

III. Transformation in the American Supplier Market

The American automotive parts market has, like the German market, moved toward a new long-term and collaborative market system. Actually, many culturalists and institutionalists at the beginning of this transformation doubted that agents in the American supplier market could build the Japanese-style, long-term and collaborative markets, due to the individualistic American culture, the long tradition of spot-market, and the fluid financial system. However, American agents in the automotive parts market have successfully adopted lean production and collaborative market relations. Nevertheless, contrary to prevalent belief, the adoption of long-term and collaborative markets did not automatically build trustful and stable relationships. Americans in the new collaborative market suffered from an abundance of opportunism and distrust. This chapter examines why American agents in the automotive parts markets have not made progress in their relationships, unlike the Germans. Why have Americans not developed a fair and trustful model as an alternative to the confrontational model? Why does an extreme form of formal fairness prevail in the U.S. market, while a conception of substantive fairness works in the German market? The basic explanation of the differences between the U.S. and German markets is *the manners of deliberation* – the kinds of interactions and the ways of adjudicating conflicts generate a specific form of market regime. In the absence of socially shared norms, and in the absence of democratic participatory practices of creating norms in the public realm, powerful customers easily take advantage of incomplete contracts. In the final section, I try to explain why American agents in the automotive parts market have not developed a public way of deliberating fair norms even though they have dense networks of associations similar to

those of the Germans. Before examining the types of interactions and adjudication in the main sections, I begin by giving a general overview of the characteristics of the U.S. automotive (parts) industry.

Although many industrial experts and observers hold that the organization of interfaces between customers and suppliers influences critically the performance of product and production improvement, agents in the U.S. automotive industry failed to establish society-wide trustful partnerships. During the end of the 1990s and at the beginning of the twenty-first century, competition occurred in a different manner than in the 1980s, when competition was between American mass producers and Japanese lean producers. Recently competition has arisen between all lean producers after the traditional mass producers adopted the Japanese-style lean production. Although the Americans have adopted lean production and collaborative markets, American automakers are losing their market share in almost all segments due to bad quality and the pathology of supplier relationships in the collaborative market.

Table 3.1: Share of the Blame

	Total vehicles recalled (U.S.)		Share of total vehicles recalled		Share of total vehicles sold	
	1999	2000*	1999	2000	1999	2000
DCC	5,719,804	6,590,052	29.7	28.2	15.6	14.5
Ford	6,398,883	7,485,466	33.3	32.1	24.5	23.9
GM	3,557,662	5,806,857	18.8	13.6	29.4	28.3
Toyota	589,190	8,379	3.1	.03	8.7	9.3
VW	277,571	191,418	1.5	0.9	2.2	2.8

Source: National Highway Traffic Safety Admin. and Ward's Automotive Reports; "Quality Crunch," *Ward's Auto World* (July 2001), p.33.

* Potential total.

Although American automakers have improved the quality of their vehicles significantly in the last decade compared with that of the 1980s, the quality of the vehicles built by U.S. companies has continuously lagged behind that of the Japanese transplants and German automakers, as illustrated in table 3.1, “Share of the Blame.”¹ Due to their quality problems compared with foreign competitors, American automakers were losing their market share at the turn of century. BMW, Lexus, and Mercedes have already surpassed the American luxury cars like Cadillac and Lincoln. According to a survey of sales from late 2000 and early 2001, key segments for the U.S. automakers such as SUVs, minivans, and pickups, in which they enjoyed the highest percentage of sales during the past decade, began to show weaknesses. An automobile analyst, Susan G. Jacobs, president of Jacobs & Associates, says “I don’t see a single segment where I think [the Big Three] will be gaining shares.”² While the American Big Three are lagging behind, German and Japanese car makers are faring very well. As many experts point out, one of the main causes for quality problems is distrustful relationships all over the entire chain of the parts supply. According to the 2001 North American Automotive Supply Survey conducted by Birmingham-based Planning Perspectives, the reason the quality of

¹ For the various tests of quality including the J. D. Power survey, see “The Quality Crunch,” *Ward’s Auto World* (July 2001); “Why Toyota Wins Such High Marks on Quality Surveys,” *The Wall Street Journal*, 15 March 2001; “Quality of U.S. Cars Improving Sharply,” *Chicago Sun-Times*, 19 March 2001.

² In the first half of 2001, American automakers slashed production by 10%, while BMW and Honda increased production. In the segment of light vehicles, the sales of American vehicle manufacturers fell drastically in the first half of 2001 – by 17.7% for Dodge, 17.9% for Lincoln-Mercury, 16.4% for Buick, and 25.8% for Cadillac. In the small car segment, Chrysler sales shrank by 13.1%; GM and Ford slipped more than 3%. In luxury-car sales, American Lincoln is still problematic. GM’s Buick, Cadillac, Pontiac, and Saturn, Ford’s Mercury, and Chrysler’s Dodge and Jeep are the worst performance brands so far in 2001. Some of them are precarious in holding brand names. Sales of minivans, a key money-making segment for U.S. automakers, are also falling by 21.8%. “Who’s Next?” *Ward’s Auto World* (May 2001), p.32; “Detroit Is in Trouble,” *Ward’s Auto World* (May 2001), pp.9, 32, 34-36.

the American Big Three's vehicles still lags behind that of Japanese vehicles is that the American automakers are putting too much pressure on the suppliers.³ John Henke, Jr., president of Planning Perspectives, who has conducted similar surveys in the American automotive industry for eleven years, holds that two things have not changed in the last decade: first, the quality of U.S. vehicles has continuously lagged behind that of the vehicles made by the Japanese transplants; second, U.S. automakers consistently put far more emphasis on price than quality. In response to unfair treatment and unreasonable pressure, American suppliers skimp on quality, though without jeopardizing safety. As the research team of Planning Perspectives reports, suppliers believe that "If the Big Three will only give lip service to higher quality, why should they incur the cost to provide it, especially when they won't be paid for it, and it won't help them win new business?"⁴ The suppliers are cutting services to the automakers, withholding the adoption of new technology and extra testing. As the research conducted by Liker and Wu in 2000 shows, the same U.S. suppliers perform better when they supply to Japanese automakers than when working with U.S. automakers.⁵ The suppliers are less likely to provide important information to distrustful customers. American suppliers make fewer relational specific investments in business with U.S. automakers. At the turn of the century, Americans in the automotive parts markets were suffering from distrust between

³ "Quality: Adage of 'You Get What You Pay For' Holds" *Automotive NewsWire*, 23 July 2001; "Suppliers Skimping on Quality," *Grand Rapids Press*, 25 July 2001, p. A12.

⁴ "Quality: Adage of 'You Get What You Pay For' Holds," *Automotive Newswire*, 23 July 2001.

⁵ Jeffrey K. Liker and Yen-Chun Wu, "Japanese Automakers, U.S. Suppliers and Supply Chain Superiority," *Sloan Management Review* 42, no. 1 (2000).

customers and suppliers in the new environment of international competition between all of the lean producers.

Distrust and cynicism regarding “partnership” dominate the relations in the U.S. automotive parts markets. The unfairness and distrust are not restricted to the small suppliers in the American market. Contrary to the contention of power approaches that big system suppliers might develop trustful cooperation with automakers while the small and non-system suppliers do not, as my survey shows and many other studies confirm, unfairness and distrust are not limited to lower-tier suppliers. In the U.S., the suppliers through all tiers are in distress due to customers’ opportunism. Although first-tier suppliers feel distaste at automakers’ unfair behavior, they treat lower-tier suppliers in the same way that automakers treat them, as chapter two of this thesis shows. First-tier suppliers in the American automotive parts market put pressure on lower-tier suppliers as they are pressured by the automakers. Unfair and dictatorial approaches are adopted throughout the supplier chain of the U.S. automotive parts market. This is in contrast to the German market. German suppliers develop close cooperation with lower-tier suppliers. Regardless of the tier position and the size of the company, suppliers in the German automotive parts market build fair partnerships.

Another characteristic of the American automotive parts market is that customers and suppliers in the U.S. market have made little progress in relationships while agents in the German markets have ameliorated their relationships. This does not mean that unfair regime in the U.S. and fair regime in Germany are predetermined by the traditional cultural heritages and institutions. The table below, “Trajectory of Relationships in the U.S. Automotive Parts Markets,” shows that Americans in the automotive supplier

market failed to establish fair partnership despite long-lasting suffering from distrustful relationships.

Table 3.2: Trajectory of Relationships in the U.S. Automotive Parts Market

Year*	Researchers (year)**	Evaluation of Relationships
1988	Arthur Anderson***	A dominant number of suppliers believe that trust is extremely necessary for the collaborative market.
1989	Helper (1991)	The 1984 and 1989 research conducted by Helper reveals that suppliers do not believe in 1989 that the relationships with customers have improved compared with those of 1984.
1992	Dyer et al. (1998); Nishiguchi (1992)	The relationships in the U.S. automotive supplier market are characterized as confrontational and arm's-length relationships. It is so even with the "keiretsu-like" suppliers in the U.S.
1993	Helper and Sako (1995)	The American automotive parts market converges toward the Japanese market in the sense that American agents develop long-term and closely linked relations as the Japanese do. However, even in the closely linked relations, suppliers feel a lack of trust.
1995	OSAT/A.T. Kearney (1996)	American automakers and suppliers experience tremendous changes in the form of working relations, but they fail to build sound partnerships.
1993 - 1996	Jürgens (2000)	American automobile companies are in distress in the interfaces with the external suppliers to an extremely serious extent although they have adopted new flexible organization.
1996	Chotangada (2000)	American customers in the automotive parts market are engaged in confrontational relations even in long-term and collaborative works.
1997	Maloni (1997)	American automakers, in particular GM and Ford, undermine the relationships with suppliers by using coercive power.
1999	Hartley (2000)	Trustful relationships between automakers and suppliers in the U.S. automotive industry are an exception rather than the rule.
2000	WAW (2000)****	The fair sharing of cost saving is rare in the American automotive supplier market. American suppliers are cynical about the partnership

* refers to the year when the empirical research was conducted

** refers to the publication year.

*** Anderson research is quoted in Yost, "Components of the Past and Vehicles of Change," 386- 387.

**** "Ward's Auto World 22nd Supplier Survey," *Ward's Auto World* (Aug. 2000).

The massive research conducted by Helper in 1984, 1989, and 1993 on the American automotive parts market reveals that there has been no improvement in trustful relationships, although from the mid-1980s American automotive supplier markets have converged toward the Japanese-style long-term and collaborative markets. According to the two independent research projects of Nishiguchi (1992) and Dyer et al (1998), most advanced relationships with the *keirestu*-like suppliers in the U.S. parts market in the early 1990s were still distrustful. Until the late 1990s and 2000, as the Maloni (1997), the Chotangada (2000), and the *Ward's Auto World's* 22nd research projects show, agents in the U.S. automotive parts markets did not make progress in the relationships although they developed a collaborative form of market. In particular, according to the international research of WZB (*Wissenschaftszentrum Berlin*) led by Ulrich Jürgens, American automakers suffered more with external suppliers than did the Germans.⁶ Agents in the German automotive supplier markets have made progress toward fair and

⁶ Susan Helper, "Supplier Relations and Technical Change: Theory and Application to the U.S. Automobile Industry" (Ph.D. diss., Harvard University, 1987); "How Much Has Really Changed between U.S. Automakers and Their Suppliers?" *Sloan Management Review* (Summer 1991); Susan Helper and Mari Sako, "Supplier Relations in Japan and the United States: Are They Converging?" *Sloan Management Review* (Spring 1995); Toshihiro Nishiguchi, "Fairness, Rationality and Integration: Success Factors towards a New Organization Model," (Working Paper of the MIT International Motor Vehicle Program, 1992); Jeffrey Dye, Dong Sung Cho, and Wujin Chu, "Strategic Supplier Segmentation: The Next 'Best Practice' in Supply Chain Management," *California Management Review* 40, no. 2 (1998); OSAT and A. T. Kearney, Inc., *The 21st Century Supply Chain: The Changing Roles, Responsibilities and Relationships in the Automotive Industry* (A.T. Kearney, Inc., 1996); Ulrich Jürgens, "Communication and Cooperation in the New Product and Process Development Networks – An International Comparison of Country- and Industry-Specific Patterns," in Ulrich Jürgens, ed., *New Product Development and Production Networks: Global Industrial Experience* (Heidelberg: Springer-Verlag, 2000); Rati Apana Chotangada, "Governance Systems That Facilitate Innovation: Changing Perspectives of Supplier Customer Relationships. The Case of The Automobile Industry" (Ph.D. diss., University of Cincinnati, 2000); Michael Maloni, "Influences of Power upon Supply Chain Relationships: An Analysis of the Automotive Industry" (Ph.D. diss., Ohio State University, 1997); Janet L. Hartley, "Collaborative Value Analysis: Experiences from the Automotive Industry," *The Journal of Supply Chain Management* (Fall 2000); "Ward's Auto World 22nd Supply Survey," *Ward's Auto World* (August 2000).

trustful relationships in the mid 1990s while their counterparts in the American market have not.

Due to the long-lasting distrustful relationships and conflicts, cynicism over partnerships and an extreme form of formal fairness dominate the U.S. automotive parts market. In the early period of transformation toward a collaborative market, people in the U.S. markets also had expectations of substantive fairness. Many suppliers expected that it would be fair if automakers and suppliers shared risks as well as benefits.⁷ However, in the late 1990s, although they felt distaste, there were few people who believed that it would be unfair for a customer to push the price down. Few people in the automotive parts market expect the fair sharing of substantive benefits between a customer and a supplier. People in the U.S. automotive parts market at the end of the 1990s believed that so-called unfair behavior was a part of life. Fairness in the U.S. automotive parts market recedes to extreme formalism. The rules of fairness are just “rules of war” in which any attempts to survive are justified within the law. However, in the situation in which the legality is unclear, the rules of the game become “the rules of the jungle.” Suppliers in the U.S. market accept customers’ opportunistic behavior as a given rule. The customers’ behavior is fair if they treat competing vendors equally, whether the customers’ rules are distasteful or not. Likewise, suppliers in the U.S. markets don’t believe that customers’ violation of confidentiality and arbitrary revision of contracts are unfair if they treat suppliers in the same way. In the American markets, the expectation of substantive fairness has receded to the extremely cynical formalism of fairness in which suppliers are excluded from the process of rule-making.

⁷ “Risky Business in Detroit,” *Industry Week*, 4 March 1991.

Why do distrust and cynicism over partnership prevail in the U.S. automotive supplier market even as it is transforming into a long-term and collaborative market? Why have American agents not made progress in their relationships while the Germans have? Why have Americans not developed substantive fairness and trust as an alternative to the confrontational model?

