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Integration of African firms into global value chains: A comparison of Finnish and Chinese firms' sourcing from Africa

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Abstract

Purpose: This paper analyzes the roles that African suppliers play in global value chains and the strategies that foreign firms adopt to integrate African firms into their supply chains.

Design/methodology/approach: The empirical research of this paper is based on a multiple case study and on interview data of foreign buyers and their entry into African supply markets: five Finnish companies and five Chinese companies were interviewed in 2014-2015.

Findings: We find that Finnish firms make relatively small investments and start sourcing operations on a small scale, whereas Chinese firms are running large infrastructural projects, relying on local sourcing. African firms typically only play modest roles with little value capture in the chain, supplying raw materials and simple products. The African infrastructural and cultural context makes it challenging for foreign firms to provide local suppliers with more strategic roles in their chains, thus hindering integration of local firms into global value chains.

Originality/value: This paper is one of the first to offer a comparison of Finnish (Western) and Chinese (other emerging economy) firms' sourcing from Africa, and provides understanding of the role of African suppliers in current value chains. We offer a qualitative exploration of why companies invest in African suppliers, and of the scope of African presence in global value chains.

Introduction

African continent is playing an increasingly important role in global business and foreign firms are directing their focus on this region, as evidenced by e.g. the steady inflow of FDI to Africa (UNCTAD, 2016a). Consequently, African firms are becoming more integrated into global production and value networks. However, they are still placed at the upstream stages of value chains, or in other words, they remain at the bottom of what Mudambi (2008) calls the 'smile-curve' of value creation. The region tends to be competitive in primary sectors, such as agriculture and foodstuffs, as well as in less advanced manufacturing products. There is little sign of a 'factory Africa' emerging along the lines of 'factory Asia' where trade in intermediates is a dominant feature (Kowalski *et al*., 2015). Indeed, Gibbon and Ponte (2005) suggest that Sub-Saharan countries have generally failed to move away from primary commodity exports. Given the anticipated low value-added position of local firms in global value chains and the increasing interest in the continent by foreign players, it becomes relevant to analyze in more detail the roles that African firms play in these value chains, as well as the sourcing strategies that foreign firms adopt to integrate African firms into their supply chains. Sourcing behavior is relevant to the upgrading of underdeveloped suppliers in developing countries (Khan *et al.*, 2015).

Supply chains and sourcing have been analyzed in the context of many emerging markets, such as Latin America and China. These supply markets have recently attracted foreign firms but studies indicate that many challenges exist. These include, for instance, lack of economic integration, political risks, social concerns, inadequate infrastructure, inefficient logistical networks and poor supplier relationships in Latin America (Ruiz-Torrez *et al.*, 2012), and lack of capable service providers, loss of control, poor transportation and IT infrastructure and local protection regulations in China (Lau and Zhang, 2006). The African sourcing context, however, is largely unexplored in international business literature. Furthermore, we do not know yet how foreign firms representing different home environments (developed vs. emerging economies) approach the African context as a sourcing base, and how they integrate African suppliers into their global supply chains. In other words, we do not know what kind of governance structures (Gereffi *et al.*, 2005) prevail in contemporary business with African suppliers. The issue is relevant for shedding light on how the African continent and its firms potentially shape the landscape of international business in the future, and for understanding how the African supply base will develop.

To fill these gaps, this study investigates characteristics of Africa as a supply base, integration of African suppliers into global value chains, as well as how foreign firms are sourcing from this continent. We set out to address two research questions on global value chains involving African suppliers and foreign firms linked to them: 1) *What types of global value chains are African suppliers currently integrated into and how?* With the types, we refer particularly to the different options of value chain governance as defined by Gereffi *et al*. (2005): markets, modular value chains, relational value chains, captive value chains, and hierarchy. This allows us to understand what kinds of relationships have been established between foreign buyers (our empirical target companies) and African suppliers. Our first research question provides an overall analysis of the position of African suppliers in the chains and speaks of their typical roles in value creation in global chains. We also look at the types of relationships formed between the buyer and the African supplier. Our second research question addresses challenges faced in sourcing from Africa: 2) *What are the motives and obstacles for foreign firms to integrate African suppliers into global value chains?* The global value chain approach has potential to contribute to critical international business literature (Lee and Gereffi, 2015); the first research question is more theoretically oriented and sheds light on the features and potential development paths of global value chains, while addressing the second research question mostly provides our managerial contributions. By investigating drivers and challenges, we are able to provide guidance to those sourcing from Africa as well as to African suppliers on what improvements are needed to upgrade in the global value chains. Most previous research on upgrading of local suppliers has focused on automotive supply chains (e.g. Barnes and Kaplinsky, 2000; Barnes and Morris, 2008; Khan *et al*., 2015); we provide a different lens by focusing on the supply chains of other industries, including also smaller buyers.

Our study is explorative and holistic by nature. 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 (Meyer, 2006) and explore locally relevant issues emerging from the managerial perceptions, and thus adopt a relatively loose theme-based approach for the interviews. In particular, we are interested in an external (foreign buyer's) view to African sourcing, and we adopt a comparative setting for analyzing Finnish (Western) and Chinese (emerging economy) companies. 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 (Meyer *et al*., 2009; Xu and Meyer, 2013), it becomes increasingly important to understand potential differences in the buying behavior of firms coming from developed countries vs. emerging economies.

This research contributes to both supply chain and global value chain literature, by responding to the call for a deeper integration between these two fields of research (Gereffi and Lee, 2012). Our key theoretical contribution is to provide understanding of the current position of African firms in supply chains by means of global value chain analysis and its core concept of governance, and to identify the governance types that prevail in these supply chains. African suppliers are still playing relatively minor roles (typically, not being strategic suppliers) and focusing on simple manufacturing products and raw materials. The current foreign buyers' practices of preferring existing Western intermediaries or bringing in own operations to handle more value-capturing tasks may also slow the African suppliers' opportunities to move to more value-adding roles; it will take some time for them to develop and rise in the value-adding ladders. Furthermore, we also find differences between the sourcing strategies, approaches and motivations of developed (Finnish) and emerging economy (Chinese) firms in 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, which has brought them to close contact with African suppliers and will probably help them in gaining markets for their products in the region as well. We therefore see Chinese firms as having the most influence in the African markets today and potentially as the ones gaining greater value from there in the future given the strategic connections made as first-movers.

The paper is structured as follows. We first review previous literature on governance and value chains, and global purchasing, as well as discuss the base for a comparative analysis of Finnish and Chinese companies' sourcing from Africa. A method section specifies in detail our data collection and analysis. We then provide the case descriptions and discussion of the results, and a brief conclusion of our study.

Literature review

We apply a critical perspective in our research into the positions of African suppliers in global value chains by examining the types of global value chain governance they are under. Furthermore, we engage in a novel comparative study of the differences in the above-mentioned aspect in relation to the buyer's country-of-origin, namely Finland and China (representing a Western, developed country and an emerging economy approach to Africa).

Global value chain and governance

Value chain has been defined by Kaplinsky and Morris (2001, p. 4) as 'the full range of activities which are required to bring a product or service from conception, through the different phases of production, delivery to final consumers, and final disposal after use.' Further, the global value chain (GVC) concept is relevant since 'the design, production and marketing of many products now involves a chain of activities divided among enterprises located in different places' (McCormick and Schmitz, 2001, p. 17). Over the past decade, GVC has been broadly used to analyze the international expansion as well as geographical fragmentation of supply chains and how value is created and captured within them (Gereffi and Lee, 2012).

Gereffi *et al*. (2005) identified five major types of governance for value chains, in which the lead firms have varying power through the coordination of suppliers without any direct ownership of them. The governance form depends on inter-firm transaction complexity, transaction codifiability and supplier capability in meeting buyer requirements (Lee and Gereffi, 2015).The five basic types of GVC governance are presented in Figure 1.

Insert Figure 1 here

In *Market* governance, the simple linkages between lead firms and their suppliers are governed by price (Ponte and Sturgeon, 2014), and suppliers manufacture products with minimum input and coordination needed from the buying organization (Gereffi and Lee, 2012). Thus transactions are easily codified and specifications of products are relatively simple (Gibbon *et al.*, 2008). Consequently, the costs of switching to new partners are low for both the suppliers and buyers (Gereffi *et al*., 2005). In *Modular* governance, the linkages between the lead firms and their suppliers are governed by standards (Ponte and Sturgeon, 2014). In this governance type, competent suppliers make the products based on a buyer's specifications, and the products are typically complex but easy to codify (Gereffi *et al*., 2005). Suppliers generally have the capacity to use generic manufacturing competences to supply full packages rather than individual components (Gibbon *et al*., 2008). In addition, buyers and suppliers can reduce coordination costs by exchanging information about product standards (Gereffi and Lee, 2012). In *Relational* governance, the linkages between lead firms and suppliers are governed by trust and reputation (Ponte and Sturgeon, 2014). In this governance type, buyers and suppliers can rely on complex information, which cannot be easily transmitted (Gereffi *et al*., 2005). In addition, the products are complex and the capabilities of the supplier are at a high level (Gibbon *et al*., 2008). For the coordination of the relational chains, based on mutual trust and social ties, frequent interactions and knowledge sharing are critical (Gereffi *et al*., 2005). In *Captive* governance, the linkages between lead firms and suppliers are governed by buyer power (Ponte and Sturgeon, 2014). In these instances, a group of small suppliers are dependent on one or a few buyers to purchase their outputs (Gereffi and Lee, 2012), the products are complex (Gibbon *et al*., 2008), and detailed instructions are provided by lead firms to the suppliers who are less competent (Sturgeon, 2008). In addition, captive suppliers generally operate under specific conditions set by certain buyers, and suppliers are faced with high switching costs of buyers due to investments, which are relation-specific (Altenburg, 2006). *Hierarchical* governance implies that the linkages between the lead firms and their suppliers are governed by management hierarchy (Ponte and Sturgeon, 2014). In this governance type, lead firms with vertical integration and managerial control develop and manufacture products in-house (Gereffi *et al*., 2005). Often this is because product specifications cannot be codified efficiently (Gibbon *et al*., 2008).

These five different modes of governance provide the key conceptual frame for our analysis. Consequently, our first research question (*What types of global value chains are African suppliers currently integrated into and how?*) addresses the role that African suppliers play in global value chains, as well as the different ways of organizing relationships with their foreign buyers. In particular, our research takes the perspective of global buyers.

