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The Paradox of Opportunity and Limitations for Sub-suppliers

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Work-in-Progress

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Abstract
How does a company perceive its opportunities and describe and analyze these if the company is not viewed as an isolated island, but viewed from a network context perspective? The aim of this paper is to analyze this question by conducting a literature review combined with an exploratory investigating of three ideal types of sub-suppliers based on empirical information from an ongoing research project of sub-suppliers. The paper contributes by arguing a sub-supplier’s perceptions of opportunities seem to be linked to the specific type of sub-supplier.

Introduction
The empirical basis for this paper is an on-going research project about sub-suppliers, called “Suppliers of tomorrow”. This research project take as a point of departure the present situation for many sub-suppliers in Denmark and other high wages countries experiences a squeeze between being more efficient or experiencing the buyers place the orders at sub-suppliers in low wage countries. All of these sub-suppliers experience, to a varied degree, an erosion in their existing business activities because of changes in the globalization of sourcing from sub-suppliers within their industry. They therefore all face a need to identify and exploit new opportunities to replace or expand existing business activities. These empirical experiences have forced us look for theoretical concepts and theories to understand and explain how opportunities are perceived and how they can be understood and analyzed from a theoretical as well as managerial perspective. Rather than sub-optimizing the effort by a single sub-supplier the solution to the problems has to be found in organizing the value chain or network in a more efficient way (Dekker 2003). The research project encompasses different elements: 1) to identify different types of sub-suppliers (situation, competences and relationships); 2) Identify and analyse the pressure for changes from the environment/network for the different types of sub-suppliers; 3) analyse possible opportunities and strategic options for each type of sub-supplier. The research project includes 17 sub-suppliers within the metal industry and is conducted for a period of two years. The data is conducted through qualitative in-dept interviews. Each firm is interviewed several times over the research period to be able to identify changes. The research project builds on an existing theoretical frame for sub-suppliers (Christensen and Blenker 1995) and the main contribution from the explorative research project is conceptual and theoretical and managerial implications.

The aim of this paper is to focus on the opportunities for sub-suppliers and to contribute to an understanding of opportunities for different types of sub-suppliers. In the search for a theory to explain the opportunities we found the article by Haakansson & Ford (2002)”How should companies interact in Business Networks” the first mentioned paradox concerns opportunities and limitations in networks. In this article we will elaborate on this paradox. The opportunities and limitations have consequences for which options, and thus strategies, the different sub-suppliers are likely to follow. In this paper we elaborate on the existing distinction between a standard goods sub-supplier, a traditional sub-supplier, and a partnership sub-supplier (Christensen & Blenker 1995; Blenker Kristensen & Servais 2001). The standard goods sub-supplier is characterised by delivering standardised components and goods; the traditional sub-supplier delivers customer-specified goods; the partnership sub-supplier has a strategic value for customers and delivers goods developed together with the customer. All three kinds of sub-suppliers are defined as ideal types to reduce the complexity in the investigation and discussion.

Though there has been some interest for the opportunity concept within marketing research the discussion is more elaborated within business strategy and especially entrepreneurship. An investigation of how the opportunity concept is perceived within entrepreneurship research is
expected to contribute to an elaboration of the concepts of opportunities and limitations and how the content of the concepts vary by types of sub-suppliers and their networks, with a special focus on customers.

We discuss how different types of opportunities and limitations are related to different kinds of sub-suppliers and in what sense the sub-suppliers’ interaction with their customers determines the basic pattern of opportunity recognition. The theoretical discussion will be illustrated by examples of the three types of sub-suppliers. The empirical examples are taken from an on-going research project about sub-suppliers, called “Suppliers of tomorrow”.

**The opportunity concept in the strategy literature**

Within the strategy and marketing literature the “opportunity” concept is used explicitly in the SWOT analysis. Andrews (1980) is strongly associated with the SWOT analysis and with what has been labelled the design school within strategy (Mintzberg, Ahlstrand & Lampel (1998)).

