

Diversity Management in International Supply Chains: Strategies for Effectiveness

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Received 8 May 2015; accepted 14 June 2015; published 17 June 2015

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Abstract

Managing diversity is the hallmark of an international business. International organizations deal with diversity in multiple task environments: culture, communication, operating, technology and supply chain. International organizations are integrated with global and host country local economies and systems. They need to continuously improve the supply chain effectiveness of their global operations to further their competitive position. The effective management of diversity will improve supply chain performance in procuring services, raw materials, components and sub-assemblies.

Keywords

Diversity Management, International Supply Chains, International Organization

1. Introduction

The management of diversity in supply chain management is a vital component of a multinational corporation's (MNC) corporate strategy, and it is also an important component of US economic growth. Managing the supply chain diversity in MNC's multiple countries' task environments is a key to its continuing success as a competitive MNC organization.

The need for effective management of diversity in supply chain management is likely to be felt by US firms of all sizes and ages. The well-established and larger MNCs have years of international experience and resource building in many different countries and consequently have an advantage over the smaller and younger firms. The smaller firms, however, continue in their endeavors as they strive to reach the levels of performance of the bigger firms.

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The need for the pursuit of effectiveness in managing diversity in supply chains is not limited to medium and large MNCs. The need for effectiveness in managing diversity also applies to small firms as they reach out to outsource internationally to compete on price and other attributes, such as features, raw materials and favorable delivery terms. Smaller firms, with their greater numbers relative to MNCs, play important roles in the US economy. The US economy relies on the small firms' newer, innovative and entrepreneurial business endeavors for its growth. Entrepreneurs and small businesses are often the engines of growth, leading the economy out of recession. New and young businesses are often under-resourced compared with the established larger MNCs. Small firms are often in the process of building effective supply chain networks and develop a constellation of effective strategies in their diverse multi-national environments.

In this context, it is worthwhile to examine the process of international outsourcing and the impact of continuously improving the supply chain management of an entrepreneurial firm as well as those of established small businesses. Small firms often face greater challenges in stretching their limited resources in dealing with multiple diverse countries' environments while managing their supply chain.

The entrepreneur or small business owner would greatly benefit from an efficiently orchestrated supply chain for fulfilling needs for vendor services, e.g. software support, raw materials, components and sub-assemblies, because of the level of diversity involved in the small firms and the MNC's multi-national task environments, *i.e.* culture, communication, operating, technology and supply chain. Effectively managing diversity is a critical factor for enhancing competitive advantage.

2. The Importance of Managing Diversity in International Supply Chain

Managing diversity in supply chains for an MNC is as complex and challenging as it is for a domestically-oriented firm to manage its various functional areas, such as finance, marketing, operations, legal and information technology. The focus of an international firm should be on understanding the diversity of the task environments of all of the foreign countries in which it operates. The dimensions for studying an international firm's diverse task environments can be a) its foreign subsidiaries and their host countries, b) its global scale, and c) the product lines, businesses and technologies. If we choose the unit of analysis to be foreign subsidiaries, we could view the countries of the world as the dimensions for studying, analyzing and addressing the diversity issues of an international firm's task environments. If we were to think of each functional management at a time and analyze the diversity of its task environment, we could then investigate the impact of diversity on that particular functional management. After doing that, we could address the ways by which an international firm could better perform its functional management through improved coordination, internal integration, and external customization.

Growth of an MNC, despite the challenges from diverse task environments, can take place from leveraging the differences across its regions of operations, a task that most MNCs have successfully carried out. By focusing on those activities the MNC should be able to derive greater benefit from what each task environment has to offer to the MNC. That approach would be one way for an international firm to manage its diverse task environments. The attendant complexities of an MNC's task environments, variegated because of the differences in business and social practices in the different countries, would be a challenge for an MNC to overcome.