Evolving global sourcing strategies

Global value chains are influenced not only by FDI, but also by global buyers, such as retailers and traders who do not own production or transportation facilities (Gereffi *et al*., 2005). Therefore, we can understand the role of African suppliers in the global value chains by way of analyzing how foreign companies operate in and source from these markets. While global marketing strategies have attracted wide interest in international business literature, global sourcing has been analyzed to a lesser extent. Still, this quickly developing field of inquiry adds to our understanding of global business.

Several stage models of global purchasing have been presented, as shown in the review by Quintens *et al.* (2006). According to Swamidass (1993), import sourcing develops over time from no sourcing to tactical and to more strategic; while cost reduction is often the first motivation for import sourcing, this later expands to overall aims for competitive advantage, turning import sourcing to a highly strategic activity. Along with these developments, also the environmental determinism on import sourcing decreases. Existing literature indicates that firms that are sourcing from Africa are mostly in the early or mid-stages of such development, as they source from Africa mainly for the reasons of cost minimization (Johnston *et al.*, 2009; Oke *et al.*, 2009) and availability of raw materials (Gu, 2009; Oke *et al*., 2009). African supply base is very seldom seen as a strategic context for sourcing, except by some Chinese firms, as will be discussed later.

The role that African suppliers play in global value chains depends also on the strategies that foreign buyers adopt in their sourcing from this market. One important step in strategic sourcing is supplier segmentation (Day *et al.*, 2010). Originally, Kraljic (1983) proposed a product-based purchasing portfolio matrix, which uses profit impact and supply risk as the basis for supply strategies. This matrix has been a source of inspiration for later models of supplier relationship portfolios (Olsen and Ellram, 1997; Bensaou, 1999; Gelderman and Semejn, 2006). These portfolios address the power-dependence between the buyer and the supplier (Dubois and Pedersen, 2002), which has implications on the strategy the buyer may use when dealing with the supplier. In short, four different situations are typically depicted. If one of the parties clearly holds power over the other, this is either a buyer-leverage relationship (typically featured by e.g., strong supplier monitoring) or a supplier-leverage relationship (in which case securing supplies and thus a relationship with a certain supplier becomes critical). In transactional relationships, routines are developed between the parties, whereas with strategic supplier relationships high trust typically prevails. Depending on the purchased product and purchasing strategies, foreign firms can build different types of relationships with their African suppliers, which eventually reflect the comparative power positions of the buyer and the supplier.

Global sourcing literature is mainly focusing on Western firms as buyers (e.g., Petersen *et al.*, 2000; Murray *et al.*, 2009; Steven *et al.*, 2014). Studies focusing on Africa as a business context also maintain this focus (Kauppi *et al.*, forthcoming). For example, the case study by Cunden and Van Heck (2004) on Dutch flower auctions analyzes African-European business relationships, while Muller *et al.* (2012) use two case studies from the South African-British fresh fruit export chain to analyze business strategies for achieving socially sustainable practices. Sanchez-Rodrigues and Potter (2013) conduct an international comparative study by analyzing fast moving consumer goods (FMCG) distribution networks from the UK and South Africa. These studies bring to the fore several challenges and features of the African context that need to be accounted for in Western firms' strategies; indeed, an investigation of Finnish firms' internationalization into South Africa note the complex sources and nature of risk and turbulence in this business environment (Owusu and Habiyakare, 2011). Our approach here is to look at the entire African continent as a potential and evolving supply base, rather than focusing on certain African countries. While such an extensive view is not without problems, it is in line with some previous studies taking a continental approach to supply (Karjalainen and Salmi, 2013).

African sourcing market as a target for Finnish and Chinese buyers

Given that our target market is one of the emerging markets, Africa, and we are interested in understanding African suppliers and foreign buyers, it becomes relevant to take a contextual approach for the analysis. Indeed, it is important to understand 'institutional idiosyncrasies and contextual variation surrounding emerging economy firms' (Xu and Meyer, 2013, p. 1341). In our study, we aim for such contextual understanding by contrasting how Finnish (Western) firms on the one hand, and Chinese firms (coming from another emerging economy) on the other, target the African sourcing markets.

Although our focus is not on foreign direct investment (FDI), but rather buyer-supplier relationships in Africa, the overall investments of our two chosen buyer countries into Africa demonstrate their differing contextual backgrounds. China is the largest developing country investor in Africa (de Jonge, 2016). Previous literature indicates that Chinese investment in Africa is strategic and politically motivated, and therefore more stable and long-term than Western foreign capital (Haglund, 2009); the Chinese government has been playing a 'previously underappreciated role' as a motivator (Peng, 2012) in the presence of Chinese enterprises in Africa. From 2000 to 2005, large Chinese, both state-owned enterprises and private companies, extended their operations in Africa. Notably, the Chinese government implemented 'go global' policies (Luo and Wang, 2012), which encourage many state-owned enterprises to expand to international markets (Kalasin *et al.*, 2014). From 2005 until the present day, large state-owned enterprises have continued to expand in Africa, and at the same time private companies have started to accelerate their business activities to manifold sectors along with the development of a clustering industry strategy. Since 2005, a new development has taken place as the Chinese government has represented the collective interests of Chinese natural resource firms (Li *et al.*, 2013). China's FDI stock increased more than threefold from 2009 to 2014, as China overtook South Africa as the largest investor from a developing country in the region (UNCTAD, 2016b). In terms sector, Chinese investment in Africa is similar to that from other emerging economies, notably India and South Africa (Shen, 2015).

MNEs from developed countries remain major players in Africa. The United Kingdom, the United States and France, remain the largest investors in Africa, even though recently half of the top 10 investors in Africa are from developing economies, including China (UNCTAD, 2016b). Table 1 shows FDI outflows to Africa from selected Western and emerging economy countries, indicating also the increasing role of China.

Insert Table 1 here

When compared with countries such as the United States, United Kingdom, France or fellow Nordic neighbor Sweden, Finland as a small country has relatively small FDI outwards stock and FDI outflows overall into Africa (See Table 1). Despite this, Finnish companies have shown considerable interest in the region. One example is from the World Investment Report 2016 regarding the 10 largest greenfield projects announced in 2015 concerning LLDCs: the 10th largest project was in Rwanda funded by a Finnish company in the real estate, commercial and institutional building construction industry for 865 million dollars (UNCTAD, 2016b). This project is substantial and unique considering that the total value of announced greenfield FDI projects by Finland was only 4689 million dollars in 2015 (UNCTAD, 2016b), and this investment in Africa alone accounted for 18.4% of the value of Finland's greenfield FDI projects. To conclude, Finland and China represent here a Western and an emerging economy approach to Africa, and are thus suitable for a comparative analysis of sourcing from the region. Finland represents a so far modest investment, but important relative to size, while China is a major player in the region.

The increasing importance of global sourcing, together with the specific challenges faced by foreign buyers in the African context give the basis for our second research question (*What are the motives and obstacles for foreign firms to integrate African suppliers in global value* *chains?*). Our comparison of Finnish and Chinese firms' experiences contributes to managerial implications, in particular. The differences between the two countries provide the study with a rich set of differing values, experiences and new insights into sourcing from Africa that can form a starting point for further studies within the topic as well.

Methodology

Research setting

The research methodology used in this study is qualitative, exploratory, and holistic (Eisenhardt, 1989; Yin, 2013). We investigate a contextually-rich phenomenon with a multiple case study approach. Furthermore, we adopt a comparative research setting in our analysis of Finnish and Chinese buyers operating in the African continent.

To address our research questions, we investigated how foreign buyers approach the African continent and integrate African suppliers into their supply chains: what, how and why they are sourcing from Africa, who are the counterparts (African suppliers) and what kind of relationships are maintained with them. On this basis, we can construct the value chains, and thus understand the roles that African suppliers play in these.

Sample selection and data collection

We collected primary data via interviews (using open-ended questions) with case company representatives, as well as used secondary sources of information. Eisenhardt (1989) suggests that the sample selected for qualitative research should be purposeful and based on theoretical underpinnings. We aim for variety, and therefore collected data from different companies, which are dependent on sourcing from Africa to a different extent and source different types of products from different countries or regions in Africa. We employed a convenience sampling method of interviewing companies, mostly for practical purposes, as it was difficult to gain access to companies. The sampling process was based on theoretical sampling (Miles *et al.*, 2014): the selected case companies differ as widely as possible from each other to fill in theoretical niches (Stuart *et al*., 2002). Table 2 shows the key features of the companies interviewed for the study.

Insert Table 2 here

Our case companies include five Finnish companies and five Chinese companies. They represent both private and state-owned companies, as well as both SMEs and large enterprises, from different industries.

The interviews address themes that have so far received less attention in research on sourcing from Africa (Kauppi *et al.*, forthcoming). The open-ended questions concerned the decisions the companies made regarding their African suppliers, with particular emphasis on the types of the value chains African suppliers are integrated into, on the strategies and practices used to integrate African suppliers into the value chains, and on the reasons for and obstacles to source from Africa. Example questions include: What are the key strengths of African suppliers if compared with other suppliers in your experience? How does the African context impact doing business with suppliers there? Have you faced any challenges while sourcing from Africa? What kind?

Interview protocol and data analysis

Two pilot face-to-face interviews were conducted in Fall 2014 to test the interview questions and gain information on possible contacts for the actual interviews. One respondent was the CEO of a Finnish consulting firm, who has extensive experience in helping European companies with their operations in Southern Africa, and another was a Chinese diplomat, who works in the Embassy of China to an African nation. After the pilot interviews, we slightly modified our interview questions based on the feedback, and established contact with some of the suggested companies. Essentially, we used a snowballing technique for finding target companies for our study.

Gaining access to case companies proved to be difficult, both in Finland and in China. When approached, six companies in Finland and five companies in China did not reply or refused from the interview for such reasons as time limitations, unwillingness to reveal company operations, or a corporate policy of not participating. Yet the sector, size, and level of success of a company did not affect their willingness to respond to our study. For instance, in Finland, we contacted two similar large successful companies in the same sector; one answered while the other did not. In China, we also used some personal contacts for gaining access to the companies.

Altogether, we conducted 17 interviews for this study in 2014 and 2015. These include ten interviews with the (ten) case companies, the two pilot interviews (with a Finnish and Chinese person, respectively), and five additional expert interviews (with two consulting firms and a governmental trade promoting agency based in Africa, and two with Chinese/Finnish companies, which provide support (such as logistics services) for African sourcing).

We conducted the interviews with the case companies between September 2014 and March 2015 in Finland and in May 2015 in China. From each case company we interviewed one person who was a member of the management team, either the CEO/Founder (in SMEs) or the person who is in charge of sourcing from Africa (in larger companies). The leading author conducted the predominantly face-to-face interviews. Three Chinese enterprises were interviewed via email, because the managers responsible for African operations were based in Africa.