The design school argues that there is a clear separation between formulation and implementation. The process of forming a strategy starts with identifying a number of opportunities and threats in the environment. Andrews lists 5 kinds of areas in the environment: technological, economic, physical, social and political, and argues that technology is often what changes the fastest and thus has to be monitored most closely. The strengths and weaknesses in the organisation determine which of the opportunities will be worth considering. The formulation of strategies is what Andrews describes as a “creative act” (here quoted from Mintzberg et al. 1998:27). The next step is to evaluate the various strategies formulated. Rumelt (1980) proposes a framework to do so consisting of four tests: Consistency, consonance, advantage and feasibility (Mintzberg et al. 1998:27).

In this traditional strategy process, an understanding of how opportunities are identified is rather abstract and not very clear, besides the areas to look for opportunities. The contribution from this approach is a clear approach to how to evaluate the opportunities in form of formulated strategies, though it may be questioned whether the formulation and implementation processes may be separated as clearly as proposed by the design school. To get a better understanding of the opportunity concept we look toward the field of entrepreneurship research.

**The opportunity concept in entrepreneurship research**

The opportunity concept is, to our knowledge, in certain aspects more developed among entrepreneurship researchers compared to marketing researchers. One reason for this is that the opportunity concept seems to have become a cornerstone within entrepreneurship research.

Venkataramen (1997) (as quoted in Eckhardt & Shane 2003:336) defines entrepreneurship as “the discovery, evaluation, and exploitation of future goods and services”. This definition suggests that, as a scholarly field, entrepreneurship involves the study of opportunities.

What is an opportunity? Wickham (2004) points to something important about opportunities in his definition:

*An opportunity is the gap left in a market by those who currently serve it. It represents the potential to serve customers better than they are being served at present. The entrepreneur is responsible for scanning the business landscape for unexploited opportunities or possibilities that something*
An opportunity is about offering something differently or better than those who currently serve the customers – this suggests that the customers have to perceive that the new offer is better or different in some sense to give up the offer they buy currently and buy the new offer. Some may claim that not all new offers are better, but this discussion will not be elaborated further here.

Wickham (2004: chapter 6) further argues that the entrepreneurial process includes four elements: opportunity, resources, organisation and the entrepreneur. The entrepreneur is the active part to make sure that the opportunity “fits” the organisation and that the resources are “focused” on the opportunity in order to match the resources and the organisation in a proper “configuration”. In the entrepreneurial learning process, the outcome of previous actions (successes and failures) will be evaluated and the entrepreneur will take actions to adjust the opportunity, the resources and the organisation.

Within entrepreneurship research the opportunity concept is divided between two basic perspectives: “opportunity discovery” and “opportunity enactment”.

In the “opportunity discovery” perspective:
“[O]pportunities are, so to speak, concrete realities waiting to be noticed, discovered, or observed by entrepreneurs.” “Such a perspective uses the economic literature to emphasize the importance of alertness, observation and informational asymmetries among all individuals who are pursuing their best interests” (Gartner, Carter & Hills 2003:104-105).

The “opportunity discovery” approach is associated with works by Kirzner (1979), Shane (2000), Shane & Venkataraman (2000). Wickham’s (2004) perception of “scanning the business landscape for unexploited opportunities” suggests he also belongs to this approach.

The “opportunity enactment” perspective looks at opportunities in a different way:
“...In many circumstances, opportunities are enacted, that is, the salient features of an opportunity only become apparent through the ways that entrepreneurs make sense of their experiences.” “In the opportunity enactment perspective, opportunities are seen to emerge out of the imagination of individuals by their actions and their interactions with others.” (Gartner, Carter & Hills 2003:105).

This approach is associated with works by Weick (1979), Gartner, Bird & Starr (1992), and Sarasvathy (2001).

Business relationships and the opportunity concept
Haakansson and Ford (2002) do not agree with the way strategy is defined by the design school and neither with the understanding of the concept “opportunity”.

Haakansson & Ford (2002) argue that managers in networks face three paradoxes. We will only discuss the first paradox about “opportunities and limitations in networks”.

