INTEGRATING AFRICAN FIRMS INTO GLOBAL VALUE CHAINS: CHINESE AND WESTERN APPROACHES TO SOURCING FROM AFRICA

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ABSTRACT

This study investigates foreign firms' strategies for integrating African firms into their supply chains. We base on empirical data that collected in 2014-2015 by interviews with Chinese and Western (Finnish) companies. It shows that Western firms make smaller investments and start sourcing operations at a small-scale, whereas Chinese firms are running large infrastructural projects, relying on local sourcing. African firms still play modest roles with little value capture in the global value chains. It seems to be challenging for foreign firms to follow standard strategic supplier management practices in the African context and this influences also their possibilities for enhancing sustainable supply.

INTRODUCTION

Africa is increasingly important in global business, but the African sourcing context is largely unexplored. Furthermore, we do not know yet how foreign firms representing different home environments (developed vs. emerging economies) see and approach the African context as a sourcing base, and in what ways they integrate African suppliers into the global value chains. In other words, what kind of governance structures [1] prevail in contemporary business. This study investigates Africa's characteristics as a supply base for foreign firms, and their respective strategies when sourcing from this continent. In particular, we analyze how Chinese vs. European firms integrate African suppliers into their value chains.

We are interested in an external (foreign buyers') view to African sourcing. So far, most research on global sourcing has focused on Western buyers. However, given the rise of the emerging markets and the noted institutionally embedded behavior of firms [2], it becomes increasingly important to understand potential differences in the buying behavior of firms coming from developed countries vs. emerging economies. Therefore, we adopt a comparative setting for analyzing Finnish (Western) and Chinese (emerging economy) buying companies

We address the following research questions: 1*) what kind of roles do African suppliers play in the global (supply) value chains? (*That is, we focus on the relationship between the buyer company (our data source in this study) and the supplier (the African company), and 2) w*hat are the motives and obstacles for foreign firms to integrate African suppliers in global value chains? (*Here, we analyze the strategic approach of foreign companies towards the African suppliers).

DATA AND METHODS

Our study is by nature explorative and holistic. The empirical research is based on a multiple–case study and interview data of foreign buyers and their entry into African supply markets: we interviewed five Finnish companies and five Chinese companies in 2014–2015. We aim for careful contextualization of this research [3] and explore locally relevant issues emerging from the managerial perceptions, and thus adopted a relatively loose theme based approach for the interviews. Secondary sources were used to provide additional information on the setting of sourcing decisions.

KEY RESULTS

Our paper provides understanding of the current position of African firms in global value chains. We note that African suppliers are still playing relatively minor roles (typically, not being strategic suppliers) in global supply chains and focusing on simple manufacturing products and raw materials. The current practice of foreign firms is to rely on existing Western intermediaries or run own operations for value–capturing activities, which may slow the African suppliers' opportunity to move further in the value–adding chains.

Furthermore, we find differences between the approaches and motivations of Western (Finnish) and emerging economy (Chinese) firms to the African sourcing markets. While the former have been cautious and entered the market with small steps, Chinese firms have invested heavily in the market (see also [4]), which has both brought them to close contact with African suppliers and will probably help them in gaining sales markets in the region as well. As a managerial implication, we note that the typically recommended sourcing strategies based on portfolio models are not directly transferable to relationships with African suppliers due to differences in e.g. infrastructure and culture. We found some philanthropic reasons for buying from Africa, but in general still relatively little attention is paid on the issue of sustainability in sourcing from Africa.

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