

# Problems and countermeasures for implementing Supply chain management in China

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## Abstract

*The paper provides an analysis on how the traditional Chinese culture and some ideas (from the so-called planned economy in China before open and reform policy established) have had strong effect on supply chain management. Simultaneously, the author points out some practical problems to be dealt with in detail. Finally, the author offers some detailed strategic and tactic considerations of supply chain management in China.*

**Keywords:** Supply chain management, culture, economic mechanism, China

## 1. Introduction

The Great Wall and the Great Canal from Beijing to Hangzhou as two wonders of man-made buildings in China, both spread for more than ten thousand miles and have covered a span of several millenniums in all aspects of what is known as supply chain management. And in history, Peking (Beijing) was known as "floating city that came from water" - the reason is that all the timber, stone materials to build Peking were shipped from the South China through the great Beijing-Hangzhou Canal. From here, it is not difficult to imagine how complicated and difficult the above purchasing and supply management was.

There have existed extensive purchasing and supply management activities for a very long time with brilliant achievements in history. But modern purchasing and supply management theory and methods have not attracted the extensive attention of academic and enterprise circles as several lately years passed. And needless to say about it centuries ago, even if more than 20 years ago, the purchasing and supply management activities of Chinese enterprises were run under the frame of planned economy system. How to set up the modern supply chain management on the competition mechanism of the market system to meet the consumers' needs and have them satisfactory ultimately is a brand-new proposition to most organizations in China.

With economic globalization and IT technology popularized day by day, market competition is getting fiercer and fiercer. Under these new environmental conditions, to pursue socialist market economy, and improve productivity, it is very important for all enterprises in China to study and implement the theory and methods of modern supply chain management so as to improve the whole competitiveness of Chinese enterprises.

The management mode of a corporation is influenced directly by some basic conditions. In order to implement supply chain management, an enterprise should possess some primary conditions:

## 2. Primary conditions for implementing supply chain management

### 2.1. Compatible concepts and coherent goals

The key concept of supply chain management is to combine all parts of the supply chain (both internal and external) of an enterprise organically. Today a product's way to the market depends on all parts of a supply chain instead of great efforts a single manufacturer. Competition emerges between different supply chains. The final competitive advantage of a certain product comes from the teamwork of the whole supply chain that is comprised by effective and efficient organizations with different core competitiveness. In order to achieve this kind of

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cooperation, the different organizations must keep the concept of compatible and coherent goals in mind.

## 2.2. Open corporate culture

Corporate culture comprises values, beliefs, and norms of behavior. Some aspects of corporate culture operate at the subconscious level. A consistent corporate culture is very important for the efficient cooperation of an organization's highly interdependent departments. If there are disparate beliefs, values, and ways of doing things, the different parts of the organization will "pull in different directions" and fight against each other and that will reduce the organization's effectiveness. The situation with the different organizations in the same supply chain is the same. Modern supply chain management needs conscientious coordination, opening consciousness and cooperative spirit between the members of a supply chain.

## 2.3. Framework of opening and flexibility

Purchasing and supply today is seen as an integral part of supply chain management in a company. It cannot, and must not, work independently. It must operate within collaborative teams that go beyond the traditional functional boundaries in a firm. These will involve some functions such as marketing, engineering and design, quality management, research & development, production and so on. So as to meet the need of cooperating between the different departments, the structure of enterprises should be open and flexible.

Cooperation between enterprises at the same supply chain is also very important. Close cooperation of enterprises is often needed between different departments of the cooperating enterprises. Provisional trans-enterprise and trans-department project groups need to be set up. And these also require open and flexible organizations.

## 2.4. Putting up the digital management platform and setting up the mechanism of information sharing

For seeking the efficient and effective cooperation between organizations of a supply chain,

each enterprise must seek not only to improve its own individual competitiveness (i.e. quality, cost, delivery lead time, etc.) but also improve the competitiveness and performance of all enterprises in its supply chain. To succeed as a member of a supply chain, and make the supply chain work as a whole, firms today must develop close partnership arrangements with their key suppliers and customer enterprises. This involves sharing information, working together to reduce costs and cut lead-time and building total quality into all the stages of the supply chain. In order to build up the mechanism of information sharing between enterprises the digital management platform backed by the information technology must be set up in the individual corporations first.

## 3. Problems of implementing supply chain management in China

It's just a little more than 20 years since China has been changing from a planned economic system to a market economic system. In the operational and managerial activities of most enterprises there are strong influences from traditional ideas, especially on the deeper layers in operational and managerial activities, such as management theory, corporate culture etc.

Enterprises will have to face the same problems while pursuing supply chain management. So it is necessary to put forward these problems in order to attract the attention of scholars and entrepreneurs.

### 3.1. Influenced by traditional culture, enterprise management systems need to be improved

A remarkable speciality of Chinese culture compared with Western culture, is something about the values of "feeling and law". The traditional Chinese value always puts feeling above law and this is completely opposite to the western culture.

Reflecting on enterprise management, this is kind of a difficulty in solving problems by the rules and policy.

Besides, corporate culture of most Chinese enterprises is "power culture". Usually there is a leader who has "complete power", controls an enterprise. Under such a circumstance, power is

greater than rules by law, feeling is greater than policy, it is very difficult to keep enterprises' rules and regulations. As a result the process of management is not transparent. The management mode is kind of a closed mode, and takes the owner in the core. The closed management mode lacking transparency does not suit supply chain management, which needs transparency and cooperation as essential in all parts of the chain.

