

**Functional-level transformation in multi-domestic MNCs:  
Transforming local purchasing into globally integrated  
purchasing.**

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Running head:

Functional-level transformation in multi-domestic MNCs

## **Abstract**

This paper revisits Bartlett and Ghoshal's transnational theory of the MNC in relation to multi-domestic MNCs. We argue that the aggregate level of analysis adopted by Bartlett and Ghoshal is unhelpful for identifying significant changes in multi-domestic MNCs at the level of discrete functions. We argue that a more disaggregated level of analysis is required. Our analysis of two cases of multi-domestic MNCs that have undertaken the global integration of their locally distributed purchasing functions indicates that while significant change to the purchasing function has occurred, at the aggregate level both MNCs remain multi-domestic. In both cases the decision to integrate local purchasing was regarded as having more obvious benefits than integrating other functions such as marketing. While both of our case multi-domestic MNCs may in future choose to integrate other functions and develop into full-fledged transnational companies we argue that there is no inevitability to this. Indeed global integration may cease with the purchasing function. A second theme in this paper is that we argue that Bartlett and Ghoshal's transnational theory has a biased view of what constitutes effective governance mechanisms for achieving global integration, local responsiveness and worldwide learning and that it would greatly benefit from a more balanced application of hierarchical and relational governance mechanisms.

## Introduction

Employing a decentralized federation organization characterized by considerable local autonomy, multi-domestic multi-national companies (MNCs) compete by replicating their entire value chain in each of their foreign markets to produce locally customized products (Bartlett and Ghoshal, 1989; Yip, 1989; Roth, 1992). To the extent the global integration potential of the industry improves, multi-domestic MNCs will benefit from globally integrating their foreign operations. In general they will focus on those value-chain activities that offer the highest globalization potential first (Vahlne, Ivarsson and Johanson, 2011). One obvious initial candidate for integration is the procurement of those inputs that are common to most foreign units (Yeniyurt, Henke and Cavusgil, 2013). However, any such change is challenging for MNCs that have developed routines and structures dedicated to local adaptation to changing local conditions. They are confronted by a lack of MNC-wide networks to facilitate inter-business unit learning and an absence of appropriate hierarchical governance mechanisms to impose solutions that cut across the interests of individual business units (Gooderham, 2012).

In the late 1980s Bartlett and Ghoshal (1987, 1989) introduced the concept of the transnational model of the multinational company which they argued constituted a “new organizational model” in the sense that its structure was “significantly different to those employed by MNCs over the preceding five decades” (Bartlett and Ghoshal, 1993:24). That is, whereas *international* companies seek to improve their performance by transferring technology and production closer to foreign markets, supported by a centralized federation organization (Dunning, 1980; Teece, 1986), and whereas *global* and *multi-domestic* companies may seek additional improvements either through cost-reducing global standardization (global companies) supported by a centralized hub organization or through

value-increasing local customization (multi-domestic companies), supported by a decentralized federation organization (Bartlett and Ghoshal, 1989; Yip, 1989; Roth, 1992), *transnational* companies seek even further improvements by combining global integration with local responsiveness supported by an integrated network organization. The transnational strategy seeks to achieve both cost-efficient global integration and value-adding local responsiveness, in addition to the benefit of worldwide learning and regular transfer of local best practice.<sup>1</sup>

Although Bartlett and Ghoshal observed that the benefits of global integration vary across markets, businesses, companies, functions, and tasks they have consistently reiterated their assertion that “many worldwide industries were transformed in the 1980s and 1990s from the three established MNC forms, the multinational, international, and global forms into the transnational form” (Bartlett, Ghoshal and Beamish, 2008: 339). However, Harzing (1999) failed to find any convincing empirical support for such a pervasive transformation. According to Harzing, transnational companies were more likely to be born rather than to become transnational. While we agree with Bartlett and Ghoshal that conditions such as improved communications are more amenable to the transnational form, equally Harzing’s findings imply that these have not been sufficient in themselves to drive any large-scale transformation of MNCs to the transnational form. Barriers to such transformation are clearly manifold, including subsidiary power (Bouquet and Birkinshaw, 2008; Dörrenbächer and Geppert, 2006; Vahlne, Ivarsson and Johanson, 2011 ), unresolved agency relations (Mudambi and Pedersen, 2007; Nohria and Ghoshal, 1994; O’Donnell, 2000), path dependency (Vahlne et al, 2011), the lack of inter-business unit social networks (Martin and Eisenhardt, 2010; Nahapiet and Ghoshal, 1998; Tsai, 2000), the lack of bonding social capital

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<sup>1</sup> Bartlett and Ghoshal were by no means alone in arguing for the emergence of a “new” MNC. Similar propositions are found in for example Hedlund and his ‘heterarchy’ concept (1986, 1994), and White and Poynter’s (1990) notion of the ‘horizontal organization’. It has also received broad support from Kogut and Zander (1993), Birkinshaw and Morrison (1995) and O’Donnell (2000) to name but a few.