The operating conditions and the unique cultural settings of each country would place specific expectations on a foreign subsidiary. Those expectations could be dictated by the host country's laws, social and business customs, and etiquette and protocol. The expectations are dictated not only at the country-level but they are also determined by the industry and the functional area. For example, purchasing supply chain functions would vary according to the country environment (e.g. Thailand, Sweden), and industry environment (e.g. lumber, welding, equipment, auto parts). Similarly, detailed marketing (or any other functional area) practices would vary not only from country-to-country, but also from industry-to-industry. Therefore, for each task environment of supply chain management (e.g. country or industry), a particular international firm, in order to be effective, would have to adapt to local cultures, infrastructure, supply chain practices, and the level of technological capability. Because the MNC operates in multiple countries' environments, it has to manage diversity in the functional management of its supply chains.

3. The Purpose of the Paper

The purpose of the paper is to portray the importance of improved international supply chain management through

attention to the inherent diversity of the global environment models are provided to demonstrate how an international firm can become more effective in its supply chain management. There is a good case for pursuing this conceptual development as it helps to better visualize the inter-related issues, such as those that are determined by functional area, technology, industry and country. The foregoing Introduction establishes the importance of effectively managing diversity in the multi-national and functional area's task environments.

The pursuit of continuously improving supply chain strategies that will effectively harness and leverage the diversity of resources, task environments and cultures will generate organizational synergies and competitive advantages that are unlikely to be available to a monolith country environment. Diversity among countries is a blessing for an MNC in that it can choose the country that best fulfills the particular supply need. Extracting the benefits of diversity is a challenge that attracts the attention of this paper in ways similar to those raised by Porter [1].

Managing diversity in supply chain management in different national environments is the subject of this paper. It provides conceptual foundations for building effective organization structures and for formulating effective inter-organizational relationships between a foreign subsidiary and its suppliers in the host country.

The paper pays special attention to the need for the adaptability of structure, strategies, and inter-relationship because of the diversity of operating and cultural environments of an MNC. MNCs have to display a quick willingness and capability in adapting to the many diverse cultures of its multi-national operations.

4. Literature Review for Diversity Management in Supply Chains

The paper addresses the challenge to an MNC in dealing with diversity as it operates in diverse country cultures and task environments. The literature review provides the competitive need for synthesizing supply chain management approaches within the management of diversity of cultural and operating conditions. From an MNC top management viewpoint, managing global supply chains is very complex, challenging and even confounding. The management of diversity can be challenging; and yet an MNC must eke out efficiencies in its global supply chain management process if it is to be competitive in each of its diverse global markets.

International supply chain management has become more diverse, complex and challenging as MNCs and their operations become more intertwined. Brandyberry narrates how his dinner guest told him, "I think the complexities of our current global supply chain outweigh our capability to control the network" [2]. Brandyberry draws attention to the enormous complexity of third-party external supply networks that require new and innovative management. He was talking about his company's third-party external supply network. His industry has witnessed a dramatic evolution into what he calls "gigantic pharmaceutical drug-makers", referring to such MNCs as Johnson and Johnson, Pfizer, Roche, Merck, Novartis, and GlaxoSmithKline. These are MNCs which have over \$40 billion in annual sales. These MNCs are the cumulative result of mergers and acquisitions, and they have in place a myriad of co-marketing, in-licensing, and other growth strategies to make up for the disappointing failures of traditional R & D approaches. He states that "the key factor for effective supplier management is that once a company has established what its end-state, third-party external network should look like and what suppliers should constitute that network, it is imperative that there is an ongoing collaborative environment in place that ensures that the future supply partners are always motivated to improve and innovate. This evaluation may make an organization take a hard look at the skills (or lack thereof) that it has in place to support third-party external manufacturing". He believes that there are gaping voids in the chain in the international suppliers' relationship management. It is important to first identify these voids or gaps and then and fill them to improve the international supply chain management.

