

International purchasing offices in China

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Creating an international purchasing office (IPO) is one of the most frequently adopted solutions by companies to manage their international sourcing activities. Despite the increasing importance of this solution for international supply management, the literature still offers limited studies on it.

This research, which forms part of an EU project entitled 'International sourcing Strategies for China', tries to fill this gap. Starting from an analysis and systematisation of the existing literature, the study defines the main aspects characterising the creation and management of IPOs in China, which is actually one of the nations with the highest inflow of foreign direct investments and one of the most important sourcing basins in the world. In particular, taking into consideration the specificities of the Chinese normative/social/political context, the research tries to describe how to establish and manage an IPO in China and the main functions assigned to it.

Keywords: Purchasing offices; China; Multiple case study research

1. Introduction

The globalisation of markets, the comparative advantages offered by some emerging countries and the improvement of ICT tools and transport systems foster the industrial environment to reorganise itself on an international basis. International sourcing, as well as international manufacturing, has therefore acquired a paramount importance for the strategic choices of companies.

International sourcing, and more generally the transfer of parts of the value chain to foreign countries, is characterised by complex factors such as cultural heterogeneities, the presence of multiple actors, relationships with different and distant interlocutors, and unfamiliar business rules and behaviours (Birou and Fawcett 1993, Swamidass 1993, Handfield 1994, Herbig and O'Hara 1996, Spekman *et al.* 1999, Nellore *et al.* 2001). For this reason, the need for a greater

organisational and coordination effort may suggest in some cases the establishment of an international purchasing office† (IPO), in order to control the international sourcing basins more effectively.

With a few exceptions, the scientific literature on international sourcing is not aware of the important issues concerning the organisational decentralisation of purchasing activities. Such topics are more appropriately analysed in practitioners' publications, even if the latter are mostly limited to some examples of best practice. Most of these studies are opportunely focused on specific countries, as the characteristics of IPOs, the underlying motivations and obstacles, and the design of their organisational structure cannot neglect the normative, social, political and cultural context where they are located. The analysis of IPOs' features and design criteria is (at least in part) country-specific, and therefore any generalisation requires strong caution.

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† An international purchasing office can be defined as an offshore buying office or buying house set up to procure components, parts, materials and other industrial inputs to be used by manufacturing plants globally (Goh and Lau 1998). According to this definition, an IPO can be a stand-alone purchasing office in a foreign country or an office inside a subsidiary (e.g. a joint venture) established abroad.

To summarise, the scientific literature offers limited theoretical and applicative suggestions to help companies in their decisions relative to establishing and operating IPOs. This study tries to fill this gap, identifying the requirements, criticalities and advantages connected with the establishment of an IPO in China, one of the most important sourcing basins and one of the countries with the highest level of foreign direct investments.

In particular, on the basis of past experiences, this research describes the main functions assigned to an IPO in China, the principal criticalities in its management and the main steps for its establishment. The analysis underlines the local normative, social, political and cultural features which can influence the management of an IPO in China. In this way this research offers some operational instructions—deduced from the experience of the sampled companies—useful for the companies that want to adopt this organisational solution.

2. Background

The analysis of existing literature on IPOs made use of several electronic data banks (e.g. Business Source Elite and Cilea, where Elsevier, Cell Press, Blackwell, Kluwer, Springer and Brill journals are available) and a number of public libraries. Several scientific journals (such as the *Journal of Operation Management*, *Production Planning & Control*, *International Journal of Production Research*) and practitioners' reviews (such as *Purchasing*) were therefore scanned.

Such studies have highlighted a few articles regarding various aspects of IPOs: analysis of the IPOs' functions, advantages and problems related to their establishment and factors influencing the choice of their location. Some studies also have a country-specific analysis; others report only generic remarks.

Table 1 describes the synthesis of the literature analysed, underlining the main topics and the presence of a country-specific analysis.

Among the literature just mentioned, some papers (Monczka and Trent 1992, Goh and Lau 1998, Avery 2002a, 2002b, Carbone 2002, Porter 2003, Pedersen 2004a, Bendorf 2005) analyse the functions carried out by an IPO. From these studies (table 2) it is possible to notice that such functions are usually operations support (a general support given to all the activities carried out abroad), supplier performance check (performance measurement and control on quality, quantity, delivery times, etc.), commercial benefits (the creation of relations with a sale purpose), selection of suppliers and their development, cultural gap reduction (the reduction of the cultural problems concerning

language, job habits, etc.), and cooperation in the product development activities (IPOs can share product development activities, as they are close to suppliers and informed about the headquarters' requirements at the same time).

