



Inter-partner learning in global supply chains: lessons from NOVO Nordisk

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Abstract

The interdependent forces of global competition and technological development have fundamentally changed the way in which firms define the boundaries of their own activities and those that are left to subcontractors. Joint skill development and inter-partner learning have become important in the global sourcing policies of firms. The purpose of the present paper is to develop a conceptual model for understanding inter-partner learning processes in international subcontractor relationships. We see this as a process of developing shared skills. Furthermore, we demonstrate how inter-partner diversity impedes this process. Because of a lack of previous research in this area, a reconstructive approach is taken, which involves extending the conceptual framework through a case study. © 2000 Elsevier Science Ltd. All rights reserved.

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1. Introduction

The interdependent forces of global competition and technological development have fundamentally changed the way in which firms define the boundaries of their own activities and those that are left to subcontractors. Joint skill development and inter-partner learning have become important in the marketing and sourcing policies of subcontracted goods.

In the new realities of the economy, outsourcing practices are undergoing substantial changes. Firms realize that they cannot efficiently keep pace with the growing number of relevant technical fields. In order to survive in the race for innovation and technological flexibility, firms choose to concentrate on core competencies and collaborate with external partners in order to develop shared technological capabilities (Imai and Baba, 1989; Nooteboom, 1992). Strategic collaboration in developing new capabilities means pooling of resources. This may lever resource economies of scale and scope which otherwise may be unattainable for the partners, individually.

Also, sourcing activities are becoming increasingly global in scope. In search of competitive advantage vis a vis local rivals, contractors increasingly look for excellent subcontractors beyond their domestic markets. Hence, knowledge-intensive international subcontracting has become an important part of the firms' sourcing activities (Andersen and Christensen, 1998).

Strategic collaboration with subcontractors may be one way of enhancing risk-sharing and providing synergy effects through the combination of contractors and subcontractors' distinctive skills. The virtues of organizational partnering in the international marketplace have been outlined in the literature (e.g., Kanter, 1994; Burton, 1995). However, processes of inter-organizational learning also entail increase in social complexity (Adler and Graham, 1989). Adding an international dimension only magnifies the differences as more sources of diversity are introduced (e.g., cultural and spatial related). Thus alliances between organizations often fail because of inter-partner diversity (Bleeke and Ernst, 1991; Fedor and Werther, 1996; Parkhe, 1991).

The purpose of the present contribution is to develop a model for understanding the processes influencing inter-partner learning in international subcontractor relationships. Our model, views shared skill development as a crucial factor in understanding the management of this

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process. Moreover, we seek to demonstrate how inter-partner diversity impedes this process. We also discuss a number of mechanisms through which the partners may cope with problems of inter-partner diversity in collaborative learning. Because of a lack of previous research in this area, a reconstructive approach is taken toward this issue. Instead of interpretative approaches, we follow a positivistic approach to field research that includes both literature studies and field observations. We use an argumentative interaction between field studies and existing theory to reconstruct theory (Burawoy, 1991). We develop a conceptual framework and subsequently use a pilot case study involving a Danish MNC and a Japanese subcontractor in order to further examine the implications of the model.

2. The co-alignment of skills in international subcontractor relationships

Similar to other industrial markets, the market for subcontracted goods covers a wide range of different exchange situations, which may be described by the aid of a buyer–supplier relationship spectrum (Webster, 1992). At one end of the spectrum, subcontracted goods may be highly standardized, where decisions can be guided almost purely by the aid of price signals. However, as contractors to a large extent depend on the complementary skills of subcontractors, marketing and purchasing becomes inseparable from the exchange of information, services, expertise, etc. involving multi-departmental interaction across the buyer–seller interface and mutual adaptation of technologies, organizational practices, etc. (Ford, 1980). Hence, exchange becomes dependent on previous exchange episodes, and may be described as an exchange relationship following its own momentum rather than guided by market mechanisms (Johanson and Mattson, 1988). This process may be described as the alignment of exchange activities in order to achieve efficient coordination of exchange. In addition, comes the complexity of sharing and developing knowledge between organizations (March 1996). This is the central issue in the Novo Nordisk case: as not all types of knowledge are equally transferrable, there is a need for developing practices for sharing knowledge, while simultaneously controlling the knowledge flow among organizations. It has been described as a complex and evolutionary process of relationship-building, where gradual commitment of resources and the development of mutual trust are steered by norms of reciprocity (Dwyer et al., 1987; Ford, 1980).

When exchange relationships are developed across both organizational and national boundaries, complexity is magnified. Hence, international exchange of subcontracted goods involving multiple business environments complicates communication. Markets for subcontracted

goods are particularly vulnerable to increased psychic distance in the buyer–seller relationship (Andersen, 1999).

Ideally, the alignment of exchange activities in international subcontractor relationships can be described as the development of a shared understanding between the partners. This process of mutual co-alignment of contractors and subcontractors has been described as the development of relation-specific skills (Asanuma, 1989). Parallel to the concept of organizational routines, relation-specific skills ascribe habitual patterns of interaction to specific exchange situations which are formed and gradually extended. We describe this process as one of building shared skills. These skills become idiosyncratically related to the specific partnership. As such, they are mutual investments directed at handling collaborative efforts efficiently.

Several contributions on the collaborative efforts of firms have underlined that inter-organizational coordination of capabilities may be organized more or less successfully and that the outcome of such activities often depends on the initial conditions for these processes (Teece, 1977; Von Hippel, 1994). Firms vary in their ability to utilize supplied skills of partners and in developing incentive structures for learning to collaborate efficiently. In the following section we will develop a model for understanding these differences, based on a systems perspective of organization. This perspective has previously found use when describing relationships between organizations (Astley and Van de Ven, 1983). It views an organization as a social system, which can be understood through its initial exogenous conditions, its organizational structure and processes and their outcomes (Van de Ven, 1976). These dimensions of organization may be discussed in the following order — organization's initial conditions, the processes of organization; and the outcomes (Ruekert and Walker, 1987). The perspective holds that there are contingent relationships between dimensions. Initial conditions are expected to influence processes as well as outcomes whereas processes may influence particular outcomes. In turn feedback processes may lead to changes in all dimensions of the conceptual framework. There is no optimal ordering of the dimensions. As initial conditions may differ, diverging processes and outcomes are expected. However, the model holds a deterministic view on organization, viewing processes and outcomes as contingent on initial factors.

We have developed our model of subcontractor relationships consistent with the systems view depicted above. The outcome considered here is the development of shared skills. The model considers two basic aspects which may affect this outcome. Inter-partner differences are the basic initial condition which may affect the development of shared skills. Diversity may be understood in terms of several dimensions. We have chosen to focus on organizational, strategic and cultural diversity. The

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