

Global Supply Chain Management, the Middle East & Culture

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Abstract

Globalization has created a need for cultural acceptance within the business environment. Organizations leading the charge for redesigning the “supply chain” must prepare their employees to not only accept internal changes within the organization, but external factors that include cultural differences as well. The traditional supply chain consists of a network of suppliers, manufacturers, distributors, retailers and consumers. For many years American manufacturing companies dominated the S.C.M. process and therefore, little attention and/or concern was given to macro factors such as culture. Today, the new” global supply chain” involves countries Asian and Middle Eastern countries and the dominance once held by American firms is fading. As a result, acceptance is a crucial aspect of any organization’s sustainability strategy in today’s global landscape.

The Middle East and the West arguably share the biggest gap in terms of cultural ignorance and acceptance. However, despite many ill-conceived notions about each other the need to work together has reached its greatest point. Unlike many countries whose economies are directly tied to the U.S. the Middle East is greatly shielded because of its largest asset – “oil & gas”. As a result, Middle Eastern countries, like Saudi Arabia are thriving economically while other countries like the U.S. and U.K. are struggling. Recognizing this fact, many U.S. and U.K. based companies now have a sustainability strategy that involves partnering with Middle Eastern businesses who help to create the new “supply chain”. In doing so, these partnerships are also helping to erase the cultural bias that exists between Western and the Islamic culture.

Keywords: *Culture; Oil and Gas, Middle East, Saudi Arabia, Economy, Supply Chain, Energy, Strategy.*

1. Introduction

As global competition and advancing technology render borders irrelevant and link companies, as well as countries more closely, supply chains — the network of suppliers, plants, distributors, retailers and others that participate in the sale, delivery and production of goods and services are growing increasingly complex. The Boston Consulting Group issued a report discussing strategies for maximizing the value of supply chains, avoiding inefficiencies, managing the omnipresent risk of disruption, and evaluating the pros and cons of supply chain enterprise systems. In their report, the authors state that a supply chain is essentially a network consisting of suppliers, manufacturers, distributors, retailers and customers, and the network supports three types of flows that require careful design and close coordination: 1) material flows, which represent physical product flows from suppliers to customers as well as reverse flows for product returns, servicing and recycling; 2) information flows, which represent order transmission and order tracking, and which coordinate the physical flows; and 3) financial flows, which represent credit terms, payment schedules and consignment arrangements (B.C.G., 2009).

Manufacturing companies have two basic options in the manufacturing of their products; they can own and operate the factories or they can subcontract production out to secondary manufactures. By manufacturing products overseas, in particular third world countries, tremendous efficiencies are gained in the form of reduced wages, shifting of risk, reduced capital requirements and the ability to focus on core competencies (Dusen, 1998). Although this form of strategic change management has benefits for the organization, there are also negative consequences for those directly involved in the supply chain. In 1984, Nike Inc., the world's largest and most recognized sporting apparel company closed its last U.S. factory and moved its entire production to Asia. As a result, 65,000 U.S. Nike shoe workers lost their jobs and the local economy that was largely supported by the plant suffered as a result (Glenn, 2004). On November 21, 2005, General Motors Corporation (GM) announced plans to cut 30,000 jobs and close nine manufacturing plants across North America (Morley, 2006). Nike & GM's stories are not unique; in fact, they represent a common practice for manufacturing plants located in many large and small American cities.

S.C.M. at Nike, and G.M., involves an outsourcing strategy that includes the whole supply change; however, solely manufacturing products overseas is not a sufficient strategy. In order for American business to survive in today's global landscape, they must find opportunities that will allow them to both manufacture and sell their products and services overseas. Admirers of globalization contend that freer access to foreign markets and cheap labor increase corporate profits and thereby benefiting the U.S. economy, however the long-term effects can be seen by rising GDP in foreign countries and declining growth with increased debt in the United States. The vitality of the business environment within the United States has created the need to identify emerging markets whose economies are not dependent on the economic stability of the American economy. Therefore, emerging Middle Eastern markets are ideal because their economies have been fueled by their own industrial revolution predicated from oil and natural gas resources.

2. It is only culture!

According to Kriyda the bigger challenge of pursuing a global S.C.M. strategy is cultural and human issues. Developing relationships with offshore manufacturing personnel, which involves adequate training and cultural understanding, is a critical step in developing the whole supply chain (Kriyda, 2005). Professor Yan concluded in his publication, "Problems & Countermeasures for Implementing Supply Chain Management in China", that S.C.M. implementation is not an easy task anywhere, but there are special obstacles to it in China. Culture and historical heritage often prevent an open forum of communication within the workplace. He further states that the process of implementing change within the organization is hampered because senior workers maintain power by withholding information that would otherwise be beneficial for interdepartmental communication. In some cultures the more knowledge you withhold translates into the more power an individual maintains.

