

## **5. Relevant Theory**

While the previous chapter focused on the situation at hand, this chapter is dedicated to reviewing the literature relevant to the above-described setting. I will embark on four major concepts, following a general-to-specific pattern:

- First, I will embark on the State-Owned Enterprise (SOE) in China as such, as a basis to better understand the particularities characterizing CBMIE and its environment.
- Subsequently, I will review relevant theory on Supply Chain Management (SCM), as a basis to better appreciate the scope, role and importance of CBMIE's procurement department.
- The Success Factors for SCM the serve as a basis to better appreciate the challenges faced by and standards set for procurement departments.
- And finally reviewing the literature on particularities of the Chinese culture will help us to better understand how management concepts like SCM need to be adapted to be efficient in China.

Given the breadth of the concepts covered, the chapter is then briefly summarized.

### **5.1 General Overview of State-Owned Enterprises in China**

A state-owned enterprise (SOE) in the People's Republic of China (henceforth to be referred to as China) is a legal entity that is wholly or mainly owned by the central, provincial or city governments (Wang, 2004). In China, this type of business entity was created and owned by the government after 1949. Until 1980, a SOE used to be the most

important part of the economy and was directly controlled by the government. Thus, managers had no role in decision making as what to produce or how to set prices.

Since the reform in 1980s, their importance declined and series of changes have been occurring since then. Currently, every large SOE is run by the **State-Owned Assets Supervision and Administration Commission** and “*still contribute a significant share to the economy’s output. This is particularly true for the sectors that the state views as having strategic value, such as raw materials, petrochemical, telecommunication, and banking.*” (Ralston, Terpstra, Wang and Egri, 2006, p.7).

However, it is well known that the intention is to transform the SOE into modern corporations through a market-oriented economy (Geng, Yang and Janus, 2009); yet, it is also known that China's state-owned enterprises have problems in organization, layout, management systems. and operating mechanisms because they are not competitive, and must be restructured (Jifu, Zhao, Ning, Yixi and Peng, 2009).

## **5.2 Supply Chain Management**

Supply Chain Management (SCM) is defined by Mentzer, as “*the systemic, strategic coordination of the traditional business functions within a particular company and across business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole*” (Mentzer, 2001, p.373).

In other words, SCM is the management, coordination, planning and collaboration of each activity related to the supply network which involves channel partners to fulfill customer demands.

Mentzer (2001) in his a model of Supply Chain Management, stressed that customer value and satisfaction depended on the coordination of the functional areas of the companies involved in the SCM as well as on the global environment, both of them having an impacting on the SCM. The author referred to functional areas such as: Purchasing, Logistics, Marketing, Sales, Forecasting, Customer Service, Research and Development, Information technology, Production and Finance.

Supply Management is in purchasing an inclusive concept, as a strategic approach to planning for and acquiring the organization's current and future needs through effectively managing the supply base, utilizing a process orientation in conjunction with cross-functional teams (CFT's) to achieve the organizational mission (Monckza, Handfield and Giunipero, 2009). This argument is also supported by Fu Jia (2009), stating that Supply Chain Management is linked to good relationships and that competition amongst firms has shifted from being based on single firms to be based on entire supply networks. What makes the supply chain distinctive is the way relationships are handled. Quoting Christopher (2002), he stated *"In this sense, a major source of differentiation comes from the quality of relationships that one business enjoys compared to its competitors"* (Jia, 2009, p.9).

As we saw, SCM's scope entails virtually all the functions of a company and often spans even across individual companies. In the following, I will thus outline implications of SCM on management in general.

