INTERNATIONAL OPERATIONS

Crossing Borders in Manufacturing and Service

A Selection of Papers from the Seventh Annual Conference of the Operations Management Association (UK)
UMIST, Manchester, UK, 23rd-24th June, 1992

Edited by

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Manchester School of Management
UMIST
UK

1992
NORTH-HOLLAND
AMSTERDAM • LONDON • NEW YORK • TOKYO

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EVOLUTION IN THE RAPPORT BETWEEN LARGE FIRMS OPERATING ON THE INTERNATIONAL MARKET AND SMALL LOCAL SUPPLYING CONCERNS

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Abstract

The authors give the results of an empirical research carried out in the Friuli Venezia Giulia Region (north-east of Italy), aimed at investigating the rapport between large consignor firms operating on the multidomestic and global markets and the small local supplying concerns.

1. WORLD CLASS MANUFACTURING AND SUPPLIERS MANAGEMENT POLICIES

The integration and globalization of markets are transforming the bases of competition between firms (Porter, 1987). The importance of strategies based on the maximization of a single performance measure is reduced, while a mix consisting of services of cost, quality and flexibility is acquiring prominence. In particular promptness in response to the market is becoming more and more important (Stalk and Hout, 1990). This can be accomplished by the swift designing of products and the modification and innovation of already existing ones as well as the immediate delivery of products to customers.

The pursuit of World Class Manufacturing policies (Schonberger, 1986) by firms involves a profound evolution in the rapport with suppliers. The term "comakership" (Merli, 1990) expresses the evolution taking place in the relation between firm and supplier. The supplier takes on the role of co-protagonist and is equally responsible with the industry for competitiveness on the market. The suppliers condition the firm in the determination of its competitive advantages in terms of cost, service quality, innovation and response time to the market (Kraljic, 1983).

The traditional management of suppliers involved a negotiation on specific qualities which place weight on the price, and supplies of single short term orders, systematic testing of suppliers and safety provisions.

A more advanced type of management of suppliers, according to the Total Quality Control approach, is characterized by a long term rapport which is periodically revised, the possibility of price oscillation depending on certain agreed criteria, self guaranteed quality, complete responsibility for the finished product, no acceptance check, direct supplies to the departments and so no reserve provisions, frequent supplies in small quantities with open orders, systematic improvement in the quality and prices, advice and training for suppliers.

In conclusion a rapport of global comakership presupposes cooperation in planning new products/techniques, common investments in R&S and in technological achievements, a continuous exchange of information on processes and products. According to this approach the suppliers are seen not only as working partners but rather as strategists. To help the growth of this cooperation between supplier and firm, it becomes ever more important to exchange information on production processes, products and operative levels. In particular the connection between the productive activity of mountains (suppliers) and valleys (firms) requires a close interrelationship between the respective systems of programming and control of production.

2. OBJECTIVES AND METHODOLOGY OF RESEARCH

With reference to the themes discussed above the aims of the research were:

-investigate in which way the integration and globalization of markets is changing the relationship between large purchasing firms and small local subcontractors defining for the latter the opportunities and disadvantages of the changes taking place;

-verify in particular a series of hypotheses inherent in the policy of world class manufacturing and of comakership followed by large firms operating on multidomestic and global markets and the reflection of these policies on the processes of technological innovation, organization and management of the small local subcontractors; the hypotheses which were to be verified are the following:

1a. The large purchasing firms are adopting a policy of comakership in regard to suppliers and subcontractors.

1b. The small subcontractors are not taking the necessary action to comply with the policies of comakership with the purchaser.

2a. The large purchasing firms have worked out, for the suppliers and subcontractors, performance profiles necessary for a continuing cooperation (or the wish to operate) with the purchaser.

2b. The small subcontractors do not possess the necessary skills to reach the new performance profiles required by the purchaser firms.

The research was carried out in the Region of Friuli Venezia Giulia which is situated in the north-east of Italy.

The study of the phenomenon of subcontracting was restricted to small firms, particularly those involved in handicrafts, with a size calculated in terms of the number of employees, below 15-20 persons. The choice was based on the theory that in the Friuli Venezia Giulia region the archipelago of small handicraft

industries forms a fundamental connective tissue not only for the industrial system but also for the social one.

The empirical investigation was carried out by means of a questionnaire for a sample of firms including both purchasers and subcontractors. In regard to the purchasers, five large firms working on the multidomestic and global markets, were chosen as they represent a significant part of the industrial life of the region and belong to various sectors comprising the principal and traditional ambits for local subcontractors. In comparison with these five large firms, 32 small handicraft industries, as shown in Table 1, were analysed.

Table 1

firm	sector	market	small sub-contractors
i.	electromechanical	global	7
ii.	mechanical	global	7
iii.	electrical	global	5
iv.	furniture	multidomestic	6
v.	furnishings	multidomestic	6

3. RESULTS OF THE RESEARCH

On the basis of the qualitative-quantitative data obtained we note, in advance, the principle results of the investigation.

The processes of integration and of globalization are of concern to all the firms examined. The impact on the dealings of suppliers and subcontractors is very strong; the purchasing companies, spurred by the high level of international competition, require a high level of performance on the part of the suppliers and subcontractors. Thus they reach for a selection which often shifts the geographical base of reference towards wider international frontiers. This process very rarely leads to a business partnership; in general the obligation to the suppliers and subcontractors is not very profuse. The small firms and above all the handicraft industries suffer from this. For them the future is not very bright; for some the future is already reality with the result that they have either been excluded from the productive cycle of the large purchasing firms, or relegated to the lowest orders in the ranks of subcontractors.