Like China, doing business in the Middle East can also present major challenges for American business organizations pursuing S.C.M. strategy overseas. Western and Middle Eastern culture differs in many ways and the Muslim religion governs both personal life and business practices in Middle Eastern countries. However, for many Western organizations - doing business in the Middle East is a necessary strategy for future sustainability. Of all the factors affecting economic

growth, the Oil & Gas industry holds a stronghold on the American and World's economy.

3. The economy is Oil and Gas!

Oil has been unique as a vital resource owing to its pervasiveness in the civilian economy and its continuing centrality to military power, and maintaining access to the great oil-producing areas of the world has been a key goal of U.S. foreign policy since World War I ("Foreign oil policy", 2011). From now to 2020, world oil consumption will rise by about 60% and global consumption of gasoline could double (IAGS, 2004). Today, 66% of global oil reserves are in the hands of Middle Eastern regimes: Saudi Arabia (25%), Iraq (11%), Iran (8%), UAE (9%), Kuwait (9%), and Libya (2%) (IAGS, 2004). Although America and the World's prosperity can be tied to the Middle East, the relationship is not mutually shared.

Barring the discovery of a new energy supply that renders oil obsolete, Saudi Arabia, along with other Middle Eastern countries will be able to maintain their economies through the production and sell of oil for at least another century. Using positive examples of Western capitalism, the Saudi government has made steps to decentralize their economy and the entrepreneurial spirit has begun to take shape within the Kingdom. Evidence of this transformation can be seen by the number of recognizable brands already located within Saudi Arabia. Over the past five years, franchising has tremendously grown and many brand names are already well entrenched in the market. Industry sources state that fast food franchises already account for more than 60% of the total Saudi franchise market ("Saudi Arabia Franchise Statistics", 2010). American firms have the lion share with more than 70% of all franchised operations in Saudi Arabia from fast food, clothing outlets, hotels, car leasing, laundry services and printing ("Saudi Arabia Franchise Statistics", 2010). Some of the franchises that are currently present in Saudi Arabia include McDonalds, Burger King, Popeye, TGI Friday, Pizza Hut, Saks Fifth Avenue, Ann Kleine, Guess, Floresheim, Sheraton, Hilton, Four Seasons, Avis, Hertz, Budget, Mail Boxes and Alphagraphics.

4. What does it takes to succeed?

Nike, G.M. and the franchises presented in this case study all realize that successful S.C.M. involves networking suppliers, manufacturers, distributors, retailers and customers. In addition, a sustainable strategic management strategy also includes identifying emerging markets to sell their products and services. For over a half century, American manufacturing has dominated the globe while meeting all the material needs of the American people. High paying manufacturing jobs helped to develop a middle class that supported a robust American marketplace. Today, the decline in U.S. based manufacturing has led to a decline in the U.S. economy and the displacement of disposable income. It's this displacement that has left a void within the open market where products are services are sold and bought.

The Middle East, with its vast oil reserves, is mostly sheltered from the economic disparity that is inflicting many nations today. These oil reserves have created the catalyst for a new industrial revolution taking place within many Middle Eastern countries. The majority of research about U.S. and Middle Eastern relations enters on Oil & Gas. However, doing business 2011 data for Saudi Arabia shows that out of 183 economies Saudi ranks 1st in registering a property, 6th in

paying taxes, 13th in starting a business, 14th in dealing with construction permits, 16th in protecting investors and 18th in trading across borders (World Bank Group, n.d.). These statistics show an economy that is becoming less dependent on oil revenues and more focused on non-oil economic dependence. Meanwhile, as the Saudi economy continues to grow, so does the need for more products and services.

The Middle East and more specifically countries within the GCC look towards the West for both positive and negative examples from which to learn. Today, American corporations have open invitations to enter these markets that have been previously closed to Western style capitalism for centuries. Evidence of this can already be seen by the growing number of franchises and strategic partnerships already located within the Kingdom. Industry leading organizations such as McDonalds, Hilton and Hertz don't enter a market unless they foresee long term sustainable growth potential; therefore the mere fact they are now doing business in countries like Saudi Arabia means soon others will follow.

5. A simple conclusion

As globalization continues to dictate the business landscape, global competition will continue to grow and improvements in S.C.M will become increasingly necessary for American business to compete. This means that pressure on supply chain managers and everyone else involved in the supply chain will intensify. As organizations lose experienced personnel due to retiring baby-boomers, technology improvements and production efficiencies will continue to play an important role in S.C.M. strategy. However, adjusting for cultural differences will always require a human element and accepting/respecting the fact we are all different will be necessary for any S.C.M strategy to survive within the global landscape.

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