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**SUBCONTRACTING PRINCIPLES OF
INTERACTION BETWEEN ENTERPRISES OF
DIFFERENT SIZES AT A REGIONAL LEVEL**

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JEL Classifications: R10, R11

Key words: Subcontracting, enterprises of different sizes, small business, subcontracting models, regional interaction problems of sectors of different sizes, roles of large and small enterprises in interaction.

Abstract: This paper reviews peculiarities of interaction between enterprises of different sizes at a regional level in Russia on the basis of subcontracting. It defines basic conditions and organizational forms of such interaction related with circumstances of regional economic development. The paper also presents a comparison of American and Japanese subcontracting models considering possibility of borrowing certain specific features for the Russian conditions. It lists stable structures of interaction between small- and large-sized enterprises considering possibility of changing roles in integration schemes. On example of the Nizhny Novgorod region specializing in machine-building and metalworking, the most important peculiarities and perspective lines of subcontracting development in the medium run are reviewed.

ISSN: 1804-0527 (online) 1804-0519 (print)

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In the Russian Federation, the close industrial interaction between sectors of different sizes is a prerequisite for development of sectoral and territorial aspects of industrial and innovation policies. Such interaction creates a positive scientific and technical transfer which, on the one hand, advances industrial and financial stability in small business and, on the other hand, promotes innovation and quality personnel growth of large enterprises. This becomes possible when the following conditions have been fulfilled: a) mutual and long-term interest of counteragents in effective cooperation; b) optimal actions of governmental authorities and credit and financial institutions as regulators. Regional level of interaction between small and large businesses adds the following to the above conditions: a) necessity of social and economic development of the alliance location territory; b) certain limitation of resource-related opportunities.

All the above-mentioned factors relate to a smoothly-running mechanism of intersectoral interaction. However, it is known that in the Russian conditions it has substantial drawbacks of social-economic, institutional and legal nature at the national level leading to not sufficiently competent and untimely interference of regulators in a process of relations between sectors of different sizes, mainly in a "power-property" line. This, in turn, results in a range of problems at the regional level: lack of transparency of financial flows and property allocation inside the largest monopoly industrial corporations; different technological and technical equipment levels in small and large enterprises; unequal access to markets of production means; lack of proper regulation of intellectual property and land relations; subjective difficulties of bureaucracy nature in obtaining land lease rights and land allocation for industrial needs; lack of industrial premises; region-level financial weakness of financial sector and its fundamental unwillingness to work with a high-risk sector of small forms; undeveloped transport, industrial, financial, innovation infrastructure; lack of "niche" division of regional markets; excessive social load resulting from requirements of regional administration.

These drawbacks also have an adverse effect on integration processes of sectors of different sizes. For instance, small businesses were created by large industrial corporations during the transition period using different

ways: (a) split-up of large companies based on "side" specialization with funds flowing from governmental sector to the private one; (b) establishment of subsidiaries to solve specific problems for the benefit of a narrow group; (c) creation of a pool of small business affiliates of large enterprises to solve problems of resource suppl. Modern Russian entrepreneurship faced the necessity of restructuring large enterprises with ballast structure. However, the world's tendency of transferring business processes (outsourcing) emerged in the Russian reality through distancing of small and large businesses from each other. Today the Russian model of interaction between small and large businesses is evolutionary transforming from asymmetric mutual relations to mutually beneficial cooperation which is reflected in dominancy of small business forms appearing in regions. On the basis of large companies being restructured, satellite forms of small companies are created: they are legally independent but closely connected with territorial leaders. Most often subcontracting becomes the basis for relations "leader - satellite" creating mutual benefit in rational territorial division of labor. The territorial production system is now obtaining opportunity to be focused on particular regional markets. Subcontracting is used in regions where industries with actively functioning large business (oil, building, food) operate. In this regard and despite crisis occurrences, there can be observed a stable area of small manufacturing business outlined by the National Institute of System Research of Entrepreneurship Problems (NISREP) at the beginning of 2009. The top ten are: republics Altai, Adygea, Tuva, Khabarovsk krai, Orenburg, Smolensk, Tambov, Tyumen oblasts, Nenets and Yamalo-Nenets okrug (Experts, 2009; Best, 2002).

By subcontracting relations between all participants - contractor (usually a larger manufacturer of end products) and a subcontractor (small specialized enterprise) - two primary models of subcontracting can be distinguished: Japanese (vertical) and American (horizontal).