Many cultural and institutional approaches emphasize cultural and institutional peculiarities to explain the differences of market governance. For example, some institutionalists, such as Casper and Teubner, hold that due to liberal contract laws and courts, arms'-length and complete contractual relations prevail as a national pattern of U.S. markets, whereas regulatory contract laws and courts in Germany developed long-term and relational contracts. On the other hand, many institutionalists emphasize non-contractual norms and culture. The traditionally strong dependence on market forces and a Western legal philosophy emphasizing the value of autonomy in the U.S. contribute to the prevalence of the arm's-length contractual relations. Many cultural approaches also stress that differences between German and Anglo-American culture account for economic governance and its performance. The strong tradition of *Technik* and the weak culture of business thinking in Germany account for the decrease in sensitivity of costs and the increase of managers' long-term cooperative commitments, whereas the business thinking and individualism in the U.S. create short-termism.⁸ Meanwhile, many institutional and network approaches also call attention to institutional environments such

⁸ Charles W. Hill, "National Institutional Structures, Transaction Cost Economizing and Competitive Advantage: The Case of Japan," *Organization Science* 6, no. 1 (1995); Dyer et al, "Strategic Supplier Segmentation"; Peter Lawrence, *Managers and Management in West Germany* (London: Croom Helm, 1980); Peter Lawrence, Barbara Senior, and David Smith, "The Anglo-American Contrast: A New Look" (Paper presented at Annual Conference of Association of International Business, London, 1998); Geert Hofstede, *Cultures Consequences* (Beverly Hills, CA: Sage, 1980).

as finance and associations – American companies would not build long-term relationships due to their dependence on the stock market for finance.⁹

However, institutionalism is too rigid to understand the significant changes that occurred in the 1980s and 1990s. Even with the American peculiarity of culture and institutions such as liberal courts and individualism, Americans developed long-term and relational contracts in the 1990s. Trustful relations are not determined by the culture and social institutions. American suppliers also developed trustful relationships with Chrysler and Japanese transplants on U.S. soil, even without Japanese-style culture and *keiretsu*-like institutions. In addition, the reason that Germans developed long-term contracts is not because of their courts' regulatory policy. Even in such institutions, German markets were short-term and distant-relation until the late 1980s, and Germans suffered from customers' unfair behavior in the first half of 1990s as Americans did.

Institutions themselves are subject to agents' reflection. For example, the meaning, way of functioning, and effects of financial institutions themselves have been subject to agents' reflection. Germans tried to disconnect their traditional ties between banks and industrial companies, and to deconstruct corporatist coordination, contrary to rigid institutionalist expectation. Also contrary to institutionalist explanation, the U.S. financial system did not cause paralyzing disruptions in developing long-term relations in the 1980s and 1990s. In the U.S. financial system, the board of directors became insiders,

⁹ Michael E. Porter, "Capital Disadvantage: America's Failing Capital Investment System," in Kenichi Ohmae, ed., *The Evolving Global Economy: Making Sense of the New World Order* (Boston: Harvard Business Review Book, 1992); J. R. Hollingsworth, "The Institutional Embeddedness of American Capitalism," in Colin Crouch and Wolfgang Streeck, eds., *Political Economy of Modern Capitalism* (London: Sage Publications, 1997); "The Logic of Coordinating American Manufacturing Sectors," in J. L. Campbell, J. R. Hollingsworth, and L. N. Lindberg, eds., *Governance of the American Economy* (New York: Cambridge University Press, 1991); John Zysman, *Governments, Markets and Growth* (Ithaca: Cornell University, 1983).

instead of outsiders, who only represent shareholders. They are more involved in scrutinizing corporate strategy and CEO selection. This is in contrast to their behavior between the 1930s and 1970s, when board members were simply the “object creature[s] of management.”¹⁰ According to a study commissioned by the Institutional Investor Project of Columbia University, board members are no longer outsiders. A vast majority of those interviewed rejected the idea of separation between the office of board members and that of CEOs. The ideal model for a director is very similar to that of CEOs. Even with the dependence on the stock market, the board members themselves appreciate long-term investments and finance decisions in the same way that inside managers do. In particular, in the 1970s and 1980s when U.S. companies underwent an economic crisis and Japanese competitors apparently succeeded, board members considered the adoption of a production system which resembled the Japanese-style system.

On the other hand, many institutional approaches and network theories also focus on associations for prevalence of trust. They argue that associations contribute to the stability of assembler-supplier relations, which are a major source of superior performance.¹¹ In particular, neo-Tocquevillian Robert Putnam maintains that dense

¹⁰ Charles F. Sabel, “Ungoverned Production: An American View of the Novel Universalism of Japanese Production Methods and Their Awkward Fit with Current Forms of Corporate Governance” (Paper prepared for presentation at the Conference on Socio-Economic Systems of the Twenty-First Century, Tokyo, 1996).

¹¹ See for associationalism, Benri Asanuma, “Manufacturer-Supplier Relationships in Japan and the Concept of Relation-Specific Skill,” *Journal of The Japanese and International Economics* 3, (1989); M. Gerlach, *Alliance Capitalism: The Social Organization of Japanese Business* (Berkeley: University of California Press, 1992); Naoki Tabeta, “The Kigyo Keiretsu Organization and Opportunism in the Japanese Automobile Manufacturing Industry,” *Asia Pacific Journal of Management* 15, no. 1 (1998); Hollingsworth, “The Logic of Coordinating American Manufacturing Sectors”; Neorard H. Lynn and Timothy J. McKeown, *Organizing Business: Trade Associations in America and Japan* (Washington D.C.: American Enterprise Institute for Public Policy Research, 1988); Hiroaki Yamazaki and Matao Miyamoto, eds., *Trade Associations in Business History: The International Conference on Business History* (Tokyo: University of Tokyo Press, 1988).

networks of associations contribute to the emergence of cooperative “civic norms” and high economic performance. However, American association networks are almost as dense as those of German associations. Most American suppliers participate in one or two specific associations, as will be outlined later in this chapter. In each specific industry sector (such as metal forming, plastics, and machine tools), whose companies supply automobile manufacturers, American companies build dense associational networks on national and regional levels. In addition, contrary to the expectations of the institutionalists of Comparative Institutional Advantages, Americans have built new social networks for public goods such as training instead of enjoying the comparative advantages resulting from less embeddedness in social networks. What makes differences in governance between the U.S. and German markets is not the number of associations, but the way of agents’ interacting in associations in which agents reinterpret existing institutions and deliberate norms. The Japanese supplier associations and close networks like *keiretsu*, which used to be frequently praised for their contribution to the development of trustful relationships, were reevaluated during the severe recession of the 1990s because of their rigid structure. Associational networks in Germany could not deter the automakers’ unfair behavior in the early 1990s, although they have played an important role in establishing fair partnerships throughout the 1990s. What makes the difference in market governance is not the *number* of associations, but *the way that agents interact in associations*.

Although many cultural and institutional approaches focus on the point that economic activities take place within a broad institutional and cultural framework, rigid institutionalists fail to explain the dynamic development of market governance in which

agents in the market make ongoing interpretations of the culture and institutions themselves and develop new strategies. This does not mean that institutions are not important in generating market regimes. Quite to the contrary, institutions can constrain agents' strategy and provide agents with a repertoire of solutions. This is not to refute the fact that institutions influence upon agents' activities, but to renounce rigid view of path dependent institutionalism that disregards agents' reflexivity. The view that institutions have constant meaning and characteristics, independent of agents' reflection and reinterpretation, is an erroneous result of the institutionalists' belief that they generate path dependent regimes and a persistent pattern of behavior. Institutions and cultural heritages are continuously reinterpreted and contested by reflexive agents; thus the meaning, way of functioning, and effects of institutions and culture that influence agents vary based on the politics of reflexive agents. In order to explain what makes for different consequences of market governance, this thesis focuses on the *manners of deliberation* in which agents reflect upon their institutions and strategies; institutions contested by agents influence different practices of norm-creation. The following section examines first what strategies the American customers and suppliers have developed in the process of establishing a collaborative market; and then how they interact and adjudicate the conflicts. This chapter will also illustrate why Americans do not deliberate conflicts in a public way in spite of having sufficient networks for public deliberation.

III. 1. Automakers and Suppliers in the American Market

Distrustful relationships as well as short-term contracts are not a predetermined national trajectory, contrary to path dependent institutionalist explanation. Chrysler and Japanese transplants on U.S. soil have developed trustful partnerships with suppliers. Even within the same national institutions and cultural heritages, reflexive agents develop different paths: some develop trustful relationships while others do not. The consequences are mainly related to agents' strategies and their interactions. In this section, two different paths in the American automotive parts market are initially investigated – the “fair partnership” versus the “adversarial and confrontational” model. The question is raised as to how Chrysler developed trustful relationships whereas GM and Ford damaged their relationships in the long-term and collaborative markets. The contrasting cases show, as I have stated, not only that the U.S. market is not predetermined by institutions and culture, but also that there is a possibility for an alternative model to the confrontational relationships in the U.S., although Americans failed to develop further the burgeoning prospects for society-wide fair partnerships, while their German counterparts did.

III. 1. (1) The American Way of Partnership : The Chrysler Corporation

Chrysler and the Japanese transplants on U.S. soil have developed trustful relationships with suppliers although their relationships are not prevalent in the U.S. automotive parts market. Before Chrysler damaged relationships with suppliers by requesting comprehensive price-cuts at the end of 2000, almost all suppliers agreed that

Chrysler had been the best customer for the last ten years in the U.S. automotive parts market. Chrysler and the Japanese transplants are a benchmark for trustful relationships in the American automotive parts market. In this subsection, the manner in which Chrysler developed relationships with suppliers is investigated. One of the main reasons for partnership is fairness not only in the sense of formal agreement but also in the sense of substantive fairness. Chrysler made suppliers believe in a fair distribution of substantive issues, such as benefits and responsibilities for collaborative work. The case of Chrysler shows not only the way of establishing fair partnerships on U.S. soil but also their limitations.

How could Chrysler change from its traditional and adversarial relationships to trustful partnerships with suppliers? Until the mid 1980s, Chrysler, like other automakers in the U.S., had made traditional neoclassical contracts in the parts market under the rationality of mass production. The in-house engineers of the automakers designed all components, and then simply ordered the customer-designed parts from suppliers. Chrysler, like other American automakers, got the lowest price in the market by switching suppliers in the short term, providing the customer-developed blueprints. Historically, Chrysler set the price through a competitive-bidding process, and then put constant pressure on suppliers to reduce prices regardless of whether the supplier could reduce the costs. This led to the suppliers' minimal capital investment and involvement in the relation-specific production.¹²

During the financial crisis of the 1980s, Chrysler, like other American automakers, tried to learn lean production and collaborative supply chain management

¹² *Financial World*, 8 Nov. 1994.

from Japanese companies. In the midst of this difficult period, Chrysler reflected on its existing practices and rationality of efficiency. During the crisis situation, Chrysler had difficulty adopting Japanese production rationality. Although American automakers could reduce the number of suppliers and make long-term contracts, it was not easy to build flexible and cooperative relations. Chrysler studied Honda, which expanded its sales in the U.S. faster than Toyota in the mid 1980s. However, Honda's practices were "completely foreign" to Chrysler. It was after Chrysler acquired the American Motors Corporation (AMC) in 1987 that Chrysler became familiar with Japanese supplier relations. AMC had conducted a Japanese-style supplier relationship.¹³ AMC involved suppliers in engineering and design of components because AMC had neither the capability to design all its own parts nor the economic power to dictate the prices. AMC's experiment helped Chrysler's executives to change their viewpoint of economic efficiency. AMC's experiment also included the process of forming a core group of people who could carry out the new idea of collaborative market relations.

Suppliers maintained close contacts with Chrysler because they were eager to offer innovative ideas for collaborative works to the corporation when Robert Lutz, president of Chrysler, asked the suppliers for their assistance. Why didn't suppliers react cynically to Chrysler's request for help in the given tradition of adversarial relationships with the automobile company? At the time of Chrysler's crisis in the late 1980s, suppliers knew that "Chrysler was on the ropes."¹⁴ In addition, Chrysler's new leaders changed

¹³ Jeffrey H. Dyer, "How Chrysler Created an American Keiretsu," *Harvard Business Review* (July-August 1996), pp.43-46.

¹⁴ Dyer, "How Chrysler Created an American Keiretsu," pp. 53-54.

their policies. Chrysler's senior executives visited key suppliers in order to get ideas from them. These unusual visits impressed suppliers, contrasting as they did with GM's tough bargaining and authoritarian attitude. Suppliers preferred a democratic method to traditional authoritarian relations. Historically, Chrysler, like other automakers in the U.S., turned down suggestions from its suppliers in the 1980s. However, Chrysler's new policy tried to induce suppliers' innovative participation in the process of development and production. Beyond their profitability, suppliers appreciated being listened to in the process of development and production. Through new policies, Chrysler encouraged, reviewed, and acted on suppliers' ideas quickly.

The process of formation toward fair partnerships in the new collaborative market was not accomplished by simply changing outside relations with suppliers, but also by making inside alterations. In order to encourage suppliers' commitments, people inside Chrysler had to change their attitude, becoming more democratic and open. Considering suppliers' complaints that customers did not respond to or disregarded suppliers' new ideas for reduction of costs, it was very important to respond to suppliers' proposals in an agile and open way. As many suppliers point out, one of the main reasons for distrust is that customers' engineers do not take care of suppliers' proposals.¹⁵ At the inception of the adoption of the new collaborative relations, there was resistance to the introduction of the collaborative market relations inside Chrysler. Chrysler's engineers refused to consider suppliers' suggestions because reviewing and applying suppliers' proposals increased engineers' work loads. Pacifying the engineers, Francois Castaing, the head of vehicle engineering, encouraged engineers to simply give the new ideas a try. Chrysler's

¹⁵ Interviews with A13 on 2 December 1999; Interview with A30 on 21 January 2000.

practices convinced suppliers that Chrysler had changed and become open to suppliers. Soon, suppliers' proposals broke down the engineers' reluctance.¹⁶ Chrysler's managers also helped suppliers make proposals. Managers served as the suppliers' advocates for Chrysler.

In addition, Chrysler changed the existing incentive system for buyers in the purchasing department. The traditional incentive system for the purchasers in U.S. companies deterred the development of trustful and cooperative relationships between a customer and a supplier. In the U.S. companies, purchasers received bonuses and awards based on their individual achievements in cutting prices. Since they were only concerned with price-cuts, and they didn't focus on collaborative benefits, buyers were distrusted by suppliers. In contrast, Chrysler developed a new incentive system and a new evaluation process of the purchasers. The employees in Chrysler are evaluated by the people (including suppliers) with whom they deal.¹⁷ Chrysler's buyers became more open-minded toward suppliers.

The most important aspect for building trustful relationships at Chrysler was that the corporation developed fairness in the formal as well as the substantive sense in conducting business with suppliers. The formal sense of fairness in Chrysler's practices was in contrast to that of other automakers. For example, Lopez, the purchasing director of GM in the early 1990s, negated contracts and reopened the negotiation of price, taking

¹⁶ Chrysler's SCORE program is a voluntary program in which a supplier suggests a way to reduce costs and work together with Chrysler. The number of participants in SCORE increased dramatically, from 67% of appropriated suppliers in 1994 to 91% in 1996. In order for suppliers to easily make proposals, Chrysler helped suppliers. It provided the capability for suppliers to submit their proposals on-line and check the status of the proposal. The average processing time for the proposal has dropped from 199 days in 1993 to 89 in 1996. See *Purchasing*, 14 Aug. 1997, 40-47.

