

STRATEGIC PARTNERSHIP WITHIN SUPPLY CHAINS

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In the context of globalization the problem of strategic partnership within a supply chain becomes more urgent as it suggests the system and net integration of contractors. The main forms of interaction within a supply chain are: internalization, externalization and virtualization of business activity.

Supply chain can be defined as a global network used to deliver goods and services from their starting point to the consumer through information channels, physical distribution and cash flows.

Strategic development of modern enterprises suggests that they integrate with each other inside supply chains. This kind of integration can be divided into two main types: system integration and network integration.

System integration involves integration of various operations and functions within one enterprise. In other words it leads to the development of vertical integration and creation of logistics alliances between contractors.

Network integration leads to the development of alliances between different organizations in the terms of partnership and interdependence.

The network integration of any organization is often viewed as an alternative to the traditional hierarchical form but that is disputable. In this way there are stable networks (operating the stable markets) every element of which maintains its own competitiveness through customer service outside the network. There are also internal networks (operating the internal markets) where the network participants are selling and buying goods (services) from each other at market prices. There are dynamic networks where adaptability is achieved by making separate but related markets the target for independent units.

In the terms of globalization the basic forms of strategic partnership within a supply chain are:

1. Creation of the supply chain on the basis of internalization (interiorization); or intronalization (*interior, intro - of or in the side*) - based on the concept of sourcing.

2. Formation of the logistics supply chain through externalization (exteriorization) or extranalization (*exterior- of or for inside*).

3. Virtualization of business activities, smoothing the contradictions between these directions.

The creation of the supply chain on the basis of internalization (insourcing) involves the consolidation of related forms and the division of production activities within the same organization. This kind of integration characterizes fuel and energy systems, construction industry and agro-industrial complex. Economic entities seek to insure themselves against any adverse market situation by creating closed self-sufficient structures.

The main advantages of the supply chain on the basis of internalization are:

- ◆ proper monitoring of this system participants

- ◆ intra-flow management processes, which can be ruled by a single logistic centre on commodity free basis

- ◆ the sustainability and reliability of economic ties and supplies.

But, in our opinion, the main disadvantage of integration through internalization is the creation of large vertically integrated systems such as pushing which may lead to a surpass of inventory within a supply chain, service quality reduction as well as it may cause boosting of work staff.

Externalization involves the division of production activities between different enterprises followed by synchronization of their activities through partnership agreements (outsourcing). As a rule, this way of relationships within a supply chain characterizes automobile industry, where components are produced mostly at the

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outsourcing enterprises. Synergy results of externalization are enhanced by the network integration with the partners within corporate alliances.

A similar form of strategic integration should be attributed to pull systems. The main advantages of these systems are:

- ◆ opportunity to focus on key competencies
- ◆ improving the quality of supplied goods and services
- ◆ reduction of costs
- ◆ access to the latest developments and know-how.

The disadvantages of externalization as we see it are:

- ◆ loss of control over goods and services suppliers
- ◆ disclosure of commercial secrets
- ◆ dependence on goods or services suppliers.

In connection with extensive development of information technologies, enterprises are changing the ways of their business structures through virtualization of their activities and procurement procedures.

A virtual enterprise is a logistics system formed by the use of the information network in the limits of logistics agreement.

The aim of virtualization is to reduce transaction costs. In this way software features should include the program searching for the participants of the virtual enterprise and determining their suitable staff. In this definition such concept as virtual logistics system can be presented as a correlated set of techniques, methods and management affects on business process models, goods (services) information and finance flows aimed to raise the quality of service to contractors and cost optimization. Virtual enterprises operate on the basis of logistic system.

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