



## The Chinese paradigm of global supplier relationships: Social control, formal interactions and the mediating role of culture

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### ARTICLE INFO

#### Article history:

Received 30 August 2011

Received in revised form 21 March 2012

Accepted 27 May 2012

Available online 21 July 2012

#### Keywords:

Supplier Relationships  
China  
International business  
Culture

### ABSTRACT

This paper reports the results of a study that examined how firms can establish successful business relationships with Chinese suppliers. Its aim is to explore salient characteristics of the nature of buyer supplier relationships with the emergence of China as a dominant economic power. Two surveys have been conducted that investigated several factors that inhibit and enable effective supplier relationship management (SRM) between organisations sourcing from China and Chinese suppliers, and explored the impact of cultural characteristics of Chinese management on the nature and performance of supplier relationships. The research highlights the importance of the social control aspect of governance structure of supplier relationships and stresses that both social and formal control mechanisms should be implemented for more effective relationships with Chinese suppliers. It also demonstrates the need for companies to recognise the importance of guanxi and several cultural characteristics of the Chinese style of management in SRM and advocates the need for the development of a hybrid Sino-Japanese and global supplier relationship management paradigm that incorporates elements from the existing SRM models. It generates insights into how the cultural context of emerging markets affects the nature of business relationships and generates a research agenda in the field of supply chain management that can explore the development of new paradigms in supplier relationships management. The main theoretical argument put forward centres on the need for the development of a new global supplier relationship management paradigm that will take into account the cultural elements of the Chinese society.

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### 1. Introduction

Over the past two decades, there has been a widespread trend amongst western countries to outsource some of their production and supporting services to low cost countries. The astonishing expansion of the Chinese economy has prompted many western organisations to outsource production of components, manufacturing processes and a number of business services (such as I.T. services and facilities management) to companies in the People's Republic of China (for brevity China will be used hereafter).

Poor quality of locally produced components, particularly among second tier suppliers, as well as delivery delays and relatively high costs, represent major challenges of outsourcing in China. A number of recent studies emphasise these problems of outsourcing to China (Millington, Eberhardt, & Wilkinson, 2006) and the need for appropriate sourcing strategies and technical support to Chinese suppliers for the development of successful and sustainable supplier relationships (Gabriela & Douglas, 2006; Kaufmann & Hedderich, 2005;

Kotabe & Zhao, 2002; Lihong & Goffin, 2001). However, there have been relatively few studies that explore the peculiarities of supplier relationship management (SRM) with Chinese suppliers, especially in the interior of the country where foreign investment has not been so prevalent. The majority of current supplier relationship management models are either developed in the context of western or Japanese business cultures, or without sufficiently addressing cross-cultural issues. This paper explores how specific characteristics of Chinese culture (as they are manifest in business contexts) can affect the business relationships that multi-national firms have with their suppliers in China. The paper's primary objectives are the following:

- to identify and analyse factors that inhibit or facilitate the sourcing processes with indigenous Chinese firms, the predominant type of governance structure of the supplier relationships and the interaction patterns between the trading partners;
- to explore the effect of specific Chinese cultural characteristics on the nature of supplier relationship management of western multi-national with local Chinese companies.

The ultimate aim of this paper is to develop a research agenda to investigate the development of a hybrid global SRM paradigm that

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will take into account the existing SRM models as well as the cultural and contextual characteristics of China. Furthermore, the findings will inform western firms about the applicability of the current SRM models in their dealings with Chinese suppliers. With these aims in mind we have developed two principal research questions:

RQ1: What factors facilitate or inhibit the nature of business relationships between Chinese companies and their international partners?

RQ2: How do Chinese business cultural characteristics affect the business relationships between Chinese companies and their international partners?

The remainder of the paper is organised in five sections. In section one the literature relating to the different philosophies is briefly explored and models for the management of supplier relationships and recent studies that provide insights on SRM between western companies and Chinese supplier are presented. In section two the peculiarities of Chinese business culture are discussed, and in section three the research design and data collection process is outlined. Section four presents the findings of the study. In the fifth section the findings and their implications for the development of a contemporary SRM model that takes into account Chinese cultural characteristics, are discussed. The paper concludes with the limitations of the study and its implications for business practice and for further research.

