

Establishing Successful Supplier Relationships with Chinese Companies: The Chinese Paradigm of Global Supply Relationship Management

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ABSTRACT

This paper reports the preliminary results of a study that examines how multi-national firms in China can establish successful relationships with Chinese suppliers. A survey has been conducted that investigates several factors that inhibit and enable effective supplier relationship management (SRM) between western organizations and Chinese suppliers, followed up by an in-depth case study analysis of the business relationships characteristics of three organisations in China. The research highlights the importance of the social control side of governance structure and stresses that both social and formal control mechanisms should be implemented for more effectively relationships with Chinese suppliers. It also demonstrates that need for western companies to recognize 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 western global SRM paradigm that will incorporate elements from the existing SRM models.

INTRODUCTION

Over the past few decades, there has been a sharp trend in western countries to outsource some of their business services and manufacturing processes to low cost countries. The astonishing expansion of the Chinese economy prompted many western organisations to outsource production of components, manufacturing processes and several business services (such as I.T. services, facilities management, pensions, payroll) to companies in the People's Republic of China (for abbreviation the term China will be used thereafter in the paper).

Poor quality of locally produced components particularly among the second tier suppliers as well as delivery delays and relatively high costs represent major challenges of outsourcing in China. These problems arise from the reluctance of the suppliers to operate in Just-in-Time mode and been driven by the demands of their large customers. Chinese suppliers still need enormous technical support from their foreign customers to be successful (Gabriela & Douglas, 2006). In order to develop the outsourcing business, western companies investing in China should concentrate on issues such as the sourcing process, the interaction process and governance structure.

Existing studies emphasize the development of appropriate sourcing strategies as a pre-requisite for successful SCM in China (Kotabe and Zhao, 2002; Kaufman and Hedderich, 2005; Lihong and Goffin, 2001) and on studies that analyse the supply chain management (SCM) problems of outsourcing to China (Millington et al., 2006). There have been relatively few studies however of the peculiarities of supplier relationship management (SRM) with Chinese suppliers, especially in the interior of the country that foreign investment has not been so prevalent. The majority of the current SRM models are either developed in the context of Western or Japanese business cultures, or without sufficiently addressing cross-cultural issues. The understanding the cultural characteristics of Chinese suppliers may help Western firms discern the applicability of the current SRM models in their dealings with Chinese suppliers, or may lead to a new model of international business relationships management.

This paper reports the preliminary results of a study that examines how multi-national firms can establish successful relationships with Chinese suppliers. Its main objectives are:

- to identify and analyse factors that inhibit or facilitate the sourcing processes with indigenous Chinese firms, the predominant type of governance structure of the SRs and the interaction patterns between the trading partners
- to explore the effect of specific Chinese cultural characteristics on the nature of SRM of western multinational with local Chinese companies.

Its ultimate aim is to develop a research agenda to investigate the potential development of a hybrid global Supplier Relationship Management paradigm that will take into account the existing SRM models as well as the cultural and contextual characteristics of China. In this direction two principal research questions are posed:

RQ1: What are the factors that facilitate or inhibit the *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 four sections. The literature on the different philosophies and models for the management of SRs is discussed in the first section and recent studies that provide insights on the SRM between western companies and Chinese supplier are presented. This is followed by a discussion of the peculiarities of the Chinese business culture in the section. The third section outlines the research design and data collection process and the fourth section presents the findings of the study. The fifth section discusses the findings and their implications for the development of a contemporary SRM model that takes into account the Chinese cultural characteristics. The paper concludes with the limitations of the study and its implications for further research.

THE SRM LITERATURE

SRs 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.

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 SRs is enormous and studies that deal with SRs phenomena can be found in the principal management discipline, in institutional economics, in political science, in sociology and psychology.

In this section the different cultural/philosophical perspectives the SRM models that have been developed in these cultures are presented 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.

The Traditional Western Models

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

Author (Year)	Description/Major Contribution
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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 characterize and influence the interaction between buyer and seller
Lamming (2000)	Supply Network Classification based on product characteristics: Innovation (based on Fisher's model), Uniqueness (or differentiation, based on RBV) and Complexity
Cox (20004)	Power-and-Contingency model that proposes a four-steps approach to identify the appropriate relationship type

Table 1 – Western SRM models

The majority of the presented 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 model of SRM in China therefore, it is necessary to consider the idiographic socio-cultural factors in the Chinese society.

Among these Western SRM models, the IMP Group's Interaction model (a primarily descriptive and conceptual model) has provided a general model to better understand business markets (Lamming, 1993; Christopher, 2004; Harland et al., 2004; Fang, 2006). 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 the trading firms has been theorized and investigated. The main focus of the Interaction model has been primarily on theory building. It has not been used extensively to explore international and cross-cultural business environments (Fang, 2001; Harland et al., 2004).