Some studies (Dobson and Yue 1997, Goh and Lau 1998, Pedersen 2004b) have analysed the variables influencing the choice of IPOs' localisation (table 3): existing and planned business operations (these studies highlight the importance of choosing the IPO's localisation on the basis of the current and future manufacturing and commercial activities), local costs (such as wages and rents, which are quite different in the various regions of China), utility costs (such as electricity, gas, etc.), costs of expatriate (i.e. all the costs of western employees working abroad), presence of adequate infrastructures (e.g. streets, ports, airports), telecommunication costs (the costs for telecommunications inside the foreign country and with the homeland), the presence of tax relief (e.g. the presence of incentives for local sales activities), the political stability, income and representative taxes, the growth rate of the business sector, and the presence of advanced technologies.

Some authors (Dobson and Yue 1997, Goh and Lau 1998, Carbone 2002, Pedersen 2004a, 2004c, Bendorf 2005) have verified that, thanks to the establishment of IPOs, companies can gain several advantages such as the reduction of purchasing prices, a higher level of quality control, the reduction of cultural distance (employing local personnel in an IPO, the company can reduce linguistic and cultural problems), risk reduction (the presence of personnel close to the suppliers allows a better control of the suppliers' activities), the elimination of third-party mark-ups (the absence of third parties between buyer and supplier fosters high purchasing costs reductions), the presence of a direct in-country long-term interface with suppliers, the relationships with the in-country government and business community, an easier and quicker management of high volumes, and a better coordination of all the overseas activities (table 4).

The studies also highlight the main problems related to the management of an IPO (Avery 2002a, 2002b, Pedersen 2004b, 2004c, Bendorf 2005) (table 5): cost of the IPO's activities, cultural problems, the need to have sufficient annual volumes which can compensate the costs linked to the IPO's presence, the need to obtain support from senior management (senior managers often do not appreciate the transfer of responsibilities from the headquarters), problems in finding a satisfactory location, and management of suppliers located in large areas (IPOs often need to manage suppliers in very large areas).

Table 1. Synthesis of the literature.

RESEARCH TOPICS AND OTHER ARTICLE CHARACTERISTICS ARTICLES	IPO'S FUNCTIONS	IPO'S LOCATION	IPO'S COSTS	ADVANTAGES	PROBLEMS	HUMAN RESOURCES	IPO'S ORGANIZATION	PRESENCE OF A COUNTRY SPECIFIC ANALYSIS
1. 'Considerations in Evaluating an international procurement office (IPO) site', A. Pedersen, 2004a	■			■				-
2. 'Conduct your own fact-finding when locating an international procurement office', A. Pedersen, 2004b		■	■		■			-
3. 'Putting a price tag on an international procurement office' A. Pedersen, 2004c			■	■	■			-
4. 'Finding the talent to staff an international procurement office' A. Pedersen, 2004d						■		-
5. 'Approaches to International sourcing', R. Bendorf, 2005	■		■	■	■	■		-
6. 'Global purchasing sharpens Schneider's competitive edge' S. Avery, 2002a							■	EAST EU, ASIA, SOUTH AMERICA
7. 'Transforming Textron' S. Avery, 2002b	■				■	■	■	EU, POLAND
8. 'International procurement offices and regional OHQs' Dobson and Yue, 1997	■	■		■				SINGAPORE, HONG KONG
9. 'Where are the next HOT SPOTS?', J. Carbone, 2002	■			■				-
10. 'Electronics international procurement offices in Singapore' M. Goh, G. Lau, 1998	■	■	■	■				SINGAPORE
11. 'How to buy in Asia' Jim Shales, 2000			■	■	■			SOUTH-EAST ASIA
12. 'Textron eyes next IPOs' A. M. Porter, 2003	■							-
13. 'Worldwide sourcing: assessment and execution' Monczka and Trent, 1992	■							-

Table 4. Main advantages achievable through the creation of an IPO.

ARTICLE	Purchasing price reductions	Higher level quality control	Cultural distance reduction	Risk reduction	No third party mark-ups	Direct in-country long term interface with the suppliers	Relationships with the in-country government and business community	Easier management of high volumes	Quick Problem management	Easier coordination of all the overseas activities
ARTICLE 1										
ARTICLE 3										
ARTICLE 5										
ARTICLE 8										
ARTICLE 9										
ARTICLE 10										
ARTICLE 11										

Table 5. Main problems linked to the IPO's management.