In this context, it may be argued that as the "suppliers of suppliers of suppliers" interact in a chain, the focal MNC organization would need to manage the diversity of operational methods to continuously improve its system effectiveness and efficiencies. These issues deal with the desirable attributes of flexibility, cost reduction, component simplicity, and parts interchangeability, and design and process innovativeness [3]. Highly centralized supply chain structures, such as those of Toyota, focus on strong support and close involvement with its suppliers in all its many country environments. In moderately decentralized supply chain structures such as those of Nissan, the focus shifts to greater supplier initiatives for component and sub assembly design, innovation and R & D, continuous improvements in quality, better matching of production schedules across intermediary and final assemblers, continuous increase in capacity, and enhancements in flexibility. Very decentralized structures are often perceived to effectively deal with the diversities of the global environments. Philips is a re-

markable example of how a decentralized, MNC deals with global diversity in lighting and electronics. Each of Philips' autonomous foreign subsidiaries wholly focuses on its cluster country cultures, markets' preferences, R and D, supply chain, and operating conditions.

For dealing with the diversities within the supply chain environment, it is important to train and empower supply chain members. In empowering suppliers and, in turn, their suppliers, the whole process of designing and manufacturing of parts, sub-assemblies and components for the manufacturer can be a way to deal with diversity in the supply chain environment. Schilling cites the example of how Ratan Tata, the highly regarded and recently retired CEO of the Indian based Tata group of 114 companies, wanted to create a cheap car to replace the scooter [4]. This would be a car affordable to the masses. He offered his experience of a near accident in Bangalore, India when the car in which he was traveling almost ran over the occupants of a scooter. Riding on the scooter were the father in the front seat, a young son standing in between his legs, and the mother side saddled on the back seat with an infant on her lap. The scooter skidded and toppled, and all its occupants went tumbling. At the time, "Ratan Tata conceived of a dream that would take five years and a global network of 800 suppliers to realize: a car affordable to the masses". When faced with the challenge to design and build the affordable, \$2200, "Nano" car, Tata Motors delegated to its suppliers and their suppliers, most of the component and sub-assembly design, innovation, prototype development and mass manufacturing. Given the price constraint, Tatas had to limit the weight and the amount of materials in the car. Tata told the suppliers the weight and cost objectives and gave them "a free reign to try to find a way to meet them". The suppliers came up with innovative methods to achieve the objectives, such as hollow steering column and a single fuel injector for the two cylinder engine. Tata Motors, the car's manufacturer, and all of its suppliers collectively and repeatedly re-conceptualized the product design issues, from the car frame to power systems. Girish Wagh, the head of the Tata team, states, "The entire system was re-invented. Innovation at the aggregate level trickled down the system, then to sub-systems, then to parts. We went to tremendous amount of iteration in the design process. The entire engine was re-designed thrice, the body was re-designed twice, and the floor plan of the car redesigned around ten times, and the wiper system redesigned more than 11 times" [4].

Gamble found that organizational commitment may well be critical to effective supply chain management and performance [5]. Organizational commitment is also considered as the likely indicator of whether, or not, a MNC would continue in a host country particularly in the case of China as the host country as was the case in Gamble's study. In this context, Gamble studied the effect of organizational commitment with China as the host country of the MNC [5].

The issue, in this context of diversity in operations, was whether or not organizational commitment would differ between and among different country cultures, specifically with respect to the level and intensity of "organizational commitment of the subsidiary's local employees in the Chinese subsidiary stores of a British multinational retailer and its relationship with employees' willingness to stay" [5]. Because of its large and low cost manufacturing base, China is a meaningful location for testing this tenet. China also had the advantage of being located within the supply chains of many MNCs. Given China's vast human resources, the potential for high labor turnover can pose a challenge to a foreign investor or an MNC.