(Burt, 1992; Adler and Kwon, 2002; Edelman, Bresnen, Newell, Scarbrough, and Swan, 2004) , the local embeddedness of business units (Forsgren, Holm, and Johanson, 2005), and the socially embedded nature of knowledge (Dimaggio and Powell,1983); Lave and Wenger, 1991;Vygotsky, 1986; Hakkarainen, Palonen, Paavola, and Lehtinen, 2004). Thus we agree with Vahlne et al. (2011:4) that global integration is often tortuous and proceeds through “incremental adjustments, with the most obvious and performance impacting changes handled early in the process.” In all, we argue, that it should come as no great surprise that 25 years after Bartlett and Ghoshal launched their transnational transformation thesis evidence of any such large-scale transformation is lacking. However, we contend that to disregard the “incremental adjustments” that Vahlne et al. (2011) refer to is to ignore significant structural changes to specific functions.

The overall purpose of this paper is to argue for the importance of studying global integration on the functional level in multi-domestic MNCs. As such we develop a view that was initiated by Malnight (1995) who observed that global integration occurs at the level of particular functions rather than to the entire MNC. Rather than developing into full-fledged transnational MNCs, we argue that multi-domestic MNCs are significantly more likely to develop transnational capabilities in relation to specific high-potential value-chain activities. Further, we argue that the procurement function is a primary candidate for such integration and capability development. The outcome is an ambidextrous or hybrid solution resulting in a multi-domestic MNC with transnational capabilities limited to specific functions. The transnational thesis essentially ignored such a development. Its lack of attention to variations in global integration across functions may have caused it to “fall out of favour.”

To support the development of transnational capabilities within functional areas, we argue not only for a focus on a more disaggregated activity level of analysis but also for a re-balancing of the use of hierarchical and relational governance mechanisms. Specifically we

argue that while relational governance mechanisms are significant their development is dependent on the corporate decision to employ hierarchical governance. Without the impetus of hierarchical governance the lateral mechanisms that are needed for inter-unit learning will not emerge. In line with Harzing (1999) we further argue that there is no inevitability that a multi-domestic MNC that has integrated across one function will necessarily chose to integrate other functions. Thus we develop a significantly revised version of the transnational thesis that proposes that multi-domestic MNCs may achieve global efficiency, local responsiveness and worldwide learning for high-potential value-chain activities at the functional rather than the aggregate level. Furthermore they achieve this by applying hierarchical as well as relational governance mechanisms.

Our empirical setting is two Norwegian multi-domestic MNCs, Rieber & Son and Telenor. Both companies identified the integration of their globally dispersed purchasing activities as having particular potential. In order to identify those governance mechanisms required to achieve higher-level globally integrated purchasing we compare their early, and less successful, initiatives to achieve purchasing integration with their more recent, and more successful, initiatives. Both cases illustrate that in the context of this single integrated function, cost-economizing was combined with value-increasing local responsiveness and worldwide learning.

### **Purchasing Integration in Multi-domestic MNCs**

MNCs in general, but multi-domestic MNCs in particular, are increasingly being challenged to compete by integrating their operating and functional activities that comprise dispersed value chains activities while retaining their ability to respond to local market conditions (Kotabe and Mudambi, 2009; Yeniyurt et al., 2013). It is argued by Yeniyurt et al., (2013:352) that “in contrast to other mechanisms necessary for global integration (e.g., global

product platforms, global talent pools, and global HR systems), global procurement has been enthusiastically adopted by multinationals, primarily because the benefits of uniform sourcing are more apparent.”