The working language of the team is English, and the interview guide was prepared in English. The leading author who is native Chinese speaker produced a translated version in Chinese. The interviews were conducted in English (with the Finnish interviewees) and in Chinese (with the Chinese interviewees). The interview questions sent via email were in both Chinese and English to ensure successful communication; the responses were in Chinese. The face-to-face interviews lasted from 30 to 90 minutes, and they were transcribed verbatim. To keep the richness of the data, the Chinese language interviews were transcribed into Chinese and then translated into English (by the leading author).

In addition to the case companies and two pilot interviews, we collected additional data from experts: these included one face-to-face interview with a Chinese logistics company (in China), two face-to-face interviews with two different consulting firms (in Finland) which help Finnish firms with their operations in Eastern and Western Africa, and two email interviews: one with a Finnish logistics company (in Africa) and one representative of a Finnish sales promotion unit (in Africa). This provided us with contextual information about Africa, as well as general understanding of the challenges and opportunities that foreign buyers have when operating in the continent. Our analysis focuses on the case companies, but this information of a more general nature has been essential for our holistic understanding of the topic and our analysis of the case results. Interviews with different stakeholders concerned gives us a wider background and preserve the sharpness of the contrast in our findings (cf., Brown and Eisenhardt, 1997). Secondary data, such as annual reports and company profiles, was also collected from all case companies to provide complementary information and to allow triangulation of data (Yin, 2013).

After the data collection, all data was coded and analyzed by the research team. The data was analyzed through a two-stage process (Eisenhardt, 1989). First, we presented data tables and constructed within-case narratives. Second, we compared the cases with iterative processes until a set of constructs, which might explain similarities and differences in outcomes, emerged. We keep all cases anonymous and refer to them by code names, but in our descriptions, we aim for contextualizing the cases and indicating their core features.

Results

We begin this section by the within-case descriptions, including visual representations of the value chain governance for each case company. We then continue with our cross-case analysis, where we structure the discussion around our research questions.

Finnish firms

Case Company FI A: Jewelries and interior design products

Case Company FI A is a small-sized Finnish company founded by two Finnish textile designers. The founders were serial entrepreneurs before they started to consider building up, what they later on realized was a social enterprise. The focus is on interior products such as baskets and bags as well as jewelry lines designed in Finland. The actual production is subcontracted to workers (artisans) in Kenya, with the goal of enhancing their quality of life. Once the manufactured products have been completed, they are shipped to Finland where they are sold to consumers. The designers aspire to visit their subcontractors in Africa as much as possible, to both monitor the production process and maintain personal relationships. FI A's African suppliers are thus integrated into a relational value chain.

The company representative emphasized the usage of personal connections and networks:

It has been a lot of work to also make people trust us. Because there is so long history of colonialism and charity work, which has also somehow made people more passive. It's usually so that if the white ladies come in, they just visit, they do something and then they disappear. To make them realize that we are there to stay and we want to cooperate together and work together as equal partners, it took some time […]. Because [company name] wouldn't have started without [name of owner] going there and really contacting people. (FI A)

Furthermore, the company also is keen on educating the suppliers, thus raising the level of local skills:

We are also willing to educate people. That if we see that there is skills but the quality is not good yet, we are always taking a chance to say that you need to improve this and this, and if it's possible then we can work together. (FI A)

This company representative also discussed the best practices for working with African suppliers, stressing the point of mutual learning and involvement.

The value chain of this case showing its relational feature is presented in Figure 2.

Insert Figure 2 here

Case Company FI B: Electronic waste

Case Company FI B is a small-sized company founded by a Finnish entrepreneur and a Ghanaian business partner who has ties to Finland. The Finnish entrepreneur was driven to this line of work by the desire to make a social impact in Africa, and also by the pre-existing extensive network. The main mission of FI B is to collect used electronic materials from African countries to be properly recycled with the help of local organizations (e.g. churches and telecommunication companies). The electronic waste is a desired material by several companies, which was one of the key factors in starting up a company that collects electronic waste on a larger scale. Currently, though on a smaller scale due to the newness of the company, all of FI B's electronic materials are sourced from Ghana. The valuable (waste) materials are imported to Finland, but with a hope to, in the future, handle recycling within Africa. FI B's suppliers are integrated into a market-like global value chain. However, this linkage between FI B and its individual suppliers is not governed by price as typically suggested for this value chain type (Gereffi and Lee, 2012), but the convenience of disposal that FI B's suppliers obtain by 'supplying' e-waste to FI B via organizations such as churches (see Figure 3).

Insert Figure 3 here

This company is operating in the area of sustainability that is quickly developing in global business: recycling of waste material is without doubt going to grow in importance globally. The company is aiming to expand the business:

> We have started in Ghana in 2013 with a pilot project. We have partners and they are church organizations that have national networks that we can utilize. So we have started in Ghana, but we are planning for Nigeria and planning for Indonesia, and we are planning for Congo and even Sierra Leone has come up now during the last weeks. So yes, we want to expand in Africa. We don't know yet how we are going to do it, but we will find out. (FI B)

On the other hand, they explicitly note that for expansion they need to integrate African suppliers into the global value chains:

> We are going into other electronic material, because our sort of providers in Africa, all organizations and people, they are asking, why can't we collect other electronic material also. But we cannot do it just yet. We need to have stronger cooperation with strong companies in Europe and Finland for that. (FI B)

Case Company FI C: Raw materials for cosmetics products

Case Company FI C is a small-sized Finnish cosmetics company founded by a Ghanaian entrepreneur and a British partner. The Ghanaian entrepreneur saw an opportunity that emerged during some changes within their personal life. Simple materials used by the Ghanaian back home in everyday life were missing in Finland and they decided to utilize this market niche. The entrepreneurs also feel accomplished in being able to help their local community to empower women in Ghana to work and support their families. Cosmetic products of the company are manufactured in Finland, and the raw materials are mostly sourced from Ghana, but other countries such as Uganda and Morocco are also utilized. FI C's African suppliers are integrated into a market value chain.

In this case we can find strong altruistic motives emerging alongside the strategy of the company to produce products with African raw materials:

We wanted to be able to put something back. … especially with me coming from the west, there's, it felt very close to my heart when she [the Ghanaian entrepreneur] was talking about giving, especially in, see, in Northern Ghana, there are a lot of women, because that's the only place where they've really had any conflict in living memory. And so there are women there who have no husband for the often died, for they are single mothers. And they're very badly discriminated against. So buying for example sheer butter from that location means that these women have some financial power. So then they can send their children to school and things like this. So it is about empowerment. (FI C)

Still, purchasing is based on arm's-length relations, and buying decisions are based on price and availability of the materials. This is illustrated in the value chain in Figure 4.

Insert Figure 4 here

Case Company FI D: Flowers

Case Company FI D is a wholly owned subsidiary of a Finnish conglomerate, which operates in the retailing industry. The products sourced by FI D from Africa are mainly agricultural products, such as flowers, fruits, vegetables, tea and coffee. The category manager interviewed at FI D is responsible for the product group of flowers. Previously most flowers, for example roses, were sourced from either Finland or Holland, but as winter conditions make the growing of roses expensive and difficult, local Finnish and Dutch suppliers stopped growing them. The African climate and especially the length of the day being equal year round made it the perfect location to grow flowers and especially roses. After the termination of domestic flower supply, the most natural route for FI D was to contact their original supplier due to the fact that they have previously sourced directly from Holland and also maintained a relationship with this Dutch supplier in other sourcing categories. Managers at FI D visit the suppliers in Africa every second year to meet the farmers. FI D's African suppliers are integrated as material suppliers into a modular value chain, as seen in Figure 5. The Finnish company prefers using a Western middleman to facilitate coordination:

At this moment, it's important that we have those Dutch people between us […]. They know very well what the situation is there, and they take care that everything is running well there and we have right varieties, right colors and good quality and everything is, the whole sale is working well […]. Those people there in Amsterdam Airport, they are very used to handle flowers, and they know what they should do. (FI D)

Insert Figure 5 here

Case Company FI E: Coffee beans

Case Company FI E is a wholly owned subsidiary of a large Finnish enterprise in the coffee roasting industry. The senior sourcing manager interviewed has a substantial amount of experience gained within the coffee industry and practices in Africa. With an enthusiastic perspective, it became clear how the main product sourced by FI E from Africa is coffee beans, and it accounts for five percent of the coffee beans FI E sources globally. The majority of the coffee beans sourced by FI E are from European wholesalers who obtain the coffee beans through auctions in Africa. The minority of the coffee beans sourced by FI E are from local African wholesalers, who obtain the coffee beans through auctions in Africa.

For FI E it is of great importance that their products are traceable and thus transparent. FI E's African suppliers are integrated as material suppliers into a modular value chain. They use European wholesalers because similar 'full-package supplier service' (Gereffi and Lee, 2012) is not available in some of the African countries:

What is typical in Ethiopia is that you don't have exporting companies in Ethiopia […]. That's actually one of the challenges, because they don't, we cannot do the business with an exporting company in Ethiopia'. Figure 6 illustrates this value chain. (FI E)

Insert Figure 6 here

Chinese firms

Case Company CN A: Railway construction materials and labor

Case Company CN A is a large integrated construction group that encompasses infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, property development and other businesses. By the end of 2015, CN A has total assets of USD 103 billion, net assets of USD 20 billion, 43 super large subordinate enterprises and 300 000 employees, with the business scope covering infrastructure construction of the whole industry chain. At present, CN A is providing services to more than 90 countries and regions around the world. CN A started its African operations in the 1970s, and its main business in Africa is to construct railways, provide expertise and knowhow in railway construction as well as to help African countries build other infrastructures.

The project manager interviewed has an extensive experience in Algeria. The main products sourced from Africa by CN A are construction materials and local labor. CN A's African suppliers are integrated into a limited market value chain, as CN A would only source from African suppliers, which are related to the local governments and not from all available suppliers in the market. Despite the limited suppliers, the main motivation and advantage of these African suppliers is the price:

The main strength of African suppliers compared with European or Asian suppliers is that they can supply raw materials and labor at a much lower price to us. (CN A)

Figure 7 illustrates the value chain of CN A - located on the spot in Africa. Thus, this company operates in Algeria and sources locally.