McIntyre argues that MNCs emphasize the issues of diversity and sustainability in international supply chain management [6]. He argues the importance of "the design, diffusion, and consolidation of sustainable development in the context of globalization and multinational firms". His study analyzes the potential parts that MNCs can play in "the complex and dynamic phenomena of economic, political, cultural and legal interactions involved" [6]. He emphasizes that MNCs should pursue strategies that are compatible with sustainable development as they exploit resources and pursue production in developing or emerging market countries. In this context, he describes the various practices of corporate social responsibility as a new component of the strategies of international firms, using illustrations of French MNCs.

Thomas Cook in his role as the managing director of American River International and the Department of Commerce of the New York District Export Council is one of the most vocal exponents of dealing with the importance of the diverse and varying conditions of international trade [7]. He states that, to effectively deal with the diversity in international trade, the international manager must adopt "this comprehensive yet accessible resource". He provides "a step-by-step blueprint for executing a corporate global trade program that is both compliant and cost-effective". He identifies both older and newer concerns in international business and he also provides cost effective solutions and stresses the need for better education and information sharing regarding better practices on a widespread basis. He emphasizes the necessity for supply chain managers to possess larger and

more diverse set of skills in order to manage the cultural diversity and complex corporate responsibilities in the diverse global markets. Among the areas that serve as the cornerstone of their skill sets are negotiation skills and the knowledge of freight markets across the globe.

There are different levels, methods and content in education and training across the globe. This is usually based on the history of education and training in each country. In his article, Cook points out the increasing importance of supply chain managers understanding and managing the diverse approaches in education, training and information-resource gathering [8]. The supply chain manager would do well to develop a “world class mind set” so that he or she can benefit from each education and training system. This mindset, emphasizing a broader perspective as well as a customizing approach, would enable him or her to better understand how various global issues would inter-relate in the larger scheme.

Berrett cites four studies about diversity in universities [9]. The studies found that diversity in university student bodies aids in critical thinking. Diversity helps to foster a broader thinking, outside of a previously structured paradigm and promotes not just linear, but also “curvilinear” thinking. It helps to settle students in diverse environments. They better understand the likely workplace diversity that they will encounter upon their graduation so that they will not experience “cognitive dissonance”.

4.1. Growth

There are varying levels and attributes of growth in different regions of the world and in regions within each country. This calls for a case-by-case approach in dealing with growth as an MNC pursues the exploitation of growth opportunities. The proceedings of International Conference of Logistics Engineering and Management provide a compilation of numerous studies using statistical models on many supply chain topics, e.g. the various determinants of regional growth differences in China's supply chain activities, including the practices in the circulation industry employing empirical analysis based on the Stochastic Frontier Model [3]. Such analysis would help in clarifying and making sense of the processes of the complex supply chain network.

4.2. Risk

Risk management varies from one country to another. The analysis and evaluation of risks in varying country cultures in international supply chain management are major, challenging issues. Dealing with the diversity of cultures in risk management practices across different countries requires the astute applications of skill and experiences in managers. Wakolbinger emphasizes the need for dealing with diversity in risk management in international supply chains [10]. He has developed a framework that presents the many potential “effects of information management and risk-sharing contracts in supply chain networks”. He analyzes the impact of strategic information acquisition and sharing on supply chain disruption risks and costs when evaluating the supply chain performance of risk-sharing contracts. He states “risk-sharing contracts specify who needs to incur the costs when supply chain disruptions occur. We develop a model that consists of three tiers of multi-criteria decision-makers, manufacturers, retailers, and demand markets. We describe the behavior of each decision-maker, derive the finite-dimensional variational inequality formulation of the equilibrium conditions of the supply chain and present numerical examples”. He provides models that would “indicate that the beneficiary of reduced information-sharing costs is in some cases dependent on the negotiation power of participants and that it is also dependent on the type of risk-sharing contract used”. He concludes that it is often the case that “information-sharing and risk-sharing contracts are complements while in other cases they are substitutes”. Thus, risk-sharing contracts go hand in hand with information sharing, a desirable way of strengthening the hands of the players in the international supply chain. The knowledge of diverse cultures of different countries would help the manager to cope with the uncertainty and anxiety associated with effective risk management.