ARTICLE	Costs of the IPO's activities	Difficult to staff	Cultural problems	Necessity to have sufficient annual volume	Having support of senior management	Location	Distance from suppliers located far from the IPO
ARTICLE 2							
ARTICLE 3							
ARTICLE 5							
ARTICLE 7							
ARTICLE 11							

For any of these aspects, the research has tried to underline the peculiarities of the Chinese context.

The methodological steps of the project were the following.

- Literature analysis.
- Development of a check list, which collected the following data: international sourcing areas of

companies; organisation and management of the international supply chain (materials management practices, quality management practices, ICT infrastructures, de-centralisation of purchasing responsibilities in China); characteristics of sourcing activities in China and relevant contractual aspects. A special section of the check list analysed

the enabling factors, tasks and criticalities related to IPOs' activities and focused on their path of growth with a specific reference to the Chinese market.

- Sample selection.
- Case-studies development.
- Data analysis and elaboration.
- Development of a theoretical model.

The methodology chosen was that of case studies (Yin 1988, Patton 1990, McCutcheon and Meredith 1993). In fact:

- 'IPO in China' is a 'contemporary' solution for (mostly small and medium-sized) European enterprises;
- because of the lack of research that could be confirmed/supplemented, this investigation was essentially explorative (its primary purpose being to better understand how international sourcing in China could be carried out and which were the variables influencing this activity);
- the aspects analysed were not suitable for a standard survey tool, but rather for a qualitative analysis of each single experience and situation.

The multiple case study approach was also selected because, being 'particularly oriented towards exploration, discovery, and inductive logic...' (Patton 1990), it is an activity well suited to the empirical development of testable theories and operations management (e.g. McCutcheon and Meredith 1993). In fact this was one of the aims of our research project.

The small sample size (10 companies) consequent to the exploratory nature of the study does not permit any generalisation, but allows the development of some theoretical models that will be checked in further researches.

Table 6 illustrates the main features of the sample. The 10 companies analysed were operating in the product sectors with the highest commercial exchange between Italy and China. The sample was selected to include enterprises from different dimensional classes, in order to analyse the incidental effects of size on international sourcing process.

The case studies of these units were developed through interviews of Purchasing Managers, who were assisted by the firm's CEO in two cases. The interviews were recorded on tape. The case studies were subsequently developed on the basis of the information obtained during the interviews and from other data obtained by the sample companies.

4. Results

We can identify three main groups of results obtained in the research project. We have identified: some organisational solutions for the management of an IPO (described in section 4.1); shared criticalities and common development steps for the creation and management of IPOs (illustrated in section 4.2); the main activities usually assigned to an IPO in the China and which are the main criticalities in the management of these activities in the Chinese context (described in section 4.3).

4.1 Organizational solutions

IPOs were defined as offshore buying offices or buying houses set up to procure components, parts, materials and other industrial input to be used globally by manufacturing plants (Goh and Lau 1998).

These activities can be carried out by an IPO (stand-alone office or an office belonging to a sales/

Table 6. The sample.

Buying unit	Industry	Employees	Sales 2002 (mln €)	International purchases (%)	Purchasing typology
1	Data processing	90	23	–	Electronic components
2	Office equipment	400	90	15	Plastic components, mechanisms, finished products
3	Engineering	2945	1000	60	Finished products
4	Fashion (glasses)	6651	894	40	Finished products
5	Systems for the textile industry	480	480	35	Nuts and bolts
6	Textile	250	100	100	Finished products
7	Gift and fancy goods	160	55	80	Finished products
8	Fashion (footwear)	5000	220	95	Finished products
9	Toys	80	25	100	Finished products
10	Power tools	300	40	67	Components
	Mean Values	1636	293	66	

manufacturing subsidiary), by an intermediary or directly by the headquarters. As the research has shown, this attribution seems to be linked to the sourcing types adopted.

In a previous work (Nassimbeni and Sartor 2006), the authors showed that three main sourcing types can be identified in China:

- ‘Imposed international sourcing’: the resort to local suppliers is a counter-trade condition that allows the sale of Western product in China;
- ‘Intermediated international sourcing’: a third party interposed between the two ends of the transaction (supplier and buyer);
- ‘Direct international sourcing’: a type of sourcing which is free of any ‘brokerage’ or constraint in the choice of supplier. The results show the following forms of direct sourcing: traditional (in this case no operational integration between the parts arises); collaborative non-equity (which implies collaboration between Western buyers and Chinese producers—e.g. in design and production/logistic activities); collaborative equity (in this case collaboration is accompanied by equity agreements).

As table 7 shows, it was possible to identify a relationship between the attribution of purchasing responsibility and the sourcing type selected by the sampled companies.