¹⁷ "The Auto Industry Meets the New Economy," *Fortune* 13, no. 5, 5 Sep. 1994.

advantage of incompleteness of long-term contracts. By contrast, Chrysler convinced suppliers to believe their agreements, and in addition, Chrysler was very cautious not to abuse the information provided.¹⁸

However, the most important element in building partnerships, rather than formal fairness, is substantive fairness, which Chrysler shared with suppliers. Chrysler tried to be fair not only in the process of setting goals for price reduction, but also in the distribution of risks, responsibility, and benefits resulting from collaborative work. Fairness in the substantive sense enabled suppliers to identify the common benefits with their own interests. A supplier describes Chrysler's fair way of doing business succinctly:

They [Chrysler] came to us and proposed that we share the benefits of cost reduction; I don't hear suppliers bellyaching about the way they did it. That's a reasonable approach – 'Let's take cost out of the system and share the gains'; that sits better in the stomach of supplier.¹⁹

The main reason for suppliers' willingness to participate in collaborative work is that suppliers were convinced of the Chrysler program's substantive fairness. The next step is to observe Chrysler's substantive fairness in detail.

First, Chrysler creates a reasonable target together with suppliers, a process that is in contrast to the "dictatorial way" of other customers. For example, GM puts forth a target price as a combination of the cheapest elements after GM sees the proposals of all suppliers in the market, repeating the rounds of bidding; thus, sometimes the price is ridiculously low. By contrast, Chrysler's target is a negotiated one. Chrysler first

¹⁸ It was confirmed through interviews that most suppliers believe that Chrysler keeps their information confidential. A supplier said that a team from Chrysler transferred information from the company to competitors. But even the interviewee of the supplier company agreed that suppliers have some protection from Chrysler. Interview on 1 December 1999.

¹⁹ "Risky Business in Detroit," *Industry Week*, 4 March 1991.

calculates the market price of a vehicle which the end-customer will pay; then, the allowable costs are offered to a component supplier. Instead of dictating the price, Chrysler and the supplier strive to find ways to reduce costs together. If the supplier has problems with reaching the target, Chrysler discusses the problems with them. Chrysler supports the suppliers in order to meet the target.²⁰

Chrysler also appreciates suppliers' commitments. In other words, Chrysler evaluates the history of relationships with existing suppliers. Chrysler selects the best suppliers and tries to develop a long-term relationship. This is in contrast to other American customers' practices. GM and Ford do not pay attention to the history of relationships with suppliers.²¹ By contrast, if another supplier comes up with a lower price, Chrysler gives the existing supplier a chance to justify better points in quality, delivery time, and capability. Moreover, Chrysler helps them meet the target after Chrysler and the supplier discuss how to solve problems.

Chrysler shares the responsibility for collaborative work with suppliers. Although customers and suppliers develop a closely interactive working style, the way of carrying out collaborative work varies. Some share the responsibility while others do not. Although almost all automakers organize customers' teams to visit a supplier under the name of assistance, they differ in their use of the teams. Chrysler and Japanese transplants in the U.S. spend much time and energy cultivating competitive suppliers while other American automakers simply insist on cost reduction; furthermore, they

²⁰ Interviews with A30 and A31 on 21 Jan. 2000; Interview with A22 on 9 December 1999. See also Dyer, "How Chrysler Created an American Keiretsu," pp. 42, 52.

²¹ There are some exceptions. I met with a Ford supplier and a GM supplier. They have very long-term business relationships. They have trust in their customers. But normally GM, Ford, and first-tier suppliers disregard the history of relationships.

penalize suppliers for not following their requests.²² Most suppliers believe that Chrysler's engineering teams help the supplier to be competitive and respect suppliers' innovative ideas. Many suppliers say that they address Chrysler more honestly and give more information to Chrysler than to any other customer.

Chrysler shares the savings in a fair way. When a supplier's proposal is accepted by Chrysler, the supplier has two options. One is that the supplier can claim its half of the benefits. Another is that it can deposit the savings for its performance rating and obtain more business from the automaker. Chrysler records the number of proposals that each supplier made and the total savings that the supplier generated.²³ Chrysler and suppliers agree that fairness in distribution of cost-saving is key to the partnership. Bryan Zvileman, Chrysler spokesman, says that "what makes the program [SCORE] so successful is that suppliers share the savings they bring to us and their profit margins are left alone."²⁴ Herb Haggard, president of Haggard & Stocking Associates, Inc., Indianapolis, Indiana, represents the suppliers' opinion, saying that "Chrysler works with you trying to retain your profits, and recognizes your need to make a profit in order to survive. GM and Ford don't concern themselves with the longevity of the supplier – they just care how cheap they can get it today."²⁵ Fairness in the distribution of savings

²² Chrysler initiated the "resident engineers" program – supplier's engineers worked together with Chrysler's engineers. The number of resident engineers increased from 30 in 1989 to 600 in 1996. See *Ward's Auto World*, July 1996, pp. 63-66. The Chrysler teams visit suppliers when suppliers ask them to. The number of visits has fallen in the late 1990s, as suppliers have become very efficient.

²³ See *Ward's Auto World*, Dec. 1994, p.51; *Purchasing*, 14 Aug. 1997, pp.40-47. A supplier's SCORE figure is considered for its performance rating; its proportion increased from 8% of its overall rating in 1994 to 15% in 1995. Unlike other suppliers, Chrysler's suppliers improved their margins. See Dyer, "How Chrysler Created an American Keiretsu," p. 54.

²⁴ *Industrial Distribution*, Sep. 1996, p.17.

²⁵ *Industry Week*, 4 Nov. 1991, p. 19; *Industrial Distribution*, Sep. 1996.

enables suppliers to match the common benefits of collaborative works with their own interests.

Chrysler has greatly improved efficiency through trustful partnerships with suppliers by shortening product development, reducing the cost of development, and reducing the defects.²⁶ The trust of suppliers facilitates the increase of their voluntary commitments in the collaborative activities such as investigating cost-reduction and investing in dedicated assets to serve Chrysler's needs.²⁷ The time it takes a new model of vehicle to be developed has been reduced from an average of 234 weeks in the 1980s to 160 weeks, on average, in the 1990s. The total saving resulting from the SCORE program is \$3.7 billion between 1989 and 1997. The overall cost to develop a new vehicle at Chrysler is much lower than at GM and Ford. For example, Chrysler's Neon is similar to GM's Saturn and Ford's Escort. However, Chrysler's development of the Neon cost \$1.2 billion, whereas GM's Saturn cost \$3.5 billion and Ford's Escort \$2.5 billion. Chrysler's Cirrus/Stratus is similar to Ford's Mondeo/Contour, but the Cirrus/Stratus cost less than \$1 billion to develop, whereas the Mondeo/Contour cost \$6 billion. Chrysler's profit per vehicle, which was lower than other automakers' throughout the 1980s, has jumped from an average of \$250 in the 1980s to \$2,110 in 1994, the highest among the U.S. Big Three automakers, but Ford and GM also have made a profit in the 1990s. What makes Chrysler different from Ford and GM is that Chrysler has increased efficiency through trustful relationships with suppliers.

²⁶ For the growth of Chrysler's performance, see *Harvard Business Review*, Jul/Aug. 1996, p.46-47; *Purchasing*, 17 July 1997; *Economist*, 23 April 1994.

²⁷ With trust, suppliers could increase the dedicated assets to serve Chrysler's need. For example, at Chrysler's plant in Belvidere, Illinois, where the Neon is assembled, the distance of shipment from suppliers to Chrysler plant drops by 43%. The average distance of shipment has shrunk by 26 miles.

Chrysler's partnership illustrates the American way of partnership and its limitations. The case of Chrysler shows that customers and suppliers can develop long-term cooperative relationships even in a so-called individualistic culture, and in the fluid financial system. Fair governance in coordinating and distributing risks and benefits enables Chrysler and suppliers to establish stable and trustful cooperation. However, the case of Chrysler, as an ideal type of partnership in the U.S., also reveals the limitations of the development of partnerships in the U.S. Chrysler's partnerships are based on fair interactions in individual, dyadic relationships between a customer and a supplier. The fair norms which Chrysler developed have not become social criteria for governing long-term contracts. This is in contrast to the German case in which the model of Mercedes' and BMW's relationships was articulated and spread out society-wide by the suppliers and associations. The reason for the Americans' failure to build society-wide fair norms is that American suppliers and social agents such as associations did not deliberate fair norms in a public realm. It will be revealed later in this chapter that Americans considered Chrysler's fairness as personal and private relationships.

In the absence of society-wide fair norms, it is hard for a fair company to govern the decentralized supplier chains in the entire society. Even Chrysler's first-tier suppliers treated the sub-tier suppliers in an unfair way, which caused quality problems for Chrysler. Chrysler's profits in 1997 declined for the first time since the introduction of new supplier relations. The main problem in Chrysler's supplier relations was the coordination of a supply chain. In 1997, Chrysler recalled many Cherokees because they were running out of fuel when the fuel gauge registered as full. This led to customer dissatisfaction and decline of sales. A lower-tier supplier was identified as the source of

the defect. A sub-tier supplier had changed the specification for the ink used on the register board in the fuel sender gauge.²⁸ In 1996, the purchasing chief Thomas Stallkamp pointed out that “Most of our quality problems are not coming from the first-tier suppliers. [...] It’s coming from the second- and third-tier which do not have the same quality ethic yet.”²⁹ The second- and third-tier suppliers can cause severe quality problems for the automaker. As the proportion of outsourcing increases and the collaborative form of market grows, it becomes more important to manage the entire supplier chain management. However, the whole supplier chain is too big for one automaker to manage. In the situation in which it might need democratic and decentralized self-governance through society-wide relations, the dyadic way of establishing fair norms has limitations in developing society-wide stable supply relationships.

In addition, in the absence of socially shared norms, powerful customers could easily take advantage of an opportunistic policy. For example, Chrysler itself moved toward a confrontational policy by overruling existing trustful cooperation. At the turn of the twenty-first century, Chrysler damaged relationships with suppliers by forcing an aggressive price cut onto them. The problem for Chrysler was not just the size of the price cut, but the way of price-cutting, considering the fact that other automakers also requested similar price cuts in the same year. Chrysler’s request for immediate price cuts

²⁸ Description of problems in Chrysler’s supplier relations is mainly based on Tom Stallkamp’s presentation for the First North American Symposium on supply chain management in Atlanta in March 1998. *Supply Management*, 23 April 1998, pp. 22-25.

²⁹ “Chrysler Wants QS 9000 Standards for All Suppliers,” *Purchasing*, 11 Jan. 1996.

by 5% in December 2000 was different from its old cooperative policy.³⁰ This dictatorial way is contrast to the existing fair method of cooperation. Jeff Wincel, vice president of the Donnelly Corporation, says “In the past, they [Chrysler] would say, ‘let’s work cooperatively’; now they are completely gone.”³¹ Just after Chrysler requested the “unreasonable” price cut, Chrysler lost its long-lasting top rank in the full use of suppliers’ capability.³²

The reason Chrysler adopted this confrontational policy might be that the crisis appeared too abruptly to expect a sudden sales downturn in 2000, as Chrysler managers emphasize.³³ The crisis of Chrysler mainly comes from the failure to realize the expected synergy effects and from tougher international competition.³⁴ Nevertheless, the crisis

³⁰ In the face of financial crisis, Chrysler made efforts to recover. The plan of Chrysler for recovery is: a) reducing material costs by 15% by the end of 2002 – suppliers should reduce the price by 5% directly and then another 10% should be cut off by collaborative work between Chrysler teams and suppliers in 2001–2001; b) reducing its workforce by 26,000, or 20%, within three years; and c) closing plants by 2003. “DaimlerChrysler Is not Alone,” *Ward’s Auto World*, July 2001, pp.47-48; “Schrempp’s Last Chance,” *Automotive Business*, Mar/Apr. 2001, pp. 33-34.

³¹ “How Chrysler Will Cut Costs,” *Purchasing*, 8 Feb 2001, p. 32.

³² “WAW 23rd Annual Supplier Survey,” *Ward’s Auto World* (August 2001).

³³ “How Chrysler Will Cut Costs,” *Purchasing*, 8 Feb. 2001, pp. 30-32. The chief of Chrysler purchasing, Thomas W. Sidlik said that “Instead of using this incremental approach [by cooperative way], the new initiative is asking for a 5% reduction in prices for 2001.” Chrysler chief operation officer Wolfgang Bernhard said similarly that “this is a major cornerstone of the turnaround; we need results fast.”

³⁴ One of the main reasons for Chrysler’s crisis is that the synergy effects which the former Chrysler managers promised before merger in 1998 have not materialized. At the time when Daimler and Chrysler fused in 1998, it was expected that three billion dollars would be saved due to common development and purchasing. But chief Jürgen Schrempp decided in September 1999 that Chrysler should remain as a separate business. This decision was due to cultural differences of two organizations. As the international competition became much tougher with foreign automakers’ encroachment in the Americans’ flag-sections, Chrysler launched to re-develop the Chrysler PT Cruiser before the model realized fully the economic value by its sales. For the old models, Chrysler maintained market shares by giving rebates losing the margin. “Schrempp’s Last Chance,” *Automotive Business*, Mar/Apr 2001, p. 35; “An riesige Fusionsvorteile glaubt wohl kaum noch jemand,” *FAZ*, 9 Oct. 2000, p. 24; “Daimler-Chrysler plant Verhandlungen zum Arbeitsplatzabbau in Amerika,” *FAZ*, 23 Nov. 2000, p. 21; “Chrysler gibt es inzwischen umsonst,” *FAZ*, 25 Nov. 2000.

itself does not generate the confrontational policy automatically. As the founder of the Chrysler partnership, Stallkamp, who left Chrysler in 1999 after clashing with its German owners, criticized the current Chrysler's confrontational policy, saying that "It was at crisis that Chrysler founded the best supplier management."³⁵ It was also during crisis period that Mercedes in Germany adopted fair partnerships with suppliers. As will be seen, Ford easily turned toward a confrontational policy in 1995, so it could not be denied that in the absence of society-wide fair norms and publicly mediated partnerships, Chrysler could easily adopt the confrontational model. Without establishing the society-wide model of fair governance, the powerful customers, including the higher-tier suppliers, easily take advantage of opportunistic policies; thus, they create distrust. The fair partnerships established in the individual, dyadic relations are hard to spread out society-wide. As we see in the case of the Chrysler's quality problem above, it is more difficult for one customer to maintain the cooperative partnership model in the absence of society-wide and publicly mediated self-governing norms, although fair partnerships in the U.S. are still an open possibility.³⁶

³⁵ "Exclusive Interview: Thomas Stallkamp," *Purchasing*, 8 March 2001, p.42.