“Strong relationships are at the heart of a company’s survival and the basis of its growth and development. But a well-developed network of relationships also ties a company into its current ways of operating and restricts its ability to change. Thus managers face the paradox that a
network is both the source of life for a company and the cage that imprisons it.” (Haakansson & Ford 2002)

The opportunities (and limitations) for a company is related to the resources invested internally in the company and in the company’s relationships. Because each company has (more or less) unique relations to other companies in the network, the situation of the company can only be fully understood from the viewpoint of the company and the firm’s unique relations. About opportunities the authors argue:

“Each company’s relationships and resources can be developed and combined with others in a large number of different ways. This creates major opportunities for innovation, to the benefit of both the companies that seize them and perhaps others as well. A change in a network always involves changes in both companies and relationships. This means that a company seeking change is always dependent on the approval and actions of others to achieve the change, when introducing a new service, altering a logistics pattern or developing a new product. But, a company can mobilise part of the network in the direction it wishes, if its action is designed appropriately and seen to be positive by those whose support it needs. On the other hand no company and no relationship in a network has been built or operates independently of others.” (Haakansson & Ford 2000)

Haakansson & Ford (2002) list five managerial implications of the mentioned paradox. These are in a later book about the same subject changed by the authors to six important consequences (Ford, Gadde, Haakansson and Snehota, 2003: chapter 2). 1) The company must analyse its position with respect to specific counterparts; 2) change can only be achieved through the network; 3) companies in networks must manage the expectations of others; 4) change must often be achieved with existing counterparts; 5) a company’s total set of relationships can only be changed slowly; and 6) technical change takes place between companies.

Where are Haakanson & Ford placed in the basic distinction of approaches to opportunities? The quotation suggests that when a company only can develop and achieve changes through interaction in the network, the “opportunity enactment” dominates. The enactment approach is also used in works about management perception of network pictures (Holmen & Pedersen 2003).

Our point is that though two different approaches exist to the opportunity concept, both approaches offer significant insight to the phenomenon. The “discovery opportunity” perspective gives an important analytical insight in where to look for different kinds of new opportunities. The “opportunity enactment” process argues that no opportunity is discovered in an analysis of the market, but rather is the outcome of the person’s imagination of how to create a new product or service. Rather than choosing the one for the other we suggest that all opportunities encompass elements of both. In this paper the focus will only be on sub-suppliers’ opportunities in relation to the customers.

Sub-suppliers: Competences, opportunities and limitations
Several types of sub-suppliers exist. Christensen and Blenker (1995) argue that there are four distinct sub-suppliers: standard goods sub-suppliers, traditional sub-suppliers, development strategic sub-suppliers and partnership-based sub-suppliers. The latter two are mainly different in their degree of cooperation with customers. In this paper we will use three types of sub-suppliers, inspired by the distinction made by Blenker, Kristensen & Servais (2001). The purpose is to define three types with distinct internal abilities to fulfil customer needs and different relations to
customers. The use of the ideal type, inspired by Weber (1979), is not to claim that these types exist in their pure forms in reality, but rather to get some analytical entities which are less complex to describe, analyse and interpret. In table 1 our distinctions between the three types are revealed. The table reflect three important aspects from three selected firms from the research project “Suppliers of tomorrow”. See also descriptions of the three firms below.

Table 1: Three ideal types of sub-suppliers: Competences, communication patterns, opportunities and limitations

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<th>Standard goods sub-suppliers</th>
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<th>Partnership sub-suppliers</th>
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**Descriptions of sub-supplier characteristics:**

- **Products and services delivered by the sub-supplier**
  - Standard goods sub-suppliers: Standard products or services which can be ordered from a catalogue or list of order.
  - Traditional sub-suppliers: Products, processes and services done from customer specifications/drawings.
  - Partnership sub-suppliers: Customer-adapted products, services, processes and systems developed in cooperation with the customers.

- **The sub-supplier’s major competences**
  - Traditional sub-suppliers: Governance competence. Monitor and manage the flow of information, material, components and products. Through network potential access to: Technical skills in production processes and materials. Efficiency in producing.

- **Time horizon and focus of the relationship with customers**
  - Standard goods sub-suppliers: Short time horizon. Focus on cash flow.
  - Traditional sub-suppliers: Medium. Focus on investments in technical ROI.
  - Partnership sub-suppliers: Long-term, strategic cooperation. Focus on investments in relationship, long-term ROI.