All the interviewed firms that attributed **purchasing responsibility to an IPO as a foreign stand-alone office** (company 3, company 6, company 9, company 10) have adopted an ‘imposed’ or a ‘direct collaborative non-equity’ sourcing type. Case studies have shown that several kinds of collaboration are carried out (also thanks to the support given locally by the IPO), such as the anticipated transfer of production plans, the joint definition of product specifications, the sharing of engineering and industrialisation choices, the adoption by suppliers of agreed capacity planning tools and

manufacturing, quality control, packing, and transportation modalities.

A strong cooperation can also be obtained attributing **purchasing responsibility to an IPO belonging to a subsidiary**. This solution is adopted by all the sampled companies (company 7, company 8) owning one or more facilities in the sourcing region. The main strength of this solution is that, being located inside the facility, the IPO is close to the supply network and to the production made in the facilities established abroad.

Moreover, the research showed that all the sampled companies which attribute **the main purchasing responsibility to the headquarters** (company 4, company 5) have adopted direct traditional international sourcing. In these cases the supply relationship occurs without any form of operational integration between the parties. The purchased items are usually standard ones, available from a catalogue without specific adjustments. In these cases there is no need of collaboration in product development or quality control because companies have no particular problems in managing reiterated orders of standardised items. So there is no need for a local support offered by an IPO, as the main activities can be managed directly by the headquarters.

Finally, the main purchasing responsibility is not assigned to an IPO, but it is mainly **attributed to the intermediary** (company 1, company 2) when a (mainly small and medium) enterprise selects an ‘intermediated international sourcing’. From the managerial and operational point of view, this is the simplest and quickest sourcing solution because the creation and management of relationships with suppliers is delegated to the intermediary and no specific purchaser’s skills are needed. In such a situation companies do not need the services offered by IPOs.

In synthesis, the analysis of the case studies has highlighted the link between sourcing types and purchasing responsibility illustrated in figure 1.

Furthermore, in all the sampled companies we have found that, when the main purchasing

Table 7. Organisational solutions.

Buying unit	Industry	Sourcing type	Main purchasing responsibility
1	Data processing	Intermediated	Intermediary
2	Office equipment	Intermediated	Intermediary
3	Engineering	Imposed	IPO (stand-alone office)
4	Fashion (glasses)	Direct traditional	Headquarters
5	Systems for the textile industry	Direct traditional	Headquarters
6	Textile	Direct collaborative non-equity	IPO (stand-alone office)
7	Gift and fancy goods	Direct collaborative equity	IPO (part of a subsidiary)
8	Fashion (footwear)	Direct collaborative equity	IPO (part of a subsidiary)
9	Toys	Direct collaborative non-equity	IPO (stand-alone office)
10	Power tools	Direct collaborative non-equity	IPO (stand-alone office)

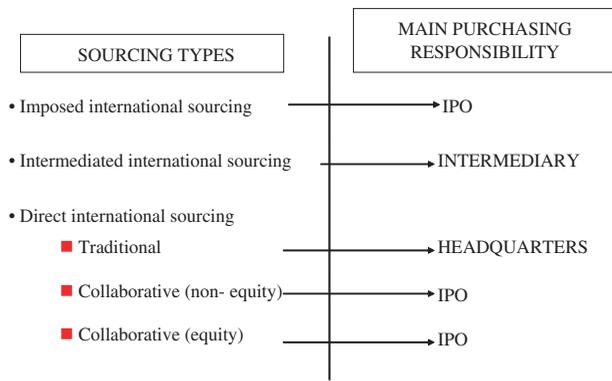


Figure 1. Sourcing types and purchasing responsibility.

responsibilities are assigned to an IPO, the headquarters maintains an important role in the supply chain management.

Moreover, the analysis of the case studies has highlighted the importance of exactly defining the distribution of tasks among IPOs, central (purchasing) units, and suppliers (for instance with reference to quality control), and therefore to understand the activity of each single unit by defining the (in)dependency link between IPOs and central purchasing offices (identifying responsibilities and the required control measures). An excessive decisional autonomy of IPOs cannot be accepted by central units. Therefore, centralisation/decentralisation requirements must be balanced: on the one hand, it is necessary to assign some responsibilities to decentralised purchasers, while on the other hand, central Purchasing Offices need to manage the overall sourcing policies and connect IPOs and the other operating units by justifying decisions.

4.2 Shared criticalities and common development steps for the creation and management of IPOs

As the case study analysis has highlighted, there are common development steps (figure 2) and similar criticalities for the creation and management of IPOs, despite the peculiarity of each individual situation.