The Japanese model is characterized by multiple levels and copying relations between the main company and subcontractors for the purpose of creation of competition on all levels. For example, Toyota directly deals with 300 suppliers of spare parts which, in turn, use services of 5000 suppliers of second level, which coordinate 20000 suppliers

of the third and fourth levels. In choosing partners, the “Japanese” integration scheme emphasizes the compatibility between technical basis of counteragents and the long term of interaction (Best, 2002).

The American model is characterized by less regulated cooperation connections: subcontractors work independently of each other making contracts only with the main company. In such scheme, small businesses play roles of independent partners which determine individually their participation in a particular structure of production cooperation. This integration scheme does not involve coordinating plans of large and small companies and interaction between the same results from a particular order. For example, “Ford” company works with 30 thousand suppliers of spare parts on the basis of short-term contracts.

As a result, the Japanese model provides for more substantial “competitive cleaning” of products in terms of quality, assortment, terms and unconditional supplies.

Actual schemes of interaction between small and large enterprises can be more diverse depending on participation roles of large and small businesses: (a) dominance of a large manufacturer in the production tandem; (b) attraction of independent small enterprises to the large one as a center concentrating functions and resource-related opportunities; (c) chains of small supplying companies of different configuration; (d) interaction between different large enterprises through the network of small specialized companies.

In this case, traditional allocation of roles: large enterprise (contractor) and small enterprise (subcontractor) may be subject to changes, for example, due to the necessity to produce in small batches. In the Russian Federation, subcontracting mechanism is used by small and medium-sized enterprises for the purpose of organizing own production of complex units comprising key know-how and finishing assembly. All other nodes and details are produced by large enterprises under subcontracts. This allows small manufacturers to reduce expenses on equipment and lease of industrial spaces. On the other hand, tough requirements to quality of domestic products and its compliance with international quality standards require using the Japanese subcontracting model on the part of large manufacturers of complex products. According to results of a research conducted by ZAO “International Center of Industrial Subcontracting and Partnership” the following are the priorities of directors (managers) of enterprises: the company’s experience in performing similar work, own quality control system, ISO 9000 certification (Karlik and Shukhgalter, 2009).

Using in regions of the Russia the existing models and schemes of subcontracting depends on: (a) existing territorial specialization; (b) high concentration of narrow specialized small manufacturing companies in the economic space; (c) large manufacturers with development strategy; (d) favorable regulatory and managerial conditions.

At a regional level in the unified information and consultation space, there is a network of 43 subcontracting centers supporting relations with 12 thousand of the best industrial enterprises of the Russian Federation (Portal 2009; Best, 2002). In industrially developed region of the Russia - the Nizhny Novgorod oblast, there are more than 150 large enterprises characterized by: experience in cooperation connections; interregional contacts; high degree of diversification. This is a basis of a modern period of subcontracting which determines its strengths (developed

industrial technical, technological and scientific base) and weaknesses (striving to trivial schemes of supplies and traditional suppliers). Such features are typical for the largest enterprises of the Nizhny Novgorod region: OAO “GAZ”, “Zavolzhie Motor Plant”, “Krasnoe Sormovo”, “Pavlovsk Bus” have concerns regarding quality and timeliness of supplies. As a result, processes of division and creation of “own” small companies continue. In particular, enterprises “Lear” manufacturing automobile seats and “RIDA” specializing in tuning and production of special-purpose vehicles successfully work at OAO “GAZ”. In other cases, suppliers of “first level” need their own supply network. “Autocomponent” company manufacturing dashboards, molding automobile interior components, microclimate systems, mirrors, can serve as an example (Industrial, 2007; Karlik and Shukhgalter, 2009).

Due to the specialization of the region, subcontracting processes develop in the most dynamic way in machine building and metalworking (90% of orders according to the regional center of subcontracting) which enables to change the existing model of large production with dominance of narrow product specialization and wide universalization of pre-production. (Subcontracting , 2009; Portal, 2009).

In the course of further improvement of contracting process in the region, the following lines of the process development can be outlined: (a) development of small business in industrial area on the basis of production of spare parts and metalware within the framework of multi-level subcontracting; (b) creation of import substituting manufactures at the stage of finishing assembly of products; (c) cooperation of scientific and industrial sectors on the basis of adoption of developments in mass production.

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