- **Contact between companies**
  - Standard goods sub-suppliers: Sub-supplier has limited or no contact with customer. It is seldom they meet, if ever.
  - Traditional sub-suppliers: Sub-supplier has some cooperation with customers. They only meet from time to time.
  - Partnership sub-suppliers: The sub-supplier has a tight cooperation with customers. They meet regularly and work together through teams across organisations. Sometimes they may borrow employees by each other.

- **Degree of coordination with customers**
  - Standard goods sub-suppliers: Low.
  - Traditional sub-suppliers: Medium.
  - Partnership sub-suppliers: High to very high degree of coordination and integration of management structures, i.e. logistic or production systems.

- **Learning processes conducted with customers**
  - Standard goods sub-suppliers: No or few/sporadic.
  - Traditional sub-suppliers: The sub-supplier learns from the customer.
  - Partnership sub-suppliers: Mutual dependent learning processes.

- **Dependence of exchange of information with customers**
  - Standard goods sub-suppliers: Low.
  - Traditional sub-suppliers: Medium.
  - Partnership sub-suppliers: Very high.
Types of sub-suppliers: Three cases

It is interesting to see how opportunities and limitations differ according to sub-supplier type. Three types of sub-suppliers are presented and the related opportunities are discussed. It is emphasised how the sub-suppliers’ competences differs according to the different way they are related to other actors.

The opportunity of each type of sub-supplier is either to use existing competences more efficiently or to change position by developing new competences. Either it develops its own type or the whole configuration of the network (or value chain). In the analysis of the following cases, this point is discussed.

The case of a standard sub-supplier (BMWorks)

BMWorks is a traditional machine manufacturer doing traditional chip cutting, bending and punching to produce standard components in various metallic materials. The majority of the company’s product portfolio consists of standard components made to stock and sold as stock goods. The company’s market is very heterogeneous as the customers operate in very different lines of businesses. To some customers BMWorks functions as a capacity sub-supplier. BMWorks is a
standard sub-supplier because the relation to the customers can be characterised as simple transactions, with the customers ordering from the company's catalogue, requiring specifications, if any.

BMWorks seldom meets with their customers, and only running operations influence co-ordination, as BMWorks is never involved in the customers’ development activities. The company does not take part in the customers’ projecting or drawings, and deliveries are agreed upon from order to order.

As with the other type of sub-suppliers, the discussion of opportunity for the standard sub-supplier can be separated in two. Improving what they already can do or developing new competences to handle new problems.

By developing the technical skills in the company, through development of production and process skills, the supplier can develop new processes and products. Then, existing markets or new markets can be better served. For this type is e.g. machine suppliers’ information a way to opportunities, whereas the customers or other exchange actors seldom contribute.

On the other hand they can seek opportunities by developing competences related to a change of supplier type, e.g. towards a traditional sub-supplier. Through development of governance competences they can adapt to different customers’ different needs, e.g. governance in order to deliver just-in-time or to make processes more customer-adapted to fit better to their production and product portfolio.

The case of a traditional sub-supplier (JGL Engineering Works)
JGL Engineering Works (referred to as JGL) makes simple and complex turning parts in materials as aluminium, brass, steel, stainless steel and different kinds of synthetic materials. The company primary sells on the Danish market to globally represented customers but it also does export in Northern Germany.

JGL engineering works can be defined as a traditional sub-supplier as the company primarily manufactures components on the basis of customer drawings and projecting. The company is not involved in or contributes actively to customers’ product development. Customer contact is formal and controlled by top management at JGL. Contact persons at the customers are primarily placed in the purchase or production department. In general the customer relations are characterised by focusing on price, and the customers are often not open for negotiations. JGL Engineering Works is often dependent on the relations to the customers’ purchase department.

To a few strategic customers the relations can be characterised somewhat different. JGL has an extended collaboration with one customer where JGL delivers directly to the customer’s stock without the customer doing entry quality control, and all deliveries to that customer are based on the customer’s prognoses. E.g. JGL stocks on the basis of the customers forecast. JGL does not have formal relationships with its own suppliers or other partners. They would rather turn down an order than send it to a collaboration partner.