### **5.2.1 Supply Chain Management as a Management Philosophy.**

Mentzer (2001), in his dissertation on the adaptation of a supply chain philosophy in every firm, clustered the activities recommended in order to achieve an efficient supply chain management into seven groups:

1. Integrated behavior
2. Mutually sharing information
3. Mutually sharing channel risks and rewards
4. Cooperation
5. The same goal and the same focus of serving customers
6. Integration of processes
7. Partners to build and maintain long-term relationships

The author proposes the following definitions for each activity: Drawing from Bowersox and Closs (1996), Mentzer explains **Integrated Behavior** as the importance of attaining an incorporation of customers and suppliers through external integration. The relevance of **information sharing** is to reach an effective SCM through frequent updates among channel members for planning and monitoring process. This step could decrease the uncertainty between supply partners, it contribute to long-term focus and cooperation among Supply Chain members and also results in better performance. Activities three and seven are related to the **long-term focus** and the cooperation between members of the SCM. **Cooperation** involves cross-functional coordination across the channel members and *“refers to similar or complementary coordinated activities performed by firms in a business relationship to produce superior mutual outcomes or singular outcomes that are mutually expected over time”* (Anderson and Narus quoted by Mentzer, 2001, p.11).

The author mentions that establishing the **same goal and the same focus** among the members of a supply chain is a form of policy integration, and that policy integration could be possible if there is a compatibility of cultures and management techniques among the chain members.

The implementation of SCM also needs the **Integration of process** from sourcing, to manufacturing, and to distribution across the supply chain.

### 5.2.2 Global Sourcing Definition.

As mentioned before, one of the functional areas impacting the Supply Chain Management is purchasing. Hence, the importance and understanding of a Global Sourcing are discussed in this section.

According to Monczka et al,

“Global Sourcing is an approach that requires supply management to view the entire world as a potential source for components, services, and finished goods. It can be used to access new markets or to gain access to the same suppliers that are helping global companies become more competitive...and many companies are viewing the world both as a market and a source of supply” (Monczka et al, 2009, p.220).

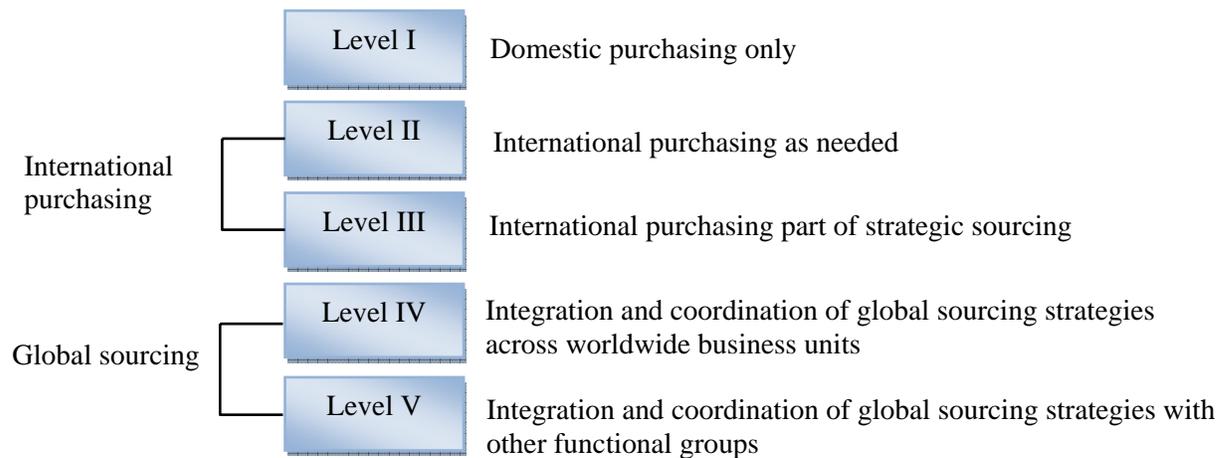
Global sourcing is becoming an important matter for every business is influenced by globalization. A desire to reduce procurement costs drives business towards global sourcing; while the risks associated with purchasing in an ever-increasing number of countries has profound implications on the management. This broad picture with drivers and effects of global sourcing, allows us to appreciate the importance of SCM for company seeking to improve its productivity and efficiency.

Monczka et al define that “*an internationalization of the sourcing process takes place as firms evolve first from domestic purchasing to international purchasing, and then to the global coordination and integration of common items, processes, designs, technologies, and suppliers across worldwide locations*”. (Monczka et al, 2009, p.369)

International purchasing and global sourcing are levels a company achieves depending on its needs and capabilities.

