Chapter VI

Supply Chain Globalization and the Complexities of Cost-Minimization Strategies

Brian A. Polin, Jerusalem College of Technology, Israel
Marvin D. Troutt, Kent State University, USA
William Acar, Kent State University, USA

Abstract

We review the evolving literature on globalization with three aims in mind. First, we introduce the concept of globalization within the context of supply chain management. Second, with an eye toward information that may be useful for supply chain planners, we detail the motivation for global integration of the supply chain. Our third aim is to address global supply-chain issues that may be at odds with cost-minimizing strategies. Specifically, in this time of political debate regarding trade legislation,
these issues involve the consideration of country of origin when sourcing, and the disparate demands of customers when marketing. A country offering inexpensive components may be associated with poor quality. Thus, despite inexpensive inputs, the overall profitability of the supply chain may suffer as perceived quality deteriorates. Similarly, a largely standardized product across multiple markets may present the lowest cost alternative from a production standpoint, but a high degree of standardization may reduce the attractiveness of the product in the eyes of the end consumer, and reduce overall profitability.

What Does Global Actually Mean?

The concept of globalization is undergoing a shift from simply referring to the generic concept of a product to being related to the whole supply chain. To delve into these notions, one has to hark back to the sociological roots of globalization theory. Much of the research on the sociological aspects of global business can be traced back to Howard Perlmutter’s (1969) article on the evolution of the multinational corporation. Although his article preceded the wide-scale usage of the term “global” in the field of management, his definition of geocentrism closely parallels the modern use of the term. In his words, geocentrism is:

... a worldwide approach in both headquarters and subsidiaries. The firm’s subsidiaries are neither satellites nor independent city states, but part of a whole whose focus is on worldwide objectives as well as local objectives, each part making its unique contribution with its unique competence. Geocentrism is expressed by function, product and geography. The question asked in headquarters and the subsidiaries is: “Where in the world shall we raise money, build our plant, conduct R&D [research and development], get and launch new ideas to serve our present and future customers?”

In other words, geocentrism, and by corollary, globalization, goes well beyond a mere presence in a country outside of the firm’s home. But this is a subtle difference. Indeed, in the popular press internationalization and globalization
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