Chapter III

An Overview Of Value Chains, Supply Chains And Strategic Alliances Issues

Introduction

In the competitive scenario unfolding at the beginning of the 21st century, characterized by the fast pace of technologic changes and opening and volatilization of global markets, an understanding of global value chains is of critical importance to outlining strategy.

As shown in Chapter II, in the most complex production chains, assessing bargaining power in relation to customers and suppliers may not be enough to understand the power relationships in the global competitive market. Imagine a semiconductors industry, whose clients may be the PC industry, but also be in telecommunications, electronics end users, and new areas such as smart cards. How can one discuss bargaining power based only on the elements introduced on Chapter II?

On the other hand, the process of decentralizing production activities, very often marked by globally-based outsourcing and by the streamlining of yesterday’s large corporate structures, created the so-called “network-com-
panies.” According to Chesnais (1996), large companies operating on a global basis gave priority to some functions considered strategic, leading a global chain of suppliers and distributors, performing activities previously performed by verticalized companies.

This process of “de-verticalization” presents some risks. However, when a company takes over value activities, it is possible to enforce its interests over other chain links by using its economic power.

For small companies, which are part of these large chains, the understanding of power dynamics and relations is decisive for their survival and development, and to outline defensive strategies enabling them to increase their relative power in the chain by means of partnerships and networks of cooperation.

The issues discussed are vital for strategy definition, since they bring a more detailed understanding of the game rules of the global value chains and of how to take advantage of its configuration, using networks and partnerships, or making use of location.

This chapter intends to present a more in-depth discussion of the supply chain, introducing issues such as location, networks of cooperation, and the study of governance, both of local and global scope. The concept of value chains, both in product-based and in service-based industries, are addressed.

### How to Define the Term Chains

You are certainly familiar with the concepts of value chain, supply chain and global value chains. Are these expressions synonymous or is there a difference in concept among them?

The first source of confusion is the fact that different research areas study the same phenomenon: the connection of several linkages in a chain, deployed in several tiers, from input to selling in global markets. These academic approaches are from the areas of strategy, logistics and operations, in addition to the economists, geographers, and social scientists.

Although there are several similarities between these approaches, each area emphasizes different features of this phenomenon, as presented in the following sections.