

The influence of social capital on sourcing domestically, within the EU or transcontinental

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ABSTRACT,

With European companies still looking for the cheapest supplier in different continents to obtain a competitive advantage, sometimes the best option can be found closer to the company, with sourcing domestically or within the European Union. Companies that aim to create a competitive advantage by sourcing in Asia to get a price advantage, miss out on many other possibilities of creating a competitive advantage. Some companies are already experiencing more and more problems with sourcing from another continent, with even the price advantage becoming less attractive due to increasing prices. In this paper, the focus will be on how the social capital theory can help to understand the decision-making process of European companies to source domestically, within the EU or transcontinental. In past studies, it had already been concluded that with the help of social capital competitive advantages can be obtained. With the help of interviewing purchase experts from several companies, I hope to gain more insight into the world of purchasing and hopefully discover hidden patterns in their choices related to the social capital theory. Looking at three different social capital dimensions and their features, a clear difference and preference can be found. In the cognitive dimension, the feature language was considered most important. For the relation capital, the two features trust and commitment were almost equally important. In the structural dimension no clear preference could be found, but a logical deviation. This is that a supplier from another continent invests more resources in good working video or phone communication systems and shared IT systems, but companies with a domestic supplier visit their suppliers more often resulting in less developed communication systems. The results of this paper indicate that a positive social capital effect can be obtained from sourcing domestically and within the EU. Sourcing domestically will result in the highest positive effect of social capital, followed by sourcing within the EU and sourcing transcontinental results in the lowest positive social capital effect.

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Keywords

Social capital, domestic, EU, transcontinental, sourcing, cognitive, relational, structural

1. INTRODUCTION: THE RELATION BETWEEN SOURCING AND SOCIAL CAPITAL

In the past, there was this basic saying that global sourcing is becoming an increasingly more important part of a firm's strategy to obtain a competitive advantage (Jin, 2004, p. 1292). According to (Björgum et al., 2021, p.2) sourcing literature combined with the global sourcing developments has shown that global sourcing may be very important for a start-up. Maybe one of the most decisive, obvious and generally known reasons for sourcing globally is having a lower cost. It is due to this those specific countries can attract more outsourcing contracts than others (Donado, 2020, p. 1). Proper global sourcing is not easy to achieve, a lack of understanding of the risks, dynamics, hidden costs, firm-internal barriers and decision-making biases have been found in global sourcing (Stanczyk et al., 2017, pp. 9-13). All these different variables are important when deciding to source global or closer to home. "Caused by government policies as well as purchasing strategies employed, more and more firms decide to shift their focus from global to local sourcing" (Bohnenkamp et al., 2020, p. 83). Another important variable when choosing your suppliers is sustainability. In the past few years sustainability has become a more and more important topic, firms need to comply with the specific environmental and safety standards of the country in which they operate. This can be a disadvantage for firms relying on an offshore supplier base, cause these foreign suppliers also need to be in line with the domestic standards (Mazahir & Ardestani-Jaafari, 2020, pp. 152-163). Another advantage of sourcing locally is related to relations as it is supported that companies should preserve their local suppliers. With local suppliers, close collaborations are more easily created and maintained. These relations might be very important for the development of your company, cause some projects require close buyer-supplier communication (Bohnenkamp et al, 2020, p. 87). So, to what level is the relation with the supplier important for the competitive advantage of a company? This is still a very debatable subject, the value generated from such a relationship is referred to as social capital.

Social capital and sourcing are two domains thoroughly researched separately but also in relation to each other. For instance, how the social capital of a family can affect the social capital within a family firm (Arregle et al., 2007, pp. 73-91). Multi-sourcing triads have been researched with the help of the social capital theory (Vlachos & Dyra, 2020, pp. 285-297). The success of global sourcing concerning integration has been examined. Since integration refers to collaboration and the process of interaction, a close linkage between social interaction and social capital can be made. With concluding findings that internal integration is a precondition for external integration with suppliers and this has a strong positive effect on the success of global sourcing (Horn et al., 2014, pp. 54-62). All in all, it is clear to see that the social capital theory can be linked to sourcing.

The goal of this research paper is to gain better insight into why companies choose to source from different locations. In this research 3 different sourcing locations are distinguished: domestic, within the EU and trans-continental. To support this research the social capital theory is used as social capital can have an impact on the success of sourcing. With the help of this theory and the distinction between the different sourcing locations, the research will most likely be able to show hidden patterns and a clear preference or at least give more insight into the reasoning behind choosing for these sourcing locations in relation to social capital. This may also help companies' future decision-making, whether to source domestic, in the EU or trans-

continental. Therefore, the research question on which this research will be focused is:

How can the social capital theory be used to explain the decision-making of companies to source domestic, within the EU or trans-continental?

To answer this research question 2-sub questions will be formulated. This creates a focus on what is important to answer the research question. The 2-sub questions are:

- 1.1 What are the different characteristics of the three sourcing types in relation to social capital?
- 1.2 To what extent can social capital be linked to all three different sourcing locations?

After this introduction, the next parts will be about the literature research conducted for this paper. The second part will focus on literature related to the geographical distinctions between the 3 sourcing types. The third part will focus on gaining more insight into the social capital theory with the help of previous research. To create an academic and practical relevance for this paper, purchase experts will be interviewed to gain insight into how they perceive the differences between the sourcing locations. This in combination with the literature research, will help give a clear answer to the research question and both sub-questions.

2. THE GEOGRAPHICAL DISTINCTIONS BETWEEN THE 3 SOURCING TYPES

Over the past few years, it has become a difficult task, to make strategic decisions about where to manufacture products and source materials (Sirilertsuwan et al., 2020, p. 1). Sourcing is the strategic manner of purchasing, purchasing is solely focused on the commercial transaction between a buyer and supplier, sourcing is more than just a commercial transaction, it involves proactively integrating and coordinating processes regarding products, suppliers and technologies across multiple company locations. The level of difficulty and different obstacles can be related to the product, supplier and/or geographical location (Monczka & Trent, 2003, p. 29). Sourcing is more and more considered critical to firm success (Chen et al., 2004, pp. 505-506). It is shown that multiple capabilities can enhance the possibility of creating a competitive advantage through sourcing. These capabilities include a firm to (1) enhance clear communication among supply chain partners, (2) develop and maintain long-term strategic orientation and relations to achieve mutual goals, and (3) ensure a close working relationship with a limited number of suppliers. Together these capabilities can ensure sustainable competitive advantage (Chen et al., 2004, p. 506). Competitive advantage is one of the most important factors for a business to flourish, the paper of (Yanamandra, 2019, pp. 129-133) already focuses on how to obtain a competitive advantage from the supply chain where sourcing is a big part of, with the help of technologies such as IoT.

Globalization is defined as: "that it is the integration of capital, technology, and information across national borders in a way that is creating a single global market and, to some degree, a global village" (Kurjak et al., 2020, p. 279) With globalization still being a relevant trend today it can make supply chains more complex. The supply chains of products are becoming more fragmented and complex, this only leads to an increasing level of difficulty to manage a sustainable supply chain and the visibility of the supply chain, these attributes are necessary to ensure environmental/social compliance and product quality (Kei Tse & Hua Tan, 2012, pp. 50-52). With the increase of globalization, the ease of sourcing globally also increased, this provided companies with so many new and different options. Looking at

the import-export balance of the EU compared to the two biggest economies, this trend of globalization can still be seen.