In all the sampled case studies the creation of IPOs follows an analysis of the local market. **Sending the company's own personnel to China** is necessary to probe the opportunities and difficulties associated with the creation of IPOs. This activity, as the sampled companies

asserted, is necessary in every nation of the world, but acquires a particular criticality in China for several reasons. China is a wide country with a normative and industrial system that undergoes continuous changes. The industrial sectors are heterogeneous in terms of productive capacity, technological availability, familiarity with the typical Western procedures, geographical concentration, tax relief, and incentives for Western investors. The analysis of the context where to establish the IPO is therefore particularly hard and costly in China.

The second step for an IPO's creation is (in all our case studies) the **choice of the location**. The parameters analysed by the sampled companies are:

- the distance from current or potential suppliers;
- the presence of adequate transport infrastructures (this aspect is particularly critical in China as it is a wide country where both the capillarity and the efficiency of the infrastructure system is very heterogeneous (as figure 3 illustrates, the road network density ranges from more than 0.5 km of road network per square kilometre in the coastal area—a value very close to the Western ones—to less than 0.01 km of road network per square kilometre in some internal areas of the country; China Statistical Yearbook 2004) and the transportation of materials is sometimes an expensive activity;
- the presence of suitable communications infrastructures;
- the places where industry-relevant trade exhibitions are held (e.g. the most important fair for the textile industry is in Shanghai);
- the cost for the creation and maintenance of an office;
- possible opportunities at commercial and/or fiscal level offered by Special Economic Zones.† There are several advantages associated to locating an IPO in such zones, such as special tax incentives and greater independence of international trade activities (Birindelli 2005);
- the cost of local employees (this is a critical variable in China because labour cost varies widely according to the different areas of the country).

Taking into consideration all these parameters (but assigning a higher weight to the availability of transport infrastructures, the distance from suppliers

† Since 1978, when the Chinese government decided to reform the national economic system through a policy of openness to the outside world, China has established some Special Economic Zones. In these zones of the country foreign companies can gain advantages for their investments such as special tax incentives and a greater independence on international trade activities. These incentives have allowed the import of advanced technologies in the country and the development of the so-called Chinese 'foreign-oriented' economy (Birindelli 2005).