The Japanese SRM Model

Lean is a better way of “*doing more with less*” (Womack and Jones, 1996). It is an approach pioneered by Toyota after World War II. Toyota's approach gained high publicity through a 5-year study of International Motor Vehicle Program (IMVP) on global automobile industries. Since then, Lean has in one way or another significantly influenced different aspects of the Western management world, particularly SRM (Lamming, 1993; Womack and Jones, 1996).

A distinctive characteristic of the original Japanese Lean supply network is the “*shared destiny*” between the trading firms-through shared capital/ finance / personnel and cross-stakeholding, the BSR is long-term and both parties are highly committed (Womack et al, 1990; Lamming, 1993). It is therefore in both parties' interest to closely collaborate, through joint product development and sharing cost reduction through to maximise mutual benefits.

Following the major success of Japanese companies since the 80s, the Japanese-style close and collaborative SRshas had a profound impact on the way that international SRs have been structured and governed. As it relies however on the following two major structural peculiarities of the Japanese corporate culture it had to be adapted to fit western style of management(Lamming, 1993; p.169):

- the buyer controls the relationship assuming the role as a “*parent*”.This limits the potential of an equal BSR
- the arrangement of shared capital/finance to secure the relationship that derives from a unique context in Japan after World War II.

The lean supply model

Inspired by the Japanese manufacturing model, a lean supply *partnership* model between buyers and suppliers was developed as a ‘best practice’ to the challenges faced in a global marketplace (Womack et al. 1990). Since then various analogous models have been developed that all have two major common characteristics. They all centre on the antecedents of firms moving from arms-length SR towards closer, more co-operative relationships and emphasize long term (as opposed to short term) SRs.

The lean supply model proposes a framework for obtaining better value from suppliers, achieving better quality, more efficient services and continuous improvement. For the development of the model (Lamming, 1993) uses different factors which include the nature of the competition, the basis for sourcing decisions, the interchange of data and information, administration of the level of capacity, delivery practices, position regarding price, quality, research and development (R&D) and the level of pressure in the relationship. The result is a classification of different practices in SRs customers, which, according to the model, are necessary in order to face the challenges of global markets.

There have been debates about the feasibility of Lean outside of its birthplace Japan (Thomas et al., 2008). Although the advocates of Lean claimed that it is universally applicable (Womack et al., 1990; Womack and Jones, 1996; Lamming, 1993), there are concerns voiced on its culturally restricted nature (Hofstede, 1993; Thomas et al., 2008). Womack and Jones (1996) admit that the Lean principles were hard for most Western readers to buy in since they were largely based on a “*collectivist*” culture with a bottom-up approach – which are the opposite to the “*individualist*” culture and usually top-down approach in the Western management world.

The lean supply model may not be also viable in global sourcing in which the trading firms do not have geographical proximity that the model requires. With the recognition of this limitation, Lamming (1993) proposes near-sourcing instead of offshoring to ensure the geographical proximity between the trading firms. Such arrangement doesn’t appear to be suitable for SRM in China since in the context of Western buyers source from Chinese suppliers, the geographical distance between the trading firms is predetermined. There is also critique is about the model’s assumption that both trading parties are good willed and rational. Several authors criticise that such close and collaborative type of BSR can be over-simplistic without sufficiently considering the complexities and dynamics of the interaction between the trading firms (Cox, 2004). These limitations suggest that the LS model may not applicable, at least in its current form, to be applied for a paradigmatic SRM model in China.

Studies for SRM with Chinese Organisations

While there is an admission in the literature for the need of cross-cultural SRM research (Pagell et al., 2005; Zhao et al., 2006), relatively few studies examine buyer–supplier relationships in the context of different cultures. Despite the soaring interest in sourcing from China, there are surprisingly fewer studies in this area (Gold et al., 2002), which shed some light in our understanding of the cultural differences for SRM in China.

Sourcing Processes, Governance Structure and Interaction Patterns

According to a 2008 survey carried out by the Chinese Procurement Web, 65% of Chinese firms use public bidding as a method for soliciting suppliers (PRC General Administration of Customs). The sourcing process was quite different 20 years ago; suppliers were selected based primarily on price (Chen and Dean, 2006). The negotiation process for the selection of the most

appropriate governance structure can be seen as the most difficult part for Western firms. Most Chinese firms are heavily regulated by government policies (Kynge, 2007), so knowledge of governmental red tape is essential before engaging in any negotiations with Chinese firms. Fang et al. (2004) for example recommended setting up local offices to let the Chinese deal with the Chinese and Salmi (2006) propose that social skills and cultural knowledge of supply personnel are critical factors when Western buyers source from China.