4.3. Finance

Mathis and Cavinato provide an argument that indicates an increasing need for MNCs to improve the financial processes of the international supply chain and to institute the best practices [11]. In the context of financing process in supply chain management, they acknowledge the diversity of financial conditions, business cultures and practices, regulations and processes. Their opinion is that completely “decentralized finance functions result in financial inefficiencies”. They argue their basic point: “Five sub-architectures to competitive supply chains are identified, and it is contended that visualizing the supply chain financially is the first step to controlling and

enhancing it.” In Mathis and Cavinato’s scheme, there is a need for the simultaneous: a) centralized financial coordination and b) financial operational decentralization at the host country level, when it comes to the management of the finance of the international supply chain. Managing diversity in the financial and banking environments of the individual countries would help the supply chain executive in containing the financial management challenge in the diverse environments.

Medford provides an economic rationale to operate a global supply chain in a sustainable manner [12]. He bases his arguments on marketing, finance, and production theories: “that by engaging in socially responsible behavior the firm will increase sales, decrease costs, reduce financial risk, and increase profits, which will ultimately increase returns to the firm's shareholders”. He presents a model that is based upon the assumption, “the mechanism by which modern production methods such as lean production and quality management result in sustainable corporate behavior that, in the long run, translates into higher stock valuations”. The consequence can be that the production effects usually tend to cause marketing and financial risks that are inter-related and may even off set each other. These can have a favorable effect on the stockholders through stock price appreciation. Thus, Medford’s effects also provide important benefits to other stakeholders of the firms including employees, customers, the environment, and the community”. He further states an ethical issue that is common in international human resource management, namely: “An important ethical issue in global supply chains is working conditions in foreign plants often leading to allegations of sweatshop labor conditions”. This issue is used to illustrate how lean production practices can affect consumers, employees, and financial risk. Thus, for effective and sustainable international supply chain management, proper ethical international human resource management practices are prerequisites. The knowledge of different cultures and the skill to manage diversity among cultures would help the executive in dealing with the leadership issues.

5. Models for Managing Diversity in International Supply Chain

When considering the challenges of managing diversity in international supply chains, we look to the international management literature for clues for formulating effective managerial strategies to deal with diversity. Many of the challenges of managing diversity emanate from cultural differences across countries. It is worthwhile to review the dimensions that help define the cultural differences among countries in order to formulate effective managerial strategies for dealing with diversity.

Based on the cultural dimensions that identify cultural differences across countries, the three models are presented in the three tables. They depict the more effective management of diversity (of multiple countries’ cultures and operating environments) of an international supply chain, as it is viewed from the MNC’s headquarters and foreign subsidiary points of view.

Table 1 emphasizes the relationship among the CEO’s declared goals, and his own goals (imputed for the organization) on the one hand, and, the MNC’s core competencies on the other hand. This analysis helps to determine which activities and products to in-source, and which to out-source when dealing with diversity issues. This in-source versus out-source question should be periodically reviewed.

Table 2 focuses on the many diverse issues of the supplier-customer organization interface for better coordination and improved efficiencies. The bottom box of **Table 2** provides a checklist for improving the efficiencies of the supplier organization for seamless services to the MNC organization. These include: improved coordination and communication at all phases: product design and development, process design, production planning, and operations management.

Table 3 provides the short and long term focus of the supplier and the MNC. The long term focus of the MNC and the supplier is to pursue activities that would improve the competitiveness of the MNC in a diverse environment. The MNC’s needs and future plans to improve the MNC’s process will determine the supplier’s internal activities. The short-term focus will emphasize operational efficiencies and coordination for the smooth inflow of supplies, and also compliance with specifications as the specifications may change over time. Ongoing process changes in the MNC will require corresponding changes in the supplier organization. In summary, competition and other market forces induce changes by the MNC, which in turn should induce changes by the supplier.