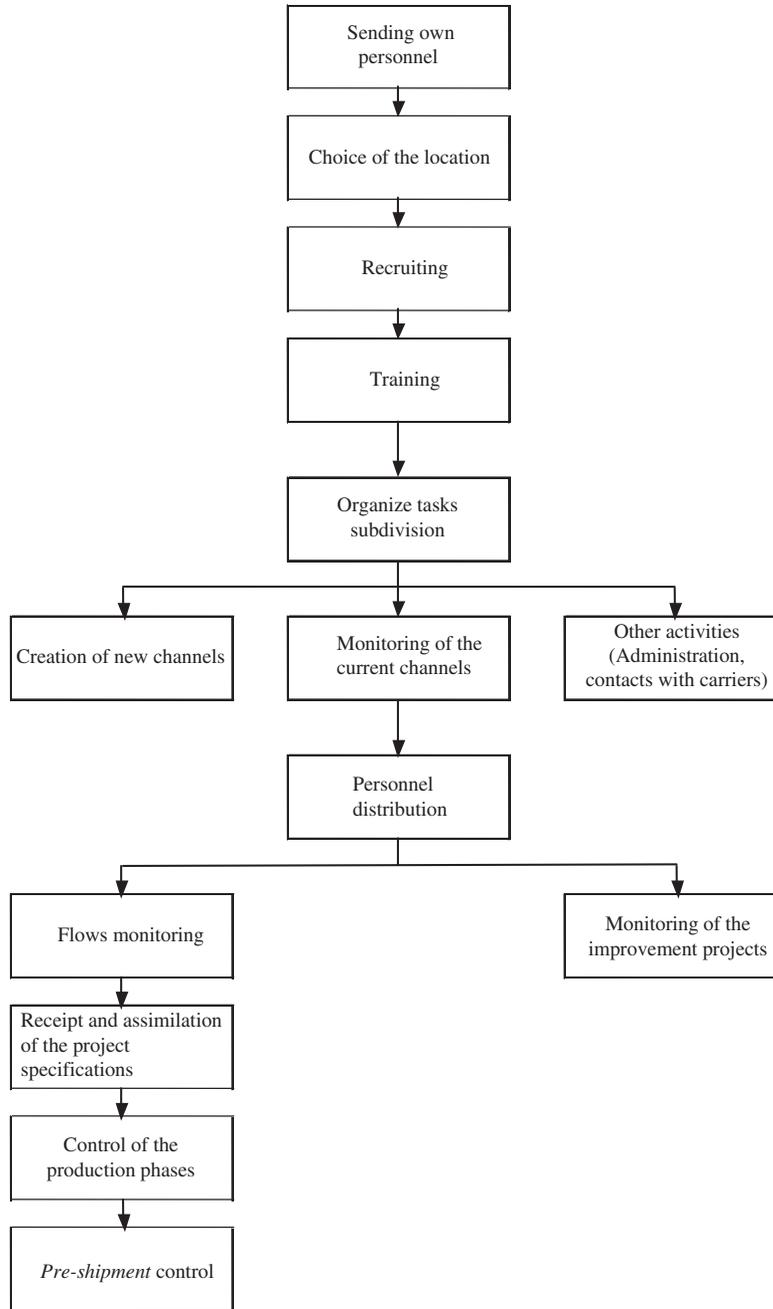


Figure 2. Phases for the creation of an IPO.

and the presence of incentives offered by Special Economic Zones), the sampled companies favoured the coastal areas of China for the establishment of their IPOs, and in particular those zones where such incentives are present (Guangdong, Fujian and Hainan Province) as well as the Shanghai Pudong New Zone, where important expositions are carried out.

The quantity and profile of the personnel employed obviously depend on the nature and the volume of the

activities managed by the IPO. Western personnel can be flanked (and progressively substituted) by Chinese. The critical activities concerning **personnel recruiting and training** are normally carried out by the IPO itself in cooperation with the headquarters.

The investigated cases demonstrate that there are several advantages in recruiting local employees for the Chinese IPO. Their cost is lower. They are normally well trained, thanks to the recent public investments in educational activities and they usually have a good level

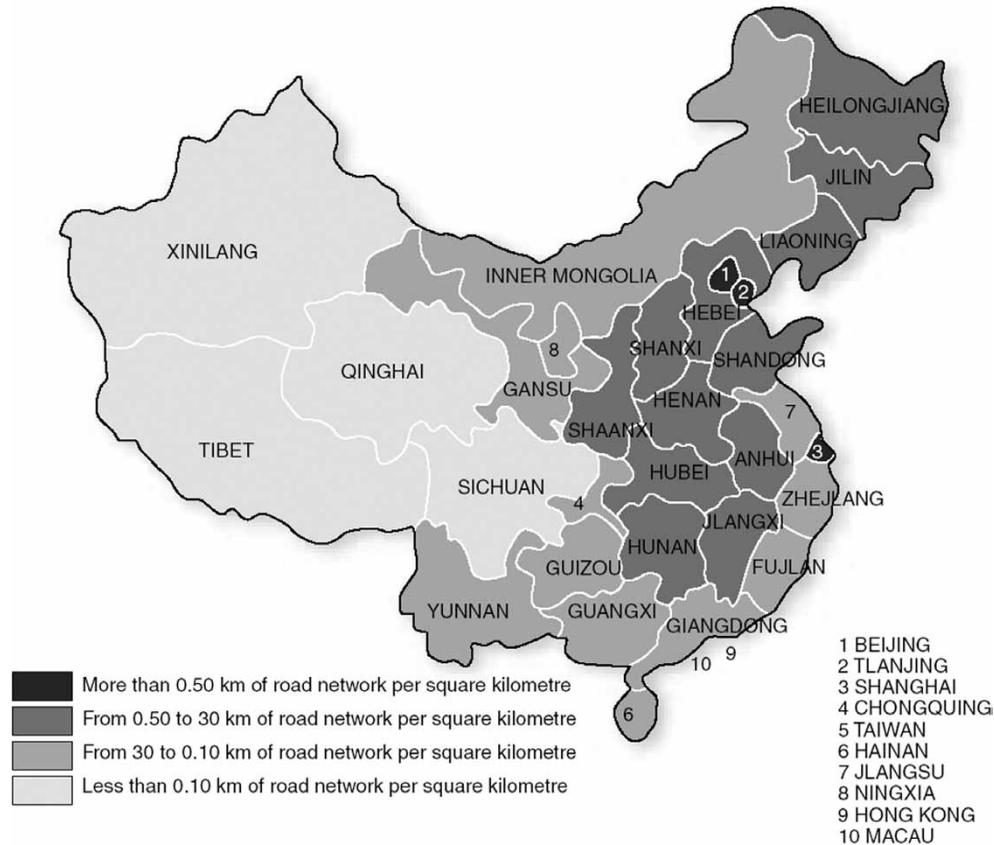


Figure 3. Density of the Chinese road network (Data Source: China Statistical Yearbook 2004).

of technical experience. Their knowledge of the language and of the local culture/normative system simplifies the communication with managers and workers belonging to Chinese companies. Moreover, this choice allows use of the employees' 'guanxi'. 'Guanxi' can be defined as the network of relationships among various people who cooperate together and support each other. The inevitable risks, barriers, and set-ups a company might encounter in China can be minimised when the company's employees have the right 'guanxi' network (Pye 1982, Lee 1997, Luo 2000, Wong and Leung 2001, Gold *et al.* 2002, Gao 2003, Weber 2003, Chen 2004, Nassimbeni and Sartor 2006).

