Global Competitiveness and Co-sourcing Models.

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Abstract

Global players are posing many challenges in terms of bringing new products & services into the marketplace. Local firms have to compete on international levels to sustain competitiveness. South African firms have to rethink how they position themselves in collaboration with global players. Global competitiveness raises many opportunities in terms of collaboration as global players and local entities interact to form networks and relationships that could develop into long term partnerships. This paper attempts to identify opportunities that could exist as global players interact with local entities.

1 Introduction

Globalisation may mean different things to different people. It is sometimes used to describe phenomena like cultural coverage, global products, global manufacturing concepts, etc. Globalisation includes these phenomena and more, globalisation is complex affecting multinational corporations but also impinges upon the activities of small, medium and large locally based firms. The interaction of global players and local firms gives rise to many questions related to the management of global business and the interaction with local firms. Some of these questions relate to the formation of networks and alliances between global players and local firms, information flow, knowledge transfer and governance structures for the management of relationships between the different entities.

The 1990’s saw the break down of trade restrictions as global players entered the South African market. Large multinational corporations flooded the market with new products and services. More players entered the market place making it more competitive for local firms. Small, medium and large locally based firms had to develop strategies to interact with these global players. Together with the breaking down of trade restrictions came the South African government’s programme on the creation of local businesses through black economic empowerment and its industrial participation programme. These programmes provided incentives to multinational firms towards building and supporting locally based firms. The programmes implemented by government ensured multinational firms engage with local firms. This resulted in more interaction between global players and local firms. Relationships began to form through different forms of alliances. These different alliances included Joint ventures, merges and different forms of partnerships that evolved through outsourcing and co-sourcing models.
The general competitive environment consists of many factors external to an industry, that may have significant impact on the strategies of firms within that industry. Marrs and Mundt (2001, p.35) provides insight into the factors that should be understood when a firm engages in an analysis of its general, competitive and internal environments. Figure 1 gives a graphical representation of the model presented by Marrs and Mundt (2001). The authors argue that in today’s world, distance or location is no longer a barrier to market entry, technologies are rapidly replicated by competitors and information and communications technologies are shaping a new way of doing business. The new business model is one of globalisation, the revolution in technology and the growth of knowledge management and relationship management gives rise to organizational learning.

The challenges facing multinational co-operations is on how to build competitive organizational structures in an erratic competitive environment. The market place is volatile, investment in new products and services by organisations is not continuous and therefore multinational organisations cannot afford to build unused capacity. They therefore are also conducive to form relationships with locally based firms so that the capacity beyond a certain limit may be co-sourced to locally based firms. How do multinational firms ensure that locally based firms have sufficient base loads to ensure that the locally based firm can develop sustainable business? As multinational firms invest huge sums of time and money in the locally based firms, investments in time and money go towards developing the necessary skills base in terms off the skills required to perform the tasks required. Furthermore huge sums of money are also deployed by both multinational corporations and locally-based firms in terms of the necessary equipment that may be necessary to perform the required tasks. Hence multinational firms and locally based firms

Figure 1: External/Internal Analysis - A Global Perspective (adapted from Marrs & Mundt (2001, p.35)).
face many challenges in terms of risks, rewards, and benefits that may be derived from the formation of networks and alliances.

2 Formation of networks and alliances

There are many factors that contribute towards the success or failure of a network or alliance. The following authors discuss some of these factors viz.:

- Gulati (1998, p.301) points out that firms do not form networks or alliances as symbolic social affirmations but base alliances on concrete strategic complementarities that they have to offer each other. The benefits of buyer-seller relationships can only be maintained if each partner has something to offer.

- Gulati (1998, p.306) further says that researchers predict that the success of alliances will lie in the following: flexibility in management of the alliance, building trust with the partners, regular information exchange with partners, constructive management of conflict, interface personnel between the partners, etc.