Dealing with the issue of cultural diversity at the organizational and personal levels, it is important that the CEO and all managers, supervisors and supply chain specialists of an MNC’s foreign subsidiaries judiciously adapt to the local cultures in ways acceptable to the local people. In this context it is worthwhile to follow the

Table 1. Supplier dynamics, outsource/insource analyses of the mnc organization.

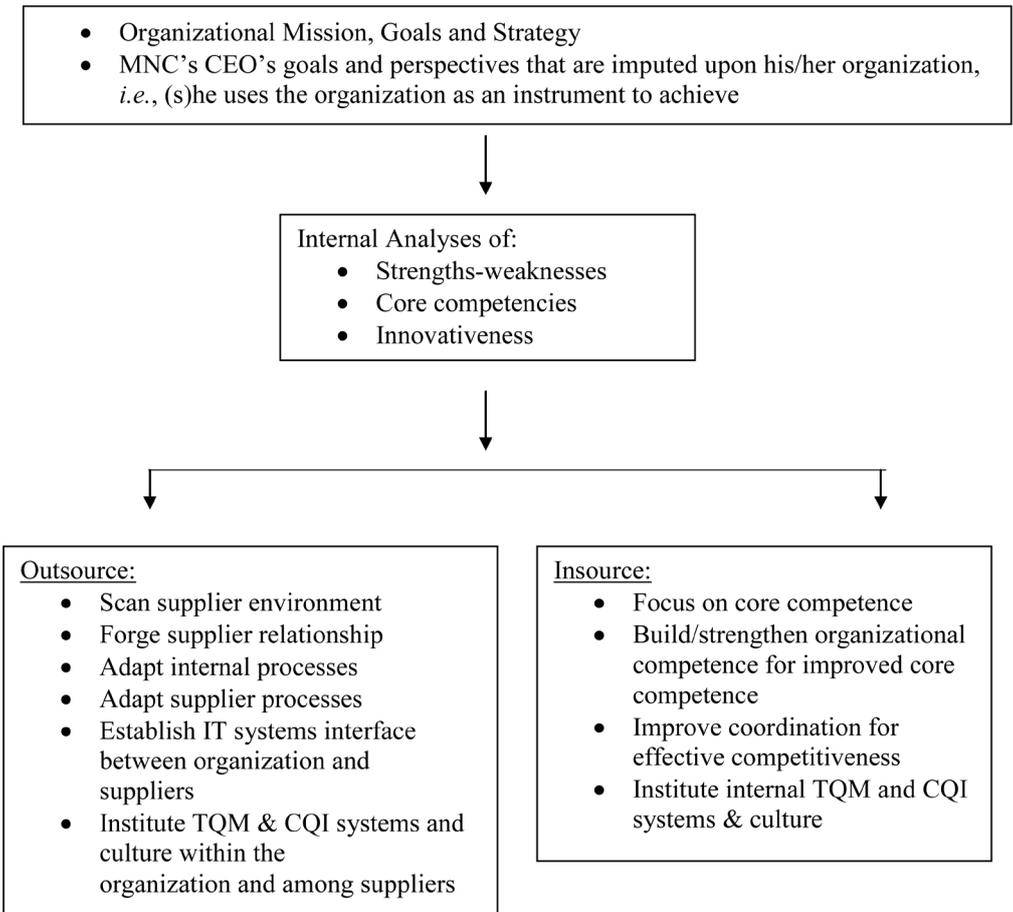


Table 2. Supplier’s delivery process of an mnc organization.