³⁶ Japanese transplants in the U.S. still maintain trustful relationships with suppliers and top ranking in quality evaluation and sales. The reason for the Japanese transplants' trustful relationships is mainly that Japanese automakers, particularly Toyota, have engineering edges compared with American automakers – Japanese automakers cultivate cutting-edge methods of engineering and quality management in Japan and apply them in the management of suppliers in the U.S.; American suppliers are very much interested in Japanese automakers' engineering. Furthermore, Japanese automakers put much energy into teaching U.S. suppliers and use the method of strict standardization of simple parts for quality management. The case of Japanese transplants shows that distrust and unfair regimes are not the destiny of U.S. markets, and that fair partnerships in the U.S. are still an open possibility.

III. 1. (2) The Confrontational Model in the Collaborative Market

Many people are confused about the differences between long-term contracts and trustful relationships or between closely interactive relations and trustful cooperation. Although the American automotive parts market has been transformed into long-term and closely interactive markets, relationships between automakers and suppliers are distrustful. Although Chrysler's relationships with suppliers show a possibility for the establishment of fair partnerships in the U.S., it is not a dominant style. Adversarial and distrustful relationships are prevalent in the U.S. automotive parts market. Ford and GM damaged relationships in the collaborative market by taking advantage of incompleteness and unclearness in the long-term, collaborative contractual relations. So-called unfair treatment and pressures were transferred down through the supplier chain. This section deals with why American customers and suppliers distrust each other even though long-term and collaborative contractual relations have been established. As the previous section revealed in the case of Chrysler, institutions such as the stock market do not predetermine the type of market governance. The ways of interactions between customers and suppliers generate the dynamic development of governance. First, the case of GM is highlighted; then, Ford's relations with parts suppliers are illustrated.

III. 1. (2) (i) GM and Suppliers

General Motors, ranked first among all U.S. automakers, formed a dominant type of transition toward long-term contracts in the American automobile parts market. By taking advantage of GM's huge economic power, rather than its mutual commitments,

GM introduced long-term and collaborative contractual relations. People often use the name “Lopez” or “GM approach” to refer to distrustful relationships and unfair behavior. J. Ignacio Lopez de Arriotua, chief of GM purchasing in the early 1990s, represents this type of strategy. Although Lopez transferred to a German company (Volkswagen) in 1993, some of his methods are still prevalent in the American markets, while German companies do not use them anymore.

In 1992, when Lopez came from Europe, GM was in crisis, having a \$12 billion loss in 1990-1991. Lopez’s strategy was to cut GM’s bloated costs through rearranging the supplier relations.³⁷ This does not mean that the crisis itself automatically leads to the confrontational model. On the contrary, the confrontational model was one of a number of possible methods of overcoming crisis. Lopez’s approach built an archetype of the confrontational model in long-term and collaborative markets. The differences between GM’s and Chrysler’s relationships with suppliers result from their methods of adopting the collaborative market and of interacting with suppliers. GM’s policy is characterized by the “use of bare power without fair governance” while Chrysler is characterized by fair governance of interactions.³⁸ Like Chrysler, GM also sent assistant teams, called “efficiency teams,” to its suppliers, which rearranged equipment, material flow, and worker responsibilities. However, unlike Chrysler, GM’s method of conducting jobs caused a great deal of distrust. Suppliers complained about GM’s unfairness in the formal as well as substantive sense. This subsection delves into GM’s way of doing business.

³⁷ *Wall Street Journal*, 30 Sep. 1992.

³⁸ *Indianapolis Star*, 4 Oct. 1992, p. 2; *Wall Street Journal*, 30 Sep. 1992.

The first thing suppliers complained of is that GM often violated a sense of minimum criteria for business, a formal agreement. Although it was unclear whether arbitrary revision of contracts was illegal because the long-term contracts were incomplete, in the eyes of suppliers who were accustomed to keeping agreements, whether written contracts or handshakes, Lopez seemed not to honor contracts. It was a type of aggressive rule-making process by a powerful customer in a situation in which the contract law did not work well due to its incompleteness and in which traditional norms for market governance needed reconsidering.

What Lopez did first after he came to Detroit in April 1992 was to make new long-term contracts while requesting organizational reforms and new investments. Long-term contracts are open-ended in terms of many items such as price and volume. One of the ways to govern incomplete long-term contracts was by using a fixed rate of price which reflects the future fluctuation of business and development of technology. GM requested a fixed rate of price reduction for the term of the contracts (e.g., a 5% discount in the first year, 5% in the second, 4% in the third, 4% in the fourth and 3% in the fifth). It is noteworthy that the price rate progresses in one direction and plummets in comparison with traditional norms. Traditionally, suppliers could increase the price every year after making contracts. However, after Lopez's arrival, the direction of price adjustment was the opposite of the traditional norms. It is even more noteworthy that GM took advantage of the incompleteness of long-term contracts. Although GM and suppliers agreed upon the fixed rate of price reduction, it was not clear whether the agreement of percentage was legally bound or whether it was simply a type of guideline. Furthermore, there were many loopholes; thus, the fixed-rate agreement was hard to execute. With the

frequent turnover of purchasing staff, buyers demanded more discounts, breaking the existing agreement of fixed-rate price reduction. To many suppliers, such unilateral revision constituted a breaking of the contract. However, if the existing suppliers did not accept what a new buyer demanded for price reduction, GM's purchasers would threaten to reduce the volume of business with them or would sometimes transfer the business to another supplier in the middle of contracts by taking advantage of the unclear volume in the contract. Although suppliers followed the revised price reduction which customers changed, the suppliers did not receive any guarantee that GM would do business with them in the future. This arbitrary revision of long-term contracts occurred not only at GM, but also at Ford and other high-tier suppliers. GM reduced such cases of revision of contracts relatively at the end of 1990s, while Ford and other high-tier suppliers continue to use such methods.

After repealing the current contracts, what Lopez did was to nail down the price through multiple rounds of bidding. GM still uses such multiple or open-ended rounds of bidding.³⁹ An automaker normally has two or three potential and plausible suppliers for a component. However, when GM negotiates price, GM calls more than twelve smaller companies outside the normal and plausible suppliers, although the smaller suppliers cannot take full responsibility for the component. From all the suppliers, GM gets extremely detailed information of broken-down costs for a component, such as material and labor costs. After GM gets the information on the costs of detailed elements, it combines the cheapest elements in each column of cost information. GM offers a target

³⁹ Interview with A13 on 2 December 1999; Interview with A19 on 8 December 1999; Interview with A23 on 9 December 1999; Interview with A26 on 5 January 2000.

price even lower than the sum of the cheapest elements. This is the first round of bidding. GM goes to multiple rounds (normally three) until a final supplier remains.

GM's strategy seemingly contradicts the form of collaborative markets. It chose the neoclassical principle of anonymity for the collaborative market. By using incentives of long-term contracts, GM's strategy was to choose the "cheapest" product in the market instead of focusing on flexible application engineering with suppliers. Some suppliers described GM's purchasing process as "dehumanization." Purchasers become administrators rather than negotiators. The faceless committee of the central purchasing department determines the price for suppliers.⁴⁰ GM disregards a history of suppliers' commitments. For example, Bob Stevens, the president of Impact Forge, Inc., in Columbus, Indiana, was upset with GM's unfair actions. Impact Forge had received an award of the highest quality rating from GM. However, GM did not care about Forge's past assistance and award; only price mattered for GM. When Impact Forge suggested a 6% cost cut in response to GM's request of a 20% cost cut, GM pulled its \$3 million in annual business.⁴¹ This is in contrast to cases at Chrysler and the Japanese companies. If a supplier gets an award from Chrysler and Japanese customers, the supplier is fairly sure to get the business for the next project.

Another main reason for distrust is that GM transferred information provided by the suppliers to their competitors. It violates the minimum and formal criteria for doing business in the sense of confidentiality, although it might not be illegal. In the process of bidding, GM copied designs and distributed them to other bidders in an attempt to

⁴⁰ Interview with A19 on 8 December 1999.

⁴¹ *Wall Street Journal*, 2 Nov. 1992, p. A6.

increase competition among suppliers.⁴² For example, in a process of bidding, a supplier enclosed various suggestions that would improve the products and lessen costs. Typically the ideas for improvement of a product and production were transferred to the competitors to quote in the secondary rounds of bidding against the supplier. After repeated occurrences, suppliers became very cautious of their information. They include only very vague ideas to meet GM's request.⁴³ The confidential problems occur not just in the process of bidding, but in the process of development and production. GM works with suppliers to develop a product and then transfers the prints and prototypes to other competitors of the suppliers. For example, a supplier of plastic components worked with a customer to design and develop a product. The supplier invested a great deal of capital and energy in the process of development. However, before serial production, GM quoted the product under its name, which the supplier actually developed, and then shared the prints with all competitors. Many suppliers lost the business even after they developed the product. These so-called confidential problems are now prevalent not only in GM, but also in other automakers and high-tier suppliers.⁴⁴ It may not be illegal in a sense of positive law because they do not put patents on the prints and prototypes in the process of collaborative work. However, suppliers believe such cases are unethical or unfair.

In the substantive sense of fairness, GM's practices are quite different from those of Chrysler and Japanese transplants in the U.S. The Japanese transplants and Chrysler

⁴² *Chicago Tribune*, 5 Sep. 1993; *Manufacturing Engineering*, June 1993.

⁴³ Email-Interview with US50 on 23 November 1999.

⁴⁴ These kinds of confidential problems are so frequent that I hear of many cases through interviews. For the above case, particularly, Interview with A20 and A21 on 8 December 1999; Interview with A22 on 9 December 1999; Interview with A23 on 9 December 1999.

try to share the burdens and responsibility for collaborative work with suppliers, while GM does not. For example, Japanese automakers in the U.S. invested time and energy to help suppliers improve their production and adopt lean production, whereas GM (as well as many American customers) threatened to stop business with the suppliers who did not aggressively improve their production and quality. The result was a significant improvement of quality. But there had been little information exchange and mutual assistance. Suppliers had to solve the problems at higher costs for inspecting and reworking of the parts.⁴⁵ American automakers visit the suppliers for a one-day conference, whereas the people from the Japanese automakers spend a week or longer living with the people of the supplier company and thoroughly analyzing problems and inefficiency. My own experiences with American suppliers reveal that many American suppliers do not hesitate to mention Honda's and Toyota's cooperative approach as an example in contrast to U.S. customers' confrontational model.⁴⁶ Almost all suppliers who have worked with Japanese customers agree that the process is very painful but the results are beneficial. In the eyes of American suppliers, American customers request more proprietary information without giving any help. The proprietary information is used to cut the price in the next round of negotiation. American suppliers work in a form

⁴⁵ Liker and Wu, "Japanese Automakers, US Suppliers and Supply-Chain Superiority," p.88.

⁴⁶ Interviews with A19 on 8 December 1999; Interview with A23 on 9 December 1999; Interview with A24 on 17 December 1999; Interview with A26 on 5 January 2000; Interview with A30 on 21 January 2000. Many other empirical studies confirm my findings about how Japanese transplants cultivated close and trustful relationships with American suppliers. See John Paul MacDuffie and Susan Helper, "Creating Lean Suppliers: Diffusing Lean Production Through the Supply Chain," *California Management Review* 39, no. 4 (1997); D. Nelson, R. Mayo, and P. E. Moody, *Powered by Honda: Developing Excellence in the Global Enterprise* (New York: John Wiley & Sons, 1998).

in which they have to meet customers' formal requirements of providing information, but they are very cautious of giving their important information.

In the sharing of common benefits, GM looks like an unfair customer in comparison with Chrysler's fair sharing. GM tries to cut suppliers' margins for its own benefit. GM dictates a target price regardless of suppliers' production conditions, and sometimes requests that the price reduction be more than what a supplier can do. For example, a supplier reduced its price by more than 12% based on collaborative efforts with GM teams. However, GM teams requested a 20% discount in price. In the end, the supplier lost the business with GM. GM's collaborative efforts resulted in the reduction of the supplier's margins.⁴⁷

GM did not change the basic features of the Lopez approach much after he left GM in 1993. It was not until Harold Kutner took charge of GM's worldwide purchasing in July 1994 that GM began to consider partnerships with suppliers. The reason for the reconsideration of purchasing policy was that suppliers were reluctant to bring new ideas to GM for the improvement of products. Kutner described his policy as a "tough but fair" approach. Kutner tried to remove cases of obvious unfairness.⁴⁸ However, GM is still backward in the realm of substantive issues such as distribution of risks and benefits. Although GM has softened its policies with suppliers, distrust still exists within its relationships with suppliers. The distrust is not only due to the after-effects of Lopez era, but to GM's still maintaining so-called unfair policies in the formal and substantive

⁴⁷ *Chicago Tribune*, 5 Sep. 1993; *Industry Week*, 7 Sep. 1992, p. 65.

⁴⁸ Email-interview with US38 on 15 November 1999. I met several suppliers who reported to me that GM has disregarded signed contracts to get a better price. See also *Purchasing*, 15 Aug. 1996.

sense.⁴⁹ GM does not share benefits and responsibilities for collaborative work. Some suppliers still feel betrayed because their ideas are abused by competitors, and their contracts are revised arbitrarily although suppliers invest in a new infrastructure for GM production.

GM's strategy seems to be a somewhat awkward combination of the new collaborative market and the neoclassical policy. GM conducts business based on the neoclassical principle of anonymity in a situation in which they need trustful cooperation for flexible application engineering. This strategy aims mainly at getting the cheapest product among given products, rather than focusing on the collaborative application engineering with suppliers, although they adopt the form of collaborative work. While GM requests that suppliers make a great deal of relation-specific investments such as energy and capital, GM adopts the anonymity principle of the neoclassical paradigm using their market power. This unbalanced policy has caused distrust among suppliers.

III. 1. (2) (ii) Ford and Suppliers

Ford had relatively better relationships with suppliers than GM in the late 1980s and in the early 1990s, when Ford moved toward long-term and collaborative contracting. Until the first half of the 1990s, Ford was one of the most advanced automakers in the U.S. in adopting new collaborative relations. However, from the mid-1990s, Ford's relationships began to deteriorate. According to the survey of IRN, Inc., in the summer of

⁴⁹ GM buyers still engages in so-called unfair behavior. For example, a supplier could not compete well only on price basis; thus, the supplier offered GM some ideas on how to manufacture the components with better quality and lower costs. GM used the ideas, but did not award the supplier with the project. The supplier is now reluctant to give new ideas to GM. Many suppliers also mentioned asymmetry and unfairness in exchanges of information between suppliers and customers.

1999, Ford was the toughest customer in the American automotive parts market. Even while GM tried to reduce obvious unfair cases, considering the pathology of distrustful relationships, Ford took the confrontational policy. In this section, the reasons why Ford's relationships deteriorated are investigated.