According to Liu et al. (2009) Chinese companies prefer to use the relational governance mechanisms, based on factors such as relational norms and trust. In terms of the interaction patterns in SRs Ramstrom (2008) reports that the business relationships between northern European and ethnic Chinese is neither Nordic nor Chinese, but an adapted type of relationship that evolves during the exchange process and Trimarchi et al. (2010) suggest that there are high complexities and dynamics in the relationships due to Chinese businessmen's varying emphasis on traditional Confucian values in business. Despite their contributions, these studies are however primarily based on case studies, lacked generalisability and conceptual analysis.

The current studies for SRM in China, are relatively limited, rather fragmented, and lack conceptual analysis. Despite the limitations of lean supply and the Western SRM models, it is possible that the knowledge associated with them can to a certain extent be transferred to the unique social-cultural and business environmental factors in China. The adaptation of current knowledge to the idiographic environment could possibly produce a new paradigmatic model for SRM in China.

In this direction, the Chinese social-cultural and business environment is discussed in the next section to better understand how and why the Chinese paradigm to SRM can be differentiated from the Japanese and the Western models.

BUSINESS CULTURE ENVIRONMENT IN CHINA

Since China adopted the "Open Door" policy in 1978 it has experienced a growth rate of nearly 10% per annum in the past decades (World Bank, 2009) and today is the world's biggest exporter (IMF, 2010). There are however on-going debates about the country's ability to sustain its export growth in the long term. Its current primary low-cost advantages are relatively easy to imitate and could not be sustained without constant improvement and upgrading. Its ability to produce higher value added products, the impact of the trade policy debate in the US and in other industrialized economies and the Chinese exchange rate policy which has been criticized of subsidizing export through undervaluation could also affect its competitiveness. These issues suggest that Western buyers need to take strategic responses when sourcing from China; the choice of appropriate type of supplier relationship should be considered carefully since long-term partnerships require significant investment and commitment.

The rapid transformation of the Chinese society also increases the complexities and uncertainties in China's business environment. This implies that a developmental and dynamic approach may need to be adopted in SRM with Chinese suppliers. The apparent geographical diversity and developmental disparity within China requires a situational and contextual approach – treating China as "United States of China", i.e. to think nationally but act regionally.

Aspects of Chinese Business Culture

Culture has fundamental impact on the thinking and behaviour of individuals in business relationships (Hofstede, 1994) and hence it is crucial to understand business partners' cultural backgrounds. The Chinese way of doing business, or the Chinese business culture, is often seen

as interpersonal-oriented (Weidenbaum, 1996), reciprocal, tactical and network embedded (Fang, 2006). These characteristics could be attributed to the traditional philosophies and strategic war theories – Confucianism, Taoism, and War Stratagem - which form the philosophical foundations of Chinese business culture. A “Confucian” Chinese businessman associates business with “win-win” and cooperation, while a Sun Tzu-like strategists favours “zero-sum” and competition. Trust is a determinant factor that largely affects Chinese businessman’s choice of business style.

Organisational Trust in China is closely associated with “Guanxi”, a central idea in Chinese society based on which exchanges of favours between people long-term are facilitated through a set of interpersonal connections (Park and Luo, 2000). Luo (2000) contend that Chinese often have genuine satisfaction in doing things the ‘Guanxi’ way. Guanxi acts as “*gate-keeper*”, “*door-opener*”, and “*peace-maker*” in business practices in China. It can be seen as a Confucian heritage, but it is also a pragmatic choice with expectation of economic benefits. It provides a ‘moral and ethical framework’(Millington et al., 2006) within which transactions could take place appropriately in a weakly regulated society, wherein inadequacies in both laws and enforcement have weakened professional morality and social responsibility (Griffith et al., 2002). It is established via some common attributes, e.g. clanships, friendships, schoolmates and cultivated and maintained through social activities.

In addition to Guanxi, several aspects in Chinese business culture are likely to be experienced by Western buyers when dealing with Chinese suppliers

Mianzi (face/image/status/honour): Mianzi broadly defined as the image a person has of him/herself from others by virtue of the relative position they occupy in their social network (Ho, 1976). It is one of the most significant mechanisms in Chinese social psychology (Fang, 2006) and is one of the key traits of Chinese social culture. Chinese people are extremely sensitive to it (Yao, 2002) and Mianzi-related values are the “prime source” of Chinese people’s behaviour (Redding and Ng, 1982). Experts on Chinese business often advise that you “*respect Mianzi*”, “*give Mianzi*”, and “*save Mianzi*”, or you may lose more if you don’t (Fang, 2006). Understanding the subtleties and having the tactics to handle the Mianzi related issues can largely help build trust and improve Guanxi (Yao, 2002) with Chinese people.

Hongbao (red-envelop): The term Hongbao is used to describe illicit money payments by suppliers to individuals in the buying firm. It originates in the traditional Chinese custom of handling money presents to relatives and/or friends in red-envelops on special occasions (Millington et al. 2005). Hongbao is perceived as part of the established business culture in China and appears to be associated with the pursuit of self-interest and corruption.