1. THE LARGE PURCHASING FIRMS ARE ADOPTING A POLICY OF PARTNERSHIP WITH REGARD TO SUPPLIERS AND SUBCONTRACTORS

In all five of the large purchasing firms analysed a process of rationalization and selection in the area of suppliers and subcontractors is underway, in some cases this has led to a drastic reduction in their number. This process has only on very rare occasions resulted in the setting up of a business relationship of such a nature as to suggest an authentic partnership. This, for many large purchasing firms, is still a far off stage to be examined more attentively in the future.

In the few cases in which it did occur, a very low number of supplying companies were involved, in particular those which furnished materials considered strategic.

Another important fact which emerged was that when this policy of partnership was adopted only large or medium sized suppliers (in the sense of absolute dimensions and exchange) were involved and vice versa small firms and in particular local handicraft subcontractors were passed over.

The latter seem to be confined to the so-called class of "normal suppliers", when they are not, in fact, excluded altogether. The examples of relationships between large purchasing firms and suppliers and subcontractors can, schematically, be divided into three categories of business: traditional, operative integration and partnership; the so-called normal suppliers, traditional suppliers and partners fall into these three categories. The increase in the incidence of purchases on the proceeds of sales (noted in all the large firms examined) and the increase in the incidence of the subcontractor on the total purchases, on their own do not appear to open up future areas for a policy of greater attention, on the part of the purchasing firm towards small and extremely small companies. The small firms cannot expect a trend towards a greater sharing on the part of the large purchasing companies, at least in the foreseeable future.

2. THE SMALL SUBCONTRACTOR FIRMS ARE NOT TAKING THE NECESSARY ACTION TO CONFORM WITH A POLICY OF PARTNERSHIP WITH THE PURCHASER

With the exception of a few cases subcontractors work under conditions of subjection and are not aware of the actual change in the relationship between purchaser and supplier. They have not and do not try to equip themselves to confront this challenge. Very often their only request is the need for a dependable and constant customer but this does not presuppose a change in the relationship towards integration or at most of partnership with the purchasing firm.

This state of affairs is especially due to the fact that the small firms are not encouraged by the large purchasing companies. As we have seen, in fact the latter are concentrating on class A and B suppliers (partner and integrated suppliers, generally medium to large sized firms) neglecting those of class C (normal, typically small suppliers). The result is that, though small subcontractors continue to figure among the suppliers of large companies, their numbers, if one considers the trends of the last few years, are shrinking and their role is being reshaped.

The small subcontracting firms, according to how active a role they wish to take, can follow three different directions:

- that of an "operational" repositioning, in other words act in the sphere of "operations", emerging from areas noted for traditional ways of working or worse still for conditions of self-exploitation; this means setting out towards innovation, both technological and, above all, organizational-managerial (Just In Time and Total Quality Management) aiming at services that could place the firm in an area of excellence. This remodelling is a prerequisite for a more "integrated" and qualified rapport with the purchaser.
- a strategic repositioning in the "product" area (in other words of supply expressed in terms of manufacture or product capability or speciality, which place them ever less in areas of "manufacture/capability" and more towards areas of "product/speciality"; in fact these sectors have a greater potential for profits and are the typical areas in which purchasing companies seem to be intent on looking for partnerships.
- finally the course of a strategic repositioning in the sphere of the market, or, in other words, independently of the "operative" position and with parity of the

strategic position of the "product", try to enlarge the marketing area which is generally restricted and limited to the immediate surrounding territories.

Of the three ways this last (search for new buyers, further afield) is probably the simplest because the operative order need not be modified and the strategies of "product" revisioned. In fact the national organizations which promote the activities of small handicraft industries are strongly in favour of this way, providing initiatives such as agencies for subcontracting aimed primarily at favouring exchanges between purchasing companies and subcontractors on a larger base than the local one.

3. THE LARGE PURCHASING FIRMS HAVE WORKED OUT, FOR THE SUPPLIERS AND SUBCONTRACTORS, PERFORMANCE PROFILES NECESSARY FOR A CONTINUING COOPERATION (OR WISH TO COOPERATE) WITH THE PURCHASER

As already mentioned, large firms are becoming more orientated towards subcontractors which are able to supply speciality products. Four of the five interviewed in this survey are heading in this direction; the fifth requires specialization in manufacturing (and not in product). On one hand this is because there exists on the market an increasing availability of reliable standard components at an ever decreasing price, and on the other because, as 70% of the cost is due to the components, it is of prime importance for the firm to concentrate in the transformation process looking for dependable specialized subcontractors capable on effectively improving the transformation process.

The requirements of the purchasing firms thus call for that which, for many subcontracting companies, is an authentic strategic repositioning of their offer.

In addition the purchasing firms increasingly require high level performance profile in terms of quality, promptness and punctuality, independent running and the capacity for technological response: in the final analysis they require services that can lead to true repositioning of the "operations", with the adoption of advanced technology and sophisticated organizational-managerial models like Just-In-Time and Total Quality Management.

The subcontractors, and in particular the handicraft industries, thus can no longer only count on cost differences due, for example, to a simpler organization and a stricter control of the work force, but they must also take the new requirements in terms of quality and service into account.

In general the pool of suppliers and subcontractors of large companies seem to be more and more characterized by a technological and qualitative aspect which tends to produce a significant extension in their market, and increased growth. Though the number of large firms surveyed does not permit excessive generalizations, two points emerge:

- the more "global" the market served by the purchasing company, the more exclusive is the choice of subcontractors, and the less the number of small firms and handicraft subcontractors;
- the hypothesis of partnership concerns, above all, subcontracting companies operating on at least a national market (but preferably an international one).

Both facts are understandable if one remembers the link between size of the market served, the economies of scale, added value incorporated into the supplied object, reliable quality, specialization, etc.