The main cause for distrustful relationships at Ford is that Ford, like GM, wielded its power in redefining the contracts in an arbitrary way and took advantage of the incompleteness of long-term and collaborative contractual relations. Ford, like GM, violated the minimum criteria for business norms, such as the arbitrary revision of contracts and the transfer of the provided information to competitors. Ford's method of collaboration was different from Chrysler's, although Ford also adopted various collaborative teams called the VA/VE (value analysis/value added) team and SPECS (Supplier Purchasing Engineering Cost Suggestions), aimed at cost reduction through collaborative work with suppliers. However, many suppliers are suspicious that Ford teams are helpful in order to improve its competitiveness. A supplier compares Ford's teams with GM's infamous PICOS (supply management program) team: "It's difficult to smile [about Ford's VA team]; it's not exactly a PICOS, but the results could be equally devastating. They are getting closer to asking us to sacrifice our lives."⁵⁰ The reason for distrust is that Ford's teams searched for price reductions rather than working together.

The relationship between Ford and Lear, one of Ford's key suppliers, illustrates the distrustful relationships between Ford teams and suppliers in collaborative work. Ford and Lear teams held regular meetings for collaborative work in the development of the 1996 Taurus. However, engineers from Ford and Lear "could barely bring themselves to

⁵⁰ *Ward's Auto World*, Sep. 1994, pp.23-24.

talk to each other, lest they inadvertently divulge proprietary information.”⁵¹ Ford teams did not trust suppliers, believing that suppliers took any opportunity to raise prices. In contrast, the Lear team knew that the Ford teams wanted to press prices down if there was a chance to do so. Many suppliers in my interviews reported that Ford VA/VE teams were not helpful for suppliers. For example, when a Ford VA/VE team visited a supplier of a fluid system, the supplier had to create 30 to 40 new ideas about the production process, and had to design to reduce costs. The supplier company spent four complete days developing new ideas. However, Ford purchasers and engineers did not allow the engineering to change because to approve a new design means the failure of Ford engineers, or the increase of workloads for Ford engineers.⁵² Suppliers have learned through their experiences that Ford teams aim at taking as much information as they can from suppliers, setting their own target price.⁵³

It was in April 1995, when Ford was revising contracts arbitrarily and demanded a price cut of 5% each year over four years, that Ford’s existing relationships started to deteriorate more severely. Actually, the arbitrary revision of contracts was the GM (Lopez) model in the early 1990s. Also, Ford sometimes used the policy of unilateral revision of contracts in the early 1990s. However, the number of frequency of requests for price reduction increased with Ford. The mood in April 1995, when Ford requested a comprehensive 5% price cut, was almost like a “supplier revolt.” Suppliers charged the

⁵¹ This is a famous story published by Mary Walton. She spent two years with Ford’s Taurus team, chronicled in *Car: A Drama of the American Workplace* (New York: W. W. Norton, 1997).

⁵² Interview with A22 on 9 December 1999; Interview with A29 on 11 January 2000.

⁵³ Interview with A23 on 9 December 1999.

vice president of purchasing, Carlos Mazzorin, with tearing up contracts and demanding revisions even in hard times when the price of raw materials rose.

Mazzorin's price-cut strategy came as Ford was downsizing its supply base with its global purchasing plan. In 1995, Ford tried to make a world-wide supplier network under the name Ford 2000. Ford was planning to reduce the supply base of the first-tier suppliers by up to 50 main suppliers on each continent; under each first-tier supplier, there would be ten sub-tier suppliers. This Ford 2000 plan placed the suppliers in severe competition. By using this competition among suppliers, Ford requested that suppliers reduce costs by 25% over the next four years.⁵⁴ Ford's Mazzorin team thought that the remaining business was so big that the survivors would be able to work in a cooperative manner. Ford's expectation was correct in that the suppliers could not easily reject the customer's request. However, it was not correct in that Ford expected that the suppliers would cooperate in a trustful way. A supplier of a special fastener maker reported its experiences.⁵⁵ In 1999, Ford called ten fastener suppliers among 30 to 40 suppliers and requested 5% price cuts, saying that the ten suppliers were selected as long-term players for Ford. Although the supplier could not but concede to Ford, the supplier did not believe what Ford said about long-term business and cooperation. Paradoxically, in the process of building the collaborative market, Ford management regarded it as a chance to take advantage of power imbalance instead of a way to establish trustful cooperation for better application engineering.

⁵⁴ *Ward's Auto World*, Dec 1995; *Purchasing*, 11 July 1996, p. 108; *Ward's Auto World*, Aug. 1998, p. 34; *Purchasing*, 7 March 1996, pp. 54-6.

⁵⁵ Interview with A29 on 11 January 2000.

Based on the suppliers' evaluation, Ford is the customer that is most reluctant to share the benefits and costs of collaborative work. According to a survey by the consulting company IRN, Inc., in 1997 and 1999, Ford was the customer that asked for the biggest price reduction, by 5.7% per year.⁵⁶ In addition, in the average length in which customers requested price reduction, Ford's time-frame (1.8 years) was the shortest among American automakers. Ford has moved toward a year-by-year approach for price reduction. According to the IRN survey in 1999, suppliers gave Ford the highest score on the question of whether a supplier expected to be penalized in the future if the supplier did not grant a price reduction, indicating that Ford was the most punitive customer. This disparity in substantive fairness caused distrust between Ford and suppliers.

In the absence of socially-shared and publicly mediated fair norms, U.S. customers in the automotive parts market easily take advantage of unclear governance. In particular, in the absence of a participatory process of deliberation in a public realm, U.S. customers have less of a burden to justify their unfair behaviors than Germans, who have to justify their position in formal and informal meetings. American suppliers and associations did not develop a public realm for deliberation of fair norms and adjudication of conflicts. Most Americans in the automotive parts markets believed such unfair cases to be a matter of personal and private relationships, not social problems,

⁵⁶ During the summer of 1999, IRN, Inc., located in Grand Rapids, Michigan, conducted a survey on price reduction requests among American suppliers. They sent the questionnaires to 926 companies and received 370 surveys from 128 suppliers, a response rate of 14%. See IRN, Inc., "News & Views from IRN," (IRN Newsletter, Nov./Dec. 1999); "The Dynamics of Price Reduction Requests Highlights of a Supplier Survey" (Report of Research of IRN, Grand Rapids, Michigan, 1999).

although there were some untraditional experiments with deliberation in a public realm. This will be revealed later in the section addressing the process of social adjustments.

III. 2. Relationships between Suppliers

Relationships between high-tier and sub-tier suppliers in the American automotive parts market are also adversarial and distrustful although they have developed a new form of long-term and collaborative markets. Relationships between suppliers in the U.S. automotive parts market are in sharp contrast to those of the German market. German suppliers in the automotive industry have developed fair partnerships regardless of power and tier position, while Americans have not. German suppliers have developed a kind of solidarity among themselves in the process of adjudicating conflicts with automakers, while Americans have not. One of the main reasons for the prevalent distrust between suppliers in the U.S. market is that American suppliers did not organize a method of society-wide adjudication of the conflicts with automakers. In a later section, the process of social adjustment will be analyzed in detail. In this section, an investigation is made as to how and why relationships between American suppliers have deteriorated. In particular, the strategies of American suppliers in the automotive parts market will be highlighted in order to show their abilities to persevere in the midst of customers' unfair and tough pressure.

As chapter two of this thesis shows, my survey conducted in 1999 and 2000 reveals that distrust prevails among suppliers in the U.S. automotive parts market regardless of their size, power, or position in the tier structure. Many other empirical

studies also confirm that the relationships of American suppliers have deteriorated in the supply chain. The survey conducted by the Office for the Study of Automotive Transportation (OSAT) and A.T. Kearney in 1995 and 1996 demonstrates that American first-tier suppliers treat their own sub-tier suppliers in “unfair” ways while complaining of automakers’ unfair treatments and pressure.⁵⁷ According to the survey conducted by the consulting company IRN, Inc., in 1999, first-tier suppliers are the second toughest, after Ford, in the U.S. in the realm of requesting annual price reduction (Ford: 5.7%; tier-one suppliers: 4.9%). In addition, first-tier suppliers are also the second most punitive customers in the question of whether suppliers expect to be penalized if they do not grant a price reduction – the first is Ford.⁵⁸ Many sub-tier suppliers don’t believe that their high-tier customers normally assist them in reducing costs. Another mini-survey, conducted through my personal interviews and email interviews with U.S. and German suppliers, also confirms that almost all sub-tier suppliers (about 90%) in the U.S. automotive parts market agree that the buck has been “unfairly” passed down through the supply chain; by contrast, most German sub-tier suppliers (89%) agree that they are not confronted by their customers, which are high-tier suppliers. *Ward’s Auto World’s* 22nd survey in the U.S., and Andrea Bartelt’s extensive survey in Germany confirm my

⁵⁷ OSAT and A.T. Kearney, Inc., *The 21st Century Supply Chain: The Changing Roles, Responsibilities and Relationships in the Automotive Industry* (A.T. Kearney, Inc., 1996).

⁵⁸ IRN, Inc., “The Dynamics of Price Reduction Requests Highlights of a Supplier Survey”; “News & Views from IRN.”

finding that the relationships between German high-tier suppliers and sub-tier suppliers have not deteriorated as much as those of their American counterparts have.⁵⁹

Why have relationships between American high-tier suppliers and sub-tier suppliers deteriorated? Why does distrust prevail in the relations between the U.S. suppliers? The main reason is that the high-tier suppliers in the U.S. automotive parts market chose the strategy of transferring the burdens to the sub-tier suppliers while Germans are less likely to choose this strategy. American first-tier suppliers such as Delphi, Lear, Navistar, and Visteon transferred their burdens directly to sub-tier suppliers. A supplier describes it “as if water were running down the hill.” The pressure rolls down to the next tier level. For example, when Chrysler demanded a 5% price cut in 2000, the suppliers transferred the request all the way down through the supply chain. Most first-tier suppliers placed similar demands on the sub-tier suppliers in the wake of Chrysler’s 5% price cut.⁶⁰ Michael Heidingsfelder with Roland Berger, a consulting company, says that “The OEMs [automakers] are doing it, so [the high-tier suppliers] just kick the ball to the next level.”⁶¹ The attempt by American suppliers is to get an easy and immediate recovery of loss resulted from automakers’ pressure. The problem is not just the size of the rolling-down pressure on sub-tier suppliers, but the way of treating them.

⁵⁹ “Ward’s Auto World 22nd Supplier Survey,” *Ward’s Auto World* (August 2000); Andreas Bartelt, “Vertrauen in Zulieferbeziehungen der Automobilindustrie: Ergebnisse einer empirischen Untersuchung” (Julius-Maximilians-Universität Würzburg, Lehrstuhl für Betriebswirtschaftslehre, 2000). See also IKB Deutsche Industriebank, *Branchenbericht*, 1997 to 1999.

⁶⁰ According to the *Ward’s Auto World’s* 23rd survey in 2001, more than half of suppliers agree that the high tier suppliers passed the Chrysler’s price cut to the lower tier suppliers. Only 23.5% of respondents denied that they pressed the sub-tier suppliers as much as Chrysler did. See “WAW 23rd Annual Supplier Survey,” *Ward’s Auto World*, August 2001.

⁶¹ “Costs Cuts Rattle Supply Chain,” *Automotive News*, 20 Aug. 2001.

The high-tier suppliers treat the sub-tier suppliers in unfair ways that are similar to the ways they get treated by their customers.

The reason American suppliers accept easily such opportunistic behaviors is not because of the hierarchical structure between suppliers. Germany also developed tier-structure in the 1990s, reducing the direct contact between automakers and suppliers. The reasons that American suppliers failed to develop “fair partnerships” among them are their market strategies and the process of adjudicating conflicts in an individual way. The suppliers’ strategies and ways of responding to customers’ tough treatment will be investigated before the process of adjudicating conflicts is illustrated in detail in a later section.

It is difficult to pinpoint a single and sweeping strategy among various companies. However, as many industry observers have pointed out, the volume-orientation mentality prevails in the U.S. automotive parts market.⁶² To improve their competitiveness in the market, many American suppliers emphasize efficiency based on volume economy, whereas German suppliers focus on specialty-orientation. Most, if not all, American suppliers tried to make up for the lost profit that resulted from the automakers’ high pressure with volume gains. American suppliers try to increase volume increases by conceding the price. American suppliers in the automotive parts market push their profit margins to near zero in order to win business, with a hope of finding profits later, or with calculations that volume makes money. However, the large capacity for volume production forces the suppliers to concede more of their profit margin in the next

⁶² Interview with OESA (Original Equipment Supplier Association) on 1 August 2001.

round of negotiation to run the overcapacity.⁶³ At the same time, volume orientation reduces the complementarity between suppliers and increases the competition between suppliers.

The reason that American suppliers in the automotive parts market emphasize price leadership and efficiency based on volume is that they focus on easy access to unskilled workers and the automakers' overemphasis on price, compared with German companies. It shall be discussed in chapter four how the prevalent strategy of German companies is different from that of U.S. companies. German suppliers pay more attention to product differentiation in the market by considering their expensive labor costs and highly skilled workers. As the below table, "Labor Costs in the Automobile Industry," shows, U.S. companies in the automotive industry have enjoyed relatively low levels of wages due to weak trade unions, while German companies suffered from a high level of labor costs due to their strong trade unions.

Table 3.3: Labor Costs in the Automobile Industry (Vehicle and Parts Industry)

	1980	1985	1990	1995*
Germany	100	100	100	100
France	98	102	68	71
Italy	92	95	82	79
Spain	87	118	72	79
U.K.	125	93	93	93
Japan	60	64	56	56
U.S.	86	85	66	55

Source: original source VDA, (Handelsblatt: 15 March 1995, p.21).

* estimation

⁶³ Denis L. Marler, "The Post Japanese Model of Automotive Component Supply: Selected North American Case Studies," (IMVP International Policy Forum, MIT, 1989); "Ward's Auto World 22nd Supplier Survey," *Ward's Auto World*, p. 16; "Risky Business in Detroit," *Industry Week*, 4 March 1991.

Although contrary to institutionalist explanation, Americans also tried to improve training systems by utilizing associations, and the regional governments and various institutes recently have been supporting the private companies in training workers, many American companies still tend to focus on the utilization of easy access to cheap and unskilled workers in the labor market, rather than on the differentiation of products based on skilled workers. In the absence of institutional constraints like the surveillance of layoffs by German trade unions and works councils, and against a background of relatively low wages and a large unskilled worker pool, American suppliers are oriented toward the so-called “volume economy” and price leadership in the market, whereas German companies in the automotive (parts) industry emphasize product differentiation and product innovation by considering well-paid but highly skilled workers. According to the empirical survey conducted by Birou and Fawcett, American companies are strongly oriented toward price leadership compared with European companies, which focus on more product differentiation for the market, as the following table shows.⁶⁴

Table 3.4: Strategic Orientation: Low Cost vs. Product Differentiation

Characteristics	U.S. Rating	European Rating
Competitive Pricing	6.10	5.52
Innovation in Manufacturing Process	5.33	5.00
Innovation in Marketing Techniques	4.37	5.04
Low Cost	5.53	5.34
Product Differentiation	4.98	5.24

Source: Birou and Fawcett (1994: Table 3)

Likert Scale: 1= not important; 7=extremely important.