For the traditional sub-supplier, improving what they already can do means improving governance competences as well as production and process competences. For this type, developing new competences to handle new problems could take the form of developing relationship and collaboration competences. The opportunity is to do better governance or to change type by
following the opportunities of the partnership type, through development of relational and collaborative competences.

Alternatively, they could turn their focus inward to efficiency in processes and production, then heading towards a standard goods sub-supplier.

Opportunities for the traditional sub-supplier can be reached in better governance, inward towards the standard goods sub-supplier’s efficiency in technical skills, or outwards towards a partnership, where relational and collaborative competences are essential.

The case of a partnership sub-supplier (IntercityCom)

IntercityCom produces and sells communication systems for public transport. The customers are international manufactures of means of transportation as busses and trains. The most important and threatening competitor often wins on price, but their technological platform is not as developed as IntercityCom’s, and thus the competitor often faces technological problems.

IntercityCom can be defined as a partnership sub-supplier, as the company is an active partner in the customers’ development activities and co-develops on customers’ products. In general IntercityCom has experienced and developed more close relationships with customers and other partners in the past few years. The customer relationships are characterised as being formal and close with several different departments in the customers’ organisations. During the years, especially a few of the customer relations have contributed positively to developing the company’s technological platform. Also the customer relations have contributed to both broadening and focusing the product portfolio of IntercityCom. Recently the company has decided to develop a modularised product portfolio to meet the customers’ demand for specialised products and to accomplish saving. This development project is accomplished in co-operation with a strategic customer and selected suppliers.

For several years selected suppliers to IntercityCom have been involved as strategic collaboration partners for development. This has lead to direct relations between the suppliers of IntercityCom and their customers. This sets special demands for co-ordination and securing knowledge flows between all partners. Although this co-ordination is very time and resource demanding, the benefits from the relations and partnerships are valued more by IntercityCom. Therefore IntercityCom constantly nurses their strategic relations; they look for and develop new ones that can compliment the company’s product portfolio.

Figure 1: Competences related to different types of sub-suppliers

![Diagram of competences related to different types of sub-suppliers]

- Degree of coordination vs. Degree of knowledge transfer
- Partnership sub-suppliers
- Traditional sub-suppliers
- Standard goods sub-suppliers
- Governance competences
- Relationship and collaboration competences
- Production- and process competences
Recently IntercityCom has experienced a pressure for even higher co-ordination, advanced learning processes and integration in customers’ product development. An indication of this is a growing pressure to coordinate more and more activities across company borders to reach a still higher focus on the final goods.

As a partnership type of sub-supplier, relational and collaborative competences are focal points for reaching a better position in the network. These competences are the umbrella under which technical skills are developed, not only in the actor’s own company, but also across partner companies. For this type of sub-supplier, opportunities come from a broad context like the network. Governance is seen in a chain perspective if the role of a partnership sub-supplier is well played. The competences related to each type of sub-supplier are presented in figure 1.

Conclusion and discussion
The main conclusion is that the opportunity and limitation paradox may be viewed from an “opportunity discovery” or “opportunity enactment” approach. From an opportunity enactment perspective it is interesting in itself, and has managerial implications, to distinguish between three sub-supplier types and the related opportunities and limitations. The mere perception of the type of sub-supplier opens to opportunities of how the position as an ideal type can occur, and how a change in type can open up for new opportunities and limitations.

In this paper it has been argued that a synthesis between the two approaches is suitable for the investigation of opportunities in a network perspective. Finding an opportunity both has something to do with collecting information about the market and discover potential possibilities, but also to interpret the findings, alone or together with certain customers, and relate them to the competences and strategy of the sub-supplier.

The three types of sub-suppliers’ opportunities and limitations differ according to their present strategy, competences and relations to their customers. It was argued that the competences of the three sub-suppliers differ systematically due to content and cooperation with customers. The second important conclusion is that the three different sub-suppliers follow strategies that are all sound. Following the arguments above, it seems that the partnership sub-supplier is facing more opportunities than the two other types. In many circumstances we believe this is the case. On the other hand, close relationships can be dangerous if the power is not balanced. Small standard goods sub-suppliers may easier undertake a high level of technological specialisation, which can secure niche technical competences compared to a close relationship with a strong and bigger partner. The point is that there is no right, or standard way of developing competences and types.

References