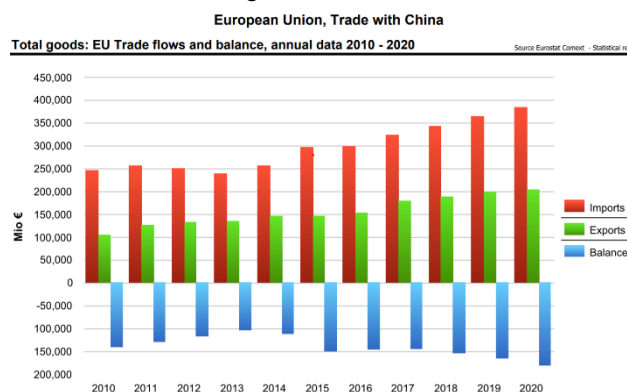


Figure 1. EU import-export balance with China. (European Commission, 2010-2020)

As can be seen above in figure 1, given free by the European Commission. From 2010 there has been both a rise in import and export, with imports growing faster than the export. This shows that a lot of companies within the EU are relying more and more on their Chinese suppliers. Now looking at the import-export balance between the EU and the United States (US).

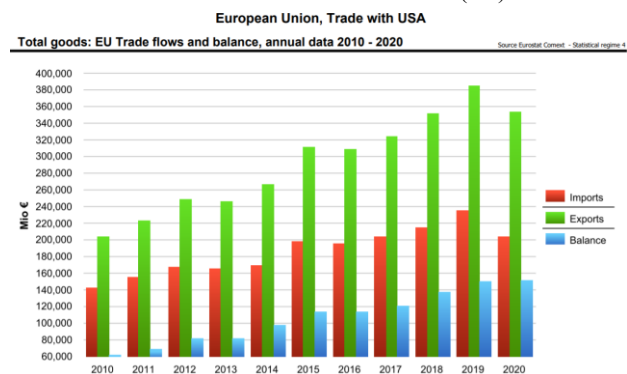


Figure 2. EU import-export balance with the US. (European Commission, 2010-2020)

In figure 2 both the export and imports for the EU with the US has increased. Looking at both graphs no clear preference can be seen both import and export have been gradually increasing over the past 10 years. When comparing these three biggest economies, it shows that globalization is still present. As a counterargument to this trend, it is said about the corona crisis that "The crisis may mainly strengthen already ongoing trends, such as backshoring from China due to increasing costs and the missing preferred customer status because of domestic demand and competition with local firms." (Schiele et al., 2021, p. 61). This paper will now further elaborate on the 3 geographical distinctions that will be made, starting with domestic sourcing.

2.1 Domestic sourcing: sourcing within national boundaries

Domestic sourcing has many different advantages. With the suppliers being located closer to the company it increases the firm's agility because it lowers the delivery time of the product. The advantages of being more agile can increase customer service and lower inventory costs. A disadvantage is that most likely the production costs increase. For products with high fluctuations in demand, agility is important, even if margins need to be lowered for this (Jin, 2004, pp. 1292-1300). With sourcing domestically, companies experience the ease of no currency fluctuations, no customs requirements, fewer regulations than

when sourcing international, and none or less language, cultural and time differences (Trent & Monczka, 2005, p. 25). Domestic sourcing is considered the simplest option to achieve sourcing. As firms develop they will almost always look for opportunities outside of the domestic borders (Bohnenkamp et al., 2020, p. 84). Local sourcing is perceived to be the opposing sourcing strategy to global sourcing. "Local sourcing focuses on the procurement of commodities, resources and suppliers in immediate geographical proximity. Benefits result from similar standards, short distances, same culture, same currency and political conditions." (Körber & Holger, 2021, p. 4). In the paper of Munir and Rana, they define local sourcing as the purchasing, procurement or sourcing of products within a specific radius (Munir & Rana, 2020, p. 1). Taking these two definitions of local sourcing into account, we will determine a definition for domestic sourcing. Since both definitions do not provide us with specific geographical definitions, the concept of domestic will be used since this indicates within the national boundaries. Therefore, the definition for domestic sourcing in this study becomes the sourcing of products and commodities within the national boundaries.

2.2 Global sourcing: sourcing outside of the national boundaries

Global sourcing is identified in the article of Trent and Monczka as the "integrating and coordinating common items, materials, processes, technologies, designs and suppliers across worldwide buying distances and operating locations" (Trent & Monczka, 2005, p. 24). In another article global sourcing is defined as "finding and managing sources for production of final products on a world-wide basis" (Steenbeek et al., 2005, p. 2). These are good definitions, but the term worldwide emphasizes a too large area. To properly conduct research, it needs to be divided to become more specific. "The ongoing emphasis toward international and cross border operations has led to the development of global sourcing, global manufacturing" this resulted that the supply chain, including suppliers of a firm are dispersed across a wide range of geographic locations. This increasing dispersion of the suppliers introduced a new concept related to sourcing called geographic dispersion (Kalchschmidt et al., 2020, pp. 1-3). This concept of geographic dispersion is very important for this research, to create a clear research and research field. Clear distinctions need to be made about the geographical locations, therefore there will be made a distinction between EU sourcing and Transcontinental sourcing.

2.2.1 EU sourcing: sourcing under restrictions of the European Union

EU sourcing is about sourcing within the boundaries of the EU, among the 27 members of the European Union. This because "A cornerstone of the European Union (EU) is the principle that goods, services, capital and labour can move freely between the member states. The internal market for goods functions rather well, after the implementation of the Single Market programme in 1988." (Kox et al., 2004, p.9). This Single Market programme is the main reason for distinguishing the EU apart from the global sourcing. Due to this sourcing within the EU may have a big advantage over sourcing out of the EU. It is investigated that the EU single market would allow free efficiency-seeking or market-seeking among member states, "to take advantage of low factor cost locations and eschew knowledge-rich member states for efficiency reasons, such that locating in different EU member states implies whether the investment has a knowledge seeking purpose." (Chen et al., 2019, p. 232). Choosing where to source global can be based on many different factors, available labor, infrastructure, cultural/language barriers and more play a role in the decision-making process. It has been investigated that a

significant proportion of EU members source at least 40% intra-EU, with the Netherlands going as high as 64% and for Sweden this percentage is even 69% (ALAJÄÄSKÖ, 2009, p. 5). With all of this taken into account and seeing a difference between sourcing within the EU or outside it, it is beneficial for the research to make this distinction between EU sourcing and transcontinental sourcing. The definition used for EU sourcing during this research will be the sourcing of products and commodities within countries that are part of the European Union.

2.2.2 Transcontinental sourcing: sourcing outside of the EU

As mentioned, global sourcing is about sourcing worldwide. In this research it is divided into EU sourcing and transcontinental sourcing. In the last part, EU sourcing is already defined, transcontinental still needs to be defined. As the name already suggests it is about sourcing from another continent. In the paper of Schiele et al. a special form of global sourcing is mentioned: remote sourcing, “with a high share of important suppliers located on other continents” (Schiele et al., 2021, p. 61). Something similar like remote sourcing is mentioned in Steenbeek et al. in that paper they mention offshore non-western sourcing. This sourcing definition “is used to indicate sourcing to a country with a no-western culture. Another (not neighbouring) country with non-western culture.” (Steenbeek et al., 2005, p. 2). A combination of both definitions will be used to define transcontinental sourcing. So the definition used for transcontinental sourcing in this paper will be the sourcing of products from another continent which is not Europe. This means that western countries such as Canada will also be included in transcontinental, which was not the case with offshore non-western.