Monczka et al in their chapter “Worldwide Sourcing” mapped this continuum from domestic purchasing to global sourcing (see figure 2.1). Level V companies, i.e. companies with the highest degree of global sourcing not only integrate sourcing across business units (e.g. buying the same screws required for different business units) but align their sourcing, strategies with the company’s overall goals.

*Figure 5.1 International Purchasing and Global Sourcing Levels.*



Source: Monczka et al, 2009, p.369

### **5.2.3 World Class Purchasing Organization Objectives.**

Monczka et al (2009), argue that the purchasing department’s objectives should move far beyond the traditional belief that its primary role is to acquire goods and services in response to internal needs. The purchasing department should rather be lead by the following six purchasing objectives:

1. Supply Continuity
2. Manage the Purchasing Process Efficiently and Effectively
3. Develop Supply Base Management
4. Develop Aligned Goals with Internal Functional Stakeholders
5. Support Organizational Goals and Objectives

## 6. Develop Integrated Purchasing Strategies That Support Organizational Strategies

It seems to me that the **objectives** for purchasing mentioned by Monczka and the **Purchasing activities** recommended by Mentzer are related to one-another. Both are focused on the Supply Chain Management and both consider not only purchasing department's acquisition of goods but also, the importance of Integration, Communication and Team Organization.

### 5.2.4 Purchasing Communication Flow

Communication is the exchange of knowledge, emotions, values and attitudes in a mutual dialogue and allows us to shape the behavior of other people and to communicate to them what behavior we expect from them (Samovar, Porter and McDaniel, 2009).

Monczka et al (2009), introduced a model called *Purchasing Communication Flows and Linkages*, which calls attention to the communication linkages that Purchasing maintains or should maintain with other departments. Such linkages should form part of a two way communication, increasing the department's integration by providing a feedback channel.

The linkages are to connect internal as well as external departments and should comprise Operations, Marketing, Accounting and Finance, Engineering, Quality Assurance, suppliers and Legal and Environmental Safety. Improving communication and strengthening the links between the stakeholders of a supply chain, improves the overall performance of the entire supply chain as such.

Therefore, an effective organization includes internal communication which involves managers and employees and external communication including company's staff, clients, suppliers and vendors. A constant communication amongst the team members of a

purchase department can avoid misunderstandings, lack of information or under performance in employees objectives.

In conclusion for his sub-part, a Supply Chain thus not only entails on various activities, but also spreads well beyond the individual enterprise. Communication with all stakeholders is crucial to an effective and efficient Supply Chain.

### **5.3 Pillars of Purchasing and Supply Chain Excellence**

Now that that the objectives and activities related to the Global Sourcing and Supply Chain Management have been defined, it is appropriate to recognize the enablers that strive for excellence in the mentioned area.

The model of Monczka et al (2009) shows the four enablers that sustain the improvement of strategies and approaches, thus supporting the achievement of purchasing, supply chain, organizational objectives and strategies (see figure 5.2).