Insert Figure 7 here

This company has strong contacts with both Chinese and local public sector:

In Algeria, because our company is a 100 percent state-owned company by Chinese government, and our suppliers are local government-related institutions and organizations, this connection makes it easy for our sourcing activities. (CN A)

In addition, it is visible that the company is well established in Africa:

Our company has a good reputation in Africa, so it really helps us with our sourcing activities and business operations in Africa. (CN A)

Case Company CN B: Chemicals, telecommunication products

Case Company CN B is a large central enterprise principally engaged in the design and construction of transportation infrastructure, dredging and heavy machinery manufacturing business. At the end of 2015, CN B has 112,719 employees, total assets of USD 38 billion, and 34 wholly-owned or controlled subsidiaries. CN B has over the past 20 years actively participated in and competed for international contracting projects with external assistance. This has lead them to gain a global eminent reputation, especially in regions such as Africa. According to the sourcing manager, the company has a long-term commitment to engage in projects in Africa, including local sourcing. They already have experience in the region going back several years and an office located there, signaling investment for the future. For their Kenyan project, CN B mainly sources construction materials, telecommunication products, daily necessities and labor. CN B's African suppliers are also integrated into a limited market value chain, as CN B has agreements with local governments in Kenya on the percentage of materials and local labor they should source from local suppliers. The local value chain in Kenya is shown in Figure 8.

Insert Figure 8 here

Case Company CN C: Power plant construction material

Case Company CN C is a large central enterprise providing full-range services in the fields of hydropower, thermal power, new energy and infrastructure. At the end of 2015, CN C had total assets of USD 77.1 billion and 200,000 employees. The annual revenue in 2015 was USD 43.6 billion. By the end of 2015, CN C has performed 1,863 overseas projects in 116 countries in the fields of engineering construction, design consultation and equipment manufacturing. For its project in Nigeria, CN C mainly sources power plant construction materials locally, but on occasion has to source their materials from China. According to the project manager interviewed, an electrical engineer, quality issues are a constant issue for them while dealing with Africa. Perhaps in the future as the needed infrastructure improves in Africa, they will be able to source more and especially more complex materials from Africa but currently they utilize the market for more standard products only:

> The ordinary-material pipes which are sourced from Nigeria accounts for 30 percent of the pipes we need for the project, the better (high precision and better material) pipes we need for the project are normally sourced from China. (CN C)

CN C's African suppliers are integrated into a market value chain, as shown in Figure 9.

Insert Figure 9 here

Case Company CN D: Sesame, cotton and peanuts

Case Company CN D is a medium sized enterprise in the business of sourcing and selling agricultural products in China. In 2010, CN D expanded its business to Africa to source agricultural products, and at the same time grow agricultural products by itself in China. The main products sourced from Africa are sesame, cotton and peanuts, which in the view of CN D are of excellent quality. The CEO of the company has had a positive experience while sourcing from Africa, stating that there were no challenges as the African suppliers were quite familiar with Chinese companies and their ways of doing business. CN D's African suppliers are integrated into a market value chain (see Figure 10).

Insert Figure 10 here

This interviewee believes that the company has a good reputation among local actors: a view that is backed-up by its long history of doing business there. Moreover, the respondent refers to the local impact that a foreign buyer can make in advancing the local businesses:

Africa is very rich in agricultural products resources, for example, in Tanzania, our company sources cotton, peanuts and sesame. We source these products, process these products, and import these products. Our company has a very good reputation among the local farmers, peasants and governmental institutions, and we also help the development of the local agriculture and economy. (CN D)

Case Company CN E: Sesame

Case Company CN E is a private joint-venture established together with a Korean firm in 1998, and it is a food processing and exporting company. CN E's main business is to process agricultural products and sell these food products to their global customers. In particular, CN E sources sesame from Ghana and Ethiopia via its Korean shareholder. The assistance from their Korean shareholder has helped to tackle many issues faced by Chinese companies sourcing from Africa. Because the materials CN E sources from Africa are raw materials, and there is no technology or processing involved on the side of the Korean firm, it does not, however constitute a modular value chain. The African suppliers are involved in a market value chain with the Korean firm, and the linkage is governed by price. The Korean firm and CN E are linked with relational ties. This value chain with different elements is shown in Figure 11.

Insert Figure 11 here

As many others, this company stresses the role of local networks as central element in African business:

The typical ways of doing business in Africa in our industry is to find suppliers of needed agricultural products, select a few good suppliers, and establish long-term relationships with them. So local contacts and networks are important, especially for our long-term relationships, we need to have good local contacts and networks. (CN E)

Cross-case analysis

Global value chains involving foreign firms and African suppliers

We have compiled our findings on the different value chains of our case companies into Table 3. We can see that the African suppliers are mostly involved only in market governance chains only, with a few examples of modular and relational value chains. However, even in these latter chains, apart from the case FI A, local suppliers only take the role of component or material suppliers, with the full-package and relational supplier roles handled by Western companies (cases FI D and FI E). Consequently, the power position of the African suppliers is still relatively low and they are mainly following the directions of foreign buyers. Given that the African suppliers do not have proprietary technology or skills rare in the market, but rather supply primary materials, they hold little leverage over the buyers. Indeed, the buyers would have several alternative sources of supply for many of the materials purchased. For some products, though, Africa is a critically important supply base, making the foreign firms dependent on the African suppliers, but even then, typically not on any single supplier.

Insert Table 3 here

Most of the African suppliers in our analysis are direct suppliers in the value chain, with direct contact to foreign firms. In our opinion, this provides potential for deepening the interaction between the companies. However, because most of the supplies provided by African suppliers are raw materials and simple products, the African suppliers do not add much value within the chains. Interestingly, we found only one case (FI A), where the entire production was outsourced to Africa.

Furthermore, we identified some factors preventing the formation of other types of value chain governance, which are hindering the African suppliers taking on more value-adding roles closer to the lead firms. These factors include the understanding of business needs, western consumer preferences and purchasing specifications provided by the buying company as well as concrete language issues, which may cause the relationships to develop slowly. Furthermore, lack of suitable intermediaries was also raised as such a factor. We provide examples of these below.

FI A and FI C raised the issue of business understanding and language in problems of the suppliers dealing with specifications. FI A specifically commented:

And of course in the countryside we don't have same language. They, some of the older ladies for example here and here, they speak only Swahili and no English. And we don't know Swahili. So it's to make them also realize that you know, if we order like black and white baskets and first order was like 20 black and white baskets, and they made 20 blue and white baskets, and then we come a little like, ok, this is really like a wrong color, and they got upset, because they said to us, like, but it's totally durable, that you can use it, you can put things in there, so why are you complaining ladies? They didn't understand the why we wanted to have that kind of. Of course they couldn't, because they, where they live, they don't have interior design magazines like, you know, Elle, Maison or something like that. (FI A)

The FI C interviewee echoed this at a more general level:

Because some of the suppliers are really remote, and for instance if they haven't been to school, then that is also a negative thing, because you say something, they understand it in a different way and they cannot. (FI C)

FI E commented the lack of suitable intermediaries to handle the full-package supplier role in terms of Ethiopia not having exporting companies although these are present in some of their other countries of origin. The Chinese firm CN E had solved the intercultural issues by the Korean joint-venture that was physically located in Africa:

Our Korean joint-venture partner is dealing with the African suppliers for us, and the other suppliers which are operated by Chinese in Africa of course have no intercultural issues with us. (CN E)

While this is beneficial from the buyer perspective, it of course can hinder African companies trying to move to these more central roles in the chain. A similar issue might be present with case FI A, where the company very tightly kept the design of the bags etc. within Finland:

It's all designed by us, because normally it's very, you can see they're very, very bright and colorful, but we made it more to Scandinavian style and for European taste or Japanese taste, whatever, which is the more interior decoration style. So mainly it's like these ladies, there is now 200 ladies involved with this project. (FI A)

Relationships with African suppliers

We note different types of relationships with the African suppliers in our cases. These, as literature suggested, reflect the comparative power positions of the buyer and supplier, and thus extend the findings related to the African suppliers in global value chains.

Specifically, we suggest FI A, FI E and FI D to be in strategic buyer-supplier relationships. In these relationships, we see examples of bargaining power on both sides of the relationship, fine-tuned logistical arrangements between the buyer and supplier and longevity of contracts.

CN A, CN B and CN C all appear to be in a buyer-leverage situation with their African suppliers. They have the ability to switch to another African supplier easily, and purchase large volumes. In none of the cases do we find examples of a supplier-leverage situation, supporting our finding of the limited roles of African suppliers in global value chains. Several cases – FI C, CN D and CN E – portray a transactional buyer-supplier relationship as for both parties switching suppliers is easy. These types of relationships are recommended to be managed as efficiently as possible (e.g. Kraljic 1983), but for example the owner of FI C pointed out issues that suggested cultural aspects would also often hinder the efficiency required in a transactional relationship:

It's very frustrating, very, very frustrating. Because something that can, will take about two days to do, can take about a month. Because you are here, you are calling them, and they are like, yes, we are on it. And maybe this person is sleeping in the bed or something. (FI C)

The buyer-supplier relationship between FI B and its African suppliers does not fit into the typical buyer-supplier relationship patterns described in previous literature, as FI B's suppliers do not receive anything in return for their actions. FI B is in its nature a social enterprise and thus does not function as a normal company would, or is suggested to in sourcing literature.

Key reasons for foreign firms to integrate African suppliers in their supply chains

In addition to analyzing how foreign firms integrate African companies into their supply and value chains, we also set out to understand why this integration and sourcing from Africa takes place. To that purpose, we analyzed the key motives for the case companies to source from Africa, as well as the obstacles and concerns that companies found in these operations. These results are summarized in Table 4.

Insert Table 4 here

It is evident that the rich resource base of African continent attracts foreign firms, both from Finland and China. The following quotation is illustrative:

In terms of economic environment, the countries in Africa, which we are sourcing agricultural products from are all big agricultural countries, they have a lot of workforce, the labor cost is really low, and the agricultural products are very cheap. In terms of the political environment, [they] are all countries with stable political environment, and China is aiding these African countries, so these countries are very friendly to China and Chinese companies. In terms of the natural environment in Africa, these is very little pollution in these African countries, so the agricultural products sourced from Africa are of high quality, and they are toxic-free. (CN D)

We can find however some differences in the motives: Finnish companies tend to note unique resources, while Chinese respondents stress the cost factor. Interestingly, also motives for social enterprise emerged both for Finnish and Chinese companies, respectively:

I mean, like this electronic material collection and recycling, you have business plan and some idea, and our idea from my colleague was to connect to the church organizations in Ghana, because they have the same vision to clean up and to help and be socially responsible. (FI B)

First of all, by sourcing these products from Africa, we can help develop the economy and increase the employment rate in Africa. Secondly, it brings us convenience by sourcing these products locally. (CN B)

This finding of local support as a motive for Chinese companies is somewhat surprising, as previous research often suggests that China's influence in Africa is not always positive, especially in terms of social upgrading or labour conditions, given the power imbalance in trading relationships (Ado and Su, 2016).

