Address by Liam Connellan, Director General, Confederation of Irish Industry, at Irish Institute of Purchasing & Materials Management meeting at Two-Mile-Inn Hotel, Ennis Road, Limerick, Wednesday, May 23rd, 1990 at 6.30p.m.

INDUSTRIAL COMPETITIVENESS AND EMPLOYMENT CAN BE IMPROVED BY DEVELOPING A MORE EXTENSIVE NETWORK OF SUB-SUPPLY FIRMS

RESOURCES ALLOCATED BY LARGE FIRMS IN DEVELOPING SUB-SUPPLIERS CAN BE MORE THAN OFFSET BY COST AND SERVICE ADVANTAGES

There is considerable scope for more rapid complementary development of large and small firms through the creation of industrial linkages. While I welcome the work of State agencies in assisting these developments I believe that the primary dynamic should come from industry itself.

During recent years there has been a substantial change in the size structure of industry in most industrialised countries. Large firms have found it to be more efficient to concentrate on their core businesses and to sub-contract the supply of a wide range of industrial components and services to specialised smaller firms. This has enabled large firms to concentrate their management resources on improving the efficiency of processes which were vital to their production and to reduce the management time and effort required to produce minor components and services. The corollary of this trend has been to create widespread opportunities for smaller specialised businesses which can produce these products more efficiently and at more competitive prices. The combination of these two developments has improved the overall competitiveness of manufacturing industry in the developed world.

Japan has been in the forefront of these development and for many years has cultivated an extensive network of small firms producing sub-contracted components for large international exporting industry. The skill and adaptability of these small firms has ensured that they could take on sub-contracting work from a number of larger firms, and could avoid dependance on one customer.

In contrast, firms in the State controlled command economies of Central and Eastern Europe have not had the advantage of a similar support infrastructure and have found it necessary to produce most of their requirements internally. This created an inertia in large-scale organisations, and a diversion of management resources to a wide range of subsidiary tasks with a consequent reduction in overall efficiency.

It would be of considerable benefit to Irish industry to have a more dynamic small and medium-sized industrial sector in Ireland, North and South. By having a larger number of small specialised firms within two or three hours' driving distance larger firms could ensure a more rapid delivery of components, a flexible response to their needs, a high level of reliability and service, and an ability to achieve "just in time" delivery of materials for production.

The advantages of having these facilities available locally are sufficiently strong to justify the allocation of resources of time and money by large firms in order to ensure that the quality and service levels provided by specialist suppliers are of the highest international standard. I recognise that in many cases it may be necessary for the larger firm to provide training and advice to their sub-contractees but this cost can be offset by obtaining better quality components at lower price, and faster and more reliable delivery.

Purchasing and supply managers in industry are in a unique position to take a lead role in acting as catalysts for economic development. There are now thousands of small specialised manufacturing firms throughout every town and village in Ireland. But there can be many more. Irish firms, North and South, currently sell about £6 billion of products on the Irish market and four times that amount abroad. Danish experience suggests that an island of five million people should be able to absorb £9 billion of locally produced products, that is £3 billion more than at present.

A primary means of raising this sales level by £3 billion could be to purchase more products from small and medium-sized enterprises for incorporation in goods manufactured by larger firms which are subsequently exported to world markets. These additional sales could create sustainable industrial employment for 30,000 more people directly, and at least as many in the services sector.

Furthermore, the opportunity for increased sales will not only enable existing small firms to grow faster but will also encourage many others to set up in response to unfilled needs. These small firms will, in turn, interact with each other, and create many new products and services.

The development of a more extensive network of specialised small and medium sub-contracting firms is a matter of enlightened self-interest. Purchasing and supply managers have a vital role to play in encouraging the creation of a high-quality, high-performance and cost competitive sub-contracting infrastructure structure which will be of benefit not only to their own firms, but also the whole economy.

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