NEW ASPECTS OF COMPETITION IN THE CONTEXT OF THE FUNCTIONAL SPECIALIZATION

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Abstract
Economists and managers should be aware today of the fact that some concepts and economic mechanisms need to be reconsidered in the context of the new aspects of globalization. There are aspects regarding: the new division of labour based on the "functional" specialization; the definition, on the basis of the new stategies of the "functions" arbitrage, of new structural and functional types of economic actors: "the globally integrated companies"; the appearance of a new type of management that we can call "the management of a globally integrated business"; the redefinition of such concepts as "the product" and "the producer"; the changes in the content of competition, etc. We want to point out some new facets regarding competition among companies in a decade when some of them engage in new structures of business like the "globally integrated business" that we have defined in a previous study. Competition among integrated companies is widened by competition with the globally integrated businesses and by competition among the globally integrated businesses, including wast supply chains.

Keywords: *competition, "functional" specialization, "globally integrated business"*

1. Introduction

The choice of writing this article originates in the findings that we are now in a period of **profound changes, even radical ones, of the content of the economic globalization process.**

This new economic globalization content is given by two major coordinates: the shifting of the gravity center from the globalization of markets, which was specific in the '80s, to the globalization of production and services in the last 10-15 years, simultaneously with **the appearance of a new type of specialization of companies**, favoured by the fantastic progress of the information and communication technologies, which we call "**functional specialization".** This specialization take place at the level of the distinctive functions involved in the processes of designing and supplying a product and originates in:

a) the modularization of the production process and
b) the global value chain reconfiguration

The modularization of production has generated an outsourcing stream, which has advanced rapidly, from phases of production, to the whole productive process, determening some transnational companies to give up production completely, this function beeing undertaken by a new category of economic agents, named "contract manufacturers".

The reconfiguration of the global value chain is based on the same functional specialization which exceeds this time the segment of the "manufacturing process" and can be found anywhere on the chain: innovation - product design and technological development - production - distribution and marketing - post-sales services. The value chain becomes more fragmented, as the functions involved in one or another business are differentiated in more and more specialized activities, up to the most narrowly specialized. This increasing modularization also generates more competition **in every point**

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of the value chain and for each function or mix of functions that a company keeps in its structure, it confronts rivals who focus their resources to become top performers of that function.

In this new competitive context, **there are two key issues of the corporate strategy:**

- selection of specific functions of the global value chain, meaning which ones to retain and which ones to outsource. A trend can be observed, namely that transnational companies tend to keep the less tangible functions of the value chain, those most intensive in knowledge, such as product innovation, research and development, management, marketing and brand management.

- selecting the most suitable integrators for the outsourced functions and their location.

"Globally integrated companies" have to be conceptually bounded from "global companies" which, in terms of market globalization, inply a large-scale implementation of the strategy of market aggregation.

"Globally integrated companies" reflect the integration in a certain formula of the value chain components of a "product" and the distribution of their fulfilment in at least two countries. Integration implies also, on a larger scale, the functional interdependence between at least two independent companies that together perform the global value chain of the "product" and generate through this symbiosis a **"globally integrated business".**

The transactional nature of the relationships between firms is replaced on this occasion with a symbiotic and "inter-functions" nature of these relationships.

2. The changing content of competition

"Traditional" competition between companies is replaced, in the context of the "globally integrated businesses", by new types of competition specific to the new types of structures and new management concepts, which are currently consolidated under the new division of labor. Competition between companies which include the achievement of all "functions" of the value chain is replaced, when companies have realized the tremendous potential offered by the functional specialization, by a **competition localized at the level of a certain function or a set of functions retained in a company's portfolio.**

When the manufacturing is outsourced by several companies to the same contract manufacturer, it is obvious that differences in competitiveness will result from other functions held within the company (research, design, logistics, marketing, etc..). Competition moves to the level of the "functions of excellence" retained inside the company, while competition in the outsourced functions becomes residual and results rather from the arbitrage of the advantages that the competing providers of functions can bring (when not resorting to the same provider).

A new type of competition is observed also **between the networks of suppliers**. This competition is more complex than the competition **between supply chains** and even more complicated when some members are part of several networks that may be competing themselves. In such cases, when a network intends to give a strong blow to another network competing in the same branch, it is very likely that it will be itself affected by this maneuver.

"Competition between networks means that a company that has access to the best networks will surpass rivals today, but will be able to overcome their rivals in the future as well. Such companies can create superior supply chains now, but can also project new supply chains based on the existing networks. Thus, companies have many more options to meet customer needs. **The best networks give rise to the best supply chains"**.

"Competition is no longer limited to company against company, but rather to supply chain against supply chain. Partners in the chain are the same team members who are trying to optimize value. If a chain eliminates another chain, all the members of the defeated chain fail. The better the chain members cooperate with each other, the more competitive they will be against rivals. This is a different vision of partnership and a broader vision on the company itself.

