GLOBAL SUPPLY CHAIN COMPLIANCE ISSUES, A CULTURAL PERSPECTIVE

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Abstract:
The intent of this research is to discover global supply chain issues in the context of cultural differences around the world. In specific, the relationships between American and Chinese corporations are examined in detail in order to demonstrate the concept. In the past decades, numerous United States corporations have experienced unexpected supply chain compliance issues with respect to their relationships with Chinese suppliers. Some of these compliance issues have led to undesirable publicity and outcomes with the consumers in the United States. At the beginning there was the pet food scare that allegedly had poisoned hundreds of domestic pets. Then toy manufacturers that outsourced to Chinese suppliers had to recall significant numbers of toys due to high level of lead and other unsafe features. When US government agencies were made aware of these issues, further investigations uncovered many other potential dangers regarding products from Chinese suppliers. In particular are products such as food ingredients that are being utilized by US food manufacturers. These issues, and many others soon to surface, are putting growing pressure on the global supply chains that US corporations have developed with Chinese suppliers over the years. And the root cause of these issues resides within the compliance aspect of the global supply chains due to cultural differences. Therefore, in a relatively short period of time, the fast-growing business relationships between US corporations and their Chinese suppliers that were built with great difficulties over the past two decades are now being jeopardized. And this situation has potentially tremendous impact on the overall economic well being of the two nations, which to a large degree are inter-dependent.

The intent of this research is to examine some of the cultural rationale behind such negative developments and suggest corrective actions that can assist in avoiding future damage. There is no doubt that the business relationships built by US corporations and their Chinese suppliers are critical both economically and politically to both nations. It is in the best interest of all entities involved that these issues be remedied as soon as possible. From a business point of view, most of these issues are compliance issues among supply chain partners. On the surface, it appears that the simple tightening of the compliance procedures on both sides will resolve most of the issues. But, due to the deep-rooted culturally diverse relationships

and expectations by both nations, it is not a matter that can easily be resolved by the supply chain partners alone.

Industries, in general, have experienced a shift of competitive power from upstream manufacturers to downstream partners, such as retailers and consumers. With this shift of competitive power, retailers and OEMs have been asserting pressures to suppliers in both cost and quality. With the US corporations' trend of sourcing through out China, these Chinese suppliers, on one hand, have experienced record-level growth, but they continue to feel the cost reduction pressure from the US corporations. Unfortunately, too much cost reduction pressure from downstream partners can lead to poor performance within the whole supply chain. This is particularly true in terms of product quality. But it can also affect supply availability and other supply chain performance factors. This result can be clearly observed in the automobile industry within the United States in the past twenty years.

In the specific situation between US corporations and Chinese suppliers, the economic implications are much wider than just the relationship between suppliers and customers. Consider the economic situation within China, the massive amount of sourcing by US corporations to Chinese suppliers is certainly a welcome trend for the country in its progress towards transitioning from being a "Developing Country" to a "Developed Country", as defined by the World Trade Organization (WTO). This creates an unprecedented level of trade surplus and allows China to maintain a double-digit growth rate in GDP for many years. As a matter of fact, as China's economy moved into the third largest in the world, as a country, due to the low per capita income, it still arguably can be considered as a "Developing Country". But this is a different situation as compared to Japan in the 50s and 60s, because the size of the Japanese economy was not as large as in the Chinese case currently. So the US government and the rest of the world are impacted significantly in a negative way by the large trade imbalance with China. Therefore the rest of the world, in particular, US government, has been applying tremendous pressure on China to re-evaluate its currency upward in order to reduce the negative impact. At the same time within China, due to the fast-growth rate, individuals/workers have experienced and expected large increase in compensations. This put tremendous pressure on the Chinese suppliers economically because on one hand the US corporations are continuously pressuring on reducing costs, and on the other hand, the local workers are demanded more in compensations. On top of that, the Chinese government, under global pressure, has to gradually increase the value of its currency. That is also why most US corporations deliberately set their contract terms in US dollars rather than Chinese yuan.

In terms of product quality, there are certainly global differences depending on the consuming country's consumer expectations. It has been proven by businesses that a shipment of product that is not acceptable to a specific country can at times be re-routed to another country where the same shipment is well received by the local consumers. This is mostly due to cultural and economic differences in-between the two countries. But this affects not only the way consumers view the quality of the product, but also how manufacturers in these countries handle quality assurance and expectation in their production process. But the root of the issue is much deeper than just each corporation's compliance policy. For example, in China, over 70% of the food industry manufacturers are with less than 50 employees. In other words, most of the manufacturers are too small, and perhaps new, to have well-developed compliance policies and practices. And it is very difficult for the federal government agency to regulate. This is not the case in the United States.

As the authors have pointed out, the compliance issues along the global supply chains of US corporations with their Chinese suppliers are often times driven by cultural differences. And it is not issues that can be remedied by the implementation of stricter compliance policy and procedure. It is critical to both nations economically and politically to expect the participation of the respective government agencies to ensure the on-going success of the fast growing global supply chains.

It is the intent of the authors to utilized research information gathered by interviews and other sources to establish a Corporate Policy Framework for Compliance, that will provide guidance and structure for corporations to remedy the various culturally driven issues discussed in order to become more efficient in their business operations within the global environment.

Keyword: globalization, supply chain management, cultural management.

Remarks: Full paper is in a research stage and will be published after the discussion at the MakeLearn 2012 conference presentation.

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