

# Building Manufacture-Supplier Strategic Partnerships

----A Model for Chinese Enterprises in the Global Market

## Abstract

It is always a spotlight topic how Chinese enterprises survive in the global market after China's accession to the WTO. This paper suggests a new term "strategic partnership" and a corresponding 7-Es model may be adopted by them due to its multiple benefits. To build M/S strategic partnerships, both manufacturers and suppliers should dedicate themselves to partnerships by handling correctly not only hard elements—**equipment**, **entrances**, and **environment** but also soft ones—**ethics**, **expertise**, and **efforts** to achieve anticipated **effects** as the 7-Es Model suggests. Both parties should not only form combined resources and cooperative relations but also create cooperative culture and competitive mechanism.

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## 1. Introduction

Surviving in increasingly open, volatile and turbulent business environment during the process of globalization, enterprises have to handle changing new circumstances such as shortened product life cycles, increased customer demands, swift material supply, and new technology innovations to avoid *strategy drift*<sup>1</sup>. To fit in the new ambiance, more and more manufacturers in the world start to work together and deepen relations with some of their suppliers firstly in automotive industry known as *Japanese Phenomenon*<sup>2</sup>. From 1990s on, guided by the success of Japanese automotive enterprises, increasing supporters have accepted this kind of manufacturer-supplier(M/S) partnerships as a new orthodoxy both in theory(Hines, 1994; Carpenter, 1999; Fawcett and Mangnan, 2001) and in practice(Helper and Sako, 1995; Dyer, 1996; Leverick and Cooper, 1998). M/S partnership has dominated recent discourse as "one best way" to which all firms should aspire seemingly(Mair, 2000). Business competition is occurring from between enterprises to between supply chains with the shifting M/S relations(GAO, 1994)----from adversarial or arm's length to cooperative or partnership ones. Building M/S partnerships may be among the most critical alliances for businesses due to the multiple benefits such as information, reward and risk sharing, cost reduction, quality improvement, and competitive advantage enhancement.

China has been one of the WTO members for nearly three years and one of the

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<sup>1</sup> Qiyang Wang(2002), Flexible Strategy under Uncertainty, <http://workstar.net/library/flexstrat.htm>.

<sup>2</sup> Japanese Phenomenon is the case of most Japanese automotive enterprises successfully forged partnerships with their suppliers led by Toyota, Nissan, Mitsubishi, etc. from 1980s on.

ASEAN free trade areas for nearly two years. Its domestic market becomes more and more open to outsiders. More and more strong players have entered the market and snatched the limited market share. To survive in the hypercompetitive business environment, Chinese enterprises should think about building M/S partnerships with their strategic partners.

## 2. Literature Review

Relations between manufacturers and suppliers have been adversarial or arm's length for a very long time. Manufacturers and suppliers are independent, both of them have strong bargaining power, and their relations are transactional and short-term. From 1980s on, with the development of mass production and scale of economy, M/S partnerships have gradually become the spotlight and dominance of academics and practice. Copious literatures have explored the importance, necessity and feasibility of keeping appropriate M/S partnerships from different angles.

Literatures about M/S partnerships are mostly based on the survey and research on the practice of some successful enterprises firstly in automotive industry. Since typical automotive enterprises spend increasing proportion of money on purchasing products, their supply chain management is regarded as an important determinant of their competitiveness. During 1990s, a new "best practice" model of supply chain management was increasingly developed and accepted against traditional model in the West under the influence of successful Japanese automakers such as Toyota etc. The traditional model, or arm's-length model, was widely accepted previously as it advocated minimizing dependence on suppliers, maximizing bargaining power and avoiding commitment. So manufacturers and suppliers are adversarial, contractual, and short-term in this kind of relations. Porter(1980) emphasizes that buyers should find ways to offset suppliers' power:

*"In purchasing...the goal is to find mechanisms to offset or surmount these sources of suppliers' power...Purchases of an item can be spread among alternate suppliers in such a way as to improve the firm's bargaining power."*(Porter, 1980, p.123)

However, inspired from the Japanese practice, proponents in these fields have explored the shift trend of relations between manufacturers(buyers) and suppliers(sellers) from arm's length model to partnership model as the "best practice" and "main dominance" of academics and practice(Hines, 1994; Helper and Sako, 1995; Dyer, 1996; Leverick and Cooper, 1998; Carpenter, 1999; Fawcett and Mangnan, 2001). Encompassing the two totally different approaches, a myriad of creative researches has convinced that partnership model should be accepted as a new orthodoxy. One typical manifestation of this idea is the creation of supplier associations. Hines(1994) defines a supplier association as "a mutually benefiting group of a company's most important sub-contractors, brought together on a regular basis for the purpose of coordination and cooperation as well as to assist all the members to benefit from the type of development associated with large Japanese assemblers such as kaizen, just-in-time, kanban, U-cell production and the achievement of zero defects." The two different models have been featured as table 2.1:

**Table 2.1: Buyer (manufacturer) -supplier relations: various versions**

(Source: Mair, 2000 )

Traditional model	New model	Proponents
Mass	Lean	Womack et al, 1990; Lamming, 1993
Exit	Voice	Helper, 1991; Helper and Sako, 1995
Arm's length	Partnership	Dyer et al, 1998; Sako et al, 1995
Arm's length contract Relations	Obligational contract relations	Sako, 1992
Adversarial	Collaborative	Macbeth, 1994
Selection	Development	Flynn et al, 1996
Traditional	post-Japanese	Wells and Rawlinson, 1994

These literatures relate the imperative of M/S partnerships almost through comparing with or disapproving the arm's length approach. Patterson et al(1999) argue that a focal point of these partnership relationships is the establishment of, and commitment to, an interactive exchange where both parties benefit from sharing risks and resources; and the co-operative relationships are asserted to leverage the unique skills and expertise of each partner, and permit superior product designs, easier manufacture, better cost control, and improved inter-firm learning, amongst other benefits.

Lambert et al(1996) regard that relationships between business organizations can range from arm's length relationships(consisting of one time exchanges or multiple transactions) to vertical integration of the two organizations. Under arm's length relations, there is no sense of joint commitment or operations between two companies; a seller typically offers standard products/services to a wide range of buyers who receive standard terms and conditions. When exchanges at hand finished, the relations end. While a partnership, is "a tailored business relationship based on mutual trust, openness, shared risks and shared rewards that yield a competitive advantage, resulting in business performance greater than would be achieved by the firms individually."

Lambert et al(1996) also differentiate the differences between partnership and joint venture, and vertical integration, and classify three types of partnerships: limitedly coordinate activities and planning(type I ); progress involvement beyond coordination of activities to integration of activities(type II ); share a significant level of operational integration(typeIII) as Figure 2.1.

