



## Networked enterprise: A new business model for global sourcing

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### Abstract

The challenge of global sourcing is to have a management in sourcing operations that is difficult to imitate by competitors. Global companies are now striving to develop a sourcing strategy to support a new business model that caters for operations in any parts of the world. This paper proposes that the development of a new business model in an established firm will depend on the extent to which a firm leverages the factor conditions and resolving conflicts. A framework is developed to describe the dynamics of business model. A case study on Hasbro Far East Inc is presented to show the development of an information hub as their new business model. The findings of the case study support the argument that factor conditions and conflicts play a key role in determining the success of transforming to a new business model. Thus, the transformational path to information hub is dependent on the extent to which these conditions are played out in the new arrangement. Future research should concentrate on development of collaborative process to align activities.

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### 1. Introduction

#### 1.1. Manufacturing in the information age

In today's manufacturing environment, competition is marked by shorter product life cycles, increasing demand for product customization. Discrete manufacturers were under pressure from customers to move away from the traditional "make-to-stock" production model to "build-

to-demand" customer service model. This creates the need to leverage product information throughout the supply chain and greater visibility among the supply chain to ensure customization and rapid delivery of innovative products.

Manufacturing enterprises must take a smarter, more objective-driven and process-wide approach to product design and manufacturing. Manufacturing enterprises will contract out more and more activities and retain core-performing activities which will result to a more dependency to a networked of suppliers. For global sourcing, this arrangement will lead to a de-centralized supply chain management and one without the necessities of incurring the cost of owning all the players.

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(W.W.C. Chung).

Successful cases are characterized by enterprises actively seeking unique ways to achieve such arrangement to create their own business model (Magretta, 1998a, b).

### *1.2. Strategy for global manufacturing*

Global sourcing will be transformed from one that purely performs the task of sourcing input to one that coordinates and manages the entire supply chain. They also need to design value chains to suit heterogeneous customer demand. This calls for a new transformation in the recurring buyer–seller relationship that exists between the sourcing company and the production network. We refer this as the new paradigm of networked enterprise.

Traditional paradigm emphasizes the outsourcing of activities through strategic contracts to acquire operational efficiency or to enhance value-adding business capability by allowing the company to more effectively utilize its inputs (Porter, 1996). The strategic options need to consider the location of organization boundaries and the configuration of sourcing arrangement (Domberger, 1998). However, a survey carried out by Andersen Consulting found that strategic contracts need to be in place for as long as 10 years in order for the host enterprise to achieve sustainable competitive advantage (Coring, 1999). Such outsourcing model of managing activities may not be suitable to markets characterized by steep rates and costs of innovation.

The new paradigm focuses on the unbundling of activities with multiple businesses, each with its own source of competitive advantage. Enterprises will need to link them up together for a new business model of which it is part. The competition will be among value chains and production networks rather than enterprise (Quinn, 1992; Agility Forum, 1997). This notion goes beyond the traditional model of activities outsourcing and requires higher order thinking about managing corporate activities. The implication of this is that the new paradigm asks for an alternative global sourcing strategy—one which move away from sourcing input to one that managing the production network structure.

The type of competence required to manage the supply chain in this new paradigm is significantly different. For example, it may require senior management to look at tier 2 suppliers or beyond, or examining the establishment of a common product platform (Chung et al., 2002), etc. Since competitors can acquire the same economic input from the region, competitive advantage in the new paradigm lies in taking control of business model and intelligently facilitate suppliers to link up together to fit in that model.

### *1.3. A win–win strategy*

For a global sourcing firm to gain competitive advantage from the business model the enterprise must learn new rules of engagement and unlearn previous assumptions and underlying models of behaviour; this form of learning is usually referred to as double loop learning in the organizational learning literature (Argyris and Schon, 1978).

A common business conflict in purchasing occurs at the design–manufacturing interface. Manufacturing is an infrastructure business and design is an innovation business, both of them have conflicting business propositions (Hagel and Singer, 1999). When they are separated and distributed into different organizations, potential conflict will intensify, as the benefit of collaboration may not be evenly distributed. Thus, a win–win strategy approach is essential if diverse interests are to be aligned. The use of physical tools such as information technology (IT) is necessary to support the linkage among production network subsequent to alignment. There is a wide range of intangible and tangible benefits for exploration using IT supported business model (Libert et al., 2000). However, it can only be discovered through learning from both sides.

The purpose of this paper is to explore this issue of networked enterprise as a business model for global sourcing. The authors seek to introduce a framework to describe production network as being the one that constantly drives to create a new business model. A case study is used to enhance the understanding of connecting enterprise with the production network.

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