The list of obstacles for sourcing from Africa is extensive as seen in Table 4. There are many practical and fundamental issues (including e.g. cultural differences, corruption, lacking infrastructure) that still need to be solved to improve the sourcing context and help African firms to move up the value-adding ladder. In several instances, our respondents noted their willingness and aim for helping the locals, which signals a brighter future.

Discussion

Our study focuses on the African continent and African suppliers as members of global value chains. Global supply chain management continues to grow in importance, but research attention on this topic and context has been limited (Connelly *et al.*, 2013). Our case studies contribute to new understanding as comes to global value chains involving African suppliers, and the motivations for entering the challenging supply markets of Africa. Below we frame our discussion to answer the two research questions we set in the introduction, and present our related contributions.

The types of global value chains that African suppliers are currently integrated into

We identify four different practices through which foreign firms integrate African firms into their global supply/value chains: a) sourcing finished products from African suppliers, b) sourcing raw materials directly from African suppliers, c) sourcing raw materials via intermediates from African suppliers, and d) sourcing materials and labor for local construction projects from African suppliers.

The global value chains involving large Chinese state-owned enterprises (SOEs) and African suppliers appear to show a relatively strong position of the foreign buyer. This may be because (the investigated) Chinese SOEs are physically present in Africa for e.g. construction/mining projects, and their investments have strong support from governmental organizations. The sourcing of materials and labor for local projects is, however, based on market relations, and arm's-length supplier relationships. Larger Finnish companies appear to be involved in modular value chains with their African suppliers, as indicated by our case studies and existing research. The reasons for this may be the availability of European and local intermediaries. Specifically, the Finnish firms in our sample prefer using European intermediaries for more value-adding work and coordination of the chain, while Chinese firms assume these roles themselves through a local presence.

Chinese SMEs in turn are only involved in market value chains with African suppliers. They thus conduct simple and codifiable transactions. One may actually question why no auction systems and intermediaries are involved for this trading. Finnish SMEs were also involved in market value chains, except for one company that had built a relational chain. All these firms emphasized the need for local presence and involvement in the African society and business. Finally, we did not identify any captive or hierarchical values chains with case companies in this sample, which indicates that the companies tend to keep relative distance (whether physical as the Finnish companies or processual as the Chinese companies) from the sourcing market still.

As Day *et al*. (2010) point out, the choice of how to manage a supplier relationship should match the sourcing context; otherwise, value creation will not be at an optimal level. We found that in many cases the supplier relationships with African suppliers were not 'in line' with the suggestions of past buyer-supplier relationship research (e.g. Caniels and Gelderman, 2005) due to infrastructural and cultural issues that prevent the management of the relationship as might otherwise be considered 'optimal' given the power the buyer has. These infrastructural and cultural issues, e.g. the bureaucratic and corruption challenges present in the African market, can empower the supplier more than their resources would otherwise allow and prevent efficient transactions. Distances in sourcing can cause transmission of supply-demand signals to fail because of e.g. different measurement systems and different expectations on the relationship, potentially increasing the costs of managing such relationships (Mol and Brewster, 2014). These findings overall point to a larger theoretical issue at play, recently noted also by Kauppi *et al.* (forthcoming): researchers need to examine whether theories and frameworks – and the managerial advice provided based on them – still apply when said theories and frameworks are taken out of their original context of creation (typically an Anglo-Saxon business culture). The noted mismatch in our cases between the purchasing portfolio guidelines on how to manage supplier relationships and the infrastructural and cultural characteristics of the African suppliers would suggest purchasing theories and frameworks will need modification when applied to the African context, i.e. they are not ‘etic’ theories that can be applied regardless of the country and cultural context (Revilla and Sáenz, 2013).

We may also note that there are different motivations present for Finnish and Chinese companies to enter the African markets. The value-chains of the former are driven by business concerns and (globalization) strategies of the individual companies. In case of China, the value-chains are often politically driven, as Chinese government has provided strong support for these activities and thus also helped networking with the local governmental organizations. Furthermore, several of the analyzed supply chains were totally located on the African continent, thus indicating the local presence of Chinese firms. Indeed, our findings are in line with previous research on Chinese multinational enterprises. Peng (2012) notes that Chinese MNEs are characterized by three relatively unique aspects. First, the home country government has a large institutional role in their foreign endeavors; something past studies on MNEs has under-appreciated. Second, they venture abroad despite the absence of superior technological and managerial resources. Third, their main entry mode has been the fast adoption of large-scale acquisitions. We echo his view that these aspects need to be taken into account in our theory building and empirical research of global strategies, and not least in the area of global sourcing. Our study provides a base for further comparative studies on buying firms representing different foreign countries and institutional contexts, which would validate and extend our initial findings. Moreover, as to the position of African suppliers in global value chains, we will need more longitudinal studies to investigate their potential advancements on the value-adding ladder. In particular, we would expect future studies to find more variety in the governance structures in sourcing from Africa.

Motives and obstacles for foreign firms to integrate African suppliers in global value chains

We found various motives for sourcing from Africa, inspiring the increasing interest in this supply base. Resource base of the continent was at the top of the list, but in addition, we found also e.g. motives related to supporting the local economy, and several of the companies noted their potential for helping local companies and economies to develop further. There were to some extent different motives for Finnish and Chinese firms to enter the African sourcing market. Political agenda was key for Chinese firms, while many Finnish companies aimed for making a social impact in Africa. Furthermore, there are several obstacles influencing the supply and supply relationships, and we found to some extent different obstacles for Finnish and Chinese firms. Sourcing can be challenging for instance, because past rules for sourcing behavior need adjustment given e.g. cultural differences, language barriers, and other contextual factors (Connelly *et al.*, 2013).

As a solution, almost all companies referred in some way to the importance of local networks and involvement, that is, being on the spot to deal with issues and gain valid information. This finding is also in line with previous studies reporting successes in foreign market entry into turbulent markets (Salmi, 2000; Owusu and Habiyakare, 2011), and the role of network building in Africa (Acquaah, 2012). In the African context, the inter-personal networks with different parties seem to be particularly valuable. This is evidenced e.g. in the following quotations:

Then one solution is that you have to be there. You have to, like, be and you have to have a local guy, you have to have the local guys, you have to have more than one person. That will, bottom, lower level, like the driver is the most important guy that you need. The other thing is that you, in some cases you need to have connection up to the ministerial level so that you can discuss with him then if you have a problem. So there are then this type of […] ways of handling things that you have to find out. (FI B)

Local contacts and networks are rather important in Africa, in Algeria people value religious connections and family connections. For example, when you try to get all kinds of permits, it is much easier if you have contacts. (CN A)

Local contacts are very important in doing business here. For example, our relationships with our suppliers are all long-term relationships, and this long-term relationship makes our business and daily operations much easier and more efficient. (CN B)

In conclusion, we saw that the case firms were optimistic about the future of African sourcing and took a long-term perspective to it – it takes commitment and involvement to do business in this challenging context, but it is worth the investment:

I think, noticed, that the partner cannot be anybody. It should be someone that knows a little bit about this business, have very good contacts and preferably would be, if you talk about for example a joint venture, would be part owner in the joint venture also. So that you get the sort of commitment also from the partner. Not only send the sort of proposal that you can sell this product and then you get commission, and then you sit and wait here in Finland that something happens. I don't think that's a good practice. (FI B)

And I would say that it's, there is so many possibilities in that continent that I would definitely encourage people to go there. But what you need to do is really go there. If you just contact somebody, you end up having maybe quite big difficulties. To go personally and to see the situation and see the things and work together with people, no matter what kind of business you have, I think it's the main point. (FI A)

For state-owned or state-invested Chinese enterprises, political influence may be a more significant driver of strategy than market imperatives (Alden and Davies, 2006). Chinese state-owned MNCs expanding globally are often heavily reliant on political support and financial backing from the state (Alden and Davies, 2006). Thus, the political interests of China towards Africa may influence the value chains that develop in the future, and overall the interest of Chinese firms in sourcing from Africa. We did not observe signals of a reduced interest towards

Africa among the Chinese companies studied, but changes in political agenda could trigger a need to re-evaluate the findings of our study with new empirical data.

Our case companies were sourcing from different countries in the African continent. While the interviewees sometimes gave examples of specific contexts or places, in general we could not find any differences in their sourcing as per the target country. This we see as showing the relevance of our ‘continental’ approach at this stage of understanding sourcing in the emerging African supply base. Overall, as comes to African countries and suppliers in global value chains, we found different roles played by them. Our key finding is that most African suppliers still have not occupied positions of major value adding roles, thus they are becoming more integrated into global value chains, but so far less able to reap the benefits of such integration.

Conclusion

Our study has started to analyze the African context as a supply base, thus addressing the recent calls for more rigorous and empirical research on this increasingly important sourcing context (Kauppi *et al*., forthcoming). Our conceptual contribution lies in combining global value chain analysis (and its core concept of governance) with supply chain literature, and bringing these topics into the agenda of international business studies in the context of Africa. To our knowledge, this study is the first to offer an empirical comparison of Finnish and Chinese companies’ sourcing from Africa. We look at a range of different sectors and provide an understanding of the role of African suppliers in current value chains. The research has adopted a qualitative approach to explore why companies invest in Africa and the presence of African companies in global value chains. While the results are limited to our target countries, they can stand as a starting point for further understanding within the African sourcing context.

We show that Africa is in many ways an attractive supply base, and many foreign companies have entered it and built relationships with African suppliers. Most importantly, these companies emphasize the need for local involvement and of building up extensive relationships. This is a way to overcome the serious problems still imprinting this environment ranging from language barriers to cultural differences and infrastructural deficiencies. Overall, all our companies, although having different linkages with the African suppliers, were committed to African sourcing and supply base. Our finding that foreign companies source from Africa for different reasons is important also for African suppliers. Understanding the motives of the partner will help them in strategizing as comes to building and maintaining relationships with foreign buyers: whether these are of arm's-length type or strategic. Our case companies expressed interest in learning local ways of doing business, but for sure, an increasing integration into the global value chains will pose increasing demands for African companies to learn and adapt to the global business norms.