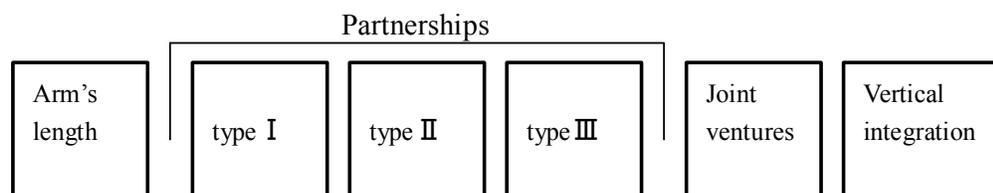
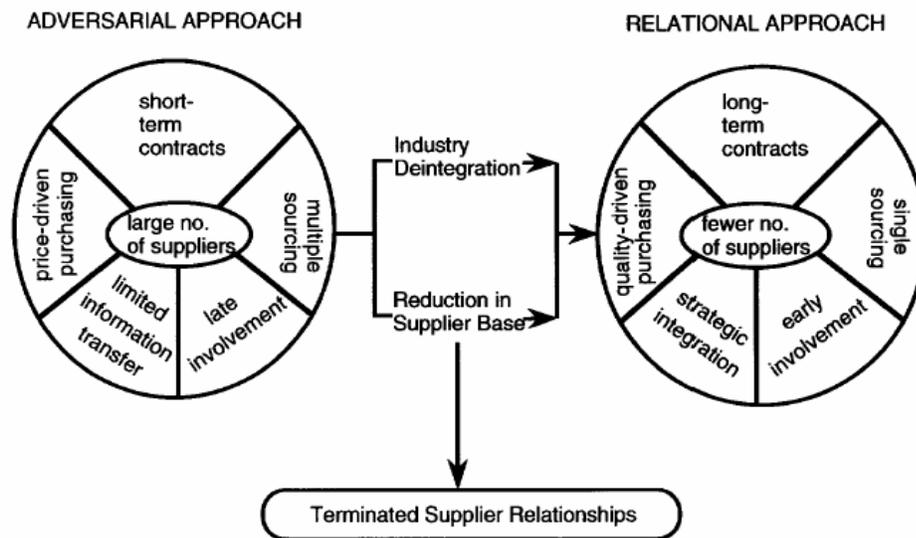


Figure 2.1: Types of Relationships(Source: Lambert, et al, 1996)

This classification is to some degree reasonable, but as for long-term partnering, joint venture and vertical integration are indispensable in some circumstances.

In order to further differentiate arm's-length and partnership approaches, Ali, et al(1997) depict the main features of two opposite approaches, and regards partnership approach is more reasonable as it is “quality-driven purchasing, long-term contracts, single sourcing, early involvement, and strategic integration” as Figure 2.2:



**Figure 2.2: Industry restructuring towards relational approach**

*(Source: Ali, et al, 1997)*

Helper(1991) proposes a four grid dimensions of supplier relations on basis of which an exit/voice model is used to differentiate US and Japan automotive buyer-supplier relations. According to Helper(1991), US automotive buyer-supplier relations have traditionally been characterised by the “exit” model, whereas Japanese ones are more typically the “voice” model. The former model is featured as low information exchange, low commitment, adversarial, more sole-sourcing, switch suppliers with ease, competition is almost solely price based, search for new suppliers if problems arise; while the latter is opposite. When faced with problems, US buyers exit existing relationships to find other suppliers, while Japanese firms voice concerns and deal with them within existing relationships.

Helper(1991) tests that the voice model is superior. Similarly, a research project conducted by the University of Michigan and AT Kearney reveals that automotive industry interviewees thought about buyer-supplier relations in terms of two contrasting models: “The selection model dictates that the customer routinely scans the market for price, quality and technology opportunities and selects a supplier base that provides the best value at a particular time. The development model mandates that the customer commits itself to its suppliers, working with them to develop price, quality and technology opportunities.”(Flynn et al, 1996, p28) The development model can be regarded as one of the partnership approaches, which is widely agreed because it promotes trust and fairness, respect for shared and distinctive objectives of the parties,

and long-term commitment. See Figure 2.3:

information exchange	high	2 Voice	1 Infeasible
	low	4 Stagnant	3 Exit
		high	low

commitment

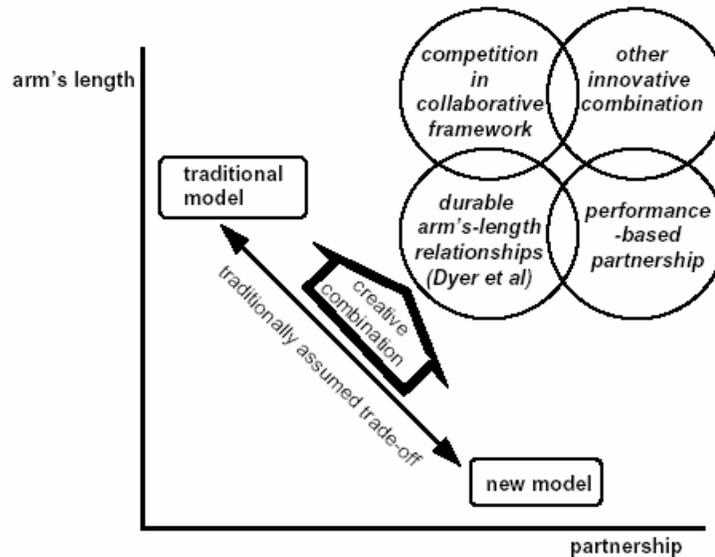
**Figure 2.3: Dimensions of supplier relations**(Source: Helper, 1991)

Other famous researches also adopt a dichotomising approach which contrasts partnership to arm's length relations theoretically and empirically such as collaborative or adversarial model(Macbeth, 1994), obligation contract relations or arm's length contractual relations model(Sako, 1992), and lean production or mass production model(Womack, et al, 1990).

These literatures strongly advocate partnership approach. Moreover, many leading firms such as Toyota, Nissan, Mitsubishi, Chrysler, etc have successfully practised M/S partnerships. Both relevant theories and practice sufficiently proves that M/S partnerships should be dominant discourse on supply chain management because of more global and common source and turbulent environment.

However, most literatures and practice seem to like to chase new managerial fad and tend to "flip the same side of one coin". The relationship between manufacturers and suppliers is far more complicated and changeable. There is mounting empirical evidence indicating that sole M/S partnering should be modified. Thus some catching researches adopt a binary paradigm or contingency approach based on the strengths of two apposite models to put forward "next best practice" or more successful partnership models. For example, some empirical evidence indicates that the arm's length model is still effective in some enterprises. Many US first tier suppliers prefer the partnership model for relationships with customer firms, and the arm's length model for relationships with second tier suppliers(Flynn et al, 1996). Broader studies reveal that many North American firms adopted the partnership model for some purchasing relationships but not others(Dyer et al, 1998). During the 1990s, GM and Volkswagen chose to deepen their traditional, adversarial model of supply chain management rather than embraced partnership(Mair, 2000). 68 percent of buyer-supplier relationships fail key tests of partnership(Helper and Sako, 1995). Stuart(1993) takes the view that while necessary and beneficial, partnerships are costly in terms of the time and effort. Lambert, et al(1996) argue that while partnerships can be beneficial, they are not appropriate in all situations. They provide a model which can be used to determine whether a partnership is warranted, and if so, how close of a partnership is warranted.

To overcome the weaknesses of both arm's length and partnership model, Mair(2000) adopts a contingent approach to combine key elements coherently and internally from both models and postulates a *performance-based partnership* model which is asserted as “an attempt to skillfully blend the principles of the new partnership model with those of the traditional arm's length model”—main points include parallel sourcing, durable arm's length relations, and competition within a collaborative framework. Mair(2000) argues that a variety of combination supply chain models is possible as Figure 2.3:



**Figure 2.3: Coherent Combinations Create New Models**(Source: Mair, 2000, p.27)

What Mair proposes is as same as the “strategic supplier segmentation” model contributed by Dyer et al(1998), who suggest firms should strategically segment and allocate suppliers to fit for durable arm's length or partnerships.