3. THEORETICAL FRAMEWORK: THE SOCIAL CAPITAL THEORY

This part focuses on the elaboration of the social capital theory. The social capital theory is the theory that is used for this research. This theory is a broad one with multiple sublevels. In this research, the theory is separated into three clusters. The three clusters are the cognitive, relational, and structural dimensions. Each cluster focuses on a different dimension, but some features are highly interrelated. (Nahapiet & Ghoshal, 1998, p. 243). Together these three dimensions form the social capital theory. All in all social capital focuses on that individuals can gain value out of their social networks. “Like physical and human capital, social contacts influence the productivity of individuals and groups.” (Häuberer, 2011, p. 53) Social capital is seen by many as a resource, the influence of this resource depends on in what structure the concerning actor is located. Social capital differentiates itself from other resources “by the specific dimension of social structure underlying it; social capital is the resource available to actors as a function of their location in the structure of their social relations.” (Adler & Kwon, 2002, p. 18). The next part will be about the development and history of the social capital theory, followed by elaborating on the three dimensions.

3.1 The history, development and application

The term social capital was first introduced systematically by both Bourdieu and Coleman separately, therefore they are the founding fathers of this theory. The theory developed by Bourdieu focused on the connections between different societal fields, to support his theory Bourdieu used the definition of capital created by Marx. Bourdieu defines social capital as one of the three basic kinds of capital present in the modern economy, the other two are economic and cultural capital (Häuberer, 2011,

pp. 35-40). In a paper of Bourdieu, he describes social capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition - or in other words, to membership in a group - which provides each of its members with the backing of the collectivity-owned capital, a 'credential' which entitles them to credit, in the various senses of the word” (Bourdieu, 1986, pp. 248-249). The theory of Coleman focuses on how individuals can gain maximum utility out of their relational social capital. He describes social capital as “Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure” (Coleman, 1990, p. 302).

In the past few years, organisations started to notify more and more about the potential impact social capital can have on their success. It has been revealed that social capital has a critical role in increasing innovation capabilities and knowledge sharing (Mazzuchelli et al., 2021, pp. 742-748). Also according to (Presutti et al., 2016, pp. 760-772) high levels of structural social capital will make it easier to share knowledge efficiently to achieve better economic performance and superior innovation capabilities for SMEs. This implies that the current knowledge about social capital has gone from social capital as a theory, to how with the help of social capital a company can achieve better innovation, performance and knowledge sharing.

3.2 Cognitive capital: shared values and language

“Cognitive capital represents resources providing shared representations, interpretations, meanings, values, goals” (Daghar et al., 2021, p. 283). According to (Johnson et al., 2013, pp. 324-336), there are two main components within the cognitive capital dimension, these are shared codes and language. Now it is clear which are the most important variables of this dimension, but all these variables are important to increase communication and get everybody to work efficiently towards the same goal (Mazzuchelli et al., 2021, p. 744). According to (Mazuer et al., 2014, pp. 944-955) the cognitive capabilities of project managers were important regarding the effectiveness, quantity and development of the relationships with external and internal stakeholders.

3.3 Relational capital: characteristics of the buyer-supplier relation

Relational capital focuses on the relationship people have with each other and how this relation can influence their behaviour, “in this article we use the concept of the relational dimension of social capital to refer to those assets created and leveraged through relationships” (Nahapiet & Ghoshal, 1998, p. 244). Important values resulting out of a relation are mutual respect, trust, friendship and commitment. Relational capital can be connected to the other two dimensions, if a business relationship has shared goals, visions and also regular meetings it is most likely that relational capital will be developed (Bohnenkamp et al., 2020, pp. 89-90). According to (Villena et al., 2011, p. 563) Relational capital is very important to obtain a good buyer-supplier relationship, if it is a strong relationship a supplier tends to become more transparent and open in communication, “relational capital reduces opportunistic behavior and facilitates cooperative behaviour”.

3.4 Structural capital: social system between the companies

For describing the third dimension structural capital, this research will make use of the following definitions. According to (Steinle et al., 2020, p. 366) Structural capital is about the links between organizations and individuals, as well as how they do this and how often it is done. In another paper structural capital is summarized as “structural capital can be expected to differ according to the type of performance improvements sought. The theory presented suggests that basic information sharing and supplier evaluation should be more positively related to improvements in buyer costs than other supplier development efforts where tacit knowledge exchange is necessary. Furthermore, supplier development initiatives that focus on more personal forms of communication that entail the transfer of tacit knowledge will be more positively related to buyer improvements in quality, delivery speed and reliability, and flexibility than simple information sharing or supplier evaluation.” (Krause et al., 2007, pp. 533-534). The third definition to substantiate and complete the others is: “the structural dimension of social capital to refer to the overall pattern of connections between actors—that is, who you reach and how you reach them” (Nahapiet & Ghoshal, 1998, p. 244).

3.5 Operationalization of the theory

Now it is clear that the social capital theory can be divided into three different dimensions: cognitive, relational and structural capital. With each dimension focusing on different characteristics. The theory needs to be operationalized so it can be used to properly conduct the research. The operationalization will be according to the three different dimensions, with features that have the least amount of overlap to cover the entire theory. Because according to (Nahapiet & Ghoshal, 1998, p. 243) the features of the three different dimensions are highly interrelated. Another variable that needs to be taken into account is that the theory is researched in relation to the three different geographical locations. All in all the features of the three different dimensions are formulated in such a way that overlap will be minimum and that the results can provide a clear distinction in relation to the location of a supplier.

First, the cognitive dimension is conceptualized. According to (Daghar et al., 2021, p. 283) “Cognitive capital represents resources providing shared representations, interpretations, meanings, values, goals”. This combined with (Mazzucchelli et al., 2021, p. 744) pointing out that the cognitive dimension has two main features, shared codes and language. Because the social capital theory is researched in relation to the geographical location for sourcing, the shared codes feature is divided into culture and religion, since these can both have a significantly different impact globally. This results in the cognitive capital dimensions will be operationalized into the three features: language, religion and culture.

For the relational capital, the basis of the operationalization of this dimension will be on the definition of (Nahapiet & Ghoshal, 1998, p. 244): “in this article we use the concept of the relational dimension of social capital to refer to those assets created and leveraged through relationships”. The focus thus lies on operationalizing the theory into features that are created in relationships and which may differ due to the geographical location. This is done very correctly in the following table.

Table 7 Results for relational capital

<i>Social capital</i>	<i>2nd order factors</i>	<i>Successful case</i>	<i>Non-successful case</i>
Relational capital	1 Trust	<ul style="list-style-type: none"> • Sensitive information is shared • Other parties acted in best interest • Other parties interest important for participants 	<ul style="list-style-type: none"> • Sensitive information is shared • Other parties acted not always in best interest • Other parties interest important for participants
	2 Commitment	<ul style="list-style-type: none"> • Parties have mutual respect for each other • Pro-active work among parties involved • Parties felt like team members 	<ul style="list-style-type: none"> • Parties have mutual respect for each other • Lacking pro-activity, counterproductive moves by 1st-tier and internal functions • Limited team-member feeling

Figure 3. (Bohnenkamp et al., 2020, p. 103)

The features in this table will be a perfect addition to the research, so the features of relational capital will be: trust and commitment.