We have differentiated between foreign sourcing firms with different home countries: representing developed vs. emerging countries. Our study is exploratory and builds on only ten cases of buying companies (that is, five Finnish and five Chinese companies). We can however, provide tentative results on how African firms are integrated into global supply chains. Essentially, our study is in line with previous findings that African firms are still occupying positions in global value chain that provide little value-added. It will probably take some time and effort for them to build up R&D and marketing knowledge and move up in value-added activities. Further, firms from developed countries (as noted here through our Finnish sample) seem to make relatively small investments and start sourcing operations with small steps – commitments and risk-taking will probably increase as more experiences are gained. Several

Chinese companies instead have made heavy investments in this continent, and consequently run large infrastructural projects, which rely on local resourcing and sourcing. The policies of Chinese government are largely behind these investments.

If such heavy investments continue, we may expect different development paths in the future as comes to the foothold that Chinese vs. other foreign companies will gain in African businesses. This is indeed something to pay attention to in both research and strategies concerning global business and Africa's role in it, and indicates a further need for comparative studies in this context. As Connelly *et al*. (2013, p. 240) note: "The combination of a world population that is shifting toward emerging markets and fierce competition in many industries has precipitated the globalization of demand and supply sources. However, some firms are more forward thinking than others, and managers appear to be embracing the inevitable globalization of supply chains at different rates." It is high time for companies coming from other countries than China to be proactive if they desire to establish a position in the African continent. A decade ago, Western countries still seemed to consider Africa in terms of their "spheres of influence" and China was seen as an "external player" in the region (Li, 2007), but recent developments show a much more powerful role for Chinese companies in Africa. Furthermore, previous research indicates that Chinese investment in Africa is indifferent to the recipient countries' property rights/rule of law, whereas Western investment tends to stay away from the poor governance environments (Chen *et al.*, 2016). Our study has not addressed such sustainability-related issues of global value chains, but it is evident that foreign buyers play a significant role in directing future activities in this respect too.

A limitation of our study is that our sample of Finnish companies is by its very nature different from the Chinese one, in particular as comes to the size of the companies. We have not gained access to multinational Western companies operating on global scales to provide true comparison with the largest Chinese case firms. However, our sample includes Finnish firms of different sizes – thus we would tentatively argue that it holds for e.g. Nordic companies that are only gradually moving forward in their African sourcing. Previous research by Karjalainen and Salmi (2013) has shown similarities in the purchasing practices of companies across Western European countries (with the sample including Finland), indicating that our results could apply broader than the Nordic countries only. Presumably, Chinese companies (with the governmental support) have more resources for entering the African sourcing market, which influences their involvement with African suppliers. Our study shows, however, that also smaller foreign companies are interested in the market, and becoming committed in it. Indeed, dynamics of integration and of different types of supplier relationships are an important issue to tackle in future studies. We hope to see more research on buyer-supplier relationships between other Nordic, as well as European, buyers and African suppliers. Particularly, future research could try to access large multinational Western companies with sourcing and investments in Africa to provide comparison with the large Chinese firms.

When approached, some companies declined to participate in our research. Although the reasons provided were unrelated to the research focus itself, this needs to be noted as a potential endogeneity issue; whether companies more successful in their foray to Africa would be more willing to reply. As our cases bring forth both success in sourcing from the continent, as well as openly discuss about some of the challenges faced, we do not see this as unduly limiting our findings, but still a point to be acknowledged in future studies.

Our focus here was on providing understanding of the current state of foreign firms' sourcing from Africa. Our data was collected two years ago, but the global business landscape is everchanging. To our understanding, the situation of the case companies is similar as when we observed them. However, we look forward to understanding via future studies how the value chains that integrate also African suppliers will develop in the future. Most of our interviews took place with people located in the sourcing country (China and Finland), though many frequently traveling to Africa. Interviewing key personnel located permanently in Africa, with a more thorough immersion into the local (supply) culture and infrastructure could provide additional perspectives, and is suggested as a next step in future research on the topic.

Some of our findings indicate that especially the smaller Finnish firms have altruistic motives in integrating African firms into their value chains; they strive to empower local communities. Yet profitability is needed to make a positive long-term impact. Investigating, and later potentially providing best practices on how small or medium-sized European companies could both become profitable and make a significant economic impact for their local African suppliers and surrounding communities is a recommended area for future study. Finally, yet importantly, moving to more quantitative research methods to confirm some of the key findings of our study regarding the roles of African suppliers in global value chains is encouraged.

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Figures

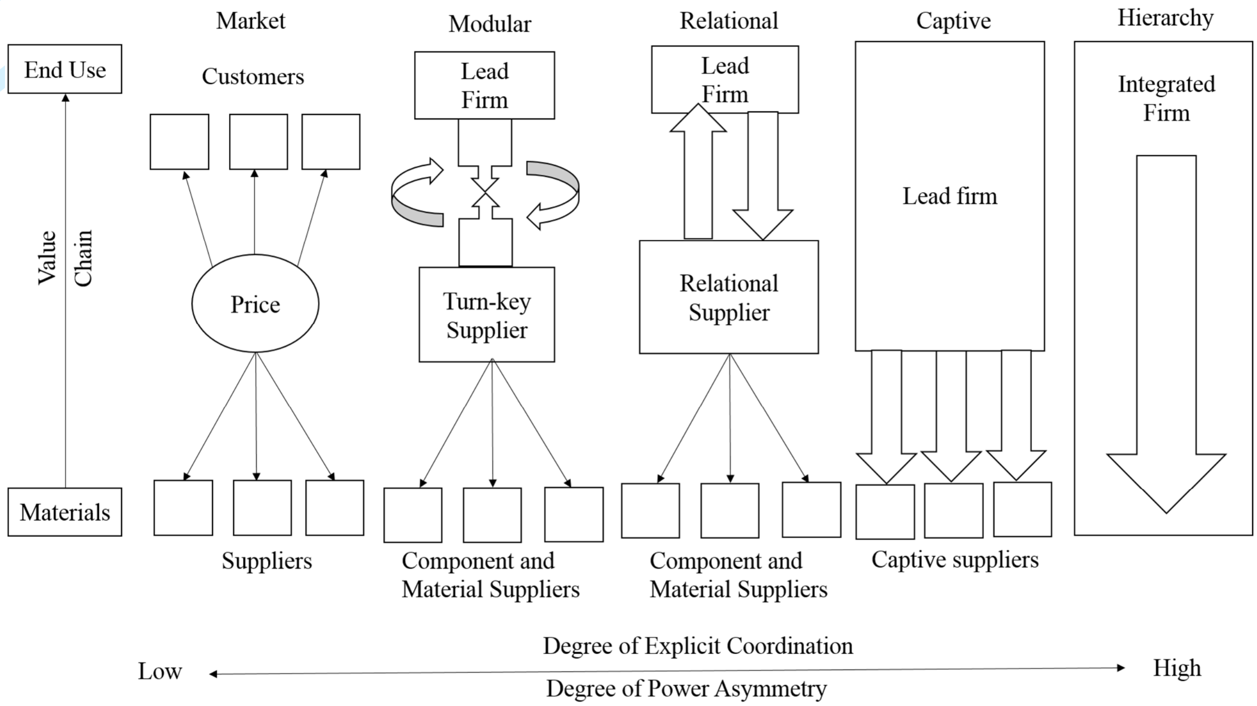

Figure 1. Five types of GVC governance (adapted from Gereffi *et al*. 2005, p. 89)

