Neil R. Luebke's Commentary on "Conflicts within a Manufacturing Firm"

Commentary On
Conflicts within a Manufacturing Firm

This case describes a situation which, in one form or another, is familiar to many purchasing managers. The engineer most likely to be involved would be the person who would head the internal tool and die department. In the past there was no possibility of T&D Manufacturing competing with outside vendors in meeting its tool supply needs. The company maintained only a tool maintenance unit rather than a manufacturing unit. We do not know why T&D Manufacturing changed company practice to authorize the tool and die department to go into supply as well. Possibly the company thought there could be a saving on the cost of tools or in maintenance costs. Perhaps the head of the tool and die department is a very ambitious person who wants to build up that part of the company and was successful in getting upper management to go along.

Different practices exist among companies regarding the treatment of in-house suppliers of goods or services. In some cases, for instance, a company may see its own in-house supplier as being the supplier of first choice, and only if that supplier cannot take care of the need or can take care of the need only at a cost exceeding the open market would a call for outside bids go forth. In some cases heads of other departments in the company might be able to get an estimate from the in-house supply unit before checking informally on the price range for external supply. In the case before us, T&D Manufacturing seems to have kept a rather formal approach to the matter of tooling supply. Specifications are sent to at least three approved outside vendors, and confidential bids are received by the purchasing department. We are led to think that the in-house supply unit operates by these same rules, so it would use its own set of specifications and submit a price. Such an arrangement puts the in-house tool and die department in direct competition with the outside vendors. For the purchasing department to forward to the tool and die department the outside quotes and allow it a week to produce its own price and delivery date would certainly give the in-house supplier a competitive edge. The outside vendors

justifiably would conclude that the competition is not fair. Outside vendors would be understandably reluctant to offer bids in the future on similar tooling requests if they thought it unlikely that their bids would have a fair chance. As a result, T&D Manufacturing may lose the services of some outside vendors who otherwise would do a quality job. There might also be legal problems.

Let us suppose the purchasing department head tells the internal tool and die department head that he cannot give him the outside quotes before receiving his own internal bid but that he will let him know the outside quotes after the job is awarded. If T&D Manufacturing were a public institution, such as a university, legally required to maintain publicly accessible records for its financial dealings, all bids would eventually become public and accessible not only to a unit within the institution but also to the outside vendors. In the case of a private organization, which would include a private university, it is a matter of policy whether to release information on the unsuccessful bidders. Perhaps the company policy would permit the purchasing head to inform the tool and die supply department head after the contract has been awarded. Perhaps it would be more limiting. In any event, the company policy should be communicated to the outside vendors so that, in making their bids, they know what will happen to the quotes after a contract decision is made. Bidders on jobs at public institutions know that their quotes are going to be publicly accessible. What happens to this information may affect their decisions to submit a price quotation.

Two additional comments are in order having to do with the topic of marketplace competition. First, consider the tool and die department head's reactions in being denied information about the quotes by the vendors. He claims that failing to give him the quotes would be putting the company in competition with itself. This is a questionable interpretation of the situation. If the company were not from the beginning convinced that better quality at a lower price could be obtained through competition among vendors, its policy of asking for bids from various vendors would not seem to be justified at all. It is doing the company no harm if it obtains a part from an outside vendor at a lesser cost than it could produce the part itself. If there is a net saving, it is a new saving that benefits the company as a whole. At the same time, however, it is not the case that every unit in a company has precisely the same goals and objectives. For instance, the production unit in a manufacturing company may regard its objective to be maximizing its productive capability, whereas a warehousing and distribution unit may see its job as moving goods into

the market as rapidly as possible without excessive use of warehouse space. A market downturn is likely to result in an inventory backup with lessened distribution. It would then be counterproductive for production to strive for maximum levels. The overall interests and objectives of the company, therefore, require that production slow down for a period. In a similar way it may not be beneficial for a company always to give its own supply unit the advantage in competition with outside vendors.

The second point concerns a much larger question of values. It is the question of whether marketplace competition is always beneficial. While this question can be raised in a number of contexts, within the last couple of decades it has come up with regard to certain professions in the United States. Traditionally, physicians, lawyers, engineers, and architects have been opposed to the public advertising of prices for their services or being involved in competitive bidding for their services. Many felt that the practice reduced professional activity to crass materialism. Some claimed that the decision to employ a professional ought to be made more on the professional's record of quality than on considerations of price. Earlier versions of the professional codes for the American Institute of Architects, the National Society of Professional Engineers, and the American Society of Civil Engineers contained sections which prohibited persons in those professions from engaging in competitive bidding for professional services. The United States Department of Justice charged these societies with being in violation of the Sherman Antitrust Act's prohibition against unreasonable restraint of trade insofar as they had forbidden their members to engage in competitive bidding. The ASCE and AIA both signed consent decrees whereby they changed their policies and professional codes to permit the possibility of members engaging in competitive bidding. The National Society of Professional Engineers, however, fought the matter through the courts.

Finally, in 1978, the Supreme Court of the United States issued its decision against the NSPE and ordered the Society to revise its professional code, manuals, and other literature which had forbidden or discouraged competitive bidding. The NSPE had argued before the Court that there are some situations in which competition is not for the public good and had claimed that engineering design was one of these situations. Among other things, the NSPE argued that to put design services on a competitive basis would give an impetus toward mediocrity and toward lessened ingenuity and creativity in design work. A firm could more cheaply do design work if it used stock approaches to situations and problems rather than if it attempted to address its clients' needs in more creative and possibly beneficial ways. The

Supreme Court did not reject this argument per se; however, the Court considered it irrelevant to the decision in the case. According to the Supreme Court, Congress, in passing the Sherman Antitrust Act in 1890 and in subsequent legislation, had already decided that a policy of open competition in the marketplace was the beneficial policy for the country. In the Court's view, as long as Congress did not overstep its constitutional bounds, the Court had no authority to challenge Congress' conclusion on this matter.