Lastly the third dimension, structural capital needs to be conceptualized. In this paper three clear definitions were already found, with some similarities, this is where the focus for the conceptualization is. As mentioned before, structural capital is about the links between organizations and individuals and how often it is done (Steinle et al., 2020, p. 366). All three definitions focus on the exchange of information, and in what ways this is achieved. Keeping clear features, focusing on the exchange of information in relation to the geographical locations resulted in the following three features: Shared IT systems, face-to-face meetings and phone or video calls. Together these three will cover the most important ways of information exchange in comparison to three location types.

4. RESEARCH DESIGN

This part of the paper explains how the data used to answer the research question will be gathered and processed while substantiating the choices.

4.1 Qualitative research, individual semi-structured interview

There are two main types of data, qualitative and quantitative data. “qualitative research findings offer a window through which to view aspects of life that would have remained unknown. For individuals with personal experience of a target event, qualitative research findings offer a mirror that allows them to look back on and reframe their experience.” (Sandelowski, 2004, P. 1372). Another paper describes qualitative research as: “Qualitative research is a broad umbrella term for research methodologies that describe and explain persons’ experiences, behaviours, interactions and social contexts without the use of statistical procedures or quantification” (Fossey et al., 2002, p. 717). “quantitative research methods are concerned with collecting and analyzing data that is structured and can be represented numerically” (Goertzen, 2017, p. 12). Now it is important to decide what is the best research method suited for the goal of the research. The goal of this thesis is to research whether the social capital theory can be linked to the geographical location of suppliers. This is a research field where little to no previous research has been done thus far. According to (Singh & Goyal, 2007, p. 183) research that tries to fill a gap in the literature is called an exploratory study. With the help of qualitative research, the phenomenon can be researched in its natural setting. Such research allows to answer the important ‘why’ question, rather than just ‘how’ and ‘what’. This will provide a better understanding of the phenomenon which is researched (Meredith, 1998, p. 444). This is all considered, qualitative research suits best with the goal of this paper.

The focus of the qualitative research will be on interviews. There are two main sorts of interviews: group interviews and individual interviews. “focus-group interviews generate large amounts of data, which tend to overwhelm novice as well as experienced researchers” (Rabiee, 2004, p. 657). “The disadvantage of group interviews is the loss of privacy for informants. Another is that subjects will respond in part to their peers rather than to the researcher, reducing the researcher’s control over the interview process” (Krueger et al., 2001, p. 54). In addition to this “Interviews with individuals provide the opportunity to learn about their personal circumstances and perspectives in detail and to discuss issues that would be difficult (or inappropriate) to address in group situations.” (Krueger et al., 2001, p. 54). The interviews are conducted by inexperienced interviewers and the research is exploratory, so it is beneficial for the research to find out the clear perspectives interviewees have. Therefore, the best option will be to conduct individual interviews for the qualitative research.

To get the best results out of the interviews, a choice has to be made between structured and semi-structured interviews. Structured interviews are “systemizing the questions clinicians ask and the way answers to those questions are recorded and interpreted, structured interviews minimize needless variability in diagnostic evaluations” (Segal et al., 2006, p. 124). Semi-structured interviews on the other hand are way more flexible the “format provides significant latitude for interviewers to restate questions, ask for further clarification, probe, and challenge if the initial prompt was misunderstood by the interviewee or clarification is needed to fully rate a symptom.” (Segal et al., 2006, pp. 136-137). For this paper the semistructured interview is more suited, it allows the interviewer to be more flexible and go more into detail, to get a clear answer.

4.2 Data collection: 22 interviews, physical and virtual

For the collection of our data, 22 different companies were interviewed, an overview of the companies and in which industry they are operating can be found in Appendix A. The interviews were all conducted with people within the company responsible or part of the purchasing department because they have the most knowledge about this research field. Most of the companies interviewed were in The Netherlands, and some in Germany. The companies which were interviewed were allowed to differ in size and in which industry they operate. There was one important criterion with which the company needed to comply. This criterion is: the company should at least source 1 product in 2 of the 3 different geographical sourcing locations. As an example, a company fitted the criteria if it sourced cotton in Hungary and India. This means that it sources the same product in the EU and transcontinental. This criterion is very important, without it sourcing domestic, within the EU or transcontinental could be based on all kinds of variables, but when comparing suppliers from the same product in different locations patterns may be discovered. The question used for the interviews can be found in appendix B. After the interviews were conducted a follow-up question was sent to the companies where they were asked to point out the 3 most important distinctions they noticed. In this way, it will be much easier to analyse the results and distilling the differences between the levels. The question which was sent as a follow-up question is:

Disregarding a special case, which key differences do you see between sourcing from suppliers (1.) located at home / (2.) in another EU country / (3.) on another continent? (relationship, delivery, ease of doing business with, treatment, legal aspects, contracting, liabilities, handling taxes, these are all possible key differences but others are also allowed)

For the interviews, we were allocated to a group containing out of 6 different students, by our supervisor Prof. Dr. H. Schiele. Separately we conducted the interviews but shared the results. Each interview will be referred to with the first letter of the interviewer and a number to correspond to the specific interview. Due to the Covid-19 pandemic, interviews were held both face-to-face and online, with the help of platforms like Zoom, Skype and Microsoft Teams. At the beginning of each interview, the interviewer needed to ask permission about several ethical aspects related to the interview. The most important one of them was whether they were comfortable with us recording it, all interviewees consented. All interviews were conducted in April and May of 2021, depending on the interviewee the interviews were in Dutch, English or German. After the interviews were conducted, the interviews were transcribed manually or with the help of the software Amberscript. This software converts conversations into written text. After each interview was finished the recordings were deleted. All transcripts were checked by the interviewee, if necessary, the interview was being translated and it was made sure that the names of the interviewed companies are not named in any transcripts.

4.3 Coding the interviews in Atlas

When all interviews are transcribed, the next step in the research design can start. This is the step of coding all transcripts in Atlas, to illuminate hidden patterns which can be retrieved out of all interviews. To do so, codes need to be created. The codes which are created, are based on the literature findings. First, the location of the suppliers is coded to count how many suppliers there are from each location. These are referred to as 1.1, 1.2 and 1.3 in the codebook. Second, the three social capital dimensions were coded, like 2.1, 2.2 and 2.3. Within each dimension, the features were added and referred to as 2.1.1, 2.1.2 and more. Lastly, all dimensions were coded in positive or negative relation to the sourcing location. All codes can be found in Appendix C.

A disadvantage of the coding is that it can be subjective because it is based on how the person coding interprets the transcripts. To minimize the subjectiveness, precautions were made. In the beginning, a fellow student and I coded two articles after which we compared and discussed why we coded them in such a manner. This helped both of us with not coding double, too little or wrongly. After all, 22 transcripts had been coded, we again compared and discussed all the codes we used. Now all transcripts are coded the analysis starts.

The results which will be the result of the coding, are going to be analysed in two different ways. The first is to export all the data created with coding to excel, with the help of excel bar graphs will be created to generate a clear overview of the results. Next to excel the code co-occurrence table function in Atlas will be used to see how many times codes were used together. This will especially be useful for finding out which features of the social capital dimensions are mostly coded positive and negative in relation to sourcing.

5. RESULTS: ANALYZING THE DATA

This part of the paper will focus on answering the research question and the 2-sub questions with the help of the gathered qualitative data. The research question was already formulated as:

How can the social capital theory be used to explain the decision-making of companies to source domestic, within the EU or transcontinental?