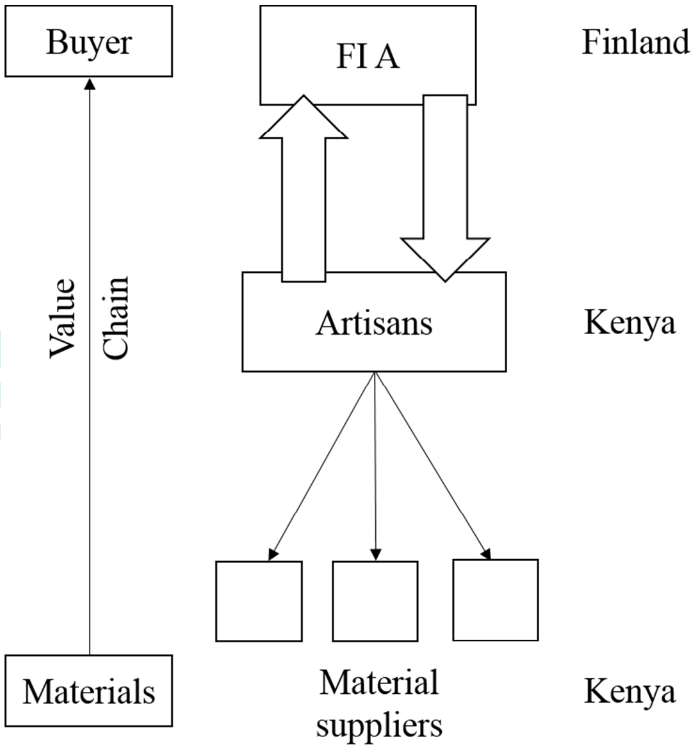

Figure 2. The value chain involving FI A and its African suppliers

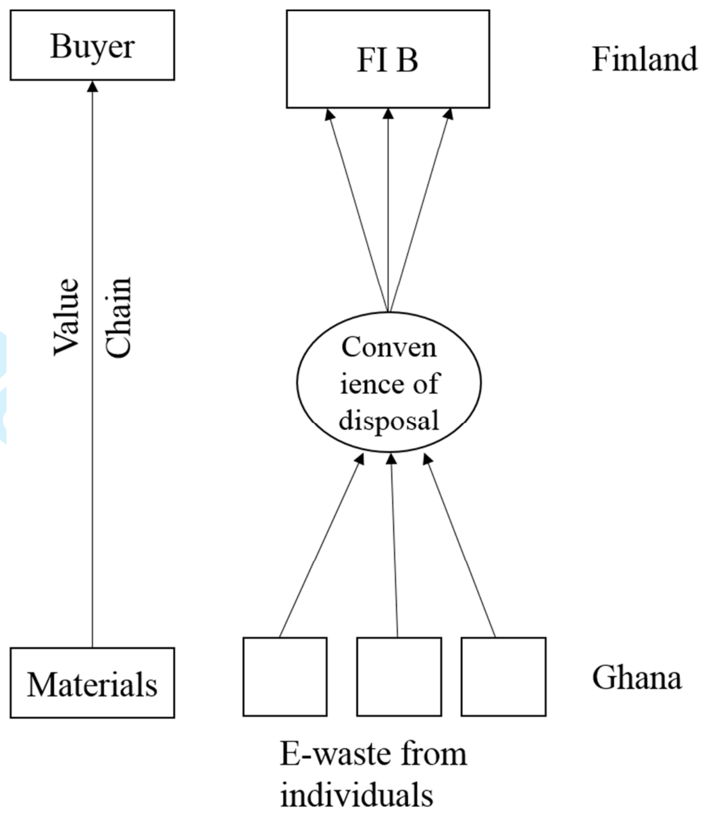

Figure 3. The value chain involving FI B and its African suppliers

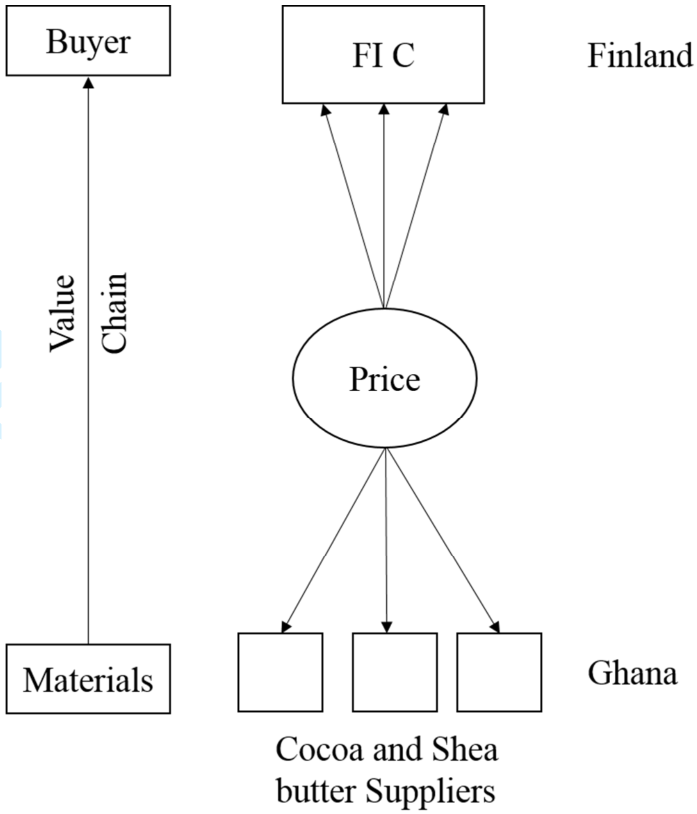

Figure 4. The value chain involving FI C and its African suppliers

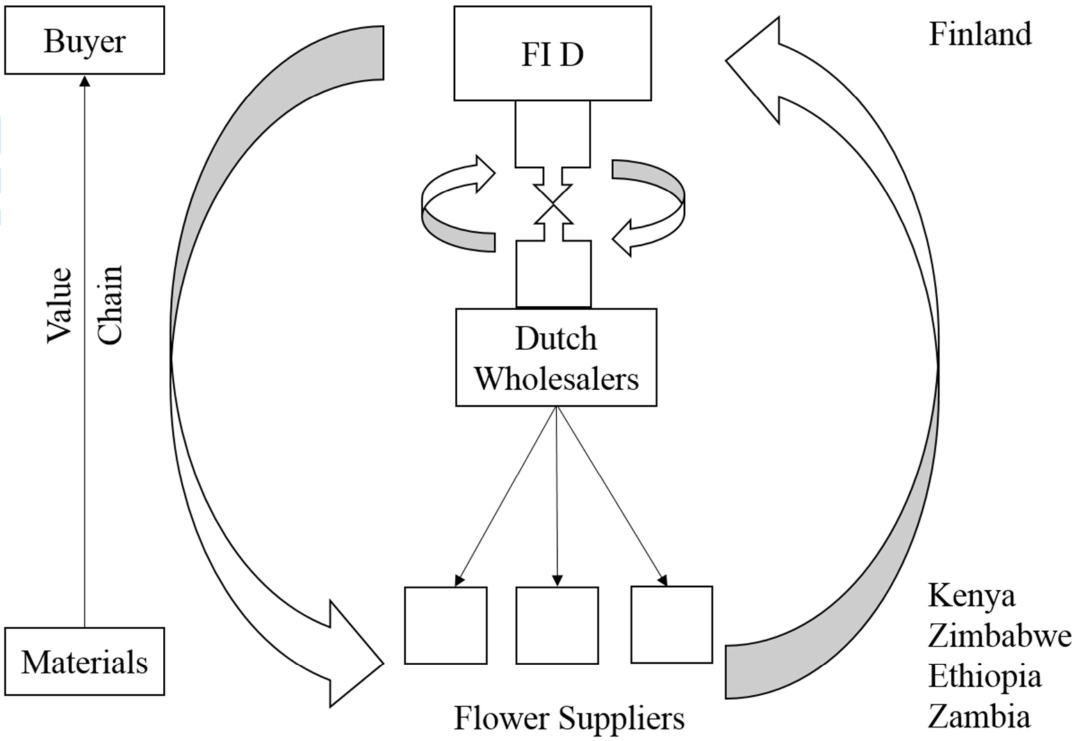

Figure 5. The value chain involving FI D and its African suppliers

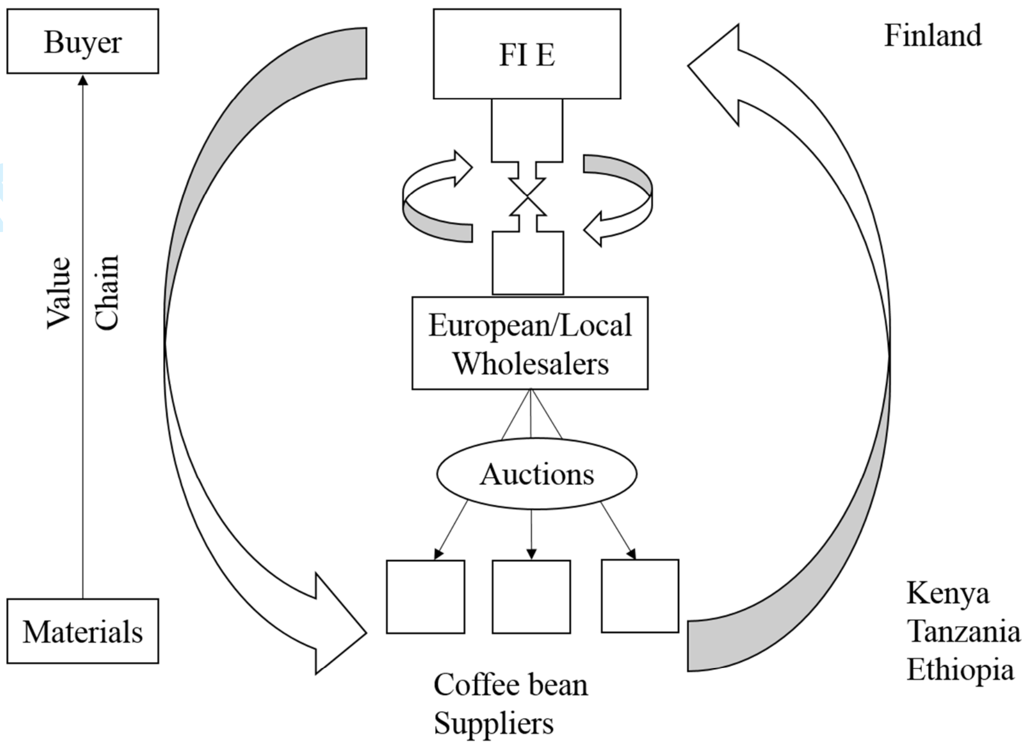

Figure 6. The value chain involving FI E and its African suppliers

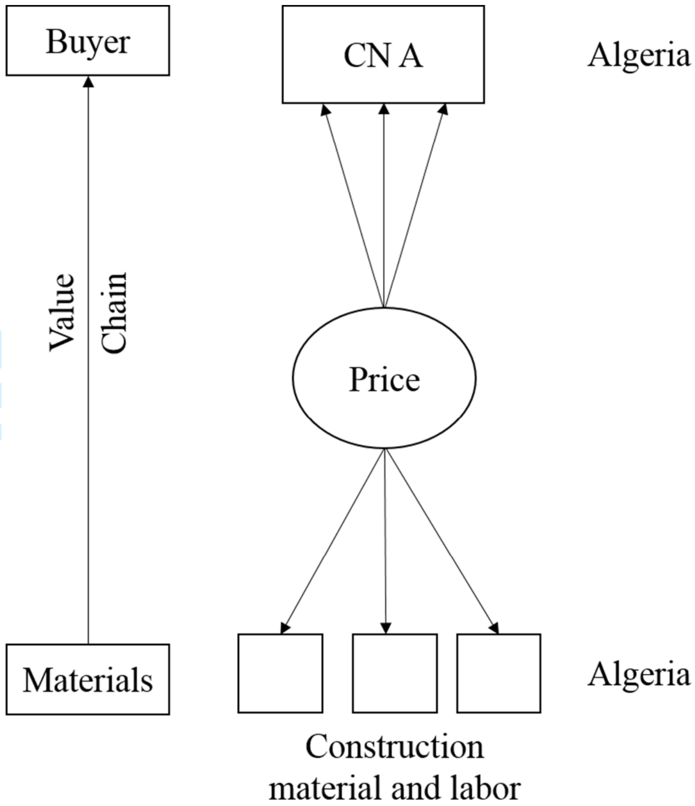

Figure 7. The value chain involving CN A and its African suppliers

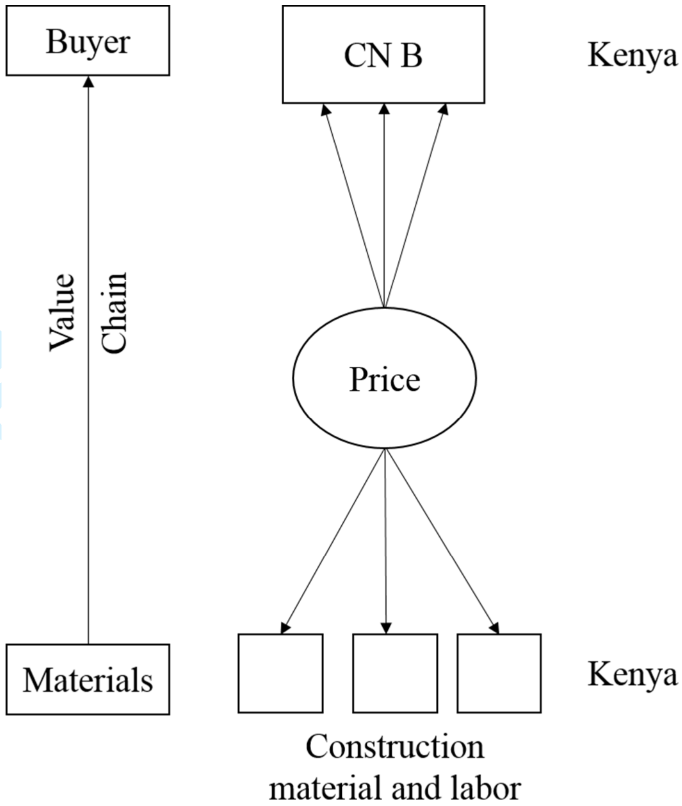

Figure 8. The value chain involving CN B and its African suppliers

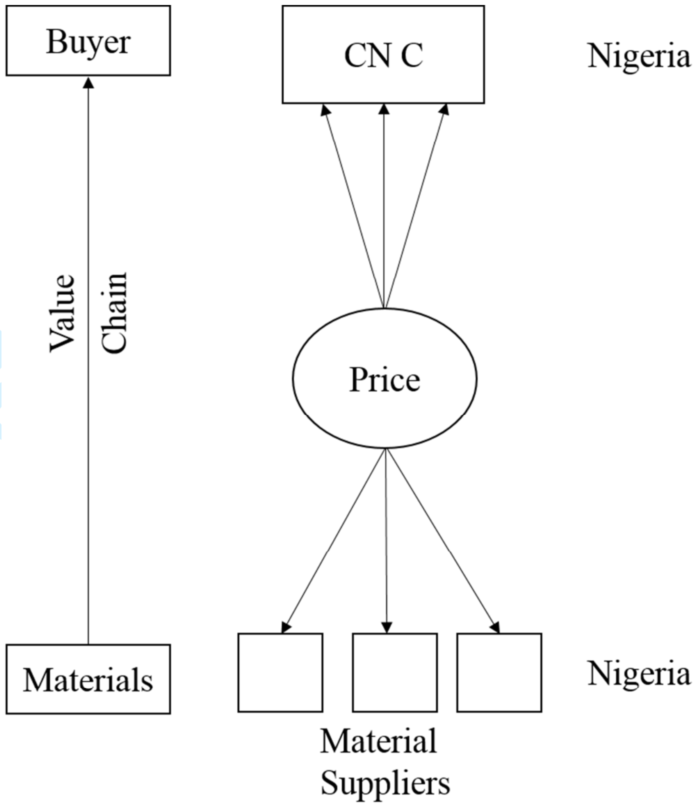

Figure 9. The value chain involving CN C and its African suppliers

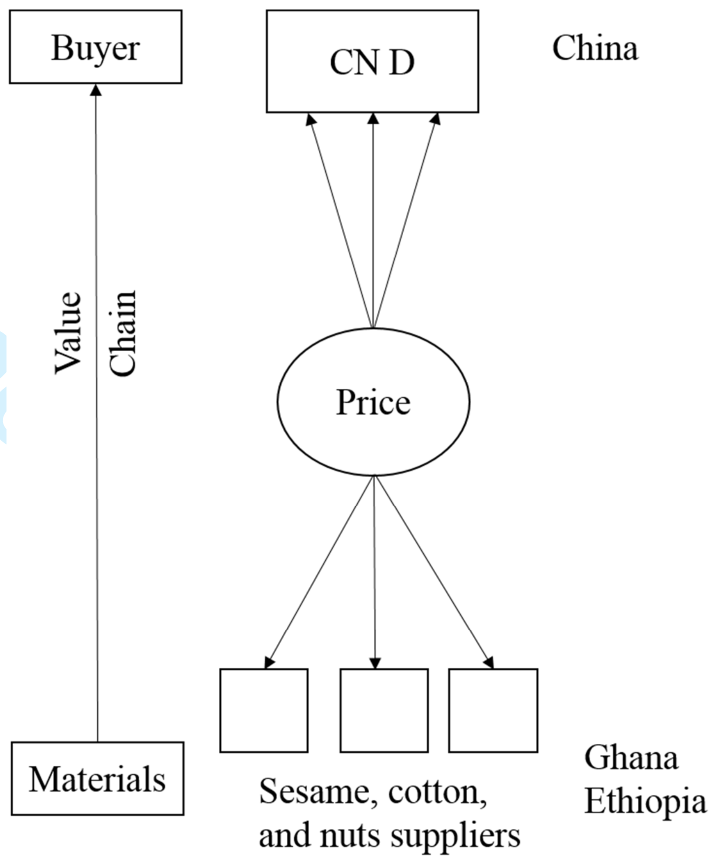

Figure 10. The value chain involving CN D and its African suppliers

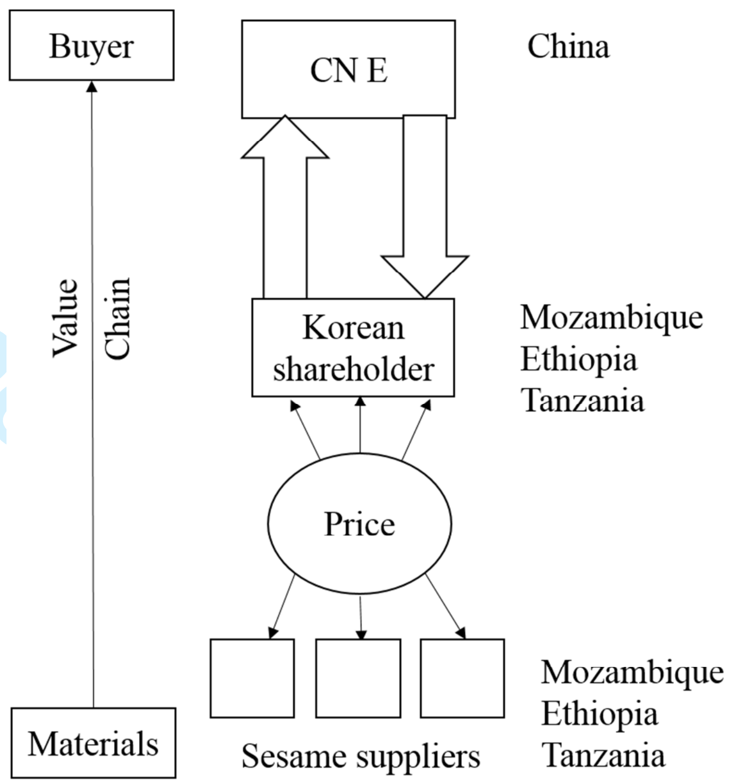

Figure 11. The value chain involving CN E and its African suppliers

Table 1. FDI outflows to Africa by selected countries 2003-2012, millions of US dollars[1]

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Finland	**-31**	**6**	**8**	**13**	**11**	**18**	**-18**	**20**	**32**	**19**
Denmark	199	1101	2066	-45	-1705	-416	1287	2597	1192	-548
Sweden	347	933	5433	-753	2504	-466	8367	997	7313	2258
France	971	828	3730	2484	3403	11135	-2295	3506	1446	1631
UK	3456	5855	5842	-	4722	761	6585	7822	-3186	4716
US	2697	1611	2564	5157	4490	3837	10417	7442	5380	3706
China	**75**	**317**	**392**	**520**	**1574**	**5491**	**1439**	**2112**	**3173**	**2517**
India	-	-	-	-	-	-	-	5116	2661	1829
Brazil	-	-	-	2	1	10	-5	-	-5	102
Russia	-	-	-	-	75	63	70	118	-8	47

[1] Source: UNCTAD (2017) Bilateral FDI Statistics. Data are in principle collected from national sources. In order to cover the entire world, where data are not available from national sources, data from partner countries (mirror data) as well as from other international organizations have also been used.

Table 2. Overview of the case companies (Finnish = FI, Chinese = CN)

Case	Industry	Company size	Ownership type	Product/service sourced from Africa	Percentage of purchases from Africa	Location of the suppliers in Africa	Position of the interviewee(s)
FI A	Design	Small	Private	Jewelry, bags, baskets	100 %	Kenya	Co–founder
FI B	Recycling	Small	Private	Electronic waste	100 %	Ghana	Chairman/ Co–founder
FI C	Cosmetics	Small	Private	Shea butter, cocoa	100 %	Several countries	Founders
FI D	Retailing	Large enterprise	Publicly listed	Flowers (roses)	90 %	Several countries	Category manager
