

Identifying the Risk Factors of Global Sourcing in the Large Scale Apparel Industry in Sri Lanka

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1. Introduction

Virtually any industry which is globally dispersed shares one common goal: to increase profitability, mainly by reducing costs. Research has identified purchasing as one key logistical activity where the practitioners could enhance profits through leveraging costs. Hence, industries around the globe appreciate sourcing as one of the best strategies to achieve this objective. Global sourcing is an important factor, especially in the internationalisation of the production process of a business. The term “Global Sourcing” is used to describe the practice of sourcing of goods and services of higher quality across geopolitical boundaries. Global sourcing often aims at exploiting global efficiencies such as low cost skilled labour, low cost raw material and other economic factors including concessions on import/export taxes and trade tariffs [1].

Sri Lanka is one of the major high quality garment suppliers in the world. Purchasing raw material is the main stage of the apparel supply chain in view of fulfilling the garment supply. If raw materials are not abundant in one’s own country, then producers could lower their supply risk by sourcing from global suppliers. Despite the importance of this factor, the literature shows that there has not been sufficient formal research carried out focusing on risk factors that the Sri Lankan apparel manufacturing companies face in global sourcing.

2. Research Objective

The main research objective is to understand the risk factors of global sourcing in Sri Lankan large scale apparel industry and to find strategies to mitigate those risks.

The three main objectives for this research are:

1. Understanding the risk factors of global sourcing in the Sri Lankan large scale apparel industry.
2. Evaluating the likelihood and impact of the risk factors in the industry.
3. Finding the strategies to mitigate those risks.

3. Research Methodology

This research uses a quantitative research approach and focuses on identifying the global sourcing risk factors of large-scale apparel manufacturing firms in Sri Lanka. A questionnaire was designed to gather data from the large-scale apparel companies where the risk was assessed using the probability of occurrence of an unexpected event and the severity of the impact caused by that event. There are nearly 300 apparel manufactures in Sri Lanka. However, 15 large-scale apparel manufactures accounted for more than 80% of the total apparel export income of Sri Lanka (Export Development Board, Sri Lanka). Therefore, these 15 companies were considered as the sample of the research. Both an online questionnaire and word document questionnaire were developed to gather data. Questionnaires were sent to the identified executives who were involved in procurement and who were above the middle management level. At least three responses were obtained from each company.

4. Analysis

Risk matrix approach, which is a semi quantitative method that is widely used in risk assessment, was used to analyse the data. The probability of occurrence of an unexpected event and severity of the consequence of that unexpected event were considered as the two variables required to build the risk matrix [2]. Accordingly, this study developed a risk matrix to assess the risk factors and their level of exposures to the industry. Based on the analysis, this study identified 26 potential risk factors related to global sourcing operations in the garment industry. These risk factors were categorised into nine groups under both internal and external risk factors. When analysing organisation-specific risk factors, it was observed that both internal and external risk factors figured around high probability and high severity region in the risk matrix demonstrating different assessments form different firms in the large scale apparel manufacturing segment of the industry.

As illustrated in Figure 1, three internal risk factors were identified in the critical zone including Material Cost, Quality Assurance Cost and Quality. These factors generate a critical level of risk exposure on global sourcing of large scale apparel manufacturers in Sri Lanka. On the other hand, on analysing external factors, it was found that four factors, namely price fluctuations, exchange rate risks, cultural & religious barriers and high custom duty and taxes, were located in the critical zone as shown in the Figure 2. Those factors generate a critical level of risk exposure on global sourcing of large scale apparel manufacturers in Sri Lanka. Finally risk mitigating methods were identified by referring to general practices and published research literature on risk management.

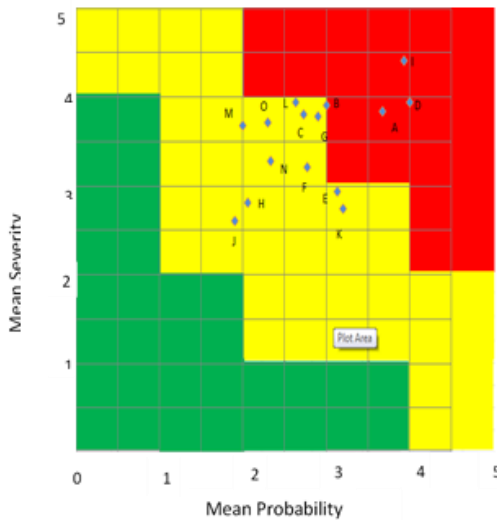


Figure 1: Internal Risk Factors –Risk Matrix.

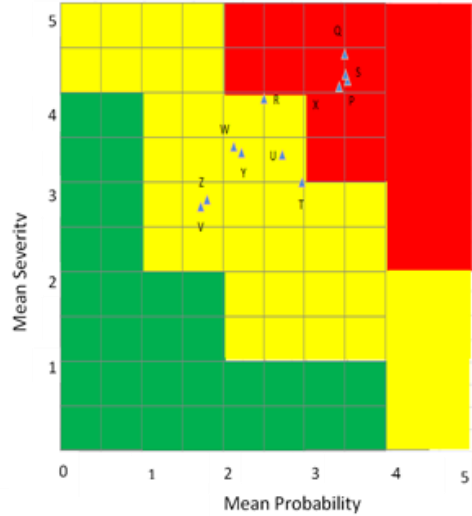


Figure 2: External Risk Factor Risk Matrix.

- A-Material Cost
- B-Transport cost
- C-Inventory carrying cost
- D-Quality assurance cost
- E-Maintain the material inventory level
- F-Risk of using third party service providers
- G-Transportation delays
- H-Border crossing procedure
- I-Quality
- J-Willingness to share technologies and information
- K-Order system & cycle time
- L-Communication capability
- M-Information outsourcing
- N-Information system security
- O-Information accuracy

- P-Price fluctuations
- Q-Exchange rate risks
- R-Miscommunication with foreign suppliers
- S-Cultural & Religious Barriers
- T-Standard procedures for negotiation and contracting
- U-Political involvement
- V-War, terrorism
- W-Risk of standards and regulations between countries
- X-Increase in custom duty and taxes
- Y-Natural disasters
- Z-Diseases, viruses

5. Discussion and Conclusion

Every business organisation contains various risk elements while doing the business. This study shows that there are a number of global sourcing risk factors faced by large-scale apparel manufacturing firms in Sri Lanka. Among them, quality risk, quality assurance risk and exchange risk are considerably high. Different strategies are suggested to mitigate these critical risk factors. This includes better supplier relationships and coordination to increase flexibility,

supplier development to enhance the quality of the materials supplied, as well as involving the supplier from the concept design stage to enhance performance for both supplier and manufacturer. Furthermore, use of standard testing would assure the quality of the materials and products. In order to mitigate the risk in currency fluctuation, it is recommended to implement proactive strategies to identify the risks and to mitigate them, so that operations can be planned proactively to face such risks.

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