The 2-sub question were created to provide a better answer for the research question, they were formulated as:

- 1.1 What are the different characteristics of the three sourcing types in relation to social capital?

- 1.2 To what extent can social capital be linked to all three different sourcing locations?

5.1 Characteristics of the 3 sourcing locations in relation to sourcing

It is clear to see that companies still choose to source domestic, in the EU and transcontinental. This can also be seen in the results of the interviews, the table below shows where all the suppliers of the companies are located.

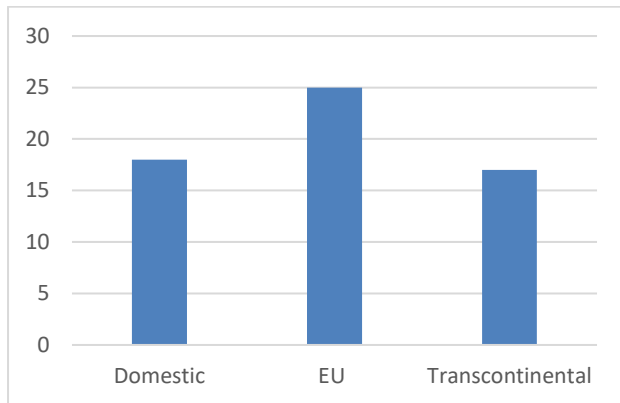


Figure 4. Location of the suppliers from all companies

This has many different reasons, one of the main reasons for this is risk dispersion. Most companies that use multi-sourcing do this with the goal of not solely relying on one supplier, especially not when it is about a crucial product. This can also be seen in answers from different purchasers.

This can depend on the strategy the purchaser chooses, my predecessor preferred single sourcing which means only using one supplier, this was chosen out of convenience. I self-prefer multi sourcing (R.2).

Just an example about a other product we source in China. 2/3 months ago we ordered a product out of China and due to the accident in the Suez channel there is a lot of delay (R.2).

we think it is important that such crucial product, such as this tube are made by more than 1 supplier. Therefore, we choose this supplier in the Netherlands as well. You can see it as some sort of risk-reduction. (R.5)

Risk-reduction will remain a very important issue for companies, therefore it would be logical to say that multi-sourcing will remain crucial. This would also imply that sourcing from different countries and continents will stay present. This is the main variable that can be related to all the three geographical sourcing locations in this paper. Now the main characteristics of domestic sourcing will be highlighted.

5.1.1 Domestic sourcing: higher prices, better quality and more amicable relations

Looking at the literature found about domestic sourcing, substantiated with the help of the interviews, there are some characteristics regarding domestic sourcing which are most prominent with this sourcing strategy., higher prices, higher quality, no cultural differences and ease of communication.

the price of the Dutch supplier is way higher about 40%. (R.3)

the domestic supplier which is a German Family Company with 300 employees. They offer wood for high prices which is typical in Germany (N.1)

Out of these two answers from separate companies, it is clear to see that sourcing domestically is likely to be more expensive, of course, there are always exceptions. Another common

characteristic of domestic sourcing is good quality which was mentioned a lot when talking about sourcing domestically.

and that is why the one we are procuring it now from is the only one left for that quality. So the reason we have chosen that one is that it is the only one left and also the very, very good quality. Moreover, it is possible that we choose smaller production sizes. Of course, smaller production sizes and higher prizes go hand in hand but that quality and precision is not given anywhere else. (N.2)

This shows that for companies' quality is important even though this mostly means paying higher prices. The characteristics ease of communication and no cultural differences are interrelated because with cultural differences communication will be less efficient. In the interviews, these characteristics were mentioned often, but also in the follow-up question send to the interviewees. Company R.1 answered that the 3 key differences between the locations are relationship, ease of doing business with and culture. Company R.5 mentioned that the key differences between the suppliers are relationship and ease of doing business with.

The relation we have with our Dutch supplier is a really old one, they are our supplier already for 25 years. With them we have a very close relationship...Currently we are now working with them to improve their operations, and I notice that it is almost more a friendly relation than a business relation. We also have a very good relationship with our Chinese supplier, but on more business level. (R.5)

What is not mentioned but is also important to conclude something from this answer of the purchaser is that the relationship with the Chinese supplier also already exists for a long period, namely 10 years. This is not as long as 25 years, but a long relationship. The relationship with the Dutch supplier is better, he even calls it a 'more a friendly relation'. All in all, these quotations of the interviews substantiate our findings of these characteristics and are in line with current literature about domestic sourcing.

5.1.2 EU sourcing: good relations, easy communication, but differs per country

As shown in part 2.2.1 The Netherlands source 64% of its supplies within the EU, so we should be able to find enough data on this with the help of the interviews. During the interviews there were many different experiences, some companies experienced no differences in dealing with a supplier from another country from the EU, but others did.

For the Polish supplier, there are no barriers in language, culture or religion. The Polish people are all common with the German language and with culture and religion there also are no barriers. (N.2)

The Finish people are thinking similarly when it comes to business as German people. (N.1)

On the other hand, the Portuguese supplier is very strict to their agreements. This may be because of their sort of certainty/arrogance about the quality of work they deliver. You can rely on them, but not on the Italian. (R.4)

These are all different statements about experiences with suppliers from the EU. What became clear when talking to all the purchase experts, is that within the EU there is a lot of difference in cooperation. This difference within the EU is mostly related to the different cultures in the countries. Overall, most of the experiences were similar. The characteristics of EU sourcing are very similar to the ones from domestic sourcing.

I read that you wanted to discuss that as well, but in all honesty we do not experience these issues. (J.1)

This is one of the many purchasers which said not to experience difficulties when doing business with suppliers from the EU based on language, religion and culture. On the other hand, some problems regarding this were experienced.

But in Italy there are not so much people who could speak English quite well. The most of the time in the office, there are only one or two that could speak quite well English and the rest don't or can't speak any word of English, maybe two words. So the language is a problem in Italy. (S.3)

5.1.3 Transcontinental sourcing: Low prices, but implications

Transcontinental sourcing is still associated with having a lower price for their products, especially in East Asia. This is also the main reason the purchase experts gave for sourcing transcontinental, of course there may be some exceptions.

We chose the Chinese supplier, because of the lower cost. With the supplier we definitely have a cost-advantage. (R.5)

Looking at the communications with transcontinental suppliers, most purchasers encountered obstacles, this also makes it harder to develop proper relations. There are situations where companies tried reducing the language and culture gap.

The thing is you do not communicate with the people producing the products but with the 'account managers', which almost always are women in between the 20-30 years, speaking properly English. The funny thing about these women is that they all have English names such as: Ellen, Sarah and more (R.4)

Other implications which are mentioned often are related to different time zones, fluctuating currencies and delivery.

The biggest problem we have with the American supplier is based on the difference in time, due to this there is only small time gap in which we can properly communicate. (R.3)

We chose the Dutch supplier next to the American supplier because communication is more easy with them than the Americans. We do not have to take the dollar currency rate into account, because we bare the risk as the customer. (R.3)

1 or 1,5 year ago we paid about 2000 euro for a container, which will now cost us 8000 euro. (R.4)

This shows that there are still lots of implications regarding transcontinental sourcing, but purchasers still choose to do so, but there have been purchasers mentioning a potential switch to EU sourcing.

Until now we have always witnessed that cost advantage was worth sourcing in China, but this advantage has reduced the last 10 years from 40 to 20%, so it is still attractive to source in China but it is becoming less and less attractive. (R.5)

So, it may be a matter of time, until the companies start to source closer and closer to the factory.