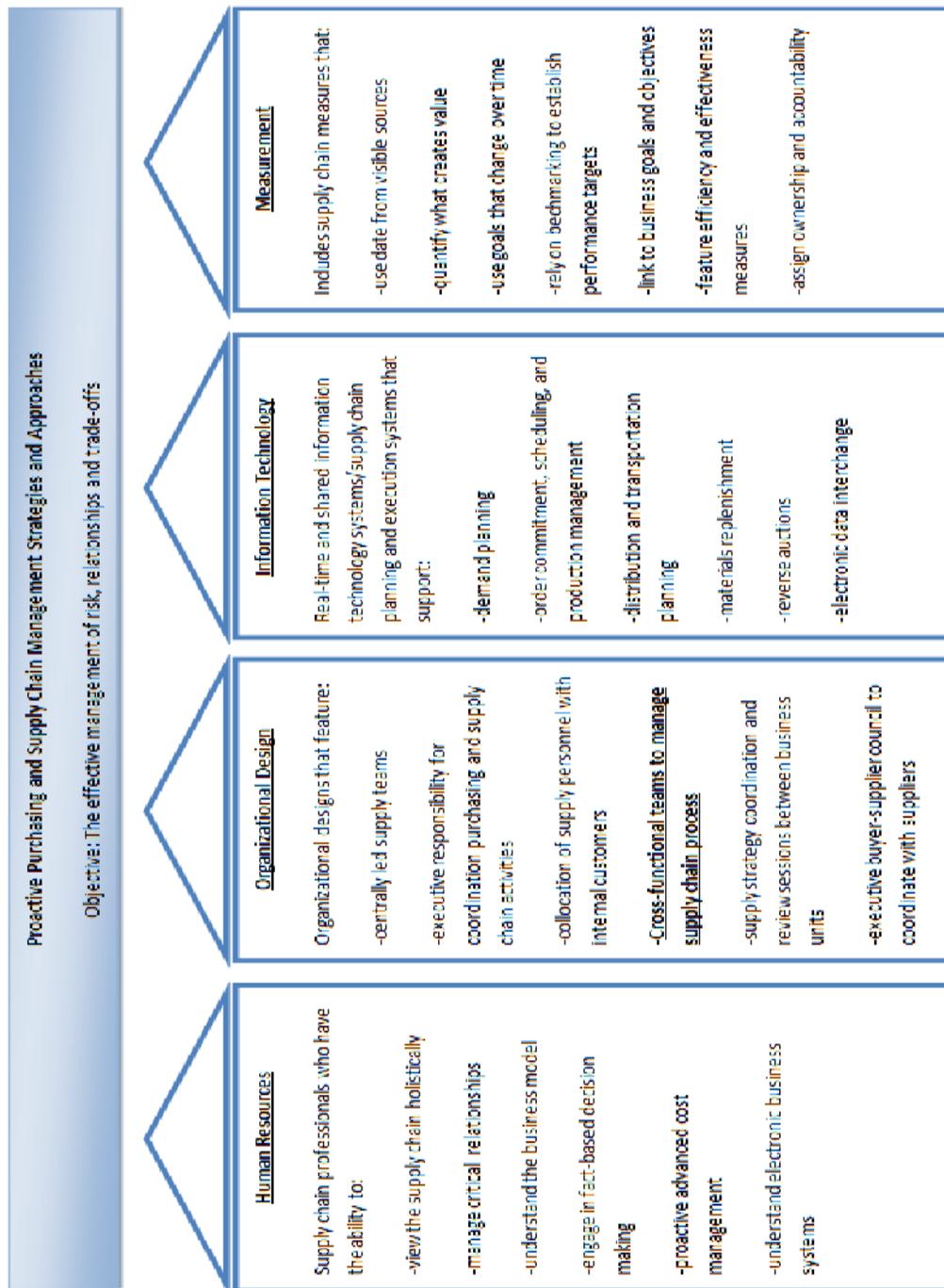
**Human Resources** is the first pillar, it refers to the importance of the professionalism of the people involved in the SC who are capable of understand the integration of the SC and who has the ability to take decisions.

**Organizational Design** explains that an organizational plan is one of the key enablers due to its implication of administration and cooperation strategy, which introduces the concept of Cross-functional teams described in the next section.

**Information Technology** bases its importance to the share of the information by technology on time, which has positive results in logistics schedules and general plans to share on time.

**Measurement** is vital for the achievement of an organization's goals and effectiveness. With this enabler, the organizations can calculate their results and, at the

same time, they can continue increasing their objectives by comparing the results e.g.



yearly information.

Figure 5.2 Four pillars of purchasing and supply chain excellence.

Source: Monczka et al, 2009, p.369.

### **5.3.1 Organizational Design.**

I would like to focus on this enabler because I consider this as a potential solution to discuss in chapter six. The literature underlines the importance and the relevance of an adequate organizational design for the success of a company. Successful organizational design takes into account the environment in which the firm competes, its business models and strategies and the capabilities it needs to compete (Beckman, 2009).