In China, the availability of English-speaking personnel accustomed to interact with the Western world comes from state companies (several of which are shutting down because of their debts) or from foreign trade companies. Generally speaking, a job at an IPO of a foreign company is really sought after, because it offers pay levels significantly higher than the average ones.

As far as the **work distribution** within the office is concerned, we can identify three groups of activities: the creation of new purchasing channels, the monitoring of

current channels, and the management of administrative and logistic tasks. Further duties concern the link and the coordination between the central bodies and the office itself.

The monitoring of current suppliers includes such activities as quality control and the transfer of know-how, which require the allocation of the company's personnel at the vendors' premises. On the one hand, these activities concern the control of scheduled production (monitoring flows, understanding and assimilating product specifications, controlling the production phases and performing *pre-shipment* controls), and, on the other hand, the development of new production (therefore monitoring the improvement projects). The creation of new channels concerns instead the identification and selection of new suppliers.

4.3 The main activities and criticalities of IPOs in the Chinese context

According to the case studies, table 8 lists the main activities carried out by IPOs and their relevant needs and motivating factors.

Quality control represents, as indicated, one of the main responsibilities of the office. It is carried out by the IPO's employees at the Chinese suppliers' facilities during production activities. It responds to the following needs:

- adjustment of the products to existing regulations (for instance regarding safety) and to international standards;
- timely identification of the manufacturing defects and search for technical and organisational solutions;
- supplier's training to carry out a self-control on quality according to the required product and process requirements; and
- maintenance of a suitable and uniform quality level.

The transfer of know-how and technology carried out by IPOs is a typical activity which can be necessary for the growth of suppliers. The need for direct control of such activities is linked to the complexity and the

uniqueness of the production processes, and is motivated by a number of needs:

- constant control of the production elements, especially if suppliers are unable to implement the product specifications autonomously;
- possibility to understand the suppliers' doubts and difficulties in a rapid and punctual way;
- check the attained progress on site;
- direct control of the activity in order to limit the danger of forgery;
- development and consolidation of a collaborative relationship based on trust; and
- importance of direct communication in the Chinese culture.

The transfer of know-how and technology is a particularly critical activity in China. China is one of the worst countries in terms of the violation of intellectual and industrial property (McGregor 2000, Smith 2000, Miller 2001). As the sampled companies have referred, one of the greatest problems they faced in

Table 8. The activities carried out by the IPO and the 'critical' needs it satisfies.

Activities carried out	Needs and motivating factors
Quality control	<ul style="list-style-type: none"> ● Adjustment of the products to European regulations and standards ● Timely identification of manufacturing defects and search for technical and organisational solutions ● Supplier's training to carry out a self-control on quality according to the product's and process' requirements ● Maintenance of a suitable and uniform quality level
Know-how and technology transfer	<ul style="list-style-type: none"> ● Constant control of the production elements, especially if suppliers are unable to implement the product specifications autonomously ● Possibility to understand the suppliers' doubts and difficulties in a rapid and punctual way ● Check the attained progress on site ● Direct control of the activity in order to limit the danger of forgery ● Development and consolidation of a collaborative relationship based on trust ● Importance of direct communication in the Chinese culture
Search for new suppliers	<ul style="list-style-type: none"> ● Identification of the supply local market ● Visits and auditing to new suppliers ● Direct control of materials' quality ● Knowledge transfer to the supplier
Recruiting and training of Chinese personnel	<ul style="list-style-type: none"> ● Development of a group that can be more easily interfaced with local operators ● Direct supervision of new employees' activities ● Training 'on site' (i.e. during the visits at suppliers' premises)
Negotiation	<ul style="list-style-type: none"> ● Possibility to transfer the business knowledge in a more punctual and functional way ● Availability of technically prepared personnel, culturally similar to the local suppliers ● Definition of contractual terms
Information exchange Other activities (managerial, legal, organisational and administrative ones)	<ul style="list-style-type: none"> ● Need for a faster, more punctual and precise communication ● Base for the travels of European employees ● Presence of a legal protection in case of counterfeiting or breach of contractual agreements ● Coordination of controller's activities located at the suppliers' premises ● Definition of the contract with the logistic carriers ● Coordination of the different transport types, if necessary

