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The effect of strategy on supply chain configuration and management practices on the basis of two supply chains in the Hungarian automotive industry

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Abstract

Supply chain management (SCM) usually goes beyond company boundaries. Cooperating parties are required, who decide to work together. The way this cooperation evolves depends on the strategies and practices of the parties. In this paper, we examine the connection between strategy and SCM. Our objective is to analyze how the strategy of focal companies determines the supply chain (SC) configuration and management practices used between SC parties. The analysis is based on 17 interviews within two SCs from the Hungarian automotive industry, where SCs are defined through the assemblers (Audi and Suzuki) as focal companies.

Our results support the proposition that the connection between strategy and SCM (configurations and practices) is very strong. It is underlined not only by the comparison of the two SCs but can also be detected in the strategic change at one of the focal companies which resulted in SC changes, as well. Besides the main objective a detailed view is provided on the past, present and future of the Hungarian automotive industry.

Keywords: Supply chain management; Corporate strategy; Automotive industry

1. Introduction

Due to globalization competition is extremely fierce nowadays. Thus, multinational companies (MNCs) continuously screen to find locations where they can use their resources more economically and/or they can sell more products. Since MNCs concentrate on their core competences (Prahalad and Hamel, 1990), they usually use a lot of suppliers, either local or international (Senter and Flynn, 1999).

Local suppliers are usually keen to join MNCs. Knowing the principle of scale economies, suppliers believe that this is a huge opportunity to grow. However, they have to compete with international suppliers and they have to make a lot of improvements, especially in less-developed countries, to reach the required operational standards.

The questions then arise: how can these suppliers join the supply chain of multinationals? What systems do they have to adapt, how do they have to organize themselves to manage their relationships and coordinate the work? Do they have bargaining power in this relationship? Do they get any support

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to reach the required standard? What does it mean in real life to be a partner?

We believe that answers to these questions are largely affected by the strategy of the MNCs: what are the motives and intended speed of growing and investing in a given subsidiary? Why is this subsidiary important in the portfolio of the corporation? Can they get access to new market or capabilities in that location? How will it affect the competitiveness of the corporation?

In this paper we make connections between the two sets of questions (local supplier involvement and MNCs' strategies). Based on interviews in two Hungarian automotive supply chains (SCs), we investigate how the founded subsidiaries of MNCs form their relationship with their local suppliers depending on their different strategies. We examine SC configuration and supply chain management (SCM) practices.

After discussing the literature and the survey methodology, the subsidiary strategy of MNCs are analyzed. Then the strategic features of subsidiaries are in focus and the impacts of these features on suppliers are investigated. Next, the SC configuration and management practices are highlighted in relation to the strategies described earlier. Finally, before the conclusions, a strategic change at one of the subsidiaries and its consequences on the suppliers and on the Hungarian economy are detailed.

2. Literature review

There are a lot of discussions about how companies can be more competitive. In the strategic literature Porter (1980) found that the main source of competitiveness comes from the industry structure (number of competitors in the market, power of suppliers and customers, barriers to entry, substitute products). However, companies in very similar industrial structures can reach very different business success. Thus, Barney (1991) concluded that internal company resources and capabilities can be the major sources of sustainable competitive advantage. Some years ago Dyer and Singh (1998) stated, that the source of competitiveness can stem from relations, a context tighter than the whole industrial structure, but wider than exclusively internal capabilities. In this so-called relational view the dyadic and network barriers to imitation will make companies profitable, since these relations are at least as difficult to imitate as the internal capabilities.

SCM theories also say that partnerships can be an important source of competitiveness (Fynes et al., 2005; Vickery et al., 2003; Rosenzweig et al., 2003; Frohlich and Westbrook, 2001; Scannel et al., 2000). These partnerships are operationalized in surveys on integrative information technologies (like EDI, information system and production system integration) and in SC integration measured in terms of supply partnering, closer customer relationships and cross-functional teams (Narasimhan and Nair, 2005; Vickery et al., 2003); in key SCM practices, such as developing suppliers, building closer buyer–supplier relationships, and just-in-time (JIT) purchasing processes (Scannel et al., 2000). In Frohlich and Westbrook (2001) SC integration was taken into account by (a) coordinating and integrating the forward physical flow of deliveries between suppliers, manufacturers and customers (e.g., JIT, postponement, mass customization, 3PL), and (b) by backward coordination of information technologies and the flow of data from customers to suppliers (e.g., EDI, sharing data from traditional planning and control systems). Results of these studies support the idea that relationships among SC partners can lead to higher competitiveness and *indirectly* to higher financial performance. However, since all these results come from large surveys, we cannot see how SC integration works in case of specific companies, and how managers feel and think about these processes.

Before companies form their everyday SC relationships they have to deal with the structure of their supply portfolio (Bensaou, 1999; Mentzer et al., 2000, Nellore and Söderquist, 2000). In these portfolios, although groups of suppliers are named differently, it is common, that customers should consider some of their suppliers as very close strategic partners, and they have to stay at arms-length relationships with others. The classical supplier structure in the automotive industry is the pyramid structure with auto assemblers on the top, system integrators as first-tier suppliers, second-tier suppliers who deliver components to first-tier, and so on (Cox et al., 2001). From a configuration point of view the grouping of Senter and Flynn (1999) is also useful. They make difference between assemblers, system integrators, direct suppliers and indirect suppliers.[1] The main difference to the

[1]Assemblers are original equipment manufacturers (OEMs) who assemble final products to customers. System integrators provide large, complex and valuable modules or system of parts