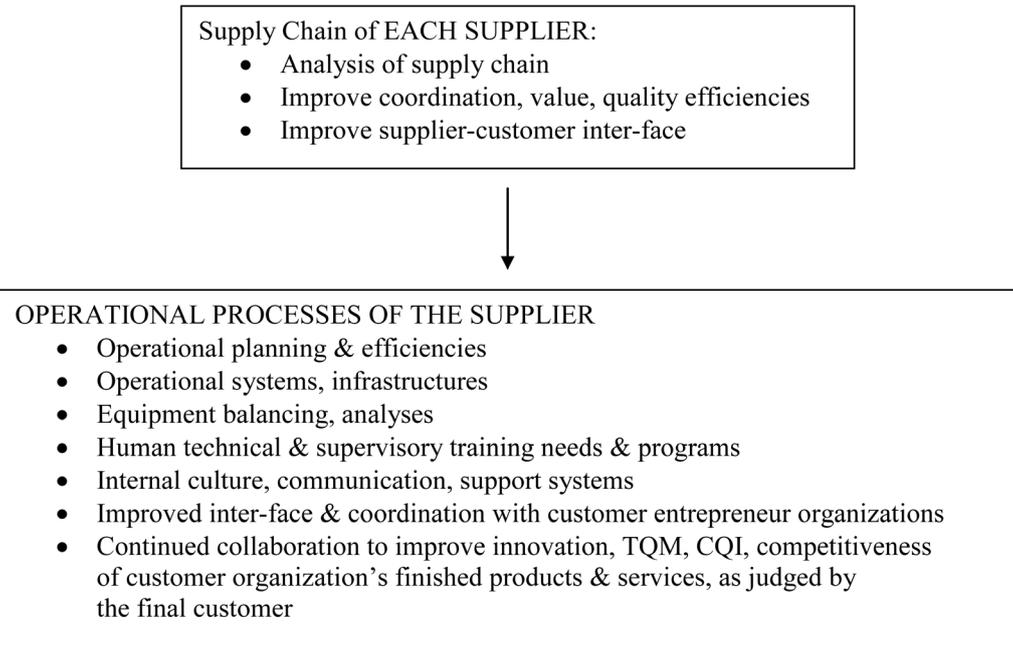


Table 3. Supplier diversity management: improving effectiveness through better interfaces and collaborative linkages between the mnc subsidiaries and supplier organizations in diverse country cultures.

		ORGANIZATION	
		MNC:	SUPPLIER:
1. LONG TERM PLANS		Communication of goals to improve MNC's outcome expectations; Evaluate competitive effectiveness of future plans, products, services. Communicate with suppliers.	Develop goals, plans consistent with needs and vision.
2. SHORT TERM OPERATIONAL ACTIVITIES		Improve computer/MIS/CAD/CAM compatibility with supplier organizations. Focus on innovation, cost savings, smooth inter-face between the organizations, quality improvements (TQM, CQI) through detailed feedback to supplier organizations.	Integrate production planning systems and cycles; focus on quality improvement JIT, feedback implementation (asreceived from MNC organization).

example of Cyrus, The Great, of the ancient Persian Empire. Cyrus, 600-530 BC, was reputed to fully embrace the customs and ceremonies of each of his empire states. He would take part in ceremonies of all his 23 empire states, each of which had a distinct culture. He was a visionary in that he created the first bill of rights. The original cylinder on which it is written is exhibited at The London Museum and a replica, at The United Nations. This reflects his respect of all ethnicities, no matter how different they were from his own. His decentralization of power, achieved by giving the states much say in their own affairs, won him their respect and harmony. His decentralized, federation structure carried on after his death. He participated in their local festivities and important events by wearing their customary attire, features of his character that endeared him to diverse peoples. Just as we see the wise ways of Cyrus, we should also see a wise CEO of an MNC to be geocentric and judiciously participate in local activities. Like Cyrus, the CEO of a foreign subsidiary of an MNC and his or her managers should go beyond their ethnicity and embrace the richness of the other cultures in the theatre of his, or her, foreign operations. As a leader, he or she must recognize, respect and accept the traditions and practices of the global, multi-ethnic society, where no one ethnicity is considered superior to another [13] [14]. Similarly, an MNC's foreign subsidiary CEO and managers must respect and honor the local culture, traditions, customs and practices of each host country. In doing so, an MNC's manager of foreign supply chains will become more effective at managing diversity.