Xinyong (reputation): Xinyong can be understood as personal reputation built on trust, a “gentleman’s word” (Tong and Yong, 1998) or “personal guarantee” (Leung et al., 2005). Chinese buyers and sellers emphasise more on Xinyong at a personal level rather than legal contracts between firms (Leung et al., 2005). Xinyong helps maintain a working relationship while Guanxi encourages exchange of favours between individuals, though the interactions between these two aspects have not yet been sufficiently investigated (Leung et al., 2005). Although little empirical evidence is currently available, it might be inferred that Western buyer’s Xinyong influences Chinese suppliers’ willingness to start a working relationship and their perceptions of its long-term perspectives.

With the increasing importance of effective SCM, successful companies today put great emphasis on effective supplier involvement and global sourcing related factors such as culture effect and communication rather than simply on cost, quality and delivery requirements. Soft

issues such as the level of trust, power balances, commitment to the relationship and the interaction pattern between the trading partners characterize modern SRM. In identifying and analysing the factors that can lead to effective SRM with Chinese suppliers, this paper explores the determinant factors in the selection of supplier, in the adoption the most appropriate governance structure and the interaction process patterns with Chinese suppliers. The effect of the level and nature of trust and the suppliers' involvement in multinational firms operations are also investigated.

RESEARCH DESIGN

Two large mail surveys have been conducted to answer the two research questions in four export regions of China (Northeastern region, Yangzi delta, Zhujiang delta, and Inland central region). Both surveys were conducted in Mandarin and the results were translated into English.

The first survey sought to identify and evaluate the factors that inhibit and enable effective SRM between western organisations and Chinese suppliers in terms of three performance dimensions of SRs: the level of quality, delivery and price. Based on the results specific propositions for successful design of SRs in China can be made. Questions about the importance of several factors affecting the sourcing process (e.g. negotiation process), the governance structure (e.g. type of contract) and interaction pattern (e.g. site visits, communication patterns, social interactions) between the trading partners were asked.

The second survey sought to identify how the particular characteristics of the Chinese culture influence the sourcing processes, the governance structure and the interaction patterns between the trading partners as well as the performance of the SRs between the trading partners. Based on the findings, insights can be generated for the development of a unique model for SRM in China. Three sub-Questions about the importance and influence of Guanxi and other traits of Chinese culture of on effective SRM were explored.

RQ2a. How does Guanxi influence BSRs between Chinese suppliers and Western buyers?

RQ2b. Does Guanxi have a positive relationship with the quality of BSRs between Chinese suppliers and Western buyers?

RQ2c. Does Guanxi have a positive relationship with the business performance of the BSRs between Chinese suppliers and Western buyers?

These three sub-questions are formulated to identify Guanxi's influences on different performance measurements of SR. RQ2a seeks to find out Guanxi's influence on operational SR performance measurements, since it is believed that close interorganisational relationships positively related to effectiveness or efficiency of operations (Benton and Maloni, 2005). RQ2b aims to identify the relationship between Guanxi and participants' satisfaction with the other parties' behaviours and activities, which is another measure of SR comprising the elements such as loyalty, intensity of interaction, and level of trust (Giannakis, 2007). RQ2c aims to assess the relationship between Guanxi and the business performance improvement through the interorganisational relationships. The business performance

The eligibility criteria used to sample the Chinese suppliers involved: (i) that the companies are active in export activities with revenue generated through export account for more than 30% of the company's total revenue, (ii) that their main markets include Western Europe and North America, and (iii) their number of employees is more than 50. The eligibility criteria for the samples of Western buyers are those companies that have more than two years of experience sourcing from China. 600 paper questionnaires were sent to the target sample; 300 to

representatives of Chinese local suppliers of a wide variety of manufacturing goods (primarily SMEs) and 300 to large multinational firms that engage in trading with these suppliers.

Five major groups of export industry were selected: (i) Automotive, auto parts, and motorcycles; (ii) Electronics and electronic components; (iii) Machinery and equipment; (iv) Apparel and footwear; and (v) Furniture, toys and craftworks.

The surveys are currently complimented by in depth analysis of three cases of Chinese suppliers and the way they view their relationship with their international trading partners to develop a hybrid Chinese SRM model.

Analysis process

Descriptive statistics were used to identify the importance of specific factors that facilitate or inhibit effective SRM between Chinese companies and their international customers (RQ1).

- Eight factors that influence the sourcing process were explored: reduction on cost, company profile, delivery, quality, after sales services, supplier involvement, information sharing and commitment.
- Four factors that characterise the governance structure were explored: relational norms, trust, communication and a formal contract.
- The Interaction Process Pattern construct is consists of five attributes: site visits, informal meetings, one to one meetings, suppliers’ survey and formal structured company meetings.