5.2 The social capital dimensions in relation to sourcing

Looking at all the literature that has been gathered about the social capital in relation to sourcing it is already clear to say that the social capital can be used to explain different aspects of sourcing. Looking at the questions in appendix B and the answers all the purchase experts have given, it is clear to conclude that the theory was properly operationalized to create the best questions for this research.

5.2.1 Cognitive capital

For the cognitive capital, it had been chosen to focus on the language, cultural and religious differences. From experience, it can be said that these questions were most easily understood.

This is most likely because the features of this dimension are the most straightforward.

5.2.2 Relational capital

For the relational capital, it had been chosen to focus on two features regarding a relation: trust and commitment. When conducting the interviews, it became clear that the purchasers had different experiences regarding relations in different regions. An excessive experience was for example:

Out of the past has made us aware that the China copy everything, and use this information for other things as well. If we develop a product there, within half a year we can see the product used by others. (R.4)

5.2.3 Structural capital

For the structural capital, it had been chosen to focus on how the companies communicate with each other. It can be concluded that there is indeed a difference in how companies communicate with their suppliers from different geographical areas.

All together the features used from the social capital were capable to provide results that can indicate a preference for sourcing. It still depends on which values are valued the most, this differs per company. In the next part, the results will be shown to visualize the relation between the social capital theory and the three geographical locations.

5.3 The effect of the social capital dimensions in relation to the sourcing location

It is clear what the most important characteristics of the three geographical sourcing locations are and how the social capital can be related to this. Now the results will show to what level social capital can be related to sourcing from these three geographical locations. The results will be shown in the same order which is used throughout this entire paper: domestic, EU and transcontinental.

5.3.1 The effect of the social capital theory on domestic sourcing

Domestic sourcing was the one geographical sourcing location with which purchasers had the least negative cognitive capital experiences. This can also be seen in the following results.

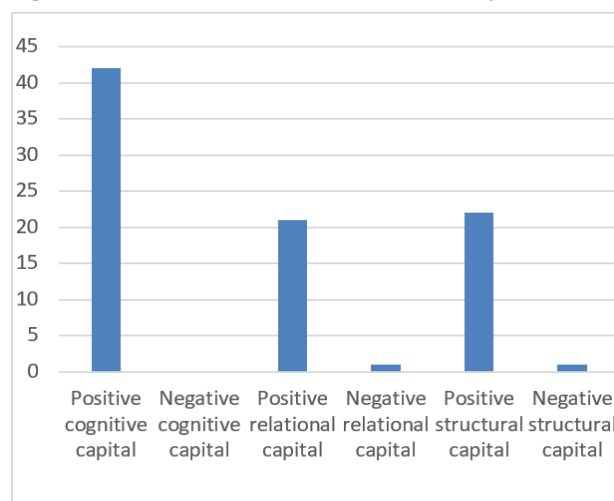


Figure 5. The effect of the social capital dimensions on domestic sourcing

In figure 5 there is one thing that is clear and that is that all the three dimensions of the social capital theory have a significantly high positive impact on domestic sourcing. This can easily be

concluded because the few social capital dimensions that do have a negative effect are insignificant. The graph below shows which features are responsible for the negative impact.

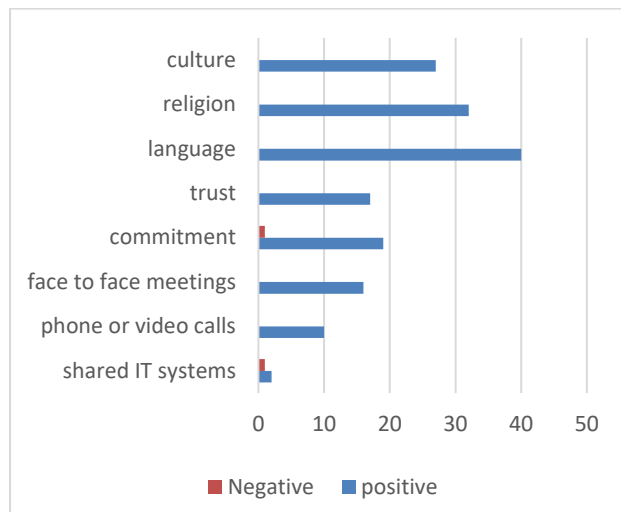


Figure 6. The effect of each social capital on domestic sourcing

Looking at the features of each social capital dimension separately, it is clear to see which features were mentioned the most and which features had the minor negative effect. With commitment it can be due to underdevelopment of the supplier self, it does not necessarily need to be related to the geographical location of the supplier since in relation to the positive effect of the commitment feature it is almost negligible. The negative feature of shared IT systems on the other hand cannot be neglected, since there were only two positive and one negative, this is 33%. A reason for this can be that this table is focused on sourcing within the national boundaries, thus purchasers can more easily visit their supplier instead of investing in expensive IT systems. This is also in relation to the feature face to face meetings which is the biggest feature of the structural capital dimension.

5.3.2 The effect of the social capital theory on EU sourcing

EU sourcing was the only new researched sourcing location out of the three, so the results are new for academic research.

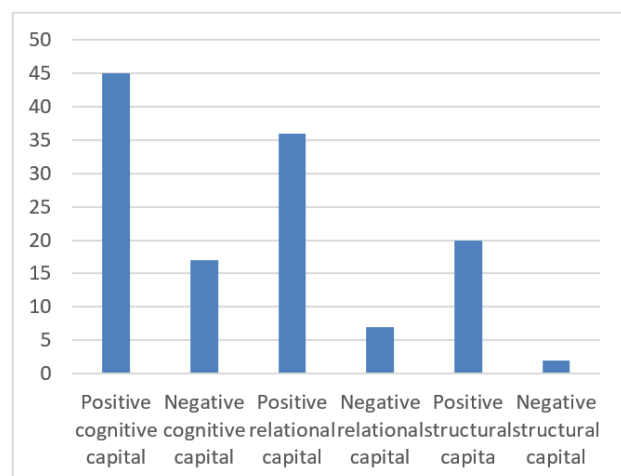


Figure 7. The effect of the social capital dimensions on EU sourcing

In figure 7 it shows that the negative effects of the social capital start to become more prominent, not negligible anymore like in

figure 5. One thing out of figure 7 which can be easily concluded is that social capital has a significantly higher positive than negative effect on sourcing in the EU.

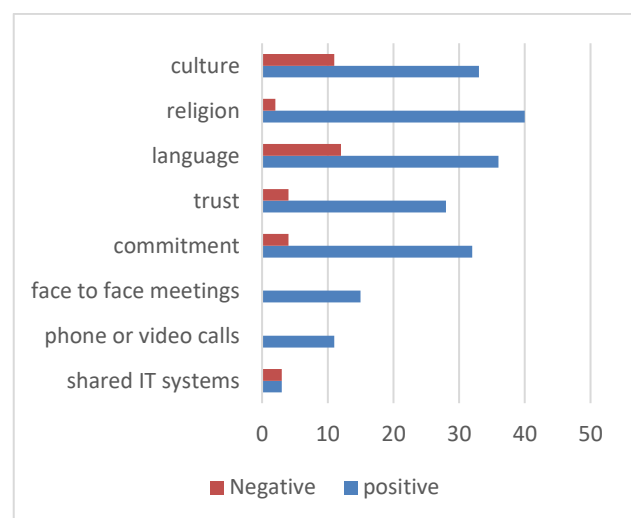


Figure 8. The effect of each social capital feature on EU sourcing

Looking at the features of each social capital dimension separately, it shows that especially culture and language have the highest amount of negative effect on sourcing within the EU. All other features except shared IT systems have a significantly more positive than negative effect on sourcing in the EU. Shared IT systems are now 50/50 negative and positive, this can still be related to the fact that some suppliers within the EU can be easily visited since most countries are within a 3-hour flying radius. And the ones too far away or not worth the trip, IT systems are created to fill this gap.