Trent and Monczka (2003) describe the move from local purchasing to globally integrated and coordinated procurement as a series of evolving levels in a continuum. However, the implementation of the integration of purchasing units across a firm’s worldwide locations poses severe organizational challenges (Trautmann, Bals and Hartman 2009). Global procurement involves not just centralization but also the creation of lateral relations across geographically dispersed purchasing units. Not only do entirely new global sourcing capabilities have to be developed but there is the added challenge of deciding when globally integrated purchasing of components is advantageous and when elements of purchasing should remain the responsibility of the local purchasing unit (Trautman, Bals and Hartman, 2009). This calculation will not only involve an assessment of the profit impact and supply risk to individual components (Kraljic, 1983) but also of the extent to which common requirements and harmonized specifications are available across business units (Trent and Monczka, 2003). Thus while the consideration of economies of scale for a particular purchasing category in order to improve the overall negotiation position is important, a lack of sensitivity to local needs may undermine local operations. Ensuring cross-unit learning in order to balance these considerations is therefore critical for sourcing responsiveness (Yeniyurt et al., 2013). Developing and maintaining concurrent sourcing knowledge and communication at the global and local levels involves creating social networks (Gooderham, 2012). For multi-domestic MNCs that have weak social networks their development constitutes a critical coordination cost (Tomassen and Benito, 2009)

Rather than considering the entire MNC, our approach is to focus our analysis on specific value chain activities in terms of their contribution to competitive advantage (Porter,

2008). Additionally we view normative social control as complementary, but still secondary, to the main governance mechanisms of administrative control, economic incentives and managerial dispute settlement, as outlined in transaction cost economics and its M-form thesis (Williamson, 1981; 1985).<sup>2</sup>

## **Methodology**

Given the lack of a fully developed theory on how governance mechanisms are deployed by multi-domestic MNCs to deal with the challenge of developing an integrated purchasing function, our approach has been to engage in combined deductive/inductive theory building drawing on two case studies. To illustrate the relevance of developing a modified version of Bartlett and Ghoshal's transnational theory of the firm (TTF) on the functional level, we employ on our cases to compare unsuccessful attempts at global integration of purchasing with successful attempts (Eisenhardt, 1989; Martin and Eisenhardt, 2010).

Our case studies are derived from two Norwegian multi-domestic MNCs, Rieber & Son and Telenor, which are dissimilar in terms of their size and industry but similar in their respective decisions to respond to competitive pressure by integrating purchasing. They share one other commonality and that is that both initially failed to achieve integrated purchasing prior to a successful transition. Each of these polar samples, an unsuccessful and a successful effort, makes it possible to observe emergent constructs and theoretical relationships (Martin and Eisenhardt, 2010). In so doing we distinguish between hierarchical and relational governance mechanisms. Discussion and implications conclude the paper.

Our primary source of data in Rieber & Son was a series of interviews with managers at corporate headquarters and its main subsidiaries in the period 2007-2013. In Telenor our

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<sup>2</sup> Although alternative integration candidates exist such as product development, production and marketing, purchasing is often chosen due to its large cost saving potentials and immediate cost saving effects.



primary source of data is a series of accessed interviews with managers at corporate headquarters conducted in the Spring of 2013, internal management documents, internal news on the intranet portal, documents shared on capital market days, and a whole day workshop with the sourcing management team and a team of researchers. One of the authors is a Telenor employee.

### **The Case of Rieber & Son (R&S)**

R&S is a MNC in the dry foods industry. In addition to its Norwegian subsidiary, Toro, it has a number of fully-owned foreign-based subsidiaries that it acquired during the 1990s. The most important of these were Delecta (Poland) and Vitana (Czech Republic). In addition it had smaller operations in five other European countries and sales and market offices in a further six countries. In 2007 R&S owned 28 brands in 12 countries. Its workforce comprised nearly 4,000 employees of whom 1,000 were located in Norway. While Toro (Norway) had for many years been highly profitable, its non-Scandinavian subsidiaries were markedly less so. Its approach to product development was summarized as that of being “a local taste champion”. Marketing was also deemed purely local. In its search for sources of inter-subsidiary synergies it attempted to centralize production. However, these were largely abandoned because of the inability to reproduce the various “local taste preferences”. In 2004 it was decided that the only contender for integration was purchasing which was largely uncoordinated with each subsidiary controlling its own purchasing function.

R&S made two attempts to integrate its purchasing. The first, the Harmonization Project, spanned 2004-2007, and was acknowledged by corporate and subsidiary managers and board members as having been largely unsuccessful. The second, the significantly more successful Future Purchasing, commenced September 2008 and was in the main completed by March 2010.