This idea changes the way the supply chain members interact with each other. In traditional supply chain (or other "value chains" that deliver products or services), suppliers were trying to extract the best prices from buyers. Buyers sought concessions from suppliers. Each player optimized a part of the supply chain.... the overall efficiency of the chain being usually sacrificed for the optimization of the results of a single strong player.

But the success of a modern supply chain depends not just on efficiency, and an antagonistic relationship can damage a lot. Antagonistic relationships diminish supplier's creativity, reduce flexibility and weaken the chain in many ways. As flexibility is becoming increasingly important, the cost of such lack of coordination becomes increasingly higher. Collaboration, on the other hand, can improve supply chain as a whole"[1].

Synthesizing the above, we could say that in relational terms, a the supply chain may be:

a) a classic one, based on antagonistic relationships between its components, namely between firms in a position of sellers or buyers, each trying, in their bilateral relations, to maximize profits through the negotiated prices. Thus, some links are strengthened and others are weakened. The latter will later endanger the whole supply chain.

b) a modern one, based on relations of cooperation between its components, collaboration that aims to overall chain efficiency and results in its strengthening in competition with other supply chains.

On the other hand, it is useful to look at supply chain in structural terms, namely:

a) static supply chains, based on a fixed number of components, mostly invariant over long periods of time in respect of the supplying companies identity.

b) dynamic supply chains, based on networks that can reconfigure, whenever necessary, a certain supply chain, in order to optimize its overall responsiveness (an extension of the classical concept of efficiency), increasing chain flexibility and stimulating suppliers creativity.

In this point of the analysis, we can conclude that the dynamic supply chains of collaborative nature are better positioned in the competition fight.

The supply networks that generate these supply chains are also competing each other and the outcome of this competition will translate into a greater number of prestigious Western companies that will contract that network to carry out the supply chains specific functions.

A different level of the analysis of the business structures engaged today in the field of the global competition, could be that of the comparison between the matrix structures (from the functional point of view) of TNCs (with their branches system) and the matrix structures of the supply networks.

There are definitely matrix response skills to market demands in both structures, but it seems that a conclusion can be drawn is that networks have competitive advantages over TNCs, at least in the field of the manufacturing function. These advantages result, among others, from the following reasons:

a) The geographical and functional structure of a TNC is more rigid than that of the supply chain. It is fastened by its original structure, built on the strategies of market adaptation or the aggregation of similar market demands. This structure largely cancels from the start the permissiveness of a rapid implementation of a new production matrix. In a supply network such as that orchestrated by Li Fung, consisting of over 12,000 suppliers located in over 40 countries, the formulation and implementation of a new production matrix is possible immediately and with reduced operational costs.

b) The ownership structure of TNC is more rigid than that of the supply chain. While the flexibility of the first is increased through green-field investments or mergers and acquisitions, the second enjoys an incomparable flexibility both in the development stage of the existing structure, based on the adherence to the network that can leave aside ownership involvment, as well as well as

[1] Victor K.Fung, William K.Fung, Yoram (Jerry) Wind: Concurenta intr-o lume plata: cum sa construim o companie intr-o lume fara granite, Ed.Publica, 2009.

in the functional stage, when, for a similar result, a number of operational combinations (matrix) can be made readily available.

c) The strategy of the arbitrage factors that finaly define the manufacturing efficiency (seen in its entirety of the manufacturing "function") is optimized in the network because, in comparison with many TNCs, it can configure at any moment, from "n" possible variants, the matrix that optimizes coordinates like: assigned functions, costs, location, speed of execution, etc.). In this context, the arbitrage strategy applied inside its own structure of a TNC is expected to turn more extensively into a strategy arbitrage in respect of choosing the right supply network. Partnering with a supply network equates in the same time with the outsourcing of the arbitrage strategy regarding manufacturing (lately acompanied by activities of design, marketing and logistics) from a TNC to the selected supply chain. In this context we will probably witness the emergence of a new concept, that of the "outsourcing of the arbitrage strategy" from under the roof of some TNCs to some supply networks, which turned themselves also into "globally integrated businesses".

3. Other aspects of the analysis

a) The organic growth model, based on the ownership of assets, is no longer, as in the classical economic theory, the only model of enhancing the economic strength of a company.

Within the functional specialization, following the segmentation of the global value chain, a number of TNCs have outsourced the "function" of manufacturing, keeping higher value-added functions in which they focused their highest skills, that set them apart from competitors (such as research and development, planning and design, innovative marketing and distribution strategies).

The outsourcing of the manufacturing function to contract manufacturers discharged those companies of the need of managing some high-value assets that are no longer to be found in their heritage. The resources thus made available were assigned to other functions, functions that have generated a more notable increase of the company value.

If in the past, the vertical structure and the organic growth have paved the way towards profitability and reputation, now the deverticalized structures prove to be more profitable.