Therefore, compared with the “not A but B” unitary approach, the “both A and B”, binary, dichotomizing, and contingency approach looks like more flexible, beneficial and reasonable rather than solely depending on one format –“one size fits all”. When proponents are pleased with themselves to differentiate the two opposite models, and reject the arm's length model in favour of proposing partnership model, they in fact never create an actual “best practice”. Thus more beneficial research for us to do is to skilfully integrate new widely accepted partnership model with previously accepted arm's length model since the latter still has some strengths so as to make the partnership model both co-operative and competitive. In fact, “performance-based partnership” and “strategic supplier segmentation” approaches are significant researches concerning the integration of the two opposite models.

### **3. Do right things: building M/S strategic partnerships**

#### **3.1 Main benefits of sustaining M/S partnerships**

Generally speaking, arm's length relations between manufacturers and suppliers can only be fitted in the circumstances that 1)suppliers and supplies are sufficient

enough, 2)supplies are general and standard components, and 3)there are no customization and diversification requirements. Under this circumstance, M/S arm's length relations can ensure more selection and lower price of supplies. But arm's length model indeed has many limitations and cannot become the dominant framework of today's M/S relations. Oppositely, M/S partnership model can become dominant paradigm because it can fit for more personalizing and diverse customers' requirements, and volatile and turbulent business environment. Furthermore, main benefits of building M/S partnerships are:

**3.1.1 reduce overall manufacture costs.** Supply procurement is a time and money consuming process. If manufacturers and suppliers form long-term partnerships, the procurement process can be saved. Additionally, components and materials are high proportion of product cost. M/S partnerships aim at supplies delivered of the right price, quantity, and quality at the right time to the right place. It can ensure coming back for repeat orders and purchases and guarantee specification, standard and quality delivered properly. Under the partnering relationship, manufacturers can select best suppliers who are specialized in market niches with superior skills and knowledge, minimize repeat, waste, uncertainty, and inventory. Through business process reengineering(BPR) and work flow optimizing, the repeat work and superfluous process between suppliers can be effectively reduced, which can simplify supply chain process and raise supply efficiency. Uncertainty is the main determinant of inventory. By building the partnership, manufacturers and suppliers can share information and enhance fast response to customer requirements, which help continuously minimize uncertainty and inventory while accelerating the material flow. So M/S partnerships can ensure components and materials to be supplied sufficiently, cheaply at any cases and lower even zero inventory, which can dramatically reduce the whole manufacture costs.

**3.1.2 shorten lead time to the demand side.** Lead time is a big problem which may impact on the production, inventory and managerial costs. Every manufacturer wants to shorten supply lead time because the longer the lead time, the more inventory and costs the manufacturer must burden. In traditional model, the demand and the supply are disjointed, so every procurement needs time-consuming negotiation(time adds overhead to the selling price) and inaccurate deliveries based on inaccurate sales prediction(increase inventory or lack of inputs). Once partnering between manufacturers and suppliers, manufacturers can set up real time requirements with its suppliers, and obtain quick and exact delivery like Dell's build-to-order, high velocity and zero inventory. Dell built M/S partnerships with brand suppliers such as Sony being of high quality, cooperated in design and producing, and improved high velocity supplies on a daily or even hourly basis. In fiscal year 1995, its average inventory turn ratio was 32 days, by 1998 it was down to 7 days, which compared very favourably with Gateway's 14 days, Compaq's 23 days, and the estimated industry-wide average of over 50 days.<sup>3</sup>

**3.1.3 improve mutual communication and commitment.** Higher information exchange is generally consistent with higher commitment(Mair, 2000). In partnership circumstances, manufacturers and suppliers establish current information exchange through Internet and electronic data interchange(EDI) system. Suppliers take part in manufacturers' material requirement planning(MRP), manufacturers join in suppliers'

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<sup>3</sup> Dell case and data are adapted from Thompson & Gamble( 2000), see references.

supply chain planning(SCP), both enterprise resource planning(ERP) and supply chain management(SCM) are integrated through real time information sharing. Some manufacturers create a seamless flow of communication by bringing in key suppliers as full-time participants in their operation, working on-site daily. In this case, manufacturers and suppliers are high information exchange and high commitment.

**3.1.4 push for higher quality and better service.** Manufacturers implement TQM collaborating with their suppliers in some way to increase the quality of component parts(Lawler et al, 1992), often by sending ‘quality action teams’ to consult with and help their suppliers to use TQM to analyze and improve their own work processes(Sashkin & Kiser, 1993). Suppliers are chosen on the basis of quality rather than solely on the basis of cost. The selection of brand named and first class suppliers, rapid responses to customers, and both commitment on continuous process improvement will ensure the right quality and right price to satisfy customers’ requirements. M/S partnership actually becomes a joint approach that management, workers and suppliers share same objectives, goals and visions of the organization and pursue excellence in manufacturing quality and service. Thus the partnering process is actually the process of satisfying customers’ requirements.

**3.1.5 enhance both competitive advantages.** M/S partnership approach emphasizes strategic cooperation and enhances core competence by both being advantaged. They seek common ground, utilize their resources efficiently, and conduct expertise integration, formal joint ventures and long term networks to pursue win/win situation on all occasions. Furthermore, some manufacturers can outsource to produce non-core components and focus on core, profitable and attractive production to enhance their competitive advantages. Once manufacturers’ competitive advantages are improved, those of suppliers will be improved too.

In fact, the benefits of M/S partnerships are far more than these theoretical summaries if being compared with the vivid practice. From 1990s on, partnership model has not only become dominant in automotive industry but has also been applied in other industries, which increasingly illustrates the importance of M/S partnering. For example, Dell is characterized by partnering with brand suppliers, in-plant cooperative design, JIT components supply, and high velocity, low inventory; IBM is characterized by microprocessor outsourcing to main partners; AT&T is characterized by long-term cooperative contract with its suppliers; Kodak is featured by high proportion of partnership, supplier involvement in the design and manufacturing process, etc. A survey conducted by Sanders & Reid(2001), based on 219 high-growth US manufacturing plants, shows that the supplier partnership strategies are most effective one of four unique competitive strategies: supplier partnerships strategy, quality-focus strategy, cost-containment strategy, and time-based competitive strategy. Therefore, building partnerships is very necessary and mutually beneficial to both parties.

### **3.2 Strategic partnership: real best practice**

Although building M/S partnerships has many benefits, it still has some pitfalls:

- It may be a long time process for manufacturers and suppliers to build and sustain good partnerships, and much time and resource may be needed.
- It may constrain technology development and the selection of abundant supplies and suppliers. Manufacturers locked into a long-term relationship with particular