Under the Harmonization Project, a number of activities were implemented in order to take out purchasing synergies across subsidiaries. The approach was to harmonize raw material specification across subsidiaries and then for each category to allocate a central lead-buyer with responsibility for sourcing across subsidiaries. For the most part these individuals were Norwegians located at Toro. In addition the position of Group Purchasing Director was established whose task was to coordinate between the purchasing departments in the respective subsidiaries. This position was allocated to a senior Vitana manager. To support these initiatives a number of supporting measures were undertaken: SAP was introduced; inter-subsidiary networks for marketing and sales managers were formed; annual two day strategy meetings for subsidiary heads were organized.

A feature of the Harmonization project was that no subsidiary was to be obliged to go against its business judgment and use the central lead-buyers. In other words each subsidiary had the latitude to decide the degree to which it was in their interest to employ the services of the central lead-buyers. At its launch at a gathering of subsidiary managers the project and its core idea of using central lead-buyers was generally greeted positively. However, despite this initial reaction, by the end of the project the subsidiaries had on the whole opted to continue to use local buyers. Because product development continued to be done locally, it was generally the case that business units considered it more efficient to use their respective local buyers rather than the central lead buyer. Not only were the communication opportunities significantly greater but mutual understanding was already established. At Vitana and Delecta an important aspect to this mutual understanding was that local purchasers were significantly more cost conscious than central lead-buyers based at Toro in affluent Norway.

This lack of confidence or trust on the part of Vitana managers in the central lead-buyers based at Toro was experienced in reverse by one of the few central lead-buyers located outside of Toro. Based at Vitana, his perception was that the view of managers at Toro was

that “anything that originated from the Czech Republic was by definition sub-standard.” As the Unification project concluded his experience was that rather than consulting with him “Toro managers would simply buy what they wanted behind my back”. As a senior manager at R&S with long-term experience of purchasing for Toro emphasized, “the challenge for a purchaser is to get the precise quality needs of the subsidiary right. Otherwise the (local) brand suffers.” Furthermore, getting the quality right depends not only on understanding the needs of the subsidiary but also on communicating these to suppliers. His experience was that getting the supplier relationship to work could take as much as two years of steady interaction (see e.g. Johanson and Vahlne, 2009).

As the Harmonization project came to an end the view of managers at R&S was that the managing directors (MDs) of the various subsidiaries had failed to identify with its potential. One senior R&S manager ascribed this in part to their lack of involvement in the Harmonization project and in part to their remuneration being exclusively calculated on the basis of their local performance rather than on the basis of group-level performance. The view from the subsidiaries was that a unified group mentality across R&S remained underdeveloped.

The R&S board decided to engage in a second and, what it signalled, would be a final attempt at achieving group-wide purchasing integration. As a first step it initiated a purchasing and supply management (PSM) analysis conducted by external consultants from McKinsey. The PSM analysis benchmarked the group’s overall PSM performance against other MNCs in the same industry. The McKinsey analysis concluded that purchasing represented an unexploited cost savings potential of NOK 300 million. On the basis of the McKinsey analysis the board took the decision to launch Future Purchasing starting early September 2008. The core aim of Future Purchasing was to integrate direct purchasing across the group. This would mean transforming the highly decentralized structure of the group. At

the same time, the board reiterated the need for each subsidiary to be its respective country's "local taste champion".

Whereas the Harmonization project had been loosely structured the board was determined that Future Purchasing was to have a clear structure from the outset. Each purchasing category was assigned a management team by the Future Purchasing project organization which also had the responsibility for monitoring the progress of the category teams and reporting its findings to R&S corporate management. Each category team was to comprise about five category experts who would also have access to advice from an external purchasing consultancy. The category teams were charged with defining the group-wide needs within each category and signing new group-wide contracts with new suppliers.

In March 2010 our findings indicated that the initial scepticism to Future Purchasing that was prevalent across the various subsidiaries had largely evaporated. The Project Director viewed Future Purchasing as having delivered on its targets and as having been perceived as having done so by the subsidiary MDs. Not only had the category teams worked well together but they had "created a lot of purchasing knowledge." One senior R&S manager observed that Future Purchasing had been so successful that McKinsey regarded it as an exemplar of "how things should be done."