6. Conclusions and Recommendations

The growth of global traded has been fast paced and rampant during the past few decades, making it challenging for MNCs to manage diversity in the cultural and operating environments of their sprawling international supply chains. Good multicultural perspectives, broad and flexible mind-sets that substantially customize the supply chain practices to suit each country, a more effective strategic approach, and balanced financial empowerments and controls will enable a MNC to effectively manage its international supply chain. This approach needs to be adopted at three levels in the MNC: the MNC's global headquarters, its regional offices, and its foreign subsidiaries, in order for a MNC to continuously improve the management of its "supply chain organizations", *i.e.* the suppliers to suppliers of a foreign subsidiary.

To effectively deal with cultural diversity across different countries, Cullen and Parboteeah offer useful recommendations [15]. For developing effective strategies for managing cultural diversity, they use Geert Hofstede's framework of four cultural dimensions [16]. Cullen and Parboteeah argue for the following dimensions: 1) low or high power distance, 2) individualism or collectivism, 3) low or high uncertainty avoidance, 4) mascu-

linity or femininity, 5) short or long term time-orientation, and 6) low or high Confucianism. These dimensions can be used to formulate effective management styles. The adoption of effective methodologies for managing supply chains is contingent upon a foreign subsidiary's host country culture.

a) For High Power Distance Cultures: Use methods to conform to the norms, practices, policies and rules, and meet the moral obligations of leaders in the MNC to better deal with the "supplier chain organizations", that is, the suppliers to suppliers of a foreign subsidiary (the opposite approach is true for low power distance cultures).

b) For High Individualism Cultures: Use decentralized approaches of greater empowerment, autonomy, challenging work, and job enrichment that simultaneously promote greater job satisfaction, together with sustained individual career advancement in the organization of the foreign subsidiaries, so that their people can better deal with the "supply chain organizations" (the opposite approach is true for low individualism or high collectivism cultures).

c) For High Uncertainty Avoidance Cultures: Use organizational policies that ensure greater job security, emphasize a strong adherence to the organizational hierarchy and its chain of command, and employ clear communications in the organization of the foreign subsidiaries, so that their people can better deal with the "supply chain organizations" (the opposite approach is true for low uncertainty avoidance cultures).

d) For High Masculinity Cultures: Use pay as the dominant motivator of employees, coupled with career advancement strategies employing training opportunities and skill improvements that will improve continuous individual achievement in the organization of the foreign subsidiaries, so that their people can better deal with the "supply chain organizations" (the opposite approach is true for low masculinity or high femininity cultures).

e) For Long Term-Oriented Time Cultures: Emphasize strong inter-personal relationships and build on trust in internal dealings in the organization of the foreign subsidiaries, so that their people can better deal with the "supply chain organizations" (the opposite approach is true for short term time oriented cultures).

f) For Confucianism-Oriented Cultures: Focus on the continuity of stable order that will come about with regard and respect to elders, experienced superiors, or persons in higher authority in the organization of the foreign subsidiary, so that their people can better deal with the "supply chain organizations" (the opposite approach is true for the opposite of Confucianism cultures).

It is interesting to point out at the opposite is often not true for Hofstede cultural dimensions. For example, the opposite of trust would be a lack of trust or even distrust. So, do we encourage distrust for internal dealings in short-term oriented cultures? In fact, Hofstede is suggesting some form of continuum with a series of points represented by long-term orientation at one extreme and short-term orientation at the other extreme. A MNC managing a supply chain falling at a point on the continuum between long-term and short-term will need to adapt to its management practices that are suited to that point on the continuum.

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