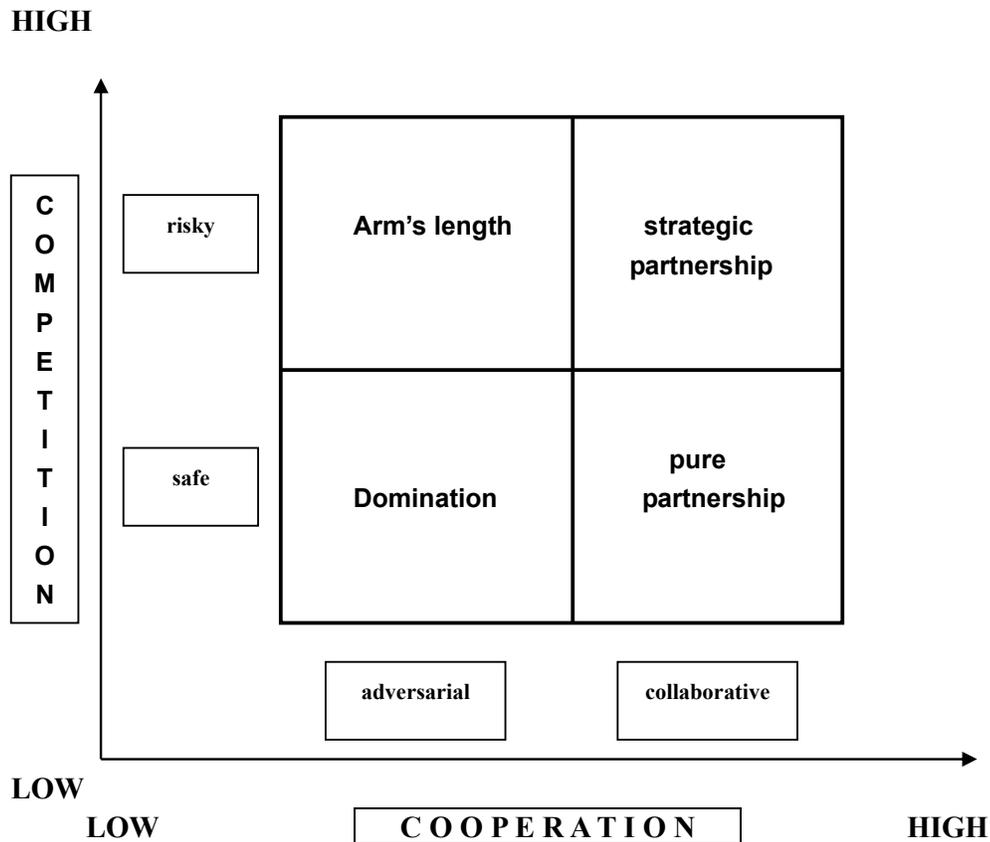
suppliers might also miss out new technology development led by enterprises outside the partnership, or might simply become over-dependent on suppliers and fail probably better choices of supplies.

- It may encounter the risk that sensitive information is abused by a trusted partner and the loss of control over product development programmes.

Obviously, M/S partnership model should be utilized properly and regarded as a dominant relationship rather than “one-best-for-all”. Arm’s length and partnership models have the probabilities to be collectively utilized, which has been examined by Mair(2000), Bensaou(1999), Dyer et al(1998), Flynn et al(1996) etc., and practised by some automotive companies such as GM, Volkswagen, Honda etc. For example, Dyer et al(1998)’s research on 453 supplier-automaker relationships in the U.S., Japan, and Korea suggests that firms should think more strategically about supplier management and perhaps should not have a “one-size-fits-all” strategy for supplier management. Their findings also unearth that there exist two opposite models not only in the same country and the same industry, but also in the same enterprises. In their research, the percent of sales to automaker, in US, arm’s length suppliers and partnership suppliers are 33.5% and 33.9% respectively; in Japan, they are 18.9% and 60%, while in Korea, they are 49.6% and 81.9%( Dyer et al, 1998). In the same automotive industry, General Motors has used an arm’s length model while Toyota has employed a partnership model, both of them are very successful. Even in the same enterprise Honda, its overall purchasing strategy seems to straddle the partnership and arm’s length models successfully(Mair, 2000). Bensaou(1999)’s research, based on 447 managers from American and Japanese automobile manufacturers, also finds that Japanese firms tend to manage their suppliers using highly dedicated relationships or strategic partnerships. They appear to conduct business with a smaller ratio of strategic partnerships than commonly believed (19 percent of the sample) and to extensively use market-exchange relationships (31 percent) — a practice usually associated with Western manufacturers. So, pure partnership model should be modified in a flexible manner—to avoid its weaknesses and utilize the strengths of arm’s length model.

The modified partnership, so-called **strategic partnership** in this paper, refers to **the ideal joint state of “mainly partnership, complementarily arm’s length relations” in which both manufacturers and suppliers interact collaboratively and competitively**. This kind of tailored business relationships, based on mutual trust, co-operation and commitment, shared information, rewards and risks, can result in greater business performance and yield more competitive advantages than that would be achieved by the firms individually. This new term can actually represent “best practice” with main characteristics as follows:

- **Feasibility**. Theoretically competition and cooperation are opposite, but practically they could be unified. Ideal strategic M/S relationships should be the interdependent model--cooperation combined with competition shown in Figure 3.1:



**Figure 3.1: M/S Relation Framework**

As for two dimensions of competition and cooperation, M/S relations can be actually classified as four types: in the *domination* model, manufacturers and suppliers are less cooperative and competitive, they are adversarial and safe, each party dominates itself with gains on its own track; in the *arm's length* model, manufacturers and suppliers are less cooperative even adversarial, and the two parties are more competitive, so their gains may be higher(e.g. higher risk, higher reward); while in the *pure partnership* model, both parties are more cooperative even collaborative, but they are less competitive, their relations may be very stable, so their rewards may be lower in the long run(e.g. no risk, no higher rewards); However, in the *strategic partnership* model, both parties are cooperative and competitive, collaborative and risky, and they will not only gain more benefits but also keep tighter relations.

Strategic partnership as a real best practice can be actually realized only if managing properly. Mair(2000) argues collaboration and competition can be combined practically: "The fact that it is possible for firms to create poor combinations of partnership and arm's length principles is due to poor management, and is not inevitable."(Mair, 2000, pp.32)

● **Flexibility.** This kind of strategic partnership is different from previous arm's length or partnership model. It is a dyad or a hybrid governance structure between arm's length and pure partnership, between markets and hierarchies, and between competition and cooperation in an integrative manner, because it advocates utilizing traditional arm's length and partnership model flexibly and contingently—to keep partnerships as a

main trend as well as utilize arm's length relations complementarily. For example, in automotive industry, some manufacturers may practise building partnerships with their first tier or main component suppliers(e.g. engine suppliers) while keeping arm's length relations with their second tier or inferior component suppliers(e.g. bulb suppliers); and even in the same partnership, the partnering time may not be too long, e.g. keep 5 years or so and then introduce competitive suppliers etc., through which M/S can successfully sustain *competitive cooperation relations*.

● **Creativity.** Strategic partnership model is neither simply in approval of the precious partnership model nor solely against the arm's length model. It takes a holistic and contingent view to try to find the feasible connection between the arm's length and partnership models rather than simply regards them oppositely. Thus it is more creative, beneficial and practical when they are utilized in a flexible and complementary manner. Strategic partnership as a modified pure partnership model, its creativity lies in two aspects: on one hand, it does not exclude the arm's length model and may adopt it as an auxiliary method; on the other hand, it regards building M/S partnerships as a dynamic and changing process. Even collaboration with partners may the other party introduce competitive mechanism so as to keep both sides on the competitive edge.

### **3.3 Framework of strategic partnership: 7 Es Model**

#### **3.3.1 Theoretical basis**

Relevant literatures on how to build M/S partnerships have paved important bases of setting 7 Es model to realize strategic partnerships:

● Harrison(2001) argues supplier partnering principles mainly include: (1)Establish a customer-supplier partnership business understanding that encompasses a long-term commitment, mutual trust, respect and continuous improvement; (2)Develop joint continuous development teams looking at improvements within each other's organization; (3)Develop routines and disciplines for measuring the relationship and the approaches to yielding continuous improvements; and (4)Understand that the supply base as an integral part of the supply chain can only be sustained by profit.

● Carter(1998) argues ethical issues in global buyer-supplier relationships and finds that unethical activities in buyer-supplier relationships are considered unacceptable, inappropriate, or irresponsible by purchasing managers and their suppliers, which can negatively affect the satisfaction of both buyers and suppliers, and even the buyer's perception of how effectively a supplier performs.

● Quality(1997) argues successful relationships between manufacturers and their suppliers depend upon five factors: trust, respect, vision, cooperation, and honesty<sup>4</sup>.