### **3.2. Obstacles to sharing information are very heavy**

In some traditional administrator's mind it is the symbol of power to control information. In order to show one's power and status, administrators always limit the diffusion of information consciously or unconsciously, which makes different departments in an enterprise, or different enterprises in the supply chain realize information sharing with heavy difficulty. Moreover, the level and standards of modernization (including the use of IT) is different by companies. Both hardware and software lack unified standards, therefore it is difficult to coordinate sharing information among enterprises objectively. (During the process of fighting SARS in Beijing, this kind of problem had been exposed evidently. Beijing Epidemic Disease Research Institute tried to find the order of the gene of the virus. Because the clinical hospital refused to offer the alive virus, their work was delayed. And it has delayed the follow-up development of sounding the virus vaccine again.) There are many problems that will restrict enterprises to implement supply chain management. To solve these problems, we have to find effective countermeasures, - Haier has offered us a very good example.

## **4. Countermeasures: Haier's supply chain management results in international competitiveness**

### **4.1. Company Profile**

Since 1984 when it was founded, Haier has maintained an average growth rate of 78% for seventeen years. So far it has rendered available

more than 13000 kinds of products classified into 86 categories. It positions itself as the world's second largest manufacturer of white appliances including refrigerator and icebox in terms of turnout and sales and ranks at the third position when it comes to air-conditioner and washing machine. Haier has built over 10 industrial parks in the world and more than 50 manufacturing plants, and set forth the concept of "global procurement, designing, manufacturing, marketing and capital operation".

### **Background for Haier's global procurement**

- a. Speed and innovation: speed and innovation are Haier's strategic advantages when it is compared with overseas multinationals. To gain an insight into the market demand and grab business opportunities via innovation and roll out new products meeting the market demand within the shortest time is what Haier counts on in its competition with its market rivals.
- b. Challenges brought about by China's accession to the WTO: what comes along with China's accession to the WTO is the accelerated trend of economic globalization, against which backdrop, the market competition features competition between supply chains rather than individual businesses. The business with the lowest total cost for its supply chain will gain an advantage in market competition.

### **Basis for Haier's global procurement – workflow reshuffling**

For the purpose of accelerating its response to the market trends and transforming the former functional management into order-focused process management, Haier has brought into practice the workflow of development and support for new orders and workflow of basic support for existent orders.

### **Integrate internal resources to obtain better resources from the outside**

Purchasing constitutes an integral section of logistics. The first move taken in Haier's logistics integration is to concentrate its purchase activities and, through its purchase activities launched on a global scale, minimize the

purchase cost in virtue of scale advantage. By the logistics integration, the total number of Haier's suppliers has been reduced from 2336 to 840, among which the international suppliers account for 71%. So far, 44 out of the Fortune 500 businesses are Haier's suppliers.

### **Evolution from transaction relation to relation of strategic partner**

By pushing forward its relation with its suppliers from buyer and seller to win-win strategic partnership, Haier has entered into and maintained fair, interactive and beneficial relations of cooperation with them.

By seeking the active involvement of international suppliers in product designing and development, Haier has accelerated its product development and, while ensuring the first-class quality of its products, has gained a technical edge over its market rivals.

### **Shift its focus from its own profit to the total cost of its supply chain**

- a) Reduce the waste throughout the whole supply chain and enhance its efficiency in virtue of advanced logistics technologies. MSC: standardization, unitization and concentration technologies, conveyance mechanization, bar code identification, RF wireless digital communication, modern and full-automatic logistics center and laser guidance technologies
- b) Haier adopts modular design for its products. The modularized products can render available lots of choices for users and meet their individualistic requirements on one hand, and accelerate the development of B2B and B2C products to best meet users' demand. The modular design can not only accelerate the supply chain's response to the market demand but reduce relevant costs a great deal.
- c) Bring about win-win results for all the sections of the supply chain via B2B purchase platform.

Online order management platform: all the purchase orders are presented online. The synchronized purchase plan and orders increase

the orders' accuracy and feasibility, shortening the purchase period from the original ten days to three days. Suppliers may check out their inventories via Internet and supplement them in time according to the order and stock.

Online payment platform: the platform increases Haier's working efficiency with the accuracy and timeliness in order processing maintained at 100%, which has in addition saved travel expenses of near RMB 10 million for its suppliers and reduced a great deal the cost of supply chain management. So far the amount of online payment has accounted for as much as 80% of the total amount for orders.

Online bidding platform: the platform featuring online bidding not only enhances the bidding and price information management and therefore avoids behind-the-scenes operation but reduces the cost of supply chain management and streamlines the whole bidding process.

Online information exchange platform: via this platform, Haier may keep interactive information communications with its suppliers, share information with them and strengthen their cooperative partnership.

- d) Reshuffle the original stock arrangement on the basis of the informatization initiative and quicken the whole supply chain's response to the market demand: so far, from the time it receives its client's information to it finishes product processing and sends the finished product to the client, it now only takes Haier less than 10 days, compared with more than 36 days before.

### **Competitive advantage of Haier's supply chain management – fulfillment of the three "zero" objectives**

*Zero distance:* get as close as possible to its clients and fulfill the task within ten days.

*Zero defect:* all the products with defects are deemed as reject by Haier.

*Zero operating capital:* register profits supported by cash flow through real-time sales realization on the basis of the information initiative.

## 5. Conclusion

Implementing SCM is not an easy task anywhere, but there are special obstacles to it in China. Cultural and historical heritage influences company management in a way which is unfavorable for open and flexible inter-company cooperation. However, Chinese companies must and can overcome these difficulties. The case of Haier, discussed in the paper provides a good example for that.

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