⁶⁴ Laura M. Birou and Stanley E. Fawcett, “Supplier Involvement in Integrated Product Development: A Comparison of US and European Practices,” *International Journal of Physical Distribution & Logistics Management* 24, no. 5 (1994). The sample of the survey includes not only the automobile industry but also other industries. For the strategies of German automotive parts suppliers, see also Table 4.1, “Competition Strategy Following the Size of Company,” in chapter four of this thesis. German suppliers are less likely to put a priority on price leadership; they focus more on innovation and quality.

In particular, as Lay and Wallmeier's empirical research reveals (see Table 4.1, "Competition Strategy Following the Size of Company," in chapter four of this thesis), German companies in the automotive parts market focus on quality, innovation, and product differentiation, rather than prices for their market competitiveness.⁶⁵

American suppliers' strong orientation toward price leadership is also due to the fact that their automakers focus too much on price. According to an empirical study of the 250 American first-tier suppliers conducted by Planning Perspectives, a consulting company, in 2001, American automakers are focusing more than ever on price in the selection of suppliers while Japanese transplants on U.S. soil are continuously balancing price with quality.⁶⁶ In response to automakers' high pressure and unfair treatments, many suppliers in the U.S. automotive parts market orient themselves toward low-cost strategies rather than focusing on product differentiation and flexible application engineering with their suppliers or customers. The prevalence of automakers' opportunistic behavior deters suppliers from investing energy and capital in a specific, collaborative work. As automakers cut price at a given market, rather than saving through close application engineering with suppliers, suppliers in the U.S. automotive parts market are also less likely to involve the automakers in value engineering. Based on her empirical survey of American automotive suppliers, Jenet Hartley holds that few first-tier suppliers have involved the automakers in value engineering in the past two years.⁶⁷

⁶⁵ Gunter Lay and Werner Wallmeier, "Stand und Entwicklungstendenzen der Produktionsmodernisierung" (Sonderauswertung der ISI-Produktionsinnovationserhebung, Fraunhofer Institut für Systemtechnik und Innovationsforschung, 1999), p.27.

⁶⁶ "Quality: Adage of 'You Get What You Pay for' Holds," *Automotive Newswire*, 23 July 2001.

⁶⁷ Hartley, "Collaborative Value Analysis."

U.S. suppliers in the automotive parts market have become oriented toward a volume economy because of reduced utilization of application engineering due to distrustful relationships, easy access to unskilled workers, and customers' tough pressures on prices. The dominant strategy in U.S. automotive parts market has been to achieve economies of scale. American suppliers have tried to increase the volume of sales in a given investment of research and development to meet the tough pressure of costs. Volume orientation increases competition rather than complementarity among suppliers, which has negative effects on the development of partnerships among them.

More importantly, as automakers requested that suppliers take more responsibility for sub-assemblies like modules and systems, many American suppliers tended to meet the demand by merger and acquisition of other supplier companies, rather than developing collaboration with other parts suppliers as Germans did. In the situation in which horizontal cooperation among suppliers has developed less, many American first-tier suppliers have opted for quick growth by acquisition, which reinforces again the difficulty of horizontal cooperation. Many American suppliers believe that the complicated modules have enabled them not only to have room to adjust cost reductions but also to occupy the market share due to its newness. In addition, the fluid financial system based on the stock market facilitated easy take-overs of other companies, although contrary to institutionalist expectation, the stock market system did not deter American companies from developing long-term market relations.⁶⁸

⁶⁸ Marler, "The Post Japanese Model of Automotive Component Supply"; "Sourcing Scramble," *Ward's Auto World*, July 1996, pp.33- 35.

As the “Global Automotive Deal Survey” conducted by the PriceWaterHouse Coopers in 1998 reveals, the number of deals in the U.S is greater than that in any other country.⁶⁹ For example, there were total 320 deals among automotive suppliers in the world in 1998. American companies were involved in 56.6% (180 deals). Although German suppliers also followed the trend, the deals with German companies comprised only 6.9%. American companies bought American in 108 deals (34% in world deals), whereas only 9 deals were between Germans (3% in world deals). The quick growth by acquisition which has occurred during the last five years in the calculation of volume economy as well as module production has caused economic inefficiency. Recently, for instance, the American large first-tier suppliers, such as Federal Mogul and TRW, have been suffering economic inefficiency.

The quick expansion has also caused an overlapping of the main players’ products; thus, trustful cooperation has been deterred among suppliers in the U.S. market. In the round-table of automaker’s simultaneous engineering, components and module suppliers are very cautious of providing information about their own specialties because they are potential or current competitors.⁷⁰ For example, when an automaker and other suppliers in this environment ask a clutch supplier about the know-how and detail information of clutch making, the clutch supplier does not want to reveal much information about it. The reason for the reluctance of openness is that one of the other suppliers makes a clutch, although the company supplies a clutch actuation for the current

⁶⁹ PriceWaterHouse Coopers, “Global Automotive Deal Survey 1998” (Research Report, Corporate Finance & Investment Banking Services, 1999).

⁷⁰ Interview with A22 on 9 December 1999; Interview with A26 on 5 January 2000; Interview with A30 on 21 January 2000.

project. The clutch maker thinks that the clutch actuation maker will pass the information onto its clutch-making division. Although suppliers work together by being held responsible for different parts of a project, the range of their products overlaps with one another. Under a huge movement of consolidation in the U.S., the specialties and products of the big module and component suppliers tend to overlap. In the German automotive parts market, the dominant strategy of specialization generates complementarity among suppliers, whereas in the U.S. parts market, the dominant strategy of volume economy and quick expansion caused overlapping among suppliers' products. Thus, the development of cooperation among suppliers in the U.S. automotive parts market is more likely to be deterred than in the German market.

The individual, dyadic way of deliberating conflicts and unfairness, and the prevalence of a consolidation strategy reinforce each other in the U.S. automotive parts market. American suppliers try to solve unfair treatment through individual, dyadic relations with a customer: compromising with the customers or ignoring the problems in order to continue business relationships. In the absence of collective adjustments, the most popular response by American suppliers to so-called unfair treatments and pressure is that suppliers try to increase their own leverage because they believe that power determines relationships in the market. The way to increase leverage is to become competitive or to consolidate a market by acquisition. Consolidation is one of the main strategies in response to the unfair treatment of customers and the pressure put on them. Neil de Koker, director of the Original Equipment Suppliers Association (OESA), succinctly points out one of main causes for consolidation: "Cost pressures are likely among the biggest forces behind consolidation, as companies merge in hopes of finding

some sort of savings in the higher volume.”⁷¹ In the absence of society-wide adjudication and collective solutions, the strategy of consolidation has become one of the dominant strategies in the U.S. automotive parts market. Consolidation has been preferred not only because of the calculation of a volume economy, but also because of the consideration of relative power in the supplier market. Consolidation diminishes the possibility of social adjustment and horizontal cooperation between suppliers, which further reinforces an individual, dyadic solution.

This individual, dyadic method of deliberation is one of the main reasons for American suppliers’ failure to develop fair partnerships. In the absence of a public method of deliberation, Americans in the automotive parts market failed to establish society-wide fair norms, unlike their German counterparts. In the absence of deliberation in the civic public realm, American customers did not have the burden of justifying their behavior and thus easily took advantage of opportunistic policies, unlike the Germans. In the absence of collective adjustments, what American suppliers took was an individual solution: a few strong suppliers rebuff all inquires into cost structure and let customers go to another supplier. However, most suppliers “grin and bear it” or “keep smiling even though they are bleeding inside” when they experience so-called unfairness. Without recourse to society-wide adjudication of conflicts, American suppliers simply hold their sales ground by bearing unfairness with the hope that they might be stronger in the future. American suppliers try to solve problems with their own power relative to a customer, and by increasing their individual leverage relative to their competitors.

⁷¹ “Ward’s Auto World’s 22nd Supplier Survey” *Ward’s Auto World*, pp. 18- 19.

This is in contrast to German suppliers. Through formal and informal meetings, German suppliers created more stable market governance. It is noteworthy that German suppliers objectify their position in the process in which they adjudicate conflicts in the public realm. German suppliers set their own fair rules in the eyes of the public through the process of criticizing the automakers' unfairness. Suppliers who criticize their customers' unfairness in the public realm hardly treat their sub-tier suppliers in the same way their customers treat them. By contrast, in the absence of such participation in the public deliberation, American high-tier suppliers can easily treat their sub-tier suppliers in the same unfair way that they are treated by their customers. In the individual, dyadic way of adjudicating conflicts, American first-tier suppliers are less likely to objectify their relative position in the entire supply chain. According to the survey conducted by OSAT and A.T. Kearney in 1995 and 1996, "[American] suppliers focus primarily on their relationships with their customers and less on their relationships with their own suppliers, where they often still follow a selection model."⁷² The selection model refers to the adversarial way of purchasing based on the principle of anonymity. The selection model contrasts with the development model, in which a customer commits itself to its suppliers by working with them to improve price, quality and technology. In the absence of a participatory process of public deliberation in which agents objectify their relative position and express their own rules, American high-tier suppliers easily transfer unfair treatments and pressure all the way down through the supply chain. In the next section, the effects of the individual, dyadic way of deliberation in the U.S. automotive parts market will be illustrated in detail.

⁷² OSAT and A.T. Kearney, *The 21st Century Supply Chain*, p. 28.

III. 3. Social Adjustment in the U.S. Automotive Parts Market

Although agents in the U.S. automotive parts market are involved in many formal and informal networks, they have not developed a public way of deliberating conflicts. American agents in the automotive parts market could not achieve the effects of the public way of adjudicating conflicts that German agents did. The society-wide shared norms established through conflicts and adjustments in view of the public are hard to violate without losing face. In particular, in the process of criticizing customers' unfair behavior, suppliers in the German automotive parts market set up not only their own fair criteria, but they also create solidarity among suppliers. In contrast, American agents do not have a chance to express their own rules and articulate norms in the public realm. American associations have not organized a public way of adjudicating conflicts, elaborating ethical codes. Although American suppliers believe that other suppliers are suffering similar problems, American suppliers do not consider so-called unfair behavior to be a social issue that should be discussed in the perspective of making "rules of the game" for the market.

Why didn't American suppliers deal with such unfairness as social issues in the public realm? Is this because Americans have fewer associations than Germans? In this section, the manner in which individual, dyadic ways of adjudicating conflicts effect governance and conceptions of fairness will be investigated; moreover, the reasons the associations have not developed a public method of adjudication will be highlighted. The argument presented is that Americans have no fewer associations than do Germans; the failure to organize the public way is due to different understandings of public vs. private forms of jurisprudence. Utilitarian Liberalism, which has been confirmed by practices in

the U.S. automotive parts market, hinders the development of a public way of adjudicating conflicts in market society, although it is also being contested. Before highlighting the process of adjudicating conflicts, the networks of associations and the social fabric in the U.S. automotive parts market will be investigated.

III. 3. (1) Social Fabric

Many institutional approaches and network theories emphasize that associations contribute to the stability of assembler-supplier relations. In particular, neoTocquevillain Robert Putnam maintains that dense networks of associations contribute to the emergence of cooperative civic norms and high economic performance.⁷³ Many institutionalists believe that the reason for adversarial relationships in the U.S. industries is due to sparse networks of associations and individualism, whereas the dense networks of Japanese and German associations facilitate cooperation among companies.⁷⁴ However, contrary to these prevalent beliefs, U.S. companies in the automotive parts market are not playing alone. Agents in the U.S. automotive parts market are involved in as many associations as Germans are. People in the U.S. automotive parts market have also developed untraditional associational networks such as training centers, contrary to rigid institutionalist expectations. Regional governments in the U.S. also contribute to the

⁷³ Robert Putnam, *Making Democracy Work* (Princeton: Princeton University Press, 1993); Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000).

⁷⁴ See Hollingsworth, "The Logic of Coordinating American Manufacturing Sectors"; Lynn and McKeown, *Organizing Business*; Yamazaki and Miyamoto, eds., *Trade Associations in Business History*.

formation of social capital. What makes the difference in market governance is not the *number* of associations, but *the way that agents interact in associations*. In this section, the ways that agents in the U.S. automotive parts market link to each other and how they form a social fabric are investigated.

Contrary to institutionalist explanation, American associational networks are almost as dense as the German associations. My research shows that most American suppliers in the automotive parts market take part in one or two specific associations in the same way that Germans in their automotive parts market do. The number of associations is not less than that of German associations in the automotive parts market. Agents in the U.S. market take part in not only general associations such as the Motor Vehicle Manufacturers Association (MVMA), the Motor and Equipment Manufacturers Association (MEMA), and the Society of Automotive Engineers (SAE); U.S. companies in the automotive parts market also participate in specific functional associations, such as the Industrial Fastener Institute (IFI), the Rubber Manufacturing Association (RMA), the Precision Metal Forming Association (PMFA), the Gasket Manufacturer Association (GMA), the Precision Machined Production Association (PMPA), and the Spring Manufacturing Institute (SMI), among others. In each technical segment of the U.S. automotive parts market, there are specific associations at the regional as well as the national levels, like their counterparts of the German market. Approximately 160 associations work in areas which are related to the automotive industry.⁷⁵ American suppliers are linked not only by their technical specialties, but also by various identities,

⁷⁵ See the directory of automotive association. and see "Mutual Interests," *Ward's Auto World*, July 1999.

such as the Michigan Minority Business Development Committee (MMBDC), and by various interests like the West Michigan Group, and the West Michigan World Trade Association.

In addition, contrary to what the institutionalists of Comparative Institutional Advantages contend, American suppliers have built new organizations like the Automotive Original Equipment Suppliers Association (OESA) for their own collective voice in 1998.⁷⁶ Comparative Institutional Advantages institutionalists such as Hall and Soskice argue that companies of a nation-state gravitate toward specific strategies that take advantage of the opportunities that the peculiar institutions of the national economy offer in comparison with other countries; thus, national economies are systematically different. According to the institutionalists, U.S. companies (should) take advantage of the opportunities that “liberal market systems” of free competition and weak social networks provide.⁷⁷ However, contrary to the expectation of the institutionalists of Comparative Institutional Advantages, U.S. companies did not stick to the strategy of enjoying the advantages determined by existing institutional frameworks. On the contrary, Americans reconstructed the institutions themselves. Americans have also collaborated for public goods such as training systems by using the existing associations or by building new social networks instead of sticking to the advantages of liberal markets framed by institutions. Throughout the U.S., new social networks of inter-firms,

⁷⁶ Interview with OESA on 1 August 2001; See also “Suppliers Unite For a Strong Voice,” *Ward’s Auto World*, Sep. 1998; “MEMA Forms Automotive Original Equipment Supplier Association,” *PR Newswire*, 5 Aug. 1998; “Mutual Interests,” *Ward’s Auto World*, July 1999; “New OE Suppliers Group Has Budget, Big Dreams,” *Automotive News*, 10 Aug. 1998.