## 2. Management of supplier relationships

Supplier relationships have attracted considerable attention over the past few years. To some extent, this is the corollary of the emergence of new forms of organisational structures that was accelerated by the latest technological, political and demographic changes in the global marketplaces. It is widely acknowledged today that business performance improvements (both financial and non-financial) that result from effective buyer–supplier relationships are significant and indisputable (Ellram, Zsidosin, Siferd, & Stanley, 2002; Terpend, Tyler, Krause, & Handfield, 2008).

Researchers have approached the analysis of interactions among and within organisations by following different perspectives and using different levels of analysis. As a result, the literature pertaining to issues on supplier relationships is extensive and studies that deal with supplier relationships phenomena can be found in the management discipline, institutional economics, political science, and in sociology and psychology (Giannakis & Croom, 2004).

In this section a brief discussion of the supplier relationships management literature is presented to illustrate the different cultural/philosophical perspectives for the management of supplier relationships and to articulate the characteristics and specificities of contractual and procedural coordination among supply chain partners. The discussion is structured around the dichotomy between the individualistic (western) and the collectivist (eastern/Japanese) cultures, and their associated SRM models.

### 2.1. The traditional (western) models

Western models are generally influenced by the contingency theory, which advocates a portfolio approach to SRM. A selection of well referenced models and their major contributions are summarised in Table 1.

The majority of these models were developed in an environment with mature and structured political and economic systems. The economic and political system in China however, is profoundly different. The lack of a mature economic system is found in the history of Chinese society, in which there were no formal laws, only formal networks of powerful people guided by general principles of Confucian virtue (Hofstede, 1993). For the development of a paradigmatic

**Table 1**  
Western SRM models.

Author (Year)	Description/major contribution
Kraljic (1983)	Appropriate relationship strategy with suppliers can be determined using a procurement classification based on profit impact and supply risk
IMP Group (1982)	The proposed Interaction Approach framework identifies four groups of variables that characterise and influence the interaction between buyer and seller
Lamming, Johnsen, Zheng, and Harland (2000)	Supply network classification based on product characteristics: innovation (based on Fisher's model), uniqueness (or differentiation, based on RBV) and Complexity
Cox (2004)	Power-and-contingency model that proposes a four-steps approach to identify the appropriate relationship type

model of SRM in China, it is therefore necessary to consider the idiosyncratic socio-cultural factors within Chinese society.

Among these western SRM models, the IMP Group's interaction model has provided a general model to better understand business markets (Christopher, 2004; Fang, 2006; Harland, Knight, & Cousins, 2004; Lamming, 1993). The interaction approach is built upon two theoretical models: inter-organisational theory and the new institutional economic theory. A large number of variables that characterise and influence the interaction between trading firms has been theorised and investigated and has resulted in a comprehensive descriptive and conceptual model that can be used to characterise and analyse business relationships (Håkansson & Snehota, 1995).

The main focus of the interaction model however, has been on theory building and has not been used extensively to explore international and cross-cultural business environments (Fang, 2001; Harland et al., 2004).

### 2.2. The Japanese and the lean supplier relationship management model

Probably the most widely accepted paradigmatic model for high performance supplier relationships is the lean supply model that has been inspired by Japanese production management systems (Womack, Jones, & Roos, 1990). It is an approach pioneered by Toyota after World War II and has gained high publicity through a 5-year study of International Motor Vehicle Program (IMVP) on global automobile industries. Since then, the Japanese paradigm has significantly influenced different aspects of the western management world, particularly supplier relationships (Lamming, 1993; Womack & Jones, 1996).

A distinctive characteristic of the Japanese production and supply networks is the "shared destiny" between trading firms, through shared capital/finance/personnel and cross-functional teams. The supplier relationships are long-term and both parties are highly committed (Lamming, 1993; Womack et al., 1990). It is therefore in the interests of both parties to collaborate closely, through joint product development and sharing cost reduction to maximise mutual benefits.

Following the major success of Japanese companies in the 1980s, the Japanese-style close and collaborative supplier relationships has had a profound impact on the way that international supplier relationships have been structured and governed. The Japanese model relies on two major structural peculiarities of the Japanese corporate culture:

- the buyer controls the relationship assuming the role as a "parent". This limits the potential of an equal partnership.
- the arrangement of shared capital/finance to secure the relationship derived from a unique context in Japan after World War II, which is not applicable any more.

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