● Lamming(1993) argues that "trust" is not an amorphous concept but instead is based upon a very clear understanding of mutual commitment and cooperation culture:

*"Partnership is based upon commitment, trust and continuous improvement. The fact that Japanese assemblers do not have written long-term contracts, relying instead on short-term stipulations for deliveries but very long-term(next vehicle model) involvement of the supplier, based upon mutual, is an indication of the very different business culture that partnership requires."*(Peck, et al, 1999, pp.168).

● Campbell(1997)'s research finds that mutual trust, joint communication, joint

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<sup>4</sup> What Are the Ingredients in A Customer/Supplier Partnership? *Quality*, Nov 1997, 36(11), pp30.

problem-solving, relationship-specific investment and disclosure of proprietary information are important in a partnership.

- Steyn and Rensburg(2001)’s survey discovers that SME manufacturers’ applying the following principles will contribute *significantly* to forge strategic relationships with their suppliers: (1)suppliers should increase their involvement in improving the quality of manufacturers’ products and services; (2)suppliers should initialize more initiatives for product and process innovations of manufacturers; (3)suppliers should increase their involvement in initiatives for lowering the total cost for consumers; and (4)suppliers should try harder at improving the competitive advantage of manufacturers.

- Duke(1998) argues that many factors may influence the nature of a buyer-supplier relationship on this distributive versus integrative scale. These factors include power, nature of negotiation, personal factors, organizational factors, retailer objectives, ambient social pressure, political and government pressure, and stance of negotiation partner and inter-firm communications.

- Fawcett and Magnan(2001)’s findings indicate that there are top ten barriers to supply chain integration mainly including information sharing, organizational culture, trust, vision/understanding, commitment, etc. Therefore main measures for building M/S partnerships should include honest information sharing, accurate and comprehensive measures, trust-based alliances, supply chain alignment, effective use of pilot projects as Table 3.1:

**Table 3.1: Top Ten Benefits, Barriers, and Bridges to Supply Chain Management**

Benefits	Barriers	Bridges
Increased customer responsiveness	Inadequate information sharing	Senior & functional managerial support
More consistent on-time delivery	Poor/conflicting measurement	Open & honest information sharing
Shorter order fulfillment lead times	Inconsistent operating goals	Accurate & comprehensive measures
Reduced inventory costs	Organizational culture & structure	Trust-based, synergistic alliances
Better asset utilization	Resistance to change—lack of trust	Supply chain alignment & rationalization
Lower cost of purchased items	Poor alliance management practices	Cross-experienced managers
Higher product quality	Lack of SC vision/understanding	Process documentation & ownership
Ability to handle unexpected events	Lack of managerial commitment	Supply chain education and training
Faster product innovation	Constrained resources	Use of supply chain advisory councils
Preferred & tailored relationships	No employee passion/empowerment	Effective use of pilot projects

(Sources: Fawcett & Magnan, 2001, p.12)

- Ali, et al(1997) argue that the influence of “Japanese style”(partnership model) mainly reflects in the present-day use of long-term contracts to single selected or preferred suppliers, greater subcontracting to suppliers, and the strategic integration and early involvement of suppliers in new product development using the principles of simultaneous engineering to reduce product development time. Further changes include the current emphasis on quality-driven purchasing as part of TQM, with zero defects effected targets. Closed related to those changes are JIT product systems. Perfect quality control is vital in operating a JIT system as close relationships to selected suppliers.

So these relevant literatures give meaningful insights on seven aspects: (1)mutual trust, confidence and commitment, (2)sharing common vision, rewards and risks, (3)team work in new product development and operations monitoring, (4)collaborative

investment and joint venture, (5) new technology application, mutual selection and assessment, (6) organization change, and (7) supply chain efficiency and effectiveness, which help form a concrete framework to implement M/S strategic partnerships.

### **3.3.2 Framework: 7 Es Model**

Based on the analysis above, a 7 Es model can be created as a strategic partnership framework:

**Ethics**—Main elements include trust, respect, honesty and corporation. Both manufacturers and suppliers should recognize the importance and necessity of building strategic partnerships. They should have common moral consciousness, mutual trust, respect, confidence, and honesty to each other.

**Expertises**—Human factor is the most important impetus and resource to gain competitive advantages and win/win results. In strategic partnership model, both parties should integrate necessary expertises in the whole operation process. They both utilize expertises to design, monitor and improve product quality, to control and manage the operations process, and to serve customers with loyalty in a cooperative way such as team work, by which they can effectively depend success upon the expertise contributions of each other.

**Efforts**—Both manufacturers and suppliers should firstly make their efforts to form and sustain partnerships to pursue long-term growth and viability. They should establish extensively formal and informal communications consuming necessary time and money, work together (e.g. mutual commitment, joint investment etc.) to achieve productivity gains from which both sides benefit, and assess, criticize and help each other to improve co-operations.

**Entrances**—Partner selection is an important determinant for successfully building strategic partnerships. Both manufacturers and suppliers should mutually select each other carefully. The guideline selection principles are similarity, reciprocity, competence and willingness. A supplier and a manufacturer may form partnerships only when they both are in the same industry and can gain more benefits than that without partnering. Additionally, both parties should have respective competence and advantages through which one side can gain more benefits from the other, and be willing to forge partnerships rather than other factors induce or force.

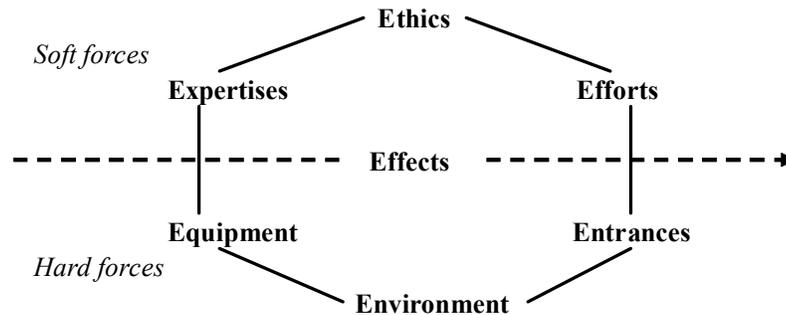
**Equipment**—Building strategic partnerships is actually the coordination of material, information, and financial flows between the participating enterprises. To ensure M/S partnering to operate efficiently, both parties should coordinate material, information, and financial flows seamlessly by constructing common infrastructure and adopting advanced methods. They both should utilize electronic data interchange (EDI), just-in-time inventory management, material requirement planning (MRP), total quality management (TQM), and computer manufacture integration system (CMIS) to realize real time information exchange, end-to-end demand planning, timely supply replenishment, and continuous quality improvement.

**Environment**—Environmental forces faced by manufacturers and suppliers have an obvious impact on their partnership forming and keeping. During the partnering process, both parties should do some force-field analyses (Lewin, 1951), predict what are the drivers and the resistors—from the environmental factors of culture, economy system, market competition, and technology development.

**Effects**—Mainly include: (1) 7 right supplies. The deliveries from suppliers should

be the right goods, at the right price, in the right quantity, of the right quality, delivered at the right time, to the right place and on the right terms. (2)more satisfying products and services. After partnering, higher quality, lower cost, more value for money, and customer loyalty can be output. (3)more profitability and competitive advantages. Both parties can gain more profit and competence through partnering.

M/S strategic partnership model can be summarized as Figure 3.2:



**Figure 3.2: M/S strategic partnership model**

Among these factors in Figure 3.2, ethics, expertises and efforts are soft forces while entrances, equipment and environment are hard ones. Both soft and hard forces should be handled carefully in an integrative and complementary manner in order to achieve the effects of M/S strategic partnering. This model can not only help explain the reasons why manufacturers and suppliers should set up strategic partnerships, but can also afford main guidance how to build and maintain this kind of partnerships.