5.3.3 The effect of the social capital theory on transcontinental sourcing

The last of the three geographical sourcing locations is transcontinental.

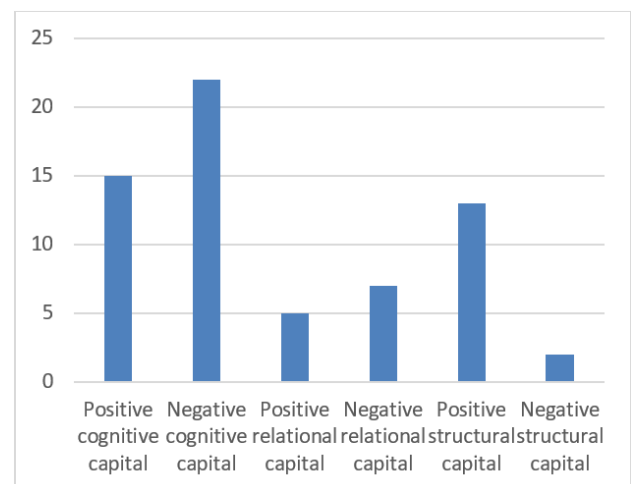


Figure 9. The effect of the social capital dimensions on transcontinental sourcing

This is the first graph of a geographical sourcing location where a dimension of the social capital has a higher negative impact than a positive impact. This is even shown twice in this graph, the cognitive capital dimension and the relational capital dimension both have a higher negative impact than positive impact on transcontinental sourcing.

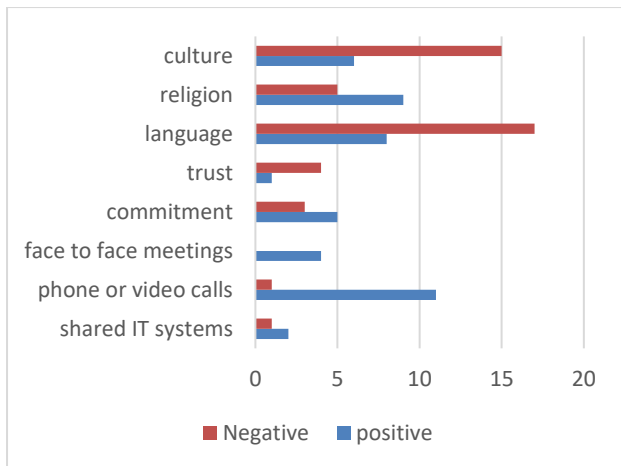


Figure 10. The effect of each social capital feature on transcontinental sourcing

It can be concluded that both the features culture and language have the most negative impact on transcontinental sourcing. The feature trust from the relational capital dimension also has a more negative than positive impact. Two features are not in line with the features results from domestic and EU sourcing, these are phone or video calls and shared IT systems. This can be the result of the vast distance between the company and its supplier, most of the time it is not worth the time to visit your supplier if it is located this far away. Therefore, you start investing in IT systems, and proper working virtual meetings. In appendix D, an overview of six quotes can be found, which shows examples of when a social capital feature is coded in a positive or negative relation to sourcing.

6. CONCLUSION: CONTRIBUTION OF THE THEORY TO THE LOCATIONAL PROBLEM AND LIMITATIONS

Now the results have been processed, visualized and patterns can be found in the interviews, it is time to summarize. With the literature gathered and the results from the research, the research question and the two sub-questions were all able to be answered. The next two parts will be about the key findings and how these can provide a contribution to the locational problem, there will also be a part that highlights the implications that occurred during the research.

6.1 Key findings

Looking at the first sub-question, which was about the characteristics of sourcing in relation to the social capital theory. Multiple characteristics were discovered, these were mentioned as features in the research. The most prominent characteristics of sourcing in relation to the social capital discovered during the literature research and the interviews are language from the cognitive capital dimension, commitment from the relational capital dimensions. In the structural capital dimension, a deviation in the results is noticed. The most notable and most logical deviation within this dimension is that when sourcing domestically companies tend to visit their suppliers more often, but when suppliers become more spread out over the world, the companies tend to invest more in communication forms such as shared IT systems and good phone or video connections.

The second sub-question was about to what extent can the social capital theory be linked to the three different sourcing locations. This was an important question for the research since it had already been researched that the social capital theory can be linked to sourcing, but the goal of this research was to compare

the three geographical sourcing locations with each other in relation to the theory. This means that the features used from the theory needed to apply to all the three sourcing locations, otherwise comparing would not be possible. The seven features used for the research were very useful, they applied to all three sourcing locations. This resulted in that the research provided clear data to compare the locations in relation to the following features: culture, religion, language, trust, commitment, face-to-face meetings, phone or video calls and shared IT systems.

The most important finding is of course in relation to the research question, the goal of the question is to show whether the social capital theory can be used to explain the decision-making of companies to source in the three different geographical locations. If looked at the results there could have already been seen a clear pattern, but when looked at the data in how much percentage has a positive or negative effect on sourcing this pattern becomes even more visible.

	Positive social capital	Negative social capital
Domestic sourcing	98%	2%
EU sourcing	80%	20%
Transcontinental sourcing	52%	48%

Figure 11. The comparison of the effect of the social capital theory in comparison to the three sourcing locations

This table shows that there is a clear pattern when comparing social capital with the three sourcing locations. Social capital has the highest positive effect on domestic sourcing with 98%, EU sourcing is surprisingly close with a positive social capital effect of 80%. Social capital in relation to transcontinental sourcing is almost more negative than positive, in this research the positive effect was 52%. So, solely based on these numbers a clear preference can be found for a supplier closer to the company and maybe even be a sign to a switch in a higher focus of domestic or EU sourcing.

6.2 Limitations

Firstly, regarding the conclusion, there are limitations. This conclusion is about the decision-making between the three sourcing locations, it is solely based on the social capital theory. Within this decision-making of companies, more factors play a role, this was also mentioned several times by multiple purchase experts. The other factors include political uncertainties, fluctuating currencies, prices, quality, transportation and many more.

Secondly, there is a limitation regarding the fact that this research is solely based on qualitative data. With qualitative data there is the risk that the researcher interprets statements differently than how they were meant.

Thirdly, there are two limitations regarding the interviews. The interviews were conducted by 6 different students, while trying to make sure every student used the same questions for their interview, there will always be a difference in how someone conducts an interview. Also, some interviews were conducted virtually and some physically, interviewees could react differently based on the setting in which the interview is conducted.

7. IMPLICATION FOR FUTURE RESEARCH

7.1 Academic use

As mentioned there have already been several different research conducted on the relationship between social capital and the competitive advantage a company can achieve with it, but until this day no research had been conducted focusing on social capital in relation to sourcing within the EU and on social capital in comparison to the three sourcing locations. Therefore, this research is a good addition to the current knowledge domain of social capital in relation to sourcing.