## **The Distinctive Elements of Future Purchasing**

### ***Hierarchical mechanisms***

#### ***Governance reconfiguration – The General Management Team (GMT)***

When R&S's new CEO joined the company in late September 2008 his first action was to conduct one-to-one meetings with each of the MDs of the main subsidiaries. He explicitly requested that they act on behalf of the whole business rather than their own

subsidiaries. Late October 2008 he presented a two-page memo to subsidiary MDs, “From a food conglomerate to an integrated food company”. However, a much more substantial action by the new CEO was his decision to form an entirely new GMT which, in addition to himself, the CFO, the head of human resources, the director of marketing and sales and the new supply chain director included the MDs of the main subsidiaries. For the first time in the history of R&S subsidiary managers were now integrated in the corporate centre. From December 2008 the GMT held monthly meetings in different locations supplemented by telephone conferences half way through each month. At each and every GMT meeting the Project Director of Future Purchasing reported on the progress of the project including any personnel issues that had arisen in the wake of manning the category teams.

At its outset the new GMT was a brittle entity. One senior manager recalled “innumerable meetings” with the CEO “hammering home Future Purchasing”. Unlike under the Harmonization project it was now no longer the case that subsidiaries could use their local needs as “an excuse for inaction”. Such was the pressure from the CEO that those who opposed Future Purchasing thought “it wise to keep their scepticism to themselves”. Overall what we observe at R&S is governance reconfiguration. The fiefdom mentality of the subsidiary MDs is not only challenged but the MDs are incorporated in a new group-wide governance mechanism. GMT meetings are an arena for exchanging views, for developing a common vision of the group and for reaching common binding decisions.

### ***Realignment of rewards***

Coupled to the new GMT was a fresh approach to MD compensation. Whereas the former system had been primarily local in its orientation, rewarding subsidiary MDs on the basis of their unit’s performance, the new CEO introduced a new rewards system that to a significant extent rewarded the subsidiary MDs on the basis of overall group performance.

### ***Rolling measures of outcomes***

Part of the design of Future Purchasing comprised the regular monitoring by a controller of each category team in order to objectively identify tangible savings. Thereafter these unambiguous outcomes were immediately communicated to the GMT by the Program Director. The communication of “early wins” (i.e. immediate substantial savings) to the GMT not only persuaded subsidiary MDs that Future Purchasing was working but it even generated a conviction that further integration was both possible and desirable.

### ***Mandated category teams***

The overall task of the category teams was very similar to the task assigned to the central lead-buyers of the Harmonization project. It was to define the group-wide needs within each purchasing category and then to sign new contracts with suppliers on behalf of the group. However, in operational terms there were profound differences. The R&S approach to the operational integration of purchasing in the Harmonization Project was to appoint central lead-buyers for the various purchasing categories and to provide them with authorization to invite cooperation from the purchasing managers based in the various subsidiaries. The approach of Future Purchasing to developing category teams was not to devolve the responsibility for forming them but to centralize it. Category teams were formed at the outset of each phase of Future Purchasing with designated team members covering a variety of relevant competencies including production, product development, logistics and marketing. Furthermore, unlike the Harmonization project where central lead-buyers remained in their regular purchasing roles, category team leaders were designated on a full-time basis while the team members were to spend an average of 60 per cent of their working week on category team-related activities.

Category team appointments were subject to GMT scrutiny and monitoring. The boundaries of the category teams had in effect been buffered by the GMT against disruptive,

competing tasks thereby “enabling its members to work outside of their normal functions and to work across both functions and geographies.”

## ***Relational Mechanisms***

### ***Inter-subsidary Category Teams***

The Harmonization project was spearheaded by central lead-buyers who for the most part were Norwegians located at Toro. The view of non-Toro colleagues was that they failed to understand their idiosyncratic local needs. Equally in relation to colleagues at Toro the central lead-buyer located at Vitana fared no better. The approach to Future Purchasing was very different to that of the Harmonization project in that it aimed to form inter-subsidary category teams. In so doing, Future Purchasing created arenas for the exchange and sharing of local purchasing knowledge.

### ***Bridging Category Teams***

The category teams of Future Purchasing were specifically instructed to interact not just with suppliers but with local stake holders across the group. Furthermore, their success in doing this was monitored by the Project Director and the GMT. By contrast bridging ties were not an explicit priority of the Harmonization project.