Respondents were asked to rank each attribute on a seven-point scale ranging from 1(not important at all) to 7 (extremely important). Out of the 600 questionnaires that were sent (300 to suppliers and 300 to western customers), 91 responses were received (31% response rate) from the suppliers and 78 from the western companies (26% response rate).

A multiple linear regression analysis was also conducted also to identify a potential correlations between the sourcing processes, governance structure and interaction patterns that and the suppliers’ Key Performance Indicators (Quality, Delivery and Price Requirement).

RESULTS

RQ1: Factors that Facilitate or Inhibit SRM

In terms of the sourcing processes the factors of Company Profile, Quality, Delivery and After Sale Service have been identified as the most important during the supplier selection process.

	<i>reduction on cost</i>	<i>company profile</i>	<i>quality</i>	<i>delivery</i>	<i>after sales</i>	<i>involvement</i>	<i>commitment</i>	<i>Info sharing</i>
Mean	5.666667	6.72549	6.72549	6.333333	6	5.372549	4.647059	4.627451

71.43% of suppliers’ respondents stated that “*rigid requirements on product quality*” is one of the challenges facing them. There is a distinct gap, however, in terms of product quality between Western buyers’ expectations and Chinese suppliers’ capabilities of fulfilling the requirement. “*Constant pressure on price reduction*” and “*lack of visibility of upcoming demand*” are both stated by 64.29% of suppliers’ respondents, signifying that these issues require sufficient attention. “*Lack of English language skills*” and “*difficulty of communication due to cultural difference*” are also important issues (50% and 50% respectively). After-sale services were specified by 14.29% of respondents as challenges facing them. Issues concerning environmental, safety, healthy and equality proved to be of a lesser importance in Chinese suppliers’ perceptions. This may reveal the lack of awareness in sustainability of both Chinese suppliers

and western companies that currently source from China.

Another finding showed that the multinational firms tend to choose international exhibitions as their major channel for searching for Chinese suppliers. There are more and more trade shows for this special purpose and attract increasing number of buyers from all over the world.

Governance structure:The results reveal that it is necessary to establish the governance structure on the basis of both social control and formal control.

	<i>Relational norms</i>	<i>trust</i>	<i>communication</i>	<i>contract monitoring supplier performance</i>
Mean	6.039216	6.254902	6.431373	6.45098

Most of the multinational firms emphasize the formulation of the contract in order to monitor the performance of their Chinese suppliers and at the same time protect their core business knowledge. The findings also suggest that it is dangerous to ignore the importance of social control of Chinese suppliers, without trust and effective communications, the social control mechanisms would not function effectively. In addition, relational norms should also be developed so the trust relationship between Western companies and Chinese suppliers can be enhanced in a further stage. Although contracts are seen as the most important governance instrument, the legal system remains rather weak in the Chinese context. Therefore, both social control and formal control may be better implemented by western companies.

Interaction Process Patterns:The findings suggest that the formal interaction is more important than informal interaction. This is a contradiction as it was expected that informal interaction would have been more important.

	<i>site visit</i>	<i>informal meeting</i>	<i>one to one meeting</i>	<i>supplier survey</i>	<i>formal structured company meeting</i>
Mean	5.843137	4.411765	3.666667	4.235294	5.607843

Site visits, suppliers' involvement in product development, use of local intermediaries for the facilitation of communication, support for knowledge transfer have been highly rated by both parties as the most important facilitators to effective SRM, whereas quality and delivery issues (of the supplier), lack of flexibility (of the customer) and difficulty of communication where the most important inhibiting factors to effective SRM.

*Multiple Regression:*The results of the multiple regression analysis (Table 2) in terms of the relationship between SRM constructs and SRs performance are shown in the table below. It can be seen that there is a strong positive relationship between governance structure and quality (correlation =0.858). The correlation of the governance structure with delivery is even higher with a figure of 0.932; the governance structure also has positive impact according to the correlations coefficient of 0.621. It can be observed that there is no apparent relationship between supplier selection and those three key performance criteria. In addition, the result does not suggest that mutual trust could positively impact on supplier performance of quality, delivery and price requirement.

The interaction process pattern and supplier involvement also have a positive coefficient on quality, delivery and price requirement. For interaction process pattern, the coefficient alpha with quality, delivery and price requirement are all less than 0.5. This indicates no significant relationship between the interaction process pattern and the key performance indicators (Quality,

Delivery and Price Requirement). Similarly, there is no significant relationship between supplier involvement and those key performance indicators.