- Khanna, Gulati and Nohria (1998, p.195) note that alliances have private and common benefits viz.:
  - Private benefits are those that a firm can earn by picking up skills from its partner and applying them to its own operations in areas that are unrelated to the alliance activities.
  - Common benefits are those that are incurred by the partners through the alliance. Common benefits are therefore related to what each partner can learn from the other. The life of an alliance can be hampered by common benefits as soon as one partner has absorbed the knowledge from the other partner, the incentives to remain in the alliance are reduced.

- Porter (1998, p.66) says that for global strategies, firms enter into alliances to gain a number of benefits.
  - One is economy of scale or learning, achieved by joining forces in marketing, component production or assembly of particular models.
  - A second benefit is access to local markets, needed technologies, or meeting government requirements for local ownership.

At least the abovementioned authors show the risks, rewards, and benefits associated with networks and alliances. Siriram and Snaddon (2004a, p.787) tabulated a SWOT analysis of strategic technology alliances, this is shown in Table 1. From Table 1 it is evident that choosing the right partner is crucial to the success of an alliance. Alliance partners may be seen as an extension of a firm’s resources that could be leveraged so firms may become more competitive. As already mentioned for an alliance to continue, the alliance must be beneficial to both parties.
Multinational firms have to ensure they choose the right alliances partners, through which they can build long term sustainable relationships. Sustainable relationships can be enhanced through trust. Barney and Hansen (1994, p.176) argue that while trust is an attribute of a

Table 1: SWOT analysis of strategic technology alliances

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<tr>
<th>Strengths</th>
<th>Weakness</th>
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<td>1. Technology transfer from one partner to another can also be a motive for inter-firm co-operation. This technology transfer can equip one partner or both partners to leap-frog their competitors, Hagedoorn (1993, p.373).</td>
<td>1. For firms in learning alliances to absorb skills from its partners require continual allocation of resources to the learning process, Khanna, Gulati and Nohria, p.201).</td>
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<td>2. There is evidence that alliances with embedded ties perform better or last longer than others, such embedded ties include non-recoverable investments, which can enhance the performance of the alliance, Gulati (1998, p.308).</td>
<td>2. A partner may either free-ride by limiting its contributions or simply behave opportunistically, Gulati (1998, p.300).</td>
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<td>3. A strategic alliance can strengthen both firms against outsiders even as it weakens one partner against the other, Hamel, Doz and Prahalad (1989, p.133).</td>
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<th>Opportunities</th>
<th>Threats</th>
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<td>1. Partners in competitive alliances may sometimes be more likely to view collaboration as a race to the future first, rather than a truly co-operative effort to create the future together, Hamel (1991, p.89).</td>
<td>1. Partners in strategic alliances regarded their alliances as transitional devices where the primary objective was the internalization of partner skills, Hamel (1991, p.86).</td>
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<td>2. Large and diversified firms might still lack some competence in certain areas of scientific and technological fields, therefore co-operation creates the necessary complementary technology inputs enabling these companies to capitalize on economies of scope through joint efforts, Hagedoorn (1993, p.372).</td>
<td>2. Joint activities are merely a cover-up to quickly absorb some capabilities from others. This could also include market access through the joint agreement, Hagedoorn (1993, p.373).</td>
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<td>3. Each partner’s awareness that the other has much too lose from behaving opportunistically enhances it’s confidence in the other partner. Potential hazards could include loss of repeated business with the same partner, loss of other intangible benefits, loss of reputation, Gulati (1998, p.303)</td>
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relationship between exchange partners, trust-worthiness is an attribute of individual exchange partners. They define trustworthiness as follows: “an exchange partner is trustworthy when it is worthy of the trust of others. An exchange partner worthy of trust is one that will not only exploit other’s vulnerabilities.” In the case of multinationals trust may be exploited by local firms passing confidential information to competitors or alternatively forming alliances with competitors firms. On the other hand local firms trust may be exploited by multinationals as they form alliances with other local stake holders that are in competition with the local partners already chosen and as a result conflict situations arise in terms of work allocation between partners. Both multinationals and local firms are vulnerable when forming networks and alliances, and both have to protect against the vulnerabilities associated with such relationships. Ring and Van de Ven (1992, p.489) say that risk and trust are related as follows:

- A history of successful transactions between parties reduces risk in terms of information asymmetry as parties will share information more freely with each other.
- Repeated transactions and adherence to norms of equity and reciprocity will reduce opportunistic behaviour when given access to proprietary information.
- Transaction frequency occurs for different reasons. However, it will increase the likelihood that parties will be able to exercise greater autonomy without fearing a loss of control in subsequent transactions.
- More frequent transactions with different organisations may result in the accumulation of stock information regarding the predictability or reliability of parties.
- Diversity in transactions is also likely to increase the store of information regarding efficacy of contractual safeguards.
- Transaction history with different parties is likely to reduce the time taken to make decisions.

As can be seen there are many mechanisms that could be used to ensure that both multinational and local firms be protected in a network or alliance relationship.

Having covered the risks, rewards and benefits associated with networks and alliance partners, firms may also consider contractual and economic safeguards to improve the alliance relationship.

3 Contractual and economic safeguards

Contractual safeguards may be utilised to enhance the management of networks and alliances. They may be enhanced through service level agreements, which may serve as a continuous improvement tool towards guiding parties in developing conducive relationships. A more complex form to manage inter-firm relationships would however cover economic
organization of the inter-firm relationships. Jarillo (1988, p.34) depicts the graphical representation of economic organization as follows:

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<th>Legal Form</th>
<th>Zero Sum Game</th>
<th>Non Zero Sum Game</th>
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<tr>
<td>Hierarchy</td>
<td>Classic Market</td>
<td>Strategic Network</td>
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<td></td>
<td>Bureaucracy</td>
<td>Clan</td>
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Figure 2: Modes of organising economic activity (Adapted from Jarillo (1988, p.34)).

From Figure 2:
- The upper left-hand quadrant consists of markets,
- The lower left-hand quadrant is typical of labour-management relationships, i.e. hierarchical organisation,
- The lower-right hand quadrant is devoted to clans i.e. long-term relationships, carried out through specified contracts within the formal environment.
- The upper right-hand quadrant is referred to as strategic networks consisting of a hub firm with an array of relationships with firms in the network.

Given the different modes of organising economic entities firms may choose the best options suited to their needs. Having discussed contractual safeguards and economic organisations the next section is devoted towards partner relationships.

## 4 Partner relationships

In an era of global competitiveness, partner relationships can be transformed from an adversarial to a partnership approach. Traditionally firms were viewed as black boxes however, the transition from a partnership approach allows partners to look within the firm where they exchange information more freely and communicate in a more open manner. Through this interaction comes the building of trust between buyer and seller firms and hence improved level of communication, co-operation and co-ordination. Figure 2 gives a schematic representation of a new model in expanding the black box of the firm.

However, managing partner relationships may be enhanced through transaction-specific interests. Krause (1999, p.207) citing Krause (1997) gives some examples of transaction specific interests, viz.
- Formal evaluations.
- Certification programmes
- Supplier recognition.
- Training and education.

These types of initiatives can be utilised to manage relationships between partners. From a transaction cost perspective these systems of governance can be associated with the cost of managing the relationship. Carr and Pearson (1999, p.498) cite Frazier et al. (1988, p.65)
they include the costs associated with negotiating, implementing, coordinating, monitoring, adjusting, and enforcing exchange agreements as transaction costs. This type of arrangement is evident in Japanese firms.

Figure 3: Expanding the traditional black box of the firm

Helper and Levine (1992, p.563) argue that in Japanese firms when a supplier experiences a problem with cost or quality the buyer will attempt to work things out before switching to another supplier. This kind of relationship leads to high levels of relation-specific investments by both buyers and sellers. Suppliers make large fixed investments in areas of mutual interest such as quality control training and retention of product-design staff. Siriram (2003, p.78) says these investments allow the firms to engage in customer-specific activities, which include value engineering and analysis. Investments in communication and information sharing are also common. This view is also supported by Hagedoorn (1993, p.372) he argues that no firm will have total competence in every field of technology and therefore a concrete evaluation of possible synergies might at some stage in a particular technology cycle warrant a joint undertaking with another firm. Hamel (1991, p.99) further argues that there are two basic processes in any alliance i.e. value creation and value appropriation. Hamel, Doz and Prahalad (1996, p.592) suggest that a strategic alliance can strengthen both partners against outsiders even though one partner may be better off than the other.
Finally Lorenzoni and Lipparini (1999, p.333) argue that the reliance on trust may eliminate the need for formal contracts and serve as a safety net against opportunistic behaviour and hence reduce co-ordination costs.