On the whole, according to the supply chain manager, these arenas worked well and resulted in projected cost savings (NOK 300 mill) being realized, the half of which by means of effective contract renegotiation in the project phase (2008-2010), and the remaining half also from volume concentration and supplier switching in the post-project phase (2010 – 2012).

## **The Case of Telenor**

Telenor is one of the larger mobile operators in the world with more than 150 million mobile subscriptions. From being a legacy Norwegian state owned company, Telenor now has operations in 14 countries that can be grouped into three areas: Scandinavia, Central and Eastern-Europe and South-East Asia. It is headquartered in Norway. Telenor's corporate policy has been to treat each business unit as a stand-alone operation. Until 2008 integration initiatives were limited to knowledge transfer when establishing new operations and modest attempts at creating knowledge sharing arenas for on-going operations.

At this point corporate management responded to increasing competitive pressures and began to consider the global integration of selected functions. It recognized that the core of mobile telcos is to purchase, configure and operate standardized technology to run the telecom engine and then to effectively sell and distribute services through multiple channels with appurtenant customer service. Whereas marketing, service composition and distribution need to remain locally adapted purchasing could be undertaken globally. However, it was not until 2010 that corporate management finally concluded that globally integrated purchasing had significant potential. In 2012, a new sourcing organization was established. The financial ambition of this move is to realize savings of 3 BNOK by the end of 2015.

### **Phase 1 – Group Procurement as a Corporate Centre of Excellence**

Group Procurement was originally set up in 2001 as a centre of excellence located at corporate headquarters to support and coordinate the purchasing functions located in each of the business units. The initial voluntary coordination of purchasing cases of telco equipment across BUs improved the negotiation power and significant benefits were achieved. During the mid-2000s, Group Procurement attempted to create a corporate policy for procurement. The autonomous BUs ignored this attempt and by 2008 it was recognized by corporate



management that Group Procurement was failing to engage local purchasing managers in terms of gaining their trust and support for a centrally developed procurement strategy. Business unit informants reported that Group Procurement lacked a sufficient understanding of the local culture and business model. The result as expressed by a Group Procurement informant was: “There was nobody who wanted our purchasing strategy or support. The business units wanted us to sit here at headquarters and not interfere with their local business. We decided that we had to rethink our role and focus.”

Responding both to failure but also to corporate management’s strategy for global purchasing integration Group Procurement developed an entirely new approach that started with a thorough analysis of the needs of the local procurement functions. One major commonality that was identified was all of the business units needed to modernize their mobile networks in order to make the transition from voice to mobile data. Group Procurement decided to concentrate their efforts on meeting this one common need. However, the response from the business units was entirely negative. According to a Group Purchasing informant “they did not want anything to do with us”. Attitudes only changed as Group Procurement demonstrated its capabilities in conjunction with Telenor’s greenfield entry into India in 2009 when the entire ‘telecom machine’ had to be swiftly purchased and rolled out in an extremely competitive market. For the India entry Group Procurement succeeded in achieving the lowest prices on infrastructure equipment ever witnessed at Telenor.

## **Phase 2 – Series of Group Wide Global Sourcing Projects**

Despite misgivings, on the back of the tangible achievements in India, Telenor’s Norway business unit granted Group Procurement the opportunity to contribute to its network modernization. Bold moves were undertaken by Group Procurement that replaced two

European vendors with a single Chinese vendor, Huawei. In this move Telenor was the first western telco to opt for Huawei. For the period 2010 to 2015 the estimated result was savings in relation to previous cost levels of the order of 10-12 BNOK for the whole Telenor group. Based on the successes of Global Procurement in India corporate management recognized that integrated purchasing was both feasible and necessary. Many of the business units shared this analysis and began to actively cooperate with Group Procurement

New cases for global purchasing were identified such as modems, SIM cards, antennas, and microwave equipment that were purchased and used in all business units. For the individual business unit the savings on any one of these items were not significant, but taken together they amounted to considerable savings for Telenor as a whole. Deploying small category teams comprising relevant specialists the purchasing of equipment was bundled thereby fully utilizing Telenor's overall scale. One outcome was aggressive competition between vendor partners that led to the total number of vendor partners being significantly reduced. The upshot for Telenor was that unit prices dropped between 50 and 60 per cent.