	Quality	Delivery	Price
Supplier selection (sourcing process)	-0.126	-0.281	-0.049
Governance structure	0.858	0.932	0.621
Interaction process pattern	0.03	0.035	0.231
Supplier involvement	0.01	0.085	0.013
Mutual trust	-0.216	-0.21	-0.144
R	0.75	0.838	0.716
R square	0.562	0.7	0.513
Adjusted R square	0.513	0.069	0.458

Table 2 – Multiple Regression Results

RQ2 – Impact of Cultural Characteristics of SRM

The Chinese suppliers’ perceptions of Guanxi’s influence of several aspects of relationships with Western buyers are summarized in Figure 1 (RQ2a).

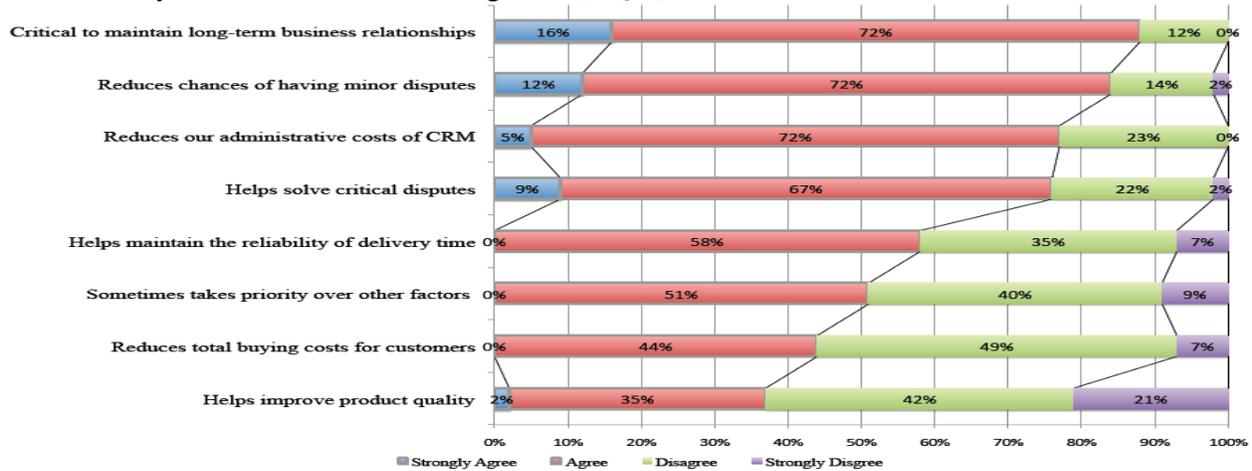


Figure 1 – Impact of Guanxi of SRM

RQ2b: The quality of BSRs is measured through suppliers’ perceptions about communication, trust, and commitment in the relationships. The results of these three items and the average value are plotted against the degree of Guanxi, as Figure 2 shows:

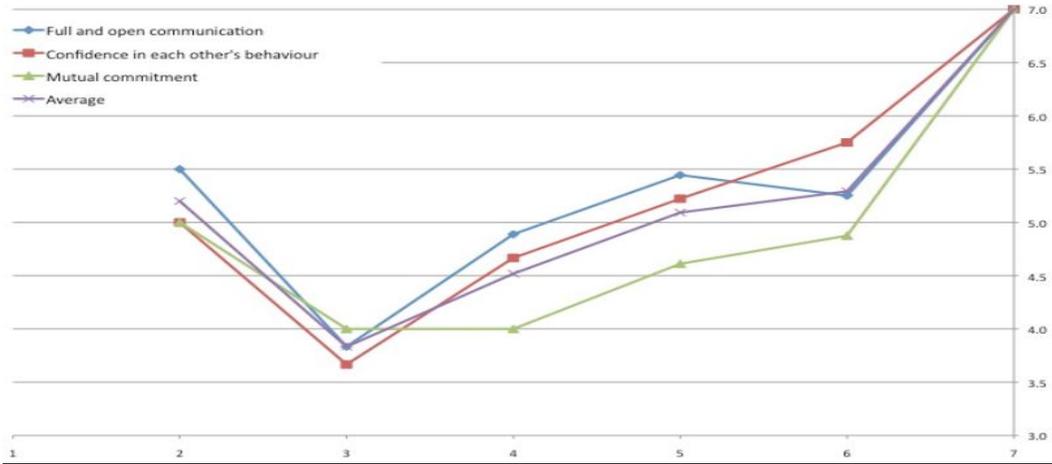


Figure 2 - Closeness of Guanxi vs. Quality of BSRs

The product-moment correlation r between closeness of Guanxi and the average value of the three items is 0.705. The intensity of the correlation is significant ($\alpha=0.05$). The result shows that there is a positive relationship between the closeness of Guanxi and the quality of BSRs.

RQ2c: Business performance of the relationships is measured through suppliers' perceptions about the benefits brought about by the relationships in four areas: financial benefits, growth of market share, process improvement, and learning of new techniques. The results of these four items and the average value are plotted against the degree of Guanxi, as Figure 3 shows.