Having discussed partner relationships, partner, roles, responsibilities and selection is next discussed.

6 Partner roles, responsibilities and selection

The importance of partner relationships have been discussed in section 5. The present section is devoted to the expected roles, responsibilities and selection processes that have to be adopted to gain benefits from partners. The following are some authors views on this matter:

- Hamel (1991, p.85) asserts that inter-partnership learning constitutes the determinants of intent, receptivity and transparency i.e. concern over the intent of partners (collaborative versus competitive, internalisation of partners skills versus mere access), concern over the openness of the partner i.e. transparency and concern over the firm’s ability to absorb skills from its partner, i.e. receptivity.
- Hartley, Zirger and Kamath (1997, p.61) say that communication between buyer and seller can take different forms. The richest form is face-to-face communication, followed by telephonic communication then written communication. Frequent communications using a rich medium allows the buyer and seller to develop a common interpretation of information. This reduces delays caused by mistakes and misunderstandings.
- Krause (1999, p.219) also found that inter-firm communication is an important factor for supplier development. However, supplier commitment to the development process must be a prerequisite and in addition markets influence buying firms to manage suppliers from a strategic perspective.

These issues need to form an integral part of partner selection processes. Supplier closeness, communications, trust, goodwill and continuous improvement capabilities form an essential part of partner roles, responsibilities and selection. When selecting partners firms should endeavour to develop at least the following criteria: To form long-term relationships, a history of working together helps develop communication, openness and trust assists in understanding each others requirements for the mutual benefit of the relationship. Furthermore partners should also be aware of the other partners position in the network structure as forming alliances with partners not central in a network structure can have disadvantageous results towards achieving a competitive position. Where networks structures refer to the value chain of the market and how firms position themselves within this value chain. Attention should be focused on how these networks develop and how they
evolve i.e. networks in transition. It is especially important on how firms position themselves within network structures. When selecting partners firms must be aware of the other firms position within the network structure. Siriram (2004b, p.4) describes networks in transition and relates the advantages and disadvantages of a firm's relative position within a network structure. For example firms that are well connected and a significant player in a network can be a crucial strategic advantage as each contact is a potential conduit for relevant information, resources or influence. Therefore a firms position within a new structure is key to competitive advantage.

7 Conclusion

Global firms are entering the market place. They bring in new technologies, systems, processes and skilled personnel. However, adapting to local markets can be a tedious and cumbersome process as global firms try to gain more market share from other global players and local firms. The governments policy on black economic empowerment (BEE), Industrial participation programme (IPP), etc forces firms to increase local content through locally based firms. This move by government paves a way towards developing local business through interaction between global players and local firms.

Global players and local firms can interact in many ways, some of these include first, second and third tier suppliers. However, both global and local firms have to overcome many challenges as they cross the chasm towards a closer working model. Some of the challenges facing these co-sourcing models include the following:

- The cultural diversity between firms.
- The differences in work processes and standards.
- The understanding of each others requirements in terms of legalisation, occupational health and safety requirements.
- An alignment of the customers requirements.

The abovementioned list is by no means comprehensive, but gives a holistic view of the challenges facing global players and local firms towards building sustainable working models.

In conclusion it may be argued, given the decline in the level of national protectionism (such as quotas and tariffs on imported goods and services) our markets are now open to foreign suppliers (imports) and locally based firms seek to sell their products internationally (exports). Without a closer working relationship between global players and local firms this may mean that local employment and income levels will decline in globally competitive markets, global and local firms will suffer, as other global players enter the market place.
8 About the author

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9 References