FI E	Coffee	Large enterprise	Private	Green coffee	5 %	Several countries	Senior sourcing manager

CN A	Railway construction	Large enterprise	State–owned	Railway construction materials, labor	70–90%	Algeria	Project manager
CN B	Communications construction	Large enterprise	State–owned	Steel, chemicals, telecommunication products	40% material, 90% labor	Kenya	Sourcing manager
CN C	Power plant construction	Large enterprise	State–owned	Power plant construction materials	30 %	Nigeria	Project manager
CN D	Food	Medium	Private	Sesame, cotton, nuts	100 %	Several countries	Director
CN E	Food	Medium	Private, joint–venture	Sesame	30 %	Ghana, Ethiopia	Chairman of the board

Table 3. Case companies' motives, obstacles, concerns and types of value chain involved in sourcing from Africa

Case	Motives	Obstacles and concerns	Type of value chain
FI A	– Access to low-cost production and skillful workers – Make a social impact for African suppliers	– Communication barrier – Cultural differences – Quality of the products – Long lead time – Mentality/working ethics of African workers – Uncertainty in contractual agreement – Poor infrastructure	Relational value chain
FI B	– Access to materials – Make a social impact in Africa	– Bureaucratic government officials – Unwritten rules – Corruption	Market
FI C	– Access to unique materials – Empower African suppliers and make a social impact in Africa	– Poor infrastructure – Different ways of doing business – Inconsistency in quality of raw materials – Fluctuation in the prices of raw materials – Lack of own standards and certifications – Mentality/working ethics of African workers	Market
FI D	– Access to unique resources with good quality	– Natural environment – Unstable political environment	Modular value chain
FI E	– Access to unique resources	– Quality of the products – Corruption – Different laws and regulations – Natural conditions – Poor infrastructure	Modular value chain
CN A	– Access to cheap materials and low-cost labor for local projects	– Low execution ability of African governments – Unstable political environment – Mentality/working ethics of African workers	Market
CN B	– Access to cheap materials and labor for local projects	– Strikes of local employees – Piracy	Market
CN C	– Access to cheap materials for local projects	– Poor industrial infrastructure	Market

		– Different quality system and standards for manufacturing	
CN D	– Access to cheap resources with high quality and quantity	N/A	Market
CN E	– Access to cheap resources with high quality	– Transportation and custom problems – Corruption – Foreign exchange settlement	Market