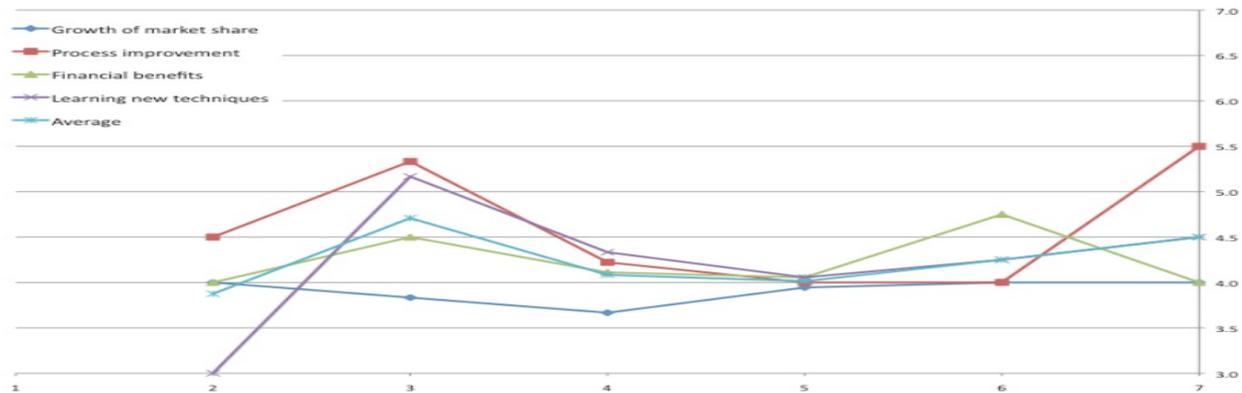


Figure 3 -Closeness of Guanxi vs. Business Performance of BSRs

The product-moment correlation r between closeness of Guanxi and the average value of these four items is 0.280. The intensity of the correlation is not significant ($\alpha=0.05$). The result doesn't find a positive relationship between the closeness of Guanxi and the business performance of the BSRs.

A few questions about Guanxi were asked in the questionnaire and interviews in order to understand Western buyers' experience about and attitude toward Guanxi. 82% of the respondents answered "Yes" to "When you visited your suppliers in China, did they invite you to non-business social activities?" Among which, 72% said this happened "almost always" every time. In answering the question "Do you think it is possible that individuals from Chinese suppliers and Western buyers develop close Chinese-style "Guanxi" in the business

interactions?” 20.8% chose “*Not quite so*”, 41.7% “*Probably*” and 37.5% “*Of course*”.

DISCUSSION

The findings of Chinese suppliers’ perceptions about Guanxi suggest that Guanxi’s role in Western-Chinese SRs cannot be ignored. These findings include: (i) the attitudinal survey found the majority of suppliers believed Guanxi affects most aspects of the SRs, (ii) the correlation analysis suggests Guanxi has significantly positive relationship with suppliers’ satisfaction of the SRs but, (iii) no apparent relationship found between Guanxi and business performance.

Conversely, only 37.5% of Western buyers believed it is possible for individuals from both parties to develop Guanxi. There are some slightly negative comments about Guanxi in their answers to the open questions. From the Western buyers’ perspective, Guanxi appears to be a somehow unavoidable, somewhat confusing, and sometimes unpleasant factor in the Western-Chinese business relationships. However embarrassing Guanxi might seem to Western buyers, the findings of this project combined with the research of relevant literature suggest that Guanxi needs to be addressed properly for effective SRs to be developed. During the survey, most Chinese suppliers (81%) believed that Guanxi will always have its influence on business relationships between Chinese suppliers and Western buyers in the foreseeable future. As behaviour is influenced by values and beliefs, it can be interpreted that Chinese suppliers are likely to keep their Guanxi way of doing things in the foreseeable future.

Guanxi is an important source of information when searching for suppliers in China and can serve as a mechanism to reduce transaction costs. Chinese respondents stress that they may sacrifice organizational benefits for personal Guanxi and sometimes make trade-offs between them. However, this doesn’t imply similar behaviour will happen in an international buyer-seller relationship. Guanxi may be able to help foster close and long-term buyer-seller relationship (which is the basis of modern SCM/SRM methods such as JIT and CPFR), but such relationship is usually characterised by “*relatively advanced formal structures... (and) contract(s)*” (Millington et al., 2005) which are deficiencies of Guanxi that is often personal and social. Therefore, Guanxi’s role in SRM with Chinese suppliers could not be easily identified from current studies.

A New Chinese SRM Model

In this section, a new SRM model (Figure 4) is proposed for managing SRs with Chinese companies based on the findings of the study. The proposed model is primarily influenced by the Chinese business culture, which has roots in the traditional Chinese philosophies – Taoism, Confucianism, and Sun-Tzu War Stratagem.