A feature of the globally led sourcing projects at this stage was that the participation of the business units remained voluntary. Group Procurement had to continuously demonstrate the benefits of global purchasing to the business units, a process that was costly not least in terms of time. In the spring of 2012 corporate management felt sufficiently confident that Group Procurement had developed the necessary global purchasing capabilities and the trust of business units to move to new stage. One of the members of Group Procurement recalled: "From GEM (corporate management) we were challenged: what could we achieve if we could build the sourcing organization from scratch? What would sourcing then look like?"

### **Phase 3 – Sourcing 3.0**

In response to this challenge a new purchasing function, Global Sourcing, was established in September 2012 that operated under the slogan ‘one integrated global organization’. When launching it, Jon Fredrik Baksaas, Group President and CEO said: “Co-ordinated sourcing has delivered good results during the recent years and we see that there is still a large potential to tap into.”

The centralized Group Sourcing function was set up to address three main areas. First, purchasing of strategic investments was centralized to ensure the adoption and execution of effective purchasing solutions. Second, purchasing of standardized goods was coordinated centrally to utilize Telenor’s scale to achieve lower prices. To achieve scale, Global Sourcing had to engage in internal standardization processes of product specifications. Third, Group Sourcing was tasked with providing best practice purchasing solutions and support to local business unit sourcing functions who remained engaged in the purchasing of local services. As Bjørn Harald Brodersen, Head of Global Sourcing stated: “We will continue to have strong and qualified sourcing teams in each Business Unit, but strengthen the coordination across the Group”. Apart from the need to maintain local responsiveness in regard to purchasing in response to purely local needs, Telenor seeks to ensure that each business retains a significant proportion of its stand-alone capabilities in order to maintain the strategic option of divestment to any part of its portfolio.

## **The Distinctive Elements of Sourcing 3.0**

### *Hierarchical mechanisms*

#### *Governance reconfiguration – restructuring the organization*

When the Global Sourcing function was established in 2012 the governance and organization structure was changed to speed up decision processes, support transparency and facilitate collaboration, and better manage the resource base and working procedures. The change project prior to the establishment of Global Sourcing revealed multiple sourcing hierarchies and multiple sets of working procedures.

Prior to Global Sourcing, local purchasing departments reported to a local executive. Post Global Sourcing, sourcing personnel employed by local business units report directly to Global Sourcing with only a ‘dotted reporting line’ to their local business unit top management. The new governance model provided Global Sourcing with the formal means to effectively coordinate all sourcing activities across the various business units.

#### *Realignment of KPIs, measures of outcomes and rewards*

The change project identified a variety of goals, key performance indicators (KPIs) and plans across the business units. Sourcing and finance at corporate headquarters collaborated closely to define how savings were to be calculated and measured. The management initiated changes to KPIs, spend and saving definitions, sign-off sheets and reporting tools. The sign-off sheets were used as a means to commit stakeholders by having them sign a document that showed how much in savings were going to be achieved. These savings figures were then followed up in the reporting phase. The new sourcing planning process was integrated with the business planning processes. New KPIs were introduced as a motivation mechanism that balances corporate and local needs. Bonus agreements were aligned with the new KPIs to create incentives to act accordingly.

## ***Relational mechanisms***

### ***Global Category Teams***

Teams that draw on employees located across business units were established in order to ensure relevant expertise for each product or service category. Local sourcing staff is allocated to one or more category teams each of which has a dedicated leader. Each category team operates as a virtual team. To overcome the significant geographical distances involved knowledge and procedures are codified and standardized. The category teams safeguard Telenor's ability to develop and maintain sufficient competences within each purchasing category.

### ***Bridging central and local Category Teams***

Global Sourcing makes extensive use of collaborative technology tools as a way to share updated documents and procedures as a means to coordinate across business units. It is common that members of category teams have never physically met, but they regularly have virtual meetings supported by real-time document sharing and phone-conferences. To mitigate cultural differences, selected local BU sourcing employees are inpatriated to work at global headquarters on 1-2 year contracts. These inpatriate assignments involve on-the-job training and experience from working with colleagues from various business units. Global Sourcing employs one person who is tasked with attending all of their management team meetings and who is responsible for ensuring information sharing across all purchasing operations.