developing their activities in China was the protection of technology transfer and industrial property rights. In particular, they complained about the lack of transparency of local laws concerning intellectual property protection and about their limited enforcement. Since China entered the World Trade Organisation (WTO), it has improved its legal structure and promulgated laws and regulations in order to be aligned to WTO principles. In spite of these efforts, the measures used to limit such a widespread phenomenon in the country are not yet powerful enough. Among the main reasons weakening the enforcement of the laws, it is possible to underline the limited use of (unsuitable) penalties in case of plagiarism (usually there are only fiscal penalties), corruption, and local protectionism (D'Agnolo and Dal Colle 2001, Weber 2003).

It is therefore important to transfer in an effective way the technology needed by suppliers and, at the same time, to defend the know-how the company owns, especially in this country where their violations are so widespread.

The *search for new suppliers* (another typical activity of IPOs) is prompted by the growth in volumes, the objective of higher exploitation of the potentialities and opportunities offered by this market, and the search for more favourable conditions. Note that sometimes the presence of export constraints (quotas, licenses or customs duties) forces the customers to look for more profitable opportunities in neighbouring countries (for example Vietnam) using Chinese IPOs as support bases.

Another critical activity of IPOs (which acquires a strategic connotation in China) is *negotiation*. As reported by the sampled companies, commercial success in China is deeply linked to the quantity and the quality of personal relationships. The approval of agreements often defines only the first step of a more articulated relationship: it defines the introduction of the partner in its *guanxixue* (Pye 1982, Lee 1997, Luo 2000, Wong and Leung 2001, Gold *et al.* 2002, Gao 2003, Weber 2003, Chen 2004, Nassimbeni and Sartor 2006). To achieve this kind of understanding, it is necessary to undertake a negotiation process which is often exhausting. Actually, as already observed, it should not be considered (only) as an effort to obtain better conditions, but as a kind of interpersonal and inter-organisational path of mutual knowledge. This path can be better managed thanks to the IPO's support.

The Chinese office can represent a base for the missions of the central bodies' personnel, for example in case of trade fairs or during the approval of agreements with suppliers. The creation of a juridical Chinese office simplifies legal protection in case of counterfeiting or breach of the contractual agreements.

In this case, in fact, legal disputes take place between Chinese parties only.

IPOs also carry out other *managerial, organisational and administrative tasks* such as the coordination of controllers, the management of the different transport modalities and the contacts with logistic carriers. The Chinese office can also represent an important point of contact for the transfer of the central bodies' information to suppliers and vice versa.

5. Conclusions

The creation of IPOs is one of the most frequently adopted solutions by Western companies for the management of their international sourcing activities. Despite the current importance of this phenomenon, few studies have analysed it so far. This work, which takes origin from an EU research project regarding sourcing activities in China, has had the objective to study this organisational solution using a multiple case study research.

The sample, composed of 10 companies operating in Italy, does not allow to generalisation, but does offer some interesting information about IPOs.

First of all, the analysis of the case studies has demonstrated that IPOs perform several functions: from suppliers' selection and development to cooperation in product development activities, from commercial to operations support.

The research has also shown that there are several advantages and problems related to the creation and management of an IPO. Some advantages are given by a reduction of purchasing prices, higher level quality controls, and a reduction of cultural distance. Some of the problems are summarised by the costs related to the presence of IPOs, the difficulty in hiring staff, cultural problems, the need to have sufficient annual volumes, and difficulties connected with the need for overseas support by senior management.

The research showed how the IPO's creation path is quite uniform among the case studies.

In the sample, this solution has been selected by the companies that purchase high volumes in the Chinese market and have decided to adopt a 'direct collaborative' or an 'imposed' sourcing type.

Moreover, the study highlighted the peculiarities of the creation and management of an IPO in China for the sampled companies. From the study, for instance, it is evident how the evaluation of possible locations is a difficult activity in this context. The extent of this nation, but above all its heterogeneity (in terms of capillarity and quality of transport infrastructures, labour cost, and service availability) and the rapidity

of its changes make this country analysis particularly complex.

To summarise, this research has tried to fill the lack of studies in the literature about this research topic. It has provided a synthesis of the different pre-existent work, some additional analysis and several operational instructions arising from the behaviour of some companies that are operating in China. The study has underlined the peculiarities and criticalities of the management of an IPO in China, which is one of the countries with the highest inflow of foreign direct investments and one of the most attractive sourcing bases.

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