⁷⁷ Peter Hall and David Soskice, Introduction to *Varieties of Capitalism* (New York: Oxford University Press, 2001).

community colleges, and trade unions came into being in the 1980s and 1990s.⁷⁸ U.S. employers are interested in and have cooperated for the development of social networks that mainly focus on training programs, intermediation of job markets, and manufacturing extension services.

Recently, many regional business communities have been created for cooperative social programs in the U.S. For example, the Private Industry Councils and the Regional Employment Boards are community-based organizations. They are constituted of employers, local government officials, educators, and labor representatives. The Regional Employment Boards were created by the recently enacted Workforce Investment Act. The Private Industry Councils and the Regional Employment Boards develop cooperative programs for upgrading skills and for continuous training of workers. The community-based organizations also build national networks. For example, approximately 40 community-based organizations that represent one million families throughout the U.S. organized the Industrial Areas Foundation (IAF).

New social networks have sometimes been initiated by the current employer associations, or by trade unions, regional communities, and regional governments. For example, an existing employer association, the National Tooling and Machining Association in Massachusetts, organized small machine shops into a network in order to

⁷⁸ For the emergence of new social networks in the U.S., see Paul Osterman, Thomas A. Kochan, Richard Locke, and Michael J. Piore, *Working in America: A Blueprint for the New Labor Market* (Cambridge, MA: MIT Press, 2001); Charles F. Sabel, "Experimental Regionalism and the Dilemma of Regional Economic Policy" (Paper prepared for presentation at the Conference on Socio-Economic Systems of the Twenty-First Century, Tokyo, 1996); Christoph Scherrer, "Governance of the Automobile Industry: The Transformation of Labor and Supplier Relations," in John L. Campbell, J. R. Hollingsworth, and L. N. Lindberg, eds., *Governance of the American Economy* (New York: Cambridge University Press, 1991). In addition, my account of associations and new social networks is based on my own interviews, and I am also indebted to professor Gary Herrigel's empirical research.

train workers and share technical information. Trade unions also initiated new social networks. For example, the UAW in the Detroit area initiated a Labor-Management Council for Economic Renewal. This organization is a kind of partnership among 55 firms and their unions for the purpose of promoting organizational restructuring such as continuous improvement program. The AFL-CIO has worked with local union leaders to build inter-firm and industry-specific networks. Employers, trade unions, community institutes, and regional governments cooperated for the establishment of new social networks such as consortiums, committees, working groups, and conferences to facilitate suppliers' rationalization of production. For example, the Wisconsin Manufacturing Extension Partnership organized a consortium for training between management and workers in about 60 metal-working companies that employ about 60,000 workers in the Milwaukee metropolitan area.⁷⁹ The state technical college organized a training consortium aimed at improving the management of quality and training workers for small- and medium-sized supplier companies. Automakers like Ford are involved in the training and rationalization program. Ford operates a training program for quality improvement and inventory in collaboration with Cleveland's Manufacturing Technology Center (CAMP).

Many social networks have been supported by public authorities. According to one study, about 27 states in the U.S. were supporting 140 networks in 1994.⁸⁰ Some networks have been created by public authorities. Approximately 100 manufacturing

⁷⁹ I am indebted to professor Gary Herrigel for this example.

⁸⁰ For the support of public authorities in the U.S., see Osterman, Kochan, Locke, and Piore, *Working in America*, pp.141- 143, 153.

extension service centers have been founded through a federal program called the National Institutes of Standards and Technology (NIST), housed under the Department of Commerce. Since 1998, the Department of Labor has funded a number of local partnerships. In addition, state governments in the U.S. also facilitate the formation of social networks for industrial rationalization. For example, the Illinois Department of Commerce and Community Affairs (DCCA) funded a worker training system for small- and medium-sized suppliers. The DCCA has also funded associations and large customer companies such as Deere and Caterpillar to organize suppliers for training programs. In the training program, managers as well as workers in the supplier companies receive training for new organizational reform such as statistical process control, short-cycle manufacturing techniques, and computer literacy. The state of Illinois has developed a concept of clustering in the training system in which a group of suppliers form clusters around large customer companies. The Deere Company offers training courses at its own facilities as well as at other sites, including community colleges. In the program, about 100 supplier companies and their 6,000 employees take part. Caterpillar conducts training in its in-house institute, including about 825 employees from 72 supplier companies.⁸¹

Existing associations also actively worked for organizational reform and employee training programs, sometimes supported by the state government. For example,

⁸¹ There was much debate over how to organize and fund the training program. State Senator Richard Luft strongly opposed funding the program, saying, "I don't think any corporation should be in the position of administering state funds." He believes that public funds should not support specific private companies. The manager of DCCA, Lori Clark, explained why they chose this strategy: "Caterpillar and Deere were able to very easily identify suppliers that needed help." The UAW also opposed the program. Jim O'Connor, a service representative of UAW, argues that "In allocating money for Caterpillar to spend on its suppliers, the end effect is that work they're currently doing at \$17 an hour is going to be performed by folks in non-union shops at \$5 to \$7 an hour." See "DCCA Training Plan Aims Small," *Crain's Chicago Business*, 30 Nov. 1992.

an association of supplier companies, such as the Tooling & Manufacturing Association (TMA) of Illinois, focuses on training programs in the same way that other regional associations in the U.S. do.⁸² TMA offers about 100 courses and seminars related to tool and die-making and precision sheetmetal/model-making. As other associations in the U.S. automotive parts market do, TMA organizes topics for training in which members are interested. Recently, TMA has been organizing lean production issues in collaboration with a consulting company called the Chicago Manufacturing Center. The state government supports such social activities through the associations. For example, TMA gets the support from state government programs called the Prairie 2000 Assistance and the Industrial Training Program which reimburse members 50% of the fees for some training programs.

Social networks might contribute to a stable community, which facilitates the sharing of common norms and makes social reprimands possible. However, social networks do not automatically generate cooperative civic norms. The reason for the failure of the establishment of fair norms in the U.S. automotive parts market is not because of the absence of associations and social networks in which people can deliberate and adjudicate their conflicts. The reason for the failure of the establishment of fair partnerships mainly lies in the *way of interacting* in the social networks and the *way of understanding social problems*. This topic will be addressed in more detail later. Before doing this, other aspects of the social fabric which might cause different forms of governance from that of the German markets need to be explored: associational structure and personal relations.

⁸² Interview with TMA on 6 August 2001.

First, with regard to associational structure, American associational networks are different from that of their German counterparts. Although the number of associations in the U.S. and German markets is similar, the structure of those associations is different. German associations are comprehensive in their activities, while American associations are specialty-oriented and fragmented. American associations tried to establish their own boundaries, and one specific goal is competing for memberships. This motive enables associations to fill a newly emerging vacancy as the industry and markets have developed.⁸³ American associations specialized their activities by limiting the boundaries in order to maintain memberships within the association. For example, there are many associations of metal-working companies at the national level in the U.S.: the Precision Metal Forming Association (PMA), the National Tooling & Machine Association (NTMA), and the Precision Machine Product Association (PMPA), among others. There are also local associations such as the Tooling & Manufacturing Association (TMA) in Illinois and the Michigan Tooling Association (MTA) in Michigan. To compete for members, associations develop their own specialties. Different associations have different priorities and agendas.⁸⁴ For example, the PMA has a strong capability to support training and marketing while it is not as strong in lobbying as the NTMA; the TMA and the

⁸³ For the history of association development in the U.S., see George P. Lamb and Carrington Shields, *Trade Association, Law and Practice* (Boston: Little, Brown and Company, 1971), Chapter 1; Louis Galambos, "The American Trade Association Movement Revisited," in Hiroaki Yamazaki and Matao Miyamoto, eds., *Trade Associations in Business History* (Tokyo: University of Tokyo Press, 1988); Udo Staber and Howard Aldrich, "Trade Association Stability and Public Policy," in Richard H. Hall and Robert E. Quinn, eds., *Organizational Theory and Public Policy* (London: Sage, 1983); Udo Hermann Staber, "The Organizational Properties of Trade Associations" (Ph.D. diss., Cornell University, 1982); Leonard H. Lynn and Timothy J. McKeown, *Organizing Business: Trade Associations in America and Japan* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1988).

⁸⁴ Interview with TMA on 6 August 2001.

PMPA are similar in the priority of education and training. However, they specialize in different technical areas.

On the other hand, the relationships between national and regional associations are not hierarchical. They also occasionally compete with each other for members. Local associations like TMA focus on the training of local companies while the national associations call attention to lobbying in Washington, D.C., or have representatives in the international organization. On some issues, the local and national associations compete for members while they do not on other areas. This is different from the structure of German associations. In Germany, an association conducts comprehensive activities in an industry, and the national association coordinates the local branches. By contrast, the structure of American associations is fragmented due to their specialty orientation. Also, the relations between associations are not stable but temporal. The existing associations cooperate with each other on a specific issue and then disperse after solving the problem. For example, there are many temporary coalitions on tax relief, tariffs, health care, and the like. In representing the various interests of its members on many issues, sometimes association (such as the TMA) makes coalitions with the NTMA, while it does not on other issues. In a coalition, different associations come together as if they have put their names on the petition list. After an issue is solved, the coalition dissolves and a new coalition is established to address a new issue.

These issue-oriented, *ad hoc* coalitions and the specialty-orientated fragmentation of the American associations might limit the capacity to create society-wide public norms. One reason that many American associations in the automotive supplier market did not initiate deliberation of fair norms in the public realm is that they are not interested

in discussing “ethical issues,” due to their narrow specialty orientation in the competition over membership. Bruce Brake, president of the TMA, said, “If an association conducts a general and a comprehensive thing, the service area of the association will be poached by other special associations.” Many local associations like the TMA do not organize a public way of deliberating fair norms and adjudicating conflicts because such activities are not necessary for attracting members. In addition, the American national associations such as the National Association of Manufacturers (NAM) and the Chamber of Commerce, which might attempt to aggregate the various interests of diverse members as an encompassing association, do not have as much stable authority as the German BDI or the Japanese Keidanren do.⁸⁵ This might influence the associations’ capacity to organize deliberation of nation-wide norms.

Nevertheless, the fragmented structure of American associations does not sufficiently answer why American associations have not organized a public process of deliberating unfair cases. Contrary to rigid institutionalist expectations, American associations and their newly established social networks generated new public programs, such as training programs, as has already been examined. American associations might not be unable to initiate public deliberation of conflicts and fair norms if they intended to do so. The reason that Germans in the automotive parts market developed fair regimes is not due to their traditional centralized structure of corporatism. As shall be examined in chapter four of this thesis, German associations became more decentralized in the 1990s

⁸⁵ See Lynn and McKeown, *Organizing Business*; Robert H. Salisbury, “Why No Corporatism in America?” in Philippe C. Schmitter and Gerhard Lehmbruch, eds., *Trends Toward Corporatist Intermediation* (London: Sage, 1979); Phyllis S. McGrath, *Redefining Corporate-Federal Relations* (New York: The Conference Board, 1979), pp.79-80.

in the process in which agents reflected upon the rigidity of corporatist resolutions. Fair norms in Germany are not produced by a centralized corporatist resolution with which agents execute in a level of para-legal resolution. Fair norms in Germany became effective because of the agents' democratic participation in the deliberation itself, in which agents expressed their self-rules and formed social solidarity for fair norms.

It is noteworthy that even associations, which are very much concerned with suppliers' suffering from unfair treatments in the automotive parts market, did hesitate to initiate deliberation of fair norms at the public level in the U.S. For example, the Original Equipment Suppliers Association (OESA) was founded to increase supplier bargaining power and to deal with hot issues in the collaborative markets. But the OESA did not organize public deliberation as German associations did. This also shows that the fragmented structure of associations are not a decisive factor to the different consequences of market regimes in the U.S. and Germany.

A more important factor in explaining why American associations are reluctant to initiate public deliberation is agents' understanding of private and public at the level of *norms about norm-creation*. Under the influence of utilitarian liberalism,⁸⁶ American associations have limited not only the problems they can address, but even more crucially, also the way in which they deal with issues. American associations evaluate unfair behaviors and conflicts as private affairs between two contractors in civil society;

⁸⁶ Utilitarian liberalism refers to a strain of liberalism which the assumptions of utilitarianism and neoclassical economics dominate. Utilitarian liberalism is differentiated from the Kantian strain of liberalism in that utilitarian liberalism is an economist model of liberalism or market liberalism. Utilitarian liberalism assumes that a society is constituted of rational individuals and their voluntary relations on one hand, and the public state on the other. See Jeff Weintraub, "The Theory and Politics of the Public/Private Distinction," in Jeff Weintraub and Krishan Kumar, eds., *Public and Private in Thought and Practice* (Chicago: University of Chicago Press, 1997).

if two contractors need to resolve conflicts, they can refer to the public court. Conflicts within an American business community might produce temporary coalitions, but the process of resolution of the conflicts typically occurs within governmental institutions. In this utilitarian liberalism, there is little room for a civic public realm in which agents in civil society deliberate common issues and act in concert. This will be examined in the next subsection of this chapter in detail.

Simultaneously, however, a new pattern of practices, not traditional but newly created in the process of transformation toward the collaborative market, changed the social fabric, and thus influenced American market governance. As has been examined, the prevalent strategy of merger and acquisition by American suppliers has changed the social fabric, producing a negative impact on the development of horizontal cooperation among suppliers. In addition, changes in the level of personal relations in the 1990s, resulting from the adoption of cross-functional teams and new purchasing policies, have also had a negative impact on the development of stable relationships between buyers and suppliers in the U.S. automotive parts market. First, informal meetings that establish personal relationships between buyers and vendors have declined. Until the early 1990s, there were many interactions and informal meetings between buyers and suppliers, such as dinner and golf meetings. However, large companies in the U.S. automotive parts markets have recently been discouraging vendors and purchasers to maintain informal personal contacts.

More importantly, the reason for the instability of personal relations in the U.S. automotive parts market is that American companies frequently circulate their staffs as they adopt cross-functional teams and lean production. Some suppliers see four to six

different buyers from a customer company in a year.⁸⁷ One supplier reports that buyers rotate every eight months on average. In particular, with the development of cross-functional team structures, American companies have adopted cross-functional training. In the past, American companies had strictly divided departments. In this structure, employees normally stayed in the same department and moved up through the hierarchy in the same department. From the 1980s through the early 1990s, however, American companies developed cross-functional teams and cross-functional training systems in order to increase flexibility in an organization. If young people with B.A. or M.A. degrees in the U.S. enter a company, they switch between all different departments for the first three to five years. The American cross-functional training is different from that of German companies. Although German companies also adopted the cross-functional team system in the 1990s, people have relatively long-term personal relations due to different training systems and circulation, which will be investigated in the next chapter. Contrary to rigid institutionalist expectations, the cross-functional teams have taken priority in the organization of German companies in the 1990s, but employees in German companies are more likely to move within their occupational specialty. German suppliers in my survey estimated that they maintained contacts with their current buyers for about five to ten years; moreover, most people in German supplier companies expected that they would meet with a buyer again in the future.

