MANAGEMENT OF AN INTER-FIRM NETWORK

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MANAGEMENT OF AN INTER-FIRM NETWORK

editor

Yasuhiro Monden

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Preface

Adam Smith (1776) first advocated that supply and demand in the market would be balanced through the market principle (or market price or supply-demand equilibrium price) of the “invisible hand”. This is based on the “division of labor” in the market. However, the market cannot necessarily work well especially in the age of depression.

Thus this volume attempts to propose the system that induces cooperation among the inter-firm network, which is a kind of organization against the concept of “division of labor” in the market. We are going to explore how to design such a network and balance the supply and demand, and finally create mutual satisfaction of all participating firms within the network. This mechanism is mainly based on the “incentive price” system, which will take the place of “market price”. As such, proposing the antithesis to Adam Smith’s initiated market principle is the main theme of this volume. This new viewpoint and mechanism will develop the new world and can help recover the depressed economy when introduced together with the market competition among the various networks in the industries.

From the above standpoint, the book is into subdivided into three parts, in accordance with the framework of the management theory propounded by Robert Anthony.

PART 1: Strategy for Forming an Inter-Firm Network

Since a network organization is a “network of various companies”, the presence of a core company that plays the role of headquarters is essential. The strategic roles played by the core company of a network organization are two-fold: Recognition of the functions (roles) to be shared among the companies participating in the network and the selection of the member companies. This involves the *strategic decision No. 1*. The *strategic decision No. 2* that the core company should undertake is to determine the *forms of business combination* of inter-firm relations.

PART 2: Management Control of an Inter-Firm Network

One more role of the core company is to encourage candidate member companies to do a good job in the network. In order to make the performance of the network as a whole attractive, the core company should have some *incentive systems* that motivate the member companies to perform well. Thus the “plan-do-check-action” cycle is conducted by the core company, in which the performance evaluation system for the member companies is crucially important. This role is the “*management control*” functions of the core company. For this purpose various managerial accounting information of the consolidated business group (network) are needed.

As stated earlier, Adam Smith (1776) first advocated that supply and demand in the market would be balanced through the market principle (or market price) of the “invisible hand”. However, the market cannot necessarily work well especially in the age of depression. This volume proposes the management control system that induces cooperation among the inter-firm network, especially the joint-profit allocation system as an incentive system of management control.

In this respect, we will also discuss the management of the horizontally allied networks of small and medium companies, as well as the vertically allied networks.

PART 3: Task Control of Production, Sales and Physical Distribution in an Inter-Firm Network

A network usually consists of member companies from the upstream to the downstream levels of a supply chain, and the core company determines the quantitative allocation of goods in supply and demand among the member companies. In response to the fluctuations in demand in the market, the adjustment of supply of the resources relevant to the supply chain should be made quickly throughout the chain under the *direct quantitative control* of the core company. This role is called “*task control* or *operational control*”.

The goals of such operational control include the whole business process efficiency for reducing the lead times in product development, manufacturing and sales processes. The Japanese automobile industry is unique in smoothing the parts usage each hour. The special technique is introduced. It also aims at the logistics efficiency, which includes not only the forward-flowing logistics but also the reverse (green) flowing logistics.

Further utilization of the master data management for integration of an inter-firm as a whole will be explored.

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I am very grateful to Ms. Juliet Lee Ley Chin, the senior commissioning editor of the Social Sciences in the World Scientific Publishing Company for her invaluable advice to make this volume a reality. The contributing authors of this volume are also amply rewarded when their new ideas or knowledge contribute to the literature on business management and managerial accounting, thereby being of some use to people around the world.

Yasuhiro Monden

March 7, 2011

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