The fact that the property model can be successfully overcome is shown, perhaps the most eloquent, by the integrators of functions who have specialized in orchestrating vast networks of suppliers. Although their contractual commitment is to supply products manufactured products, it is possible that these integrators, owing no production facility, to report turnover of billions of dollars.

These networks consist of thousands of suppliers, some of which exceed the known concept of a supplier and provide even complex and distinct functions like the fabrication of product modules, assembly, logistics, retailers activities, etc..

The construction of this network is vertical, but not a single company's courtyard. This democratic structure consisting of "n" independent owners is made functional and effective not by property relationships (belonging to one company), but by a new type of management, innovated and perfected over the last 10-15 years by some visionary companies which early seized the new opportunities offered by the "functional" specialization and the availability of some brand companies, mainly American, to apply to the international outsourcing (offshoring) of manufacturing and services.

b) **The expanding and deepening of the interdependence relationships between independent companies, based on the "functional" dependability between them.**

This kind of dependency between the seller and the integrator of functions, pave the way merely to relationships of cooperation and to a balance of power between partners. The "functional" interdependence has already come to overshadow, through its potential, the older structures such as strategic alliances. It is also a challenge for managers of many companies that face difficulties in assimilating the new conceptual principles of networked businesses.

The symbiotic relationship between partners emerges from the fact that the seller of the production function knows and represents the market of demand, while the integrator of that function knows, organize and represent the market of the supply of production factors.

c)**In the context of the "globally integrated businesses", the pricing strategies will be shaped differently**

It is expected that traditional means of competitive struggle between transnational companies[2], including the central role of pricing strategies and the use of transfer price mechanism, to be reconsidered, especially in connection with the new matrix of the "globally integrated businesses" in which, for example, the mechanism of transfer prices is no longer operative and competitive advantages are distributed and focused on "functions".

d) The reconfiguration of competition in businesses involving functional specialization has implications for the overall competition. Analysis of changes in the competitive environment should be separated by areas, due to the particularities of the new business structures and their symbiosis with the classical ones.

In the past 20 years we can observe an almost exponential growth of the contract manufacturing, in all its forms (original technology manufacturers, original design manufacturers, global suppliers) and almost in all industrial fields. However it may be noted that in the light industry the strategic options of functions integrators were more varied than in other areas (a comparison should be made first of all with the electronics industry), because in terms of assets and functions, they could engage in more diverse forms of structuring the business (supply chains, supply networks).

There are still plenty of examples of running a successful business in property-based systems, as in the case of vertically integrated companies, and in the light industry the vertical pattern is often fulfiled, out of conjunctural or competitive reasons, by lohn contracting.

A parallel between a model of structuring a business including a supply network and a model that includes a network of manufacturers in a lohn system would certainly lead to the idea that the first is more competitive than the classical one. The main reason lies in the "offshoring" of the management of the manufacturing function from the outsourcing company to the company that manages the supply network, leading to an increased focus of the outsourcing company on the management of the relationship with the market, leading finally to the optimization of the flow from the demand study of demand to the suitability of supply.

The transition to the network model also implies a shift from the "supply chain management", which focuses on optimizing a fixed and relatively limited set of assets, to the "orchestrating or management of a network", which focuses on optimizing the response to customer needs, using the assets of a vast network of partners. Innovations in the field of network management define in fact another type of management, the dynamic management of probable structures.

The "decoupling" of the supply chain management from the management of markets, at the level of some independent companies, will generate not only a tendency to maximize the specific managerial skills, but also a competition which is not this time located at the level of vertically structured companies, but at the level of those couples formed by the outsourcing company and the company managing the supply network.

4. Conclusions

Analysis of new strategic concepts put into practice by a significant number of companies, both from developed countries, as well as from emerging ones, puts us in the position to sense also the reconfiguration of the content of economic competition.

[2] Serghei Margulescu, Elena Margulescu: Preturi si concurenta, Ed. Cartea Studenteasca, Bucuresti, 2007.

"Traditional" competition between companies is replaced, in the context of the "globally integrated businesses" and the "functional" specialization, with types of competition specific to the new structuring of companies and businesses and to the new management concepts in the process of consolidation. Competition between companies which include the achievement of all "functions" of the value chain is replaced, in the case of those companies that have realized the tremendous potential offered by the functional specialization, by a competition which is localized at the level of the function or set of functions retained in its portfolio. Competition moves to the "functions of excellence" retained intra-company or created.

A new type of competition is observed also between the networks of suppliers. This competition is more complex than the competition between supply chains and is further complicated when some members are part of several networks that may, themselves, be in competition.

The reconfiguration of competition in businesses involving functional specialization has implications for the overall competition. The "decoupling" of the supply chain management from the management of markets, at the level of some independent companies, will generate also a competition located at the level couples formed by the outsourcing company and the company managing the supply network. Traditional business models will have to adapt on the way, unless they do not restructure themselves too, to the new competitive challenges that the functional specialization of companies has brought lately in the field of international economic relations.

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