

W. Gale Cutler's Commentary on "Conflicts within a Manufacturing Firm"

Commentary On
Conflicts within a Manufacturing Firm

A modern corporation, particularly one with several manufacturing divisions and internal capabilities to produce parts and tools it needs to manufacture a finished product, is a very complex organization. A major corporation can literally be thought of as a series of individual companies bound together by the management of the corporation. It is healthy in such an organization for internal competition to occur in bidding to make tools, parts, dies, etc. for other portions of the company. In such competitive bidding, honest quotes can only be obtained if internal departments/divisions are treated exactly the same as outside sources also asked to quote.

In Part I of this case, Purchasing should refuse to disclose outside quotes to the internal tool and die department. Disclosure of outside quotes violates the relationship a purchasing department should have with outside vendors and will give the internal tool and die department an unfair advantage. It will be impossible to get a fair and impartial quote from the internal tool and die department if they are provided the quotes from outside vendors. A truly competitive situation will provide the best situation for the company as a whole.

In Part II, the outside vendors have a justifiable complaint when they discover they are competing with an internal tool and die department that has full access to their quotes. With this kind of information available the internal department will undoubtedly deliver a quote low enough to win the job but this in no way assures they will produce the best quality tools and dies for the price. An honestly derived bid from the internal tool and die department is actually a very good check on the accuracy and validity of bids acquired externally.

In Part III, the tool and die department head has a definite misconception when he pleads that the "company should not compete with itself." Internal competition goes on in many major corporations and helps assure that they work effectively and

efficiently to produce the best product at the best price. If the tool and die department has the goals and objectives of T&D in mind they will want tools and dies produced by the organization that will do it best, considering quality and price, whether than organization is outside the company or internal to the company.

An internal department, propped by access to privileged information, can actually prove a detriment by "rigging" quotes to get internal business it would not get otherwise. Frequently the internal department will overrun the cost of producing the item on which it has bid and the overrun reduces company profit in final accounting.