As for an activity, organizational design refers to the process of evaluating and selecting the structure and formal system of communication, division of labor, coordination, control, authority, and responsibility required to achieve organizational goals and objectives, including supply chain objectives (Monczka et al, 2009).

This “architectural role” makes organizational design crucial for an effective and efficient supply chain management. It is here where communication links are planned and cross functional teams are set-up. Communication links and its role in an effective and efficient SCM are discussed below.

### **5.3.2 Cross Functional Sourcing Teams.**

A cross-functional team consists of a group of people representing a variety of departments, disciplines, or functions, whose combined effort is required to achieve the team’s purpose (Parker, 1994). It seems that increasing pressure exercised by a globalized market is making for individual teams that are no longer able to reach their objectives on their own. In order to stay competitive, organizations assign more and diverse stakeholders to reach a particular objective, thus creating cross-functional teams (Hong and Vai, 2008).

The role of a cross-functional team is to focus on specific objectives and to assume responsibility even if the team’s integrants are from different functional areas. They need to work as a team improving their coordination and innovation to solve mutual problems. It

includes members from locations that would not have worked together before. It is vital that team members share their information in order to implement joint tasks (Ibidem).

The benefits from cross-functional teams include: less time to complete tasks, more innovations, joint decision making and enhanced communication between functional areas, creation of synergies, better identification of problems and resolutions and the building of internal relationships (Monczka et al 2009).

In particular, with respect to the improved communication between functional areas, the better identification of the problems at hand and the identification of internal relationships, cross-functional teams seem to also foster the aforementioned communication-links.

Jack Welch gives an interesting lesson referring to the importance of team performance in an organization by a practical example. He refers to a person who has the total control in his area and works for a manufacturing corporation *“but this person won’t talk with people in engineering and manufacturing. He won’t share ideas with them, and won’t behave in a boundaryless way with them”* (Slater drawing from Welch, 2007). Hence, by not sharing his knowledge or ideas, the person in manufacturing greatly complicates the overall process of delivering a good to the customer and therefore also delays the processes on the supply chain performance. He is only seeing his area, and not the totality of all steps required to produce a good product. Below, I explain three concepts that teams require in order to accomplish their objectives.

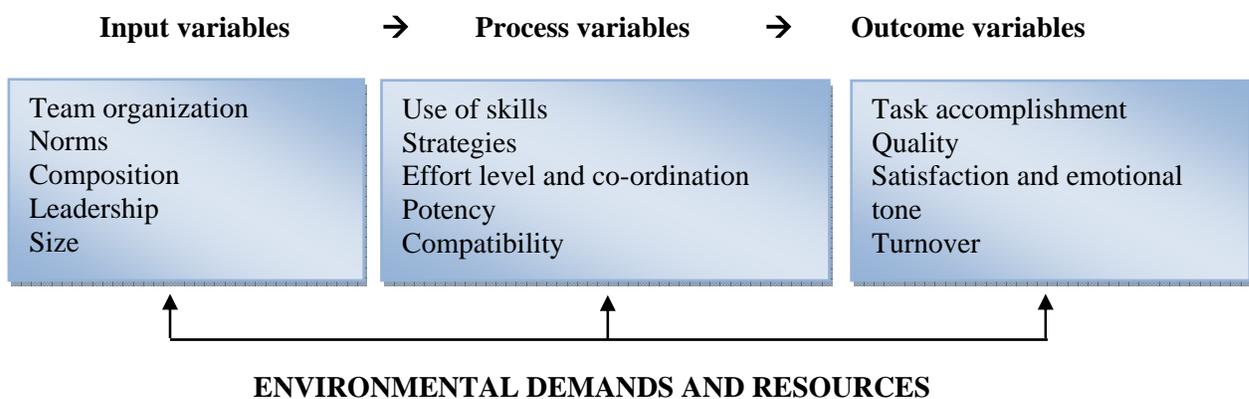
### **5.3.3 Team Effectiveness & Efficiency.**

Chase et al (2001), giving broad definitions, explain the efficiency as doing something at the lowest possible cost and the effectiveness as doing the right things to create the most value for the company. An extended definition and one with an appreciable

focus on teams can be found in Klimoski and Jones (1995) definition of Team Effectiveness.