7.2 Practical use

This research concluded that solely based on these numbers a clear preference can be found for sourcing closer to the company and it may even be an omen to a future switch of companies with a higher focus on domestic and EU sourcing than transcontinental sourcing. Unfortunately choosing a supplier is a bit more complicated than just taken social capital into account. As mentioned in the limitations part there are many more variables that purchase experts consider when selecting and working with suppliers. The practical use of this paper is that it can be used as an extra tool when choosing a supplier or supplier location in general. Looking at the relation the other way around from company to customer, this is where the research can also be of practical use. Suppliers can use this paper to reflect on themselves and their location to create better social capital with their customers, so they become more attractive for current and potential customers.

7.3 Managerial implications

This research can also be beneficial for managers in the upcoming years, depending on whether the current trends seen in the global economies continue and how quickly they will further develop. It has been shown that domestic sourcing and EU sourcing have a significantly higher effect on social capital, in comparison to transcontinental sourcing. In the past it has already been researched, that competitive advantages can be derived from other things than only a price advantage by sourcing for example in China or other cheap production countries. Competitive advantage can also be obtained by close and good collaboration with suppliers, which is highly correlated with the social capital theory. In the interviews, it has been mentioned multiple times that sourcing transcontinental has one main advantage which is the low price, but the differences in prices between domestic, EU and transcontinental is decreasing. This in relation to other disadvantages of transcontinental sourcing like political uncertainties, fluctuating currency rates, long delivery times. Two other disadvantages are related to recent events in the Suez channel and the corona crisis. Companies that relied heavily for one or more products on suppliers in Asia had to stop production due to the fact the delivery time was extremely delayed, because of a stuck cargo ship in the Suez channel. The corona crisis resulted in prices for shipping containers increase exponentially, some companies gave examples of container prices increasing from 2000 to 8000 in months. All these variables considered it would be wise for purchasers to look for alternative suppliers domestically or within the EU. Because competitive advantage can also be derived from good buyer-supplier relations, it will result in lower supply risks and the advantages of sourcing transcontinental are decreasing.

7.4 Future research

Out of the experience from this research, there is one thing important for future research in the same domain. This is that the EU is too big to generalize as one sourcing location. This was also remarked a lot by the purchase experts which were

interviewed. Some mentioned they experienced significant differences between West and East Europe. Others only mentioned different experiences with specific companies. Another factor that researching social capital in relation to sourcing within the EU, or any other theory. Is that almost always the neighbouring countries of the country where the company itself operates, will almost always be viewed positively. This was in this case with neighbouring countries of The Netherlands and Germany because that is where the companies of the purchase experts operated.

8. ACKNOWLEDGMENTS

First, I want to thank my first supervisor Prof. Dr. H. Schiele, and T.M. Körber for their continuous help, advice and support during the multiple stages of this bachelor thesis. Secondly, I would like to thank all the companies which were willing to cooperate with the interviews, this helped to get better insights into how purchasers and companies work together with their suppliers in different locations. Lastly, I would like to thank my 5 fellow students who helped to conduct the interviews.

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10. APPENDIX

Appendix A.

Overview of the industries in which the companies operated.

Company	Industry
A	Agricultural machines
B	manufacturing
C	Aerospace manufacturing
D	Interior wholesaler
E	Hydraulic machines
F	Trailer production
G	Bed linen production
H	Shop fitting
I	Furniture for ships and hotels
J	Suction systems
K	Vegetarian food production
L	Engineering plastics
M	Processing chips
N	Food production
O	Supermarket products
P	Pipelines
Q	Road construction
R	Electrical, plumbing & hardware wholesalers
S	Concrete construction
T	Electrical, plumbing & hardware wholesalers
U	automotive
V	Flag's production

Appendix B.

Interview questions

Introductory questions:

- Describe the supplier and its product(s)?
 - How big is the supplier?
 - What is the location of the supplier?
 - Is the product produced by supplier legally protected?
 - Is it a very specific product?
 - Is there a similarity between the suppliers?
 - For how long does the buyer-supplier relation exist?
- Why did you choose this supplier?
 - Was it cost related?
 - Was it due to capabilities of the supplier?
 - Was it location related?
- How attractive are you for the supplier?
 - Are there many competitors?
 - Are there many different supplier options for your company?

Social capital questions:

- How was your collaboration structured? (structural capital)
 - Are there shared IT systems?
 - Are there regularly joint meetings, virtual or physical?
 - How did the collaboration change over time?
- Within this relationship, did you encounter problems (cognitive capital)
 - Are problems related to language?

- Are there cultural or religious barriers?
- How did the relationship develop? (relational capital)
 - Is there a team member feeling within the relationship?
 - Is there a high level of trust within the relationship?
 - Have you ever been wanting to switch?

Closing question:

- Giving this experience, do you have an impression that it has to do with the supplier being local/European/transcontinental, and what lessons do you take out of this?

Appendix C.

Codebook

- 1.1 Domestic sourcing
- 1.2 EU sourcing
- 1.3 Transcontinental sourcing
- 2.1 Cognitive capital
 - 2.1.1 Culture
 - 2.1.2 Religion
 - 2.1.3 Language
- 2.2 Relational capital
 - 2.2.1 Trust
 - 2.2.2 Commitment
- 2.3 Structural capital
 - 2.3.1 Face to face meetings
 - 2.3.2 Phone or video calls
 - 2.3.3 IT systems
- 3.1 Positive cognitive capital for domestic sourcing
- 3.2 Negative cognitive capital for domestic sourcing
- 3.3 Positive relational capital for domestic sourcing
- 3.4 Negative relational capital for domestic sourcing
- 3.5 Positive structural capital for domestic sourcing
- 3.6 Negative structural capital for domestic sourcing
- 4.1 Positive cognitive capital for EU sourcing
- 4.2 Negative cognitive capital for EU sourcing
- 4.3 Positive relational capital for EU sourcing
- 4.4 Negative relational capital for EU sourcing
- 4.5 Positive structural capital for EU sourcing
- 4.6 Negative structural capital for EU sourcing
- 5.1 Positive cognitive capital for transcontinental sourcing
- 5.2 Negative cognitive capital for transcontinental sourcing
- 5.3 Positive relational capital for transcontinental sourcing
- 5.4 Negative relational capital for transcontinental sourcing
- 5.5 Positive structural capital for transcontinental sourcing
- 5.6 Negative structural capital for transcontinental sourcing

Appendix D.

Code	Feature code	Quote
Positive cognitive capital for transcontinental sourcing	Language	“The thing is you do not communicate with the people producing the products but with the ‘account managers’, which almost always are women in between the 20-30 years, speaking properly English.” (R.5)
Positive relational capital for domestic sourcing	commitment	“Currently we are now working with them to improve their operations, and I notice that it is almost more a friendly relation than a business relation.” (R.4)

Positive structural capital for EU sourcing	Face to face meetings	“But in normal times indeed, if it's Europe or European or Dutch suppliers, we meet more face to face.” (M.1)
Negative cognitive capital for transcontinental sourcing	Language	“The only barrier we are experiencing is the language. If we want to make technical specifications to them, it is difficult to give it in English to them.” (N.2)
Negative relational capital for EU sourcing	Trust	“For example I’ve been working with various suppliers in Italy. If there is something you cannot do is relying on a deal with an Italian” (M.3)
Negative structural capital for transcontinental sourcing	IT systems	“We actually do a minimum in sharing of data with the Chinese” (R.4)