## 4. Typical cases

4.1 *Toyota, Nissan, Mitsubishi, and Honda.* As four Japanese largest automakers, Toyota, Nissan, Mitsubishi have long-term partnerships with their main suppliers (relational or partnership model) while Honda has not(transactional or arm's length model). See Table 4.1:

**Table 4.1: Financial data and suppliers of Japan four major automakers in 1996**

	<i>Toyota</i>	<i>Nissan</i>	<i>Mitsubishi</i>	<i>Honda</i>
Sales revenue**	7,957	3,518	2,523	2,448
Net profit**	183	4	20	27
ROS (%)	2.3	0.1	0.8	1.1
Suppliers' organization	Kyoho-Kai	Nissho-Kai	Mitsubishi Kashiwa-Kai	No supplier organization
Number of the first and second-tier suppliers (A)	191	191	381	338
Number of the first-tier suppliers (B)	56	57	21	31
Listed companies (C)	23	23	2	5
(B)/(A)***	29.3	30.4	5.5	9.2
(C)/(B)***	41.1	39.7	9.5	16.1
(C)/(A)***	12.0	12.0	0.5	1.5

**Notes:** \*Fiscal year ends in March; \*\*Unit Y Billion; \*\*\*Percentage (%). Compiled from API Yearbook and Japan Company Handbook 1996 *Yoyo Keizai*

(Source: Kim and Michel, 1999, p122)

According to Table 4.7, Toyota and Nissan have far fewer suppliers in the 1<sup>st</sup> and 2<sup>nd</sup> category (191 each) than Mitsubishi (381) and Honda (338). As for the number of first tier suppliers, Toyota (56) and Nissan (57) have double those of Mitsubishi (21) or Honda (31). The number of listed companies among the first tier in Toyota and Nissan (23 for each) is more than that of Mitsubishi (2) or Honda (5). Thus, Toyota and Nissan have fewer but larger suppliers, while Mitsubishi and Honda have a larger number of smaller suppliers.

Under this kind of relations, the difference of rewards between them is obvious. For example, the sales revenue of Toyota is 7,957 Y billion, while Honda is 2,448 Y billion; the ROS of Toyota is 2.3% while Honda is 1.1%. The results indicate that partnership model is better in Toyota than in Honda. Toyota has developed long-term relationships with suppliers by implicitly guaranteeing future business. Suppliers, in return, have made relation-specific investments to improve Toyota’s productivity (Kim and Michell, 1999). On the other hand, the net profit of Honda is 27 Y billion while Mitsubishi and Nissan have only 20 Y billion and 4 Y billion and the ROS of the latter two is only 0.8% and 0.1% respectively. The results also indicate that arm’s length model in Honda is more effective than in other two enterprises. Mair(2000)’s research shows that Honda seeks to gain the advantage of both single sourcing(stable relationships, economies of scale) and dual sourcing(an element of competition).

Research by Sako(1998) finds that Honda has in fact regularly adjusted the balance of co-operation and competition in the management of its supply chain. Sako’s figure suggests that there was a period of enhanced partnership working at Honda during the 1980s in which partnership model as “the best practice” was developed in Japan. Yet during the 1990s, just as Western auto enterprises were shifting towards partnership, Honda was shifting its emphasis to a greater degree of competition. See Figure 4.1:

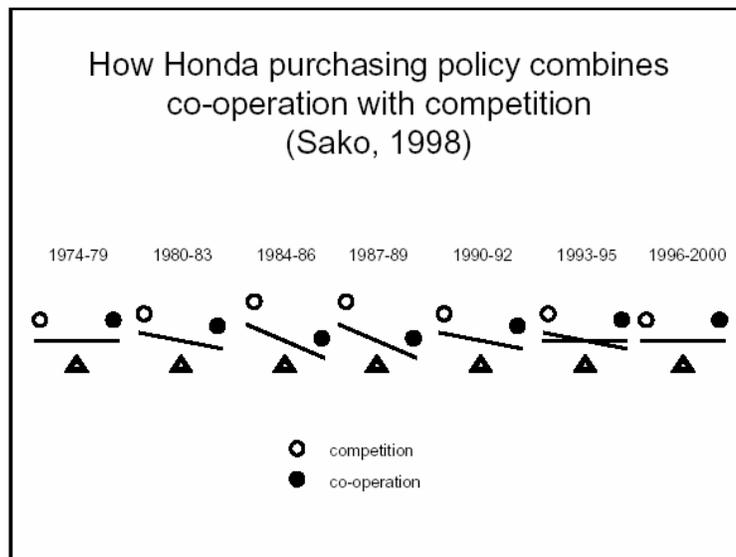


Figure 4.1: Honda purchasing policy balances co-operation with competition

(Source: Mair, 2000, p24)

Therefore, M/S partnership or arm's length models are relative, changing and dependent. M/S Partnership can only be regarded as a dominant model. Its actual utilization should be assisted by arm's length model.

**4.2 General Motors(GM).** GM, the world's largest vehicle manufacturer and the global automotive sales leader, employs about 355,000 people around the world and has manufacturing operations in more than 30 countries. In 2001, GM sold more than 8.5 million cars and trucks--more than any other automakers and 15.1 percent of the global vehicle market. Among all the factors of GM's success, suitable M/S relationship is an important one, which is featured as competitive relations with large sum of general suppliers. In the early 1990s, GM attempted to save costs by encouraging intense supplier competition. It has been well documented that particularly during the reign of Lopez, General Motors attempted to generate cost savings by fostering vigorous supplier competition and maintaining arm's-length relationships. Dr. Lopez pushed suppliers to reduce prices by renegotiating contracts and opening up parts to competitive bidding--sometimes going through more than 5 rounds of bidding, saving \$3-4 billion as a result of the adversarial supplier management practices.<sup>5</sup> At the same time, GM implemented global growth strategy and extended its supply chain internationally. When GM develops its arm's length relations with its present large amount of suppliers, it also seeks partnerships with some strategic partners such as Fiat, Fuji, Isuzu, Suzuki and Shanghai Automotive Industry Corporation (SAIC). GM has strong technology supply collaborations with Toyota and Honda, and vehicle manufacturing ventures with Toyota and Renault SA. In 1999, General Motors establishes a mutual supply partnership with Honda. Honda is to provide engines for a GM vehicle built in North America and GM's partner Isuzu is to provide Honda with diesel engines for the European market. Meanwhile, GM actively utilizes the most advanced technology to enhance supply chain functions. In 2000, General Motors, Ford, and DaimlerChrysler announced plans to create an Internet supplier exchange, called Covisint, billed as the world's largest virtual marketplace. GM entered into e-business supply partnerships with Sony, NetZero, and America Online.<sup>6</sup>

GM's competitive relations with cluster of ordinary suppliers successfully result in suppliers consistently meeting its customer's requirements with regard to quality, quantity and delivery. Meanwhile, its partnerships with strategic partners effectively enable its supplier development, which makes suppliers devoted to continuously improving GM supply base performance and capability in providing the quality, service, technology, and price necessary to meet corporate strategies and customer requirements.