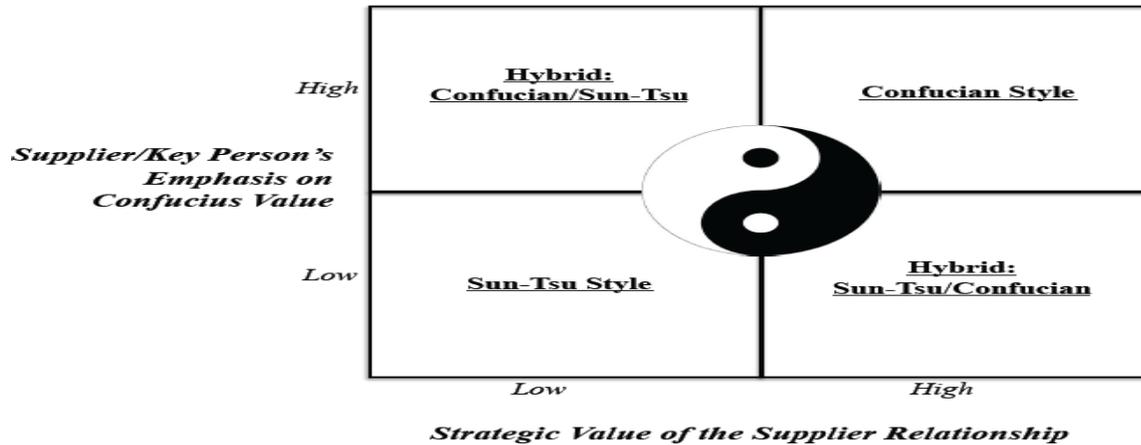


Figure 4 – The Chinese SRM model

This model can be used to identify the appropriate approach to deal with different Chinese suppliers. The Confucian approach is collaborative, more long-term oriented and characterized by trust built through Guanxi – Guanxi’s role is very important for this approach. The Sun-Tzu approach is adversarial, short-term oriented, and characterized by distrust – enlightened by the Sun-Tzu’s war theories and strategies. At the center is the symbol of Taoism – the Yin-Yang Fish. It represents a flexible, sometimes paradoxical, yet balanced way of thinking – with such thinking, the approach needs to be adapted when the situation changes, and the seemingly conflicting Confucian and Sun-Tzu style can be embraced at the same time.

The first dimension of this model (D1) is the strategic value of a particular supplier relationship to the Western buyer. This is dictated by buyer’s business strategy (e.g. market development or product development), market strategy (cost leadership or differentiation), and sourcing strategy (such as make-or-buy, single-, dual-, or multiple sourcing). The relative strategic value of supplier to buyer will determine the expected lifespan of the BSR and can then affect both parties’ commitment to each other. The second dimension (D2) is the emphasis of the supplier, and/or the key person(s) in the supplier company, on Confucius value. For mutual benefits of both parties to be optimized, the approach the buyer takes need to match with which of the supplier. Mismatch can put buyer into disadvantageous position due to supplier’s Sun-Tzu-like tactics. When both D1 and D2 are high, the Confucian approach can be chosen. While both are low, the Sun-Tzu approach is more appropriate.

When D1 is high and D2 is low, the Hybrid approach is recommended with primary focus on the Sun-Tzu approach. Vice versa in D1 low/D2 high situation. This model addresses the major limitation, lack of cross-cultural dimension, of the Western SRM models – it builds on the Western model’s rational- and economic-oriented framework and takes into account the idiographic Chinese cultural factors. It learns from Lean’s *collaboration* concept, but its applicability is not limited only to those suppliers that have already surpassed the “*basic competence*” stage. Its primary strength probably comes from where it starts, using the Chinese way to deal with the Chinese.

The limitation of this model is that it requires a certain level of understanding and mastery of Chinese culture and the Chinese way of doing things. This certainly is not easy to acquire (not to mention that it may not at all be necessary to make the effort, as one may argue). However, if one has a long-term strategy of working with the Chinese either as a buyer or as a future supplier,

as Hofstede (1993) proposed, "...one should have both knowledge of and empathy with the entire local scene."

CONCLUSION

In line with the existing literature, the research highlights the importance of the social control side of governance structure and stresses that both social and formal control mechanisms should be implemented for more effectively liaising with Chinese suppliers. It also demonstrates that Western companies need to recognize the importance of Guanxi in Chinese culture; Guanxi is a main characteristic value in Chinese Culture and enables Western companies to gain a competitive advantage in the outsourcing market. In addition, the results also state that the formal Interaction Pattern is still seen as the major method when interacting with the Chinese suppliers; this is different from the documented background research reading, which states that Chinese people are more focused on adopting informal methods when doing business. Furthermore, this study has found that suppliers' involvement is not as important in determining the suppliers' relationship as previously thought; this could be investigated as part of some future research.

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