## **Summary of Findings**

Global integration benefits derive from enhanced scale and scope economies (cost savings) and by concentrating production of common inputs on significantly fewer vendors. As both cases show, resistance to global integration of purchasing only decreases under significant pressure from corporate forces. Such resistance to integration is to a large extent caused by local managers' perceptions of the relative costs and benefits associated with such integration. Such costs derive primarily from the need for more standardization which often, but not always, means less responsiveness to local conditions. While these costs are readily conceived by business unit managers the benefits of purchasing integration for the MNC as a whole are less obvious to them.

Further, both cases suggest that purely voluntary approaches to integrated purchasing that rely on relational governance are ineffective. In moving to globally integrated purchasing both companies only achieved global integration of purchasing by employing hierarchical, corporate driven common purchasing initiatives that created a sufficient number of successes that objectively demonstrated significant cost savings for local business unit as well as the MNC as a whole. At that stage centralized purchasing organizations could be developed.

In both MNCs the model that was adopted for achieving centralized purchasing involved horizontal coordination in the form of globally dispersed category teams actively supported by hierarchical governance in the form of corporate category managers, supervised by Group Sourcing central management. This model shares many of the characteristics of the transnational model in that it combines local responsiveness with global efficiency and worldwide learning (see Table 1 below). However, the model is at the functional rather than the aggregate level and is predicated on the explicit use of hierarchical governance mechanisms.

## TABLE 1 ABOUT HERE

As indicated in the Table common to both MNCs what emerged was a hybrid form of organization with a centralized hub structure for purchasing interlinked with a decentralized federation structure for other functions. Responsiveness to local purchasing needs and conditions was taken care of by BU Sourcing whereas the global efficiency was the main responsibility of Group Sourcing. In both MNCs valuable purchasing knowledge was developed by global category teams and diffused across business units.

### **Discussion**

Contrary to Bartlett and Ghoshal's transnationalization thesis, we have argued that multi-domestic MNCs will generally not engage in aggregate level transformation to the transnational form. In line with Vahlne et al., (2011) we expect integration in multi-domestic MNCs to be limited to those functions that have the most tangible impact on performance. Further, in line with Yenyurt et al., (2013), we have argued that purchasing is the most obvious function for multi-domestic MNCs to engage with because in comparison with for example marketing or product development the benefits of uniform sourcing in terms of cost savings are significantly more apparent. While procurement is a natural first candidate for global integration other value chain activities such as technology development, marketing, and after sales services may follow drawing on the organizational capabilities initially developed for procurement. However, there is no inevitability to this. In that Harzing's (1999) research failed to identify any aggregate transformation of multi-domestic MNCs to transnationals this position is not novel. What is more novel is our argument that within the

multi-domestic model profound changes can occur at the level of discrete functions. Although Malnight (1995:121) argued along these lines nearly two decades ago it remains the case that “there has been limited investigation of the process within firms as they move toward integrated network structures.”

Our two cases indicate that at the functional level multi-domestic MNCs can achieve the three key success capabilities - *local responsiveness, global integration and worldwide learning* – associated with the transnational model. However, our analysis indicates that this achievement is not just the product of the development of a “shared management understanding” in the sense of common values and “nonparochial personalities” as supposed by Bartlett and Ghoshal (1995:483). Our findings correspond with Yeniyurt et al.’s (2013: 351-362) observation in regard to purchasing integration: “As with any important endeavour, the success of an effective and efficient globally integrated organization begins with having the full and active support and leadership of top management” Thus we observed that “voluntarism” resulted in initial failure for both case MNCs. Instead the transformation of purchasing was dependent on hierarchical initiatives that generated objectively positive results that appealed to the self-interest of local business unit managers.



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Table 1. Key Success Capabilities of Purchasing Integration

	Key Success Capabilities			
		Global Integration		
MNC Organization	Local Responsiveness	Global Efficiency	Worldwide Learning	Preliminary Results
Hierarchically governed and horizontally coordinated purchasing within a decentralized federation structure  (a hybrid form combining decentralized federation with centralized hub)	<b>BU Sourcing:</b> reports dotted line to BU management and solid line to Group Sourcing; makes routine call-off to global framework agreements; makes purchases for local BUs; represents Group Sourcing in local BUs	<b>Group Sourcing:</b> standardizes and aggregates common inputs (developed by Global Category Teams); negotiates global contracts with global suppliers offering large volume discounts	<b>Global Category Teams:</b> develop global sourcing categories; discovers, and transmits best purchasing practice	<b>Cost savings:</b> according to project plans