**4.3 Dong Feng Motor Corp.** Dong Feng Motor Corp, Chinese second biggest automotive group with employees more than 110 thousand, produced and sold cars 410 thousand units increasing by 54.7% and 53% than last year respectively, with sales 70.5 b yuan increasing by 49.8% in 2002<sup>7</sup>. All increasing rates are ranked the first among Chinese automotive firms. One of its important elements, according to the analysis of the company, is that Dong Feng has implemented flexible M/S partnership strategy. Dong Feng tries hard to build and sustain long-standing partnerships with small number of famous suppliers such as PSA Peugeot Citroen and Nissan etc. for the supply of vital

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<sup>5</sup> Source adapted from Dyer, et al, 1998, p58.

<sup>6</sup> Resources from [http://www.gm.com/company/corp\\_info/](http://www.gm.com/company/corp_info/)

<sup>7</sup> <http://www.chinacars.com/autonews/content/corp/200301/63164.asp>

components mainly including motors, gears, brakes, tires, fuel and emission systems, ignition systems, heating and air-conditioning systems or transmissions, while keeping competitive and transactional relations with large number of suppliers for high proportion of non-vital, individual, and standard component supply such as batteries, belts, hinges, locks, seals, cables, lamps, windscreen wipers etc. To build in-depth and stable partnerships with vital component suppliers, Dong Feng and its partners have involved in joint-venture, cooperative new product development, real-time demand information exchange, and collaborative production management since 1992, which rapidly developed new cars, improved car quality, saved manufacturing costs, and improved M/S profitability<sup>8</sup>. In Sep 2002, Dong Feng and Nissan signed a catching agreement for long-term cooperation. They two will joint venture in their supply chains and build thorough supply collaboration relations. They planned to make 900 thousand units of vehicles in 2010 and strived to become No 4 or No 5 of automotive enterprises in the world(after GM, Ford, and Toyota). However, this kind of ‘never best’ partnering strategy has benefited Dong Feng obviously. Dong Feng’s another supplier PSA also decided to further invest and improve the quality of supplies. It attracted other famous suppliers such as Toyota to join in Dong Feng’s supply chains. From 1992 to 2002, Dong Feng launched a series of new products such as EQ1208, EQ3208, Dongfeng Citroen, Fensheng Bluebirds, Accent GLS, Dongfeng King, reduced inventory turnover from 59 days to 36 days, saved costs 2,258 yuan per unit, and gained net profits 3.7 times more than before.<sup>9</sup>

By flexible partnering strategy, today, a new model of Dong Feng has basically realized featured as “partnering with main suppliers, competitive relations with general suppliers, just-in-time components inventories, build-to-order manufacturing, pioneering use of the Internet, high quality and low cost products”, which ensures the company’s great achievements. Dong Feng model indicates that flexible M/S relationship is an important element to determine a firm’s success in today’s hypercompetitive business environment. Its hybrid M/S relationship model also sets a good example for all other enterprises in China.

## **5. Managerial implications: Do things right—strategic partnering**

During the increasingly open process to the outside, Chinese enterprises are facing tremendous competition challenge as well as reform chances. For example, according to the Protocol of China Joining in the WTO, automotive import tariff rates will cut down from 80% in 2001 to 25% on July 2006, and some import tariff rates of a big number of automotive components will cut down to zero. Almost all the famous foreign automotive enterprises have entered or planned to enter the potential huge market of the most populous country in the world. Chinese automotive companies are facing big challenges. However, most Chinese automotive enterprises are still “scattered, disordered, and small” and can not adapt the competition with foreign players. Now China has nearly 200 automakers and more than 3000 suppliers which belong to

<sup>8</sup> Source from <http://www.dongfeng.com.cn>

<sup>9</sup> Source from <http://www.chinacars.com/public/content/search.asp>; <http://www.dongfeng.com.cn>.

different provinces. Their business scale is not far large enough. According to statistics from CAAM, in 1998, the production of China biggest six automotive groups altogether is only 1,022 thousand units, sales is 121,069 million RMB(14,600 m\$), fixed assets is 190,233 m RMB(23,000 m \$); all these figures are less than one west famous automotive group. For example, in 1998, GM, production is 8,780 thousand units, sales is 161,300 m \$, fixed assets is 257,300 m \$<sup>10</sup>. As being introduced in the survey above, at the present, there are only 60% or so Chinese automotive enterprises have formed M/S partnerships, most of their partnerships are not standard enough, the collective competence and competitive advantages through partnering can not be sufficiently manifested. Additionally, 40% or so enterprises have still short-term and adversarial M/S relations. They are not easy to form partnerships because of the impact of culture, system and economic factors. This kind of present situation indicates that on one hand most Chinese automotive enterprises are not big enough to realize scale of economy, on the other hand, their non-standard M/S partnering leads to relatively higher procurement cost and manufacturing cost<sup>11</sup>. Therefore, within the coming years, it is very necessary for Chinese enterprises to speed up reforms and deepen structure reshuffling so as to improve cooperation and combination between enterprises and enhance competitive abilities. A task of top priority for Chinese manufacturers and suppliers is to develop strategic partnerships—mainly build and sustain partnerships with suitable and main suppliers meanwhile keep arm's length relations with general and inferior suppliers.

*Firstly, it is most important for manufacturers and suppliers to build and sustain partnerships.* According to 7 Es model, both manufacturers and suppliers should focus not only on hard elements—equipment, entrances, and environment but also on soft ones—ethics, expertise, and efforts to realize expected effects. As for Chinese enterprise, more vital aspects are:

- ***Share common long-term visions***

Now some Chinese manufacturers and suppliers have no clear visions on their relations. They still regard their relations as market exchange or competitive transactions. Both manufacturers and suppliers should recognize their transaction is not an one-off event but an on-going process(value added), their connection is not a short-term “schedule push” but a long-term “demand pull”, and their cooperation is not a win/loss(in the long run will be loss/loss) but a win/win partnership under which both seek and obtain benefits(created value should benefit both on balance). So both parties should share common long-term visions--understand their rights and obligations, accept the need for win/win scenarios, and become integral to each other.

- ***Build mutual trust***

Lack of mutual trust is a root reason for most manufacturers and suppliers to fail to form partnerships. In some Chinese industries, dishonesty and distrust have gradually and worryingly become a serious problem among business relations. Ongoing commitment to partnering requires deep trust. Thus in order to forge M/S partnerships, both parties should regard each other as one of the in-plant members. They should be honest to each other, take more communication and consultation, and change some

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<sup>10</sup> Source from Xingmin Hu, Suggestion on accelerating the process of China automotive industry strategic reshuffling to join in global competition, Sep 1999, China Association of Automotive Manufacturers.

<sup>11</sup> For example, according to the statistics from China Association of Automobile Manufacturers, in 2000, the relative average of procurement cost and manufacturing cost of China top three auto groups is respectively 3.2 and 5.3 times of that of Toyota. Source from [http:// www.qiche.com.cn](http://www.qiche.com.cn).

relevant information as soon as possible. Manufacturers should believe their suppliers can bring guaranteed quantity and quality, and share benefits with suppliers; while suppliers should believe manufacturers will share rewards with them, and enrich involvement in improving product quality, lowering total cost and helping enhance competitive advantages of manufacturers.

- ***Improve information, resources, rewards, and risk sharing***

Ellram(1991) defines the partnership as agreements which involve commitment and trust over an extended time-period and which include sharing of information, risks and rewards. Relation-specific investment and resource combination are necessary bases for maintaining long-standing M/S partnerships while sharing information, rewards and risk is the important premise of M/S partnering. Because there will be a kind of “bonding mechanism” to reshuffle and optimize the limited information and resources of both organizations and create high commitment<sup>12</sup>. So manufacturers and suppliers should involve in relation-specific investment, build real time electronic information interchange and improve rewards and risk sharing.