Team effectiveness depends on three sets of variables: input variables, process variables and outcome variables. Each of those is shaped by environmental demands and resources.

Figure 5.3 Model of team effectiveness



Source: Klimoski and Jones (1995, p.8)

Inputs proposed are outlined as follows:

- Team Organization – this refers to division of labor and authority.
- Norms – this are rules not as formals as laws that moderate the members of a team. These norms reflect values and work history of the team.
- Composition – mixture of team characteristics that influence the team performance.
- Leadership – formal and emerging leadership that influence team outcomes.
- Size – refers to the quantity of people that is forming the team. This concept is relative, because an ideal number does not exist.

Outcomes result from inputs and processes. First, task accomplishment refers to the positive result that comes from inputs and processes. Quality and satisfaction, as a second

and third outputs refer to the measurement of the work achieved. And finally, turnover means how well the employees feel with their results.

It is essential to consider that in business, Chinese people are more process oriented than input or output oriented. Most of the times they lack input variables as organizational issues. They focus on their duties and outcomes are only resulting variables.

The next concept is a main topic to mention: The culture and some Chinese culture definitions for business and how people are (or not necessarily are) faced with cultural trainings. Its importance in this paper is due to the different culture that I experienced since the very first day in Shanghai.

#### **5.4 Culture**

*“Perhaps one of the biggest barriers to international sourcing involves the cultural differences that come into effect when doing business with other countries”* (Monckza, 2009, p.356).

Samovar, Porter and McDaniel (2007), simply define culture as *“the rules for living and functioning in society”*. However, Monckza et al (2009) characterize culture as a multidimensional concept composed of elements as:

- Language (verbal and non-verbal)
- Religion
- Values and behaviors
- Customs
- Social institutions
- Education

The authors consider two main differences in culture that can have a stronger impact when doing business: Values and behaviors, both of them influencing people thoughts and attitudes. As values are communicated using language, I personally would consider language as also having significant impact when doing business, due to possible misinterpretations. That point seems even more convincing when considering languages as difference in structure as the English and Chinese.

#### **5.4.1 Cross cultural communication.**

Cross cultural or intercultural communication is an area of research that studies the types of intergroup communication, as the communication held between members of different social groups. As such, it also examines how communication varies across cultures (Gudykunst, 1995).

The differences in communication between social groups or cultures are known as cultural variability or cultural level. Hofstede (1980) grouped the cultural variability into the four different dimensions that are briefly outlined below:

- Individualism-Collectivism – how important are the individual's goals compared to the group's goals.
- Uncertainty avoidance – refers to the degree which members of a culture try to avoid uncertainty.
- Power distance – measures the extent to which the less powerful members of organizations accept that power is distributed unequally.
- Masculinity-femininity – psychological sex roles (Gudykunst, 1995) which exhibit degrees of behaviors or stereotypical traits.

- Long-term orientation – Confucian dynamism, which presents some characteristics as perseverance, ordering relationships by status, thrift and sense of shame.

First I determined the most impactful differences between cultures (language, values and behavior), and the main metrics established to be used (Hofstede's four dimensions) I will now highlight the most important concepts of Chinese culture.

#### 5.4.2 Main Cultural Concepts for China.

Two interrelated concepts strike the western visitor of China as particularly unfamiliar yet indispensable in daily life, Mianzi and Guanxi.

- **Saving Face (Mianzi).** This concept of self-image is basic in Chinese culture and crucial to understand for a westerner if she is to consider work or life in China. For a Chinese person, self-image must be maintained at any time. The maintenance of self-image is an obligation and right at the same time, i.e. one has the obligation to maintain the others' self-image as well as the right, that the others in turn maintain one self's (Wong and Leung, 2001). Self-image, or "face", is enhanced by showing respect, trust and recognition. The absence of any of those elements amounts to losing "face" which is considered a huge dishonor and can end relationships. In order to avoid losing "face", being it one owns or someone else's white lies are not uncommon.
- **Guanxi.** The concept of Guanxi has a direct connection with the one of Mianzi. The term Guanxi, means "relationship", refers to a way of exchanging favors in China and conveys a continuous nurturing by social exchanges. Sometimes this definition is misunderstood as corruption, however, *"for centuries, the need to maintain harmonious interpersonal relationships has created a system of reciprocal*