Due to the frequent turnover of buyers, American buyers and vendors hardly have stable personal relationships in which they might accumulate norms for governing their

⁸⁷ Interview with A4 on 18 November 1999; Interview with A11 on 30 November 1999; Interview with A13 on 2 December 1999. In addition, Email-Interviews with US16 on 3 November 1999; Email-interview with US56 on 2 December 1999.

relationships.⁸⁸ If a new buyer comes up, she or he will set new issues and new rules by demanding more. Many German vendors in my interviews, who have dealt with American buyers, complain of frequent turnovers. A German supplier compares the short-term turnover of buyers in U.S. customer companies with German long-term personal relations:

To work with the American firm is very difficult because things and contracts are frequently changing. Although we agree to a certain point on the requirements this time, we have to discuss the point again next time. If you go there again, you meet new people. You have to start a new one.⁸⁹

Many American suppliers in the automotive parts market describe the contacts with their buyers as “a snapshot meeting.” In these snapshot meetings, buyers are not interested in suppliers’ specialties and conditions of production; they just take a look at the numbers of costs and prices rather than the benefits resulting from collaborative application engineering. If a supplier asks a customer to correct so-called unfair cases in reference to an existing contract, a new buyer often says that she or he does not know about predecessors. With frequent turnovers, there is little space in which buyers and vendors create their own norms and fair criteria for governing their own relationships.

In addition, the incentive system for buyers in American companies has a negative impact on the development of fair partnerships in the U.S. automotive parts market. The incentive system in U.S. companies tends to encourage the buyers to focus only on the price rather than considering the benefits of collaborative engineering. In a

⁸⁸ Suppliers in my interviews report that there are advantages and disadvantages with snapshot meetings. For example, when a new buyer comes to a supplier, he or she does not know anything about what the supplier said previously. The supplier can take advantage of the new buyer’s ignorance. If the supplier made a mistake in the past, the supplier can hide it. The disadvantage is that a new buyer doesn’t know about a supplier’s specialty and set new rules. Interview with A23 on 9 December 1999; Interview with A13 on 1 December 1999.

⁸⁹ Interview with G20 on 23 September 1999.

situation in which the bonus for a buyer is evaluated by the achievement of price cuts, the buyer in the American companies is too oriented toward the price cuts in a short period. A supplier describes the mind-set of her buyers: “The buyers are so narrow-minded. They consider only their personal bonus and salary. They don’t consider the long-term benefits of their company. Their goal is to reduce the price in a short time.” The reason for the obsession with the price cut is that, as many people put it, “The whole goal and measurement of the buyer’s success are pricing; their success is measured by price reduction.”⁹⁰ Richard Allen, CEO of the automotive sector at Freudenberg NOK, reports an interesting experience. He suggested to a purchaser a way of cost-saving by cooperation in the entire process of value creation. But the buyer from the OEM company said that if he did so, he could not get a record of how his job performance was measured. The benefits from value engineering are not counted as achievements for the buyer involved in a project.⁹¹ Many industrial observers and empirical researchers confirm that the buyer’s intense focus on price that results from the incentive system causes distrust and unfair behavior. Unlike the German incentive system in which buyers do not have such personal bonus systems, the orientation of personal achievement in U.S. companies, particularly price-cutting, is more likely to discourage the development of fair partnerships for flexible application engineering.⁹²

⁹⁰ Interview with A4 on 18 November 1999; Interview with OESA on 1 August 2001.

⁹¹ “Ward’s Auto World 22nd Supplier Survey,” *Ward’s Auto World*, p. 18; Interviews with A4 on 18 November 1999; Interview with A19 on 8 December 1999; Interview with OESA on 1 August 2001.

⁹² The German companies in the automotive (parts) industry do not have the personal bonus system. They usually have a general bonus oriented toward department or team achievement.

In summary, Americans do not have fewer associations and social networks than Germans although the structure of American associations is more fragmented. The fragmented structure is not decisive in the failure to create fair social norms, however. Although the structure of associations is fragmented, Americans could deliberate and articulate fair norms by adjudicating conflicts in the public realm. Contrary to institutionalist belief, American associations and social networks in the automotive parts market are not significantly lacking in the development of collective solutions in the public way. American associations and regional governments have created common activities for the companies' competitiveness in the market, which might be the resources from which the development of stable and fair governance could be established. In contrast to institutionalist expectation, more negative effects upon the development of adversarial relationships came from untraditional and newly created patterns of practices in the process of adopting Japanese-style lean production. Frequent turnovers of purchasers, along with the adoption of cross-functional training and an incentive system based on personal achievement have had negative effects on the society-wide development of fair partnerships in the U.S. automotive parts market. However, the negative factors in the social fabric are not sufficient for understanding unfair regimes, considering that relationships at the personal level are influenced by companies' strategies and the environment that is continuously constituted by inter-company interactions and social governance. Again, the method of constituting a market regime and associations' roles in the process of deliberation deserve attention. It is noteworthy that in spite of an abundance of associations and common activities like training, Americans in the automotive parts market have not developed fair norms for stable

governance through associational networks. Although Americans have no fewer associations than Germans, their different ideas about how to use associational networks create different consequences in governance. Different manners of problem-solving practices or different practices of norm-creation will be examined in the next subsection.

III. 3. (2) The American Way of Creating Norms

Americans in the automotive parts market are involved in as many associations or social networks as Germans are. However, Americans in the market have failed to develop fair norms and trustful cooperation. Although Americans are linked in formal and informal social networks, they have not created a public way of solving conflicts in which agents deliberate unfair behaviors and create society-wide norms for stable governance. While Americans in the automotive parts market believe that other people are suffering from similar unfair cases, they do not treat the problems as social issues from the perspective of correcting the rules of market governance. This section investigates why the American automotive parts market has not developed a public way of deliberation in which agents try to deliberate problems and build society-wide norms collectively.

Contrary to the opinions of neoTocquevillians like Robert Putnam, associations do not automatically generate civic norms. Even in Germany, which many institutionalists regard as a good example of associational governance, agents suffered unfair behavior in the late 1980s and the first half of 1990s; few people expected that powerful customers would temper their opportunism. In the case of Japanese subcontracting, the dense networks of Japanese supplier associations which had been

frequently praised for fostering cooperation in the 1980s began to be criticized as structures of domination and were subject to dissolution due to their rigidity as they resisted flexible innovation in the 1990s. Institutions like associations themselves are subject to agents' reflexivity.

More importantly, rigid institutionalists and neoTocquevillians, who focus on the number and formal structure of associations or on different norms about contracts and market, failed to explain why traditional civic norms do not work and how new norms are created. Traditional civic norms about contracts and contractual relations such as “live and let live,” which had worked for the neoclassical market during the period of mass production, did not work in the new collaborative market. Agents in the German and American automotive parts markets needed new ethical codes in a new market. In this sense, rigid institutionalists such as Steven Casper who focus on norms and legal system that regulate contracts and contractual relations, failed to explain the dynamic process of norm-creation.⁹³ Casper holds that the regulatory approach of the German courts prohibits powerful customers from opportunistic behavior, while the liberal approach of U.S. courts does not; thus, Americans fail to build fair and stable regime, while Germans succeed. However, few people in the U.S., as well as in the German markets, bring to court so-called unfair cases, not only because unfairness in the long-term and collaborative market is hard to prove illegal – there are many loopholes in long-term contracts – but also because suppliers are concerned with their future business in the

⁹³ Steven Casper, “The Legal Framework for Corporate Governance: The Influence of Contract Law on Company Strategies in Germany and the United States,” in Peter Hall and David Soskice, eds., *Varieties of Capitalism* (New York: Oxford University Press, 2001); Casper, “Reconfiguring Institutions: The Political Economy of Legal Development in Germany and the United States” (Ph.D. diss., Cornell University, 1997).

market. Although the German courts have a tradition of active intervention in private contracts based on the “Good Faith” clause, few people in the German market believe that active courts would stop opportunistic behavior of customers, a fact contrary to Casper’s explanation. The different consequences in the U.S. and German markets are not due to *norms or laws about contracts and contractual relations*, but due to the *different practices of norm-creation*, i.e., the *ways of deliberating conflicts and ways of understanding politics in social networks*.

Different conceptions of fairness and different market regimes are mainly due to the different ways of deliberation, e.g., deliberation in the civic public realm vs. the individual, dyadic method of deliberation. Agents engaged in public deliberation are more likely to generate substantive fairness than those engaged in isolated, dyadic deliberation, because the former generate rich neutral ground for adjudication through adjusting their differences. More importantly, as chapter four of this thesis will illustrate in detail, democratic participation in public deliberation is the process in which agents express their own rules – a process of legislation of self-rules – and form social forces to watch over violations of socially shared norms. The rules that agents deliberate through criticizing and justifying in the public realm are hard to violate because agents have difficulty overruling their own rules that are established in the public eye. In addition, powerful customers in the public way of adjudicating conflicts are burdened to justify their position in view of the public.

However, Americans in the automotive parts market have not developed such public deliberation, although the existing social networks and associations might be sufficient for the public realm if they intend to deal with them in a public way. Americans

in the automotive parts market have failed to build society-wide norms because they have tried to solve so-called unfair issues in individual, dyadic relations. In the absence of a process in which they may verbalize their own rules in the public eye through criticizing opportunism and justifying their own behavior, American first-tier suppliers have treated sub-tier suppliers in the same unfair way as automakers treated them. Lacking society-wide norms and without the burden of the justification of their own behavior in public, American customers can easily transfer burdens to their own suppliers when they feel pressure in their own markets. Why have American associations not organized such public ways of adjudicating conflicts? Why haven't Americans in the automotive parts market deliberated so-called unfair problems in the civic public realm?

One might point out the influence of antitrust law on the activities of American associations. Traditionally, antitrust laws have been understood as anti-association. Since 1935, antitrust laws have swayed public policy in the U.S. Even during mobilization for the Second World War and later in the 1950s, the trade association approach in the U.S. did not emerge as a major policy alternative as it had during the 1920s and under the jurisdiction of the National Recovery Administration between 1933 and 1935. In order to promote economic progress, the American government has looked to large corporations rather than to the loose cooperation of the associative style.⁹⁴ Most activities of American associations are subject to the close scrutiny of antitrust law. Particular concerns are price-fixing, information-sharing, standard-setting, defining memberships, and providing services to non-members. People in the American associations are nervous about keeping

⁹⁴ Louis Galambos, "The American Trade Association Movement Revisited," in Hiroaki Yamazaki and Matao Miyamoto, eds., *Trade Associations in Business History* (Tokyo: University of Tokyo Press, 1988).

antitrust law. A president of an automotive supplier association emphasized the observance of antitrust law in an interview with me, saying, “In order not to violate antitrust law, we make sure that lawyers are present in our meetings.”⁹⁵ American associations are very cautious of any off-the-record sessions, secret meetings, or discussions of association business at social gatherings.

Nevertheless, antitrust law might not be decisive in explaining the differences in the U.S. and German regimes. As Louis Galambos rightly points out, “Trade associations remained important in the American political economy. Indeed, they were essential to businessmen in the postwar era.” Galambos continues, “No significant industry can afford under current conditions in the United States not to be represented by effective associational representatives.”⁹⁶ Furthermore, since the Reagan administration in the 1980s, American antitrust law has become less strict in order to encourage joint ventures and cooperation among companies.⁹⁷ On the other hand, the reason for the establishment of fair partnerships in the German automotive parts market is not that German antitrust law is weak. On the contrary, the German Cartel Office (*Bundeskartellamt*) has supported strong orientation of a liberal market more than that of any other advanced capitalist country. According to the results of a British study, the German Cartel Office received the highest record (a five-star grade) in an evaluation of world authorities for market

⁹⁵ Interview with OESA on 1 August 2001.

⁹⁶ Galambos, “The American Trade Association Movement Revisited,” p. 123. Despite antitrust laws, associations in the U.S. have flourished. The number of trade associations increased from 2,895 in 1970 to 3,622 in 1984, when local, state, and regional-level associations were not counted. See Richard S. Tedlow, “Trade Associations and Public Relations,” in Hiroaki Yamazaki and Matao Miyamoto, eds., *Trade Associations in Business History* (Tokyo, Japan: University of Tokyo Press, 1988), p. 140.

⁹⁷ Scherrer, “Governance of The Automobile Industry,” p. 225; Galambos, “The American Trade Association Movement Revisited,” pp.126–131.

competition – higher than the Justice Minister (a four-star grade) and the Federal Trade Commission (a three-star grade) in the U.S.; Japan and Portugal received the lowest ranking.⁹⁸ The strong antitrust laws of the U.S. might have some negative effects on the establishment of society-wide cooperative activities, but it is not a decisive factor in regard to the failure to develop a public way of adjudicating conflicts in the U.S. automotive parts market. As many people in the U.S. automotive parts market commented in my interviews, the activity of creating “ethical codes” or “codes of conduct” is not prohibited by antitrust law.⁹⁹ Actually, American associations such as automotive dealer associations have experiences in which they developed ethical codes.

Why haven't American associations organized a public way of deliberating ethical codes? The fragmented structure of associations might have some negative effects on associations' attempts to initiate public deliberation on the issues of unfairness, considering that some local associations, like the TMA, do not organize the deliberation because such activities are not necessary for attracting members. However, as has already been examined, this fragmented structure is not a decisive factor in the American failure to organize public deliberation. A more important reason that American associations and suppliers haven't addressed so-called unfair behaviors in a public way is that under the influence of *utilitarian liberalism*, agents in the U.S. automotive parts markets limit not

⁹⁸ The study, titled the “Global Competition Review,” which asked more than 800 companies and lawyers to complete a survey in order to evaluate 24 authorities for market competition on all continents except Africa, reports that the German Cartel Office received a five-star grade. The German Cartel Office was evaluated as excellent in their ability to struggle against the cartel and to control fusion although it scored low in the area of flexibility. See “Ein Lob für die Leistung des deutschen Kartellamts,” *FAZ*, 27 April 2000; “Dann wird es bei uns eben keine Lenkungsfertigung mehr geben,” *FAZ*, 24 May 1994.

⁹⁹ A president of an automotive supplier association says, “We are not afraid of antitrust law. We are not allowed to align ourselves to fix the price on a specific product. But, we can act together to improve business practices; our association can recommend ‘the code of conduct.’” Interview with TMA on 6 August 2001.

only *the problems they can address*, but also *the way in which they deal with issues*.

Under the understanding of a public/private dichotomy based on utilitarian liberalism, there is little room for a civic public realm in which agents in civil society deliberate social issues and act in concert. Americans in the automotive parts market believe that “In order for there to be the public rules, legal laws must already exist