- ***Enhance mutual involvement through team work***

In order to meet customers’ requirements, all divisions, processes, and persons of both partners should connectively and highly involve in the continuous improvement of operations process and solve the problems in time. Both parties should adopt expertise integration approach to form new product development team, material requirement planning team, production management team, and mediating or mandating team to enhance involvement and problem solving. For example, according to GAO(1994), Ford Motor built cross-functional teams which resulted in Ford’s sales personnel providing consumer feedback to Ford’s buyers who in turn provide this information to relevant suppliers. This transportation benefits both partners by improving the products sold to consumers. The teams may manage the day-to-day operations of the relationship, solve problems in time, and address strategic aspects of the relationship, which is useful for sustaining the partnership.

- ***Deepen economy system reforms***

Among main external factors which may affect M/S partnering of Chinese companies, the property right system of state-owned assets and fiscal revenue system are two main ones. Now, more than 70% Chinese enterprises are “state-owned”. Their assets are state-owned nominally but “provinces-owned and government departments-owned” actually. Intervening the assets management by so many “owners” results in that enterprises have no rights to decide the use of assets even some investment. Many projects about assets reorganizing, cooperation and joint venture can not be easily approved. Whereas some empowered cooperative projects are brought together by governments rather than by enterprises themselves. Furthermore, China now implements an economy system featured as “fiscal revenue ownership divided between different regional governments”. Different regions are interested in developing their own firms to enlarge taxes and are not willing to let their enterprises transfer to other regions.

Therefore, it is imperative for China to reform the property right system of state-owned assets and fiscal revenue system in order to reshuffle industrial structure,

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<sup>12</sup> Qiyang Wang, Actively adjust fiscal and tax policies to fit for joining the WTO, *Journal of Reference for Economy Research*, 12, 1991, pp12-17.

and help more enterprises freely involve in M/S partnering and other alliances to enhance competitive competence. Main measures include: 1) empower enterprises to own state-owned assets and be responsible for utilizing them; 2) enlarge governments' help rather than intervene enterprises' partnering; 3) cancel ownership of enterprises between regions and realize no restraint by tax revenue ownership.<sup>13</sup> Apparently, only if implementing such economy system reforms can Chinese enterprises beneficially improve M/S partnering.

*However, M/S partnerships in China should be kept flexibly, competitively, and strategically. On one hand,* manufacturers should keep suppliers on the edge to improve supplies continuously through supplier monitoring and performance assessment. Establishing monitoring and assessment mechanism is very necessary to prevent problems as they arise, ensure supply improvement, and identify opportunities for relations deepening, because supplier monitoring is the main way to prove that goods or services have been supplied in accordance with requirements at source inspection, on-receipt inspection, and in-use verification with developing awareness of quality costs. Moreover, relations monitoring can minimize over-dependency, complacency, and noncompetitive pricing; while performance assessment is a complementary method. Specific criteria are needed to assess current suppliers and select them as preferred suppliers. For example, Ford monitored its suppliers according to quality standards, price controls, and financial condition. It had a cost estimating group that could compare suppliers' manufacturing costs with standard costs of the industry(GAO, 1994). With ongoing monitoring, companies have more opportunities to make a remedy such as assisting the supplier or identifying an alternative source. Meanwhile, suppliers should continuously devote themselves to supply development, cost reduction, and quality improvement to enrich more attractiveness to manufacturers. *On the other hand,* manufacturers may keep main components supply through 1)in-depth partnering while maintain ordinary or standard components supply through multiple sourcing, outsourcing, or arm's length procurement; and 2)tight partnerships with a few first-tier or fame-leading suppliers while competitive or contractual relations with many second(or 3<sup>rd</sup>, 4<sup>th</sup>...)-tier or general suppliers. Meanwhile, suppliers should keep necessary bargaining power with manufacturers. Obviously, this kind of strategic or hybrid partnerships can not only help consolidate partnering but can also enlarge selectable supplies so as to gain better supplies and more advantages.

## 6. Conclusions

Although many literatures and much practice indicate the importance and strengths of keeping M/S partnerships, the main reasons why M/S partnering is so paramount are actually from two aspects: (1)*internal needs*. Both parties have common expectations on partnering to achieve win/win results, mutual benefits and available cooperation capabilities. Through partnering, manufacturers can benefit from getting qualified and just-in-time inputs, reducing purchase, delivery and inventory, lead time and manufacturing costs, improving product quality through collaborative design, and gaining competitive advantages; while suppliers can benefit from lean production,

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<sup>13</sup> Qiyang Wang, Establishing state-owned assets management system of separate and clear rights and responsibilities, *Journal of China Industrial Management*, 10, 1999, pp.32-36.

just-in-time sales, accurate marketing information, cost reduction, and effectiveness and efficiency improvement. In addition, both partners can gain effects of scales of economy through strategic alliance, improve operation process and quality, satisfy customers' requirements, and enhance their core competitive competence. (2)**external forces**. Besides internal needs, some external PEST forces may influence M/S partnering: *Political*, e.g., government intervention, organization politics; *Economic*, e.g., globalization, market competition, property right system, tax policies; *Social*, e.g., culture, ethics; *Technological*, e.g., technology development, R&D investment, etc. So keeping M/S partnerships has been argued and examined as a main trend or dominance.

However, every coin has two sides. M/S partnership model may also have some limitations if handling inappropriately just like the arm's length approach. For example, based on long-term relations, M/S partnering may probably lead to non-competitive prices, self-complacency, dependence or compliance; Furthermore, it needs lots of resource, time and sentiment investment. Some literatures and evidence also show that although partnership model is dominant, arm's length relations should be utilized complementarily. Further theoretical analysis and survey from Chinese enterprises and some famous automakers in the world indicate that the two opposite models are actually dialectical and can be integrated both competitively and cooperatively. More beneficial M/S relationship model should be a modified or flexible partnership one—strategic partnership. **M/S strategic partnership suggested by this paper is actually a sophisticated and modified partnership model that combines co-operative and competitive dimensions, and straddles partnership and arm's length models in a flexible and dynamic way featured as “mainly partnership, complementarily arm's length relations” between manufacturers and suppliers.** Strategic partnering is the “real best practice” which can realize combined benefits of M/S partnerships while utilizing the strengths of arm's length relations.

In order to build and sustain M/S strategic partnerships between Chinese enterprises, both manufacturers and suppliers should firstly dedicate themselves to partnering by paying much attention not only to hard elements—equipment, entrances, and environment but also soft ones—ethics, expertise, and efforts to achieve anticipated effects the 7-Es Model suggests. Main ways include: share common long-term visions; build mutual trust; improve information, resources, rewards and risk sharing; enhance mutual involvement through team work; and deepen economy system reform. Meanwhile, M/S partnerships should be kept flexibly, competitively, and strategically through introducing rational core of arm's length model such as utilizing supplier monitoring and performance assessment mechanism, multiple sourcing, outsourcing, and contractual procurement; or through settling diverse and flexible relational connections such as keeping arm's length relations with second and third tier suppliers or general and inferior suppliers while building partnerships with first tier or vital component suppliers. This kind of contingent M/S partnerships can ensure both partners to fit for the volatile business situations.

In short, although there are still some problems such as the scope of application, the degree of partnering, and culture building needed to further research, building M/S strategic partnerships is indeed a strategic and tacit approach to gain win/win results and more competitive advantages. As for Chinese enterprises to survive in today's hypercompetitive business environment after entering the WTO, strategic partnering is

actually a mutual choosing, facilitating and improving process played by both manufacturers and suppliers. During this process, both parties in fact not only form combined resources but also create cooperative culture, not only keep coordinate relations but also build competitive mechanism.

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