*exchange of gifts and favors that unite and expand interpersonal ties among the Chinese people” (Gu drawing from Bond, 2008, p.12).*

For the purpose of this paper, culture, its metrics and concepts are of interest particularly as they condition the Cross Cultural Training that is required to prepare staff and adjust insights for deployment in China. Cross cultural Training is detailed in the next chapter.

### 5.4.3 Cross Cultural Training.

The type of cross-cultural training (CCT) received can influence cognitive adjustment on global virtual teams. (Brandl et al, 2009). This section sets out to describe how CCT for global teams should be designed in order to be effective.

In 2009 the authors conducted a comparative study of two approaches to Cross Cultural Training, aiming to identify the more promising one. As outlined below, they compared traditional Cultural Orientation Programs with Cultural Awareness Training against certain criteria such as the approaches’ underlying assumptions and points of reference.

*Figure 5.4* Differences Between Cultural Orientation Programs and Cultural Awareness Training.

	<b>Cultural Orientation Programs</b>	<b>Cultural Awareness Training</b>
Learning Approach	A priori knowledge of other culture enhances newcomers’ comfort and safety	Resources for structuring unknown situations compensate for newcomers’ lack of comfort and safety
Learning Content	Institutions and values of the other culture	Attitudinal flexibility and capabilities to handle unknown situations
Assumptions About the Other Culture	Predictable; fit with learned concepts expected	Not predictable; uncertainty is expected
Reference for Orientation	Learned stereotypes	Interaction with others
Dealing With Unexpected Situations	No rules available	Active thinking and exploration
Progress in Adjustment	Continuous reversal of previously learned knowledge based on disappointment (negative)	Continuous accumulation of new knowledge through reflection of one’s experiences in interaction with others (positive)
Suggested Effectiveness	Low	High

Source: Brandl and Neyer, 2009

A **Cultural Orientation Program (COP)** is the more common training for expatriates. As Brandl et al point out; COPs are the way to understand the cultural value. It allows to the reduction of uncertainty by having advance knowledge about the other culture. By studying theories, values and how people perceive situations or how they behave, the participant gets increasingly comfortable with sticking to the learned concepts of the foreign culture.

An educational guided by **Cultural Awareness Training** on the contrary, *enhance[s] the team members' capabilities to adjust to unknown situations.* (Schütz, 1944). One of the most important parts of this kind of training is that *it also considers that one cannot know about life in another culture unless one has experienced it* (Schütz, 1944).

Cultural Awareness Training combines the theoretical understanding and at the same time, it transfers insights about cultural patterns into actual behavior. The person that receives this training perceives the new information as an opportunity to master unknown situations. Capacities increase and also awareness of new perspectives.

Cultural Awareness Training also allows the participants to rather enjoy the cultural shock, because it is seen as normal aspect of adjustment. The participant is willing to deal with new situations and posses an advantage when working in a global team (Brandl from Befus, 2009).

## 5.5 Summary

At present, Chinese state-owned enterprises are in the search of innovative ways that allow optimizing their operational activities. They try to become more efficient in order to become competitive in an international market.

At the same time, every enterprise is connected creating a supply chain. It could be seen that in this theoretical framework that the efficiency of this chain could be reached depending on the level of communication existing amongst its members.

For this analysis, I focus in one main aspect of this chain besides communication: **The global sourcing procedure**, its **objectives** and the **team members** involved. This area is one of the most important in the process, since it conveys the search for international suppliers and maintains the constant flow of materials for its market.

Subsequently to the selection of the theory, which explained the concepts that will support my solutions and having considerate my type of study as an exploratory research, I will refer my study to a practical example in which the fundamental investigation refers to an organization and its particularities to fit the literature into the Chinese concepts.