@ukzn.ac.za)

Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)



Founding Campuses: Edgewood Howard College Medical School Pietermaritzburg Westville



10 August 2016

**Mr Kubendran Pather (9608413)**  
Graduate School of Business & Leadership  
Westville Campus

Dear Mr Pather,

**Protocol reference number: HSS/1012/016M**

**Project title: Problems and challenges of Global Sourcing for a South African Manufacturer Defy Appliances (Pty) Ltd**

**Full Approval – Expedited Application**

In response to your application received on 07 July 2016, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

**Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.**

**PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.**

**The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.**

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

.....  
**Dr Shenuka Singh (Chair)**

/ms

Cc Supervisor: Dr Abdulla Kader  
Cc Academic Leader Research: Dr Muhammad Hoque  
Cc School Administrator: Ms Zarina Bullyraj / Ms Eileen Mohamed

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**Humanities & Social Sciences Research Ethics Committee**

**Dr Shenuka Singh (Chair)**

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### CHAPTER 1

#### Introduction

##### 1.1 Background

Due to rising cost of transportation, local labour requirements and availability of low-cost material sources, manufactures today are looking outside their home country to develop strategies for cheaper manufacturing and supply chain sourcing (George, 2006). This can be seen extensively in academic literature, where companies have been pressured to increase their global competition and develop international purchasing strategies that aim on optimising quality, reduce pricing, satisfy implementation, reduce production process times, increase responsiveness and financial situations (Loppacher, et al., 2007).

The secondary data collected in the next chapter shows the importance of purchasing internationally to be a key factor for organizations gaining a competitive edge because of globalization. This strategy is a management style in purchasing that focuses on supplies from companies all over the globe, rather than supplies from local sources which are limiting. (Trent & Monczka, 1998). Global sourcing, which is different from international purchasing in many ways, is considered as a corporate strategy aimed at universal utilization of resources and materials. Companies will need to develop a sourcing strategy based coordination and integration of vendors across global purchasing, engineering, and operating locations with regard to processes, materials, technologies, and designs. This is all highly dependent on the level of global activities undertaken (Trent & Monczka, 1991).

The continuous process of a large economic interdependence among countries known as economic globalization is shown in the growing amount of cross-border trade in goods and services (Fischer, 2003). For manufacturers, it is vitally important to establish an efficient supply chain and make use of global resources to cut on costs, improve the quality, and outgrow innovation. Together with the growth of globalization, global sourcing strategy is a key differentiator for demand-driven global value chain organizations to be successful (Rizza, 2007). When it comes to global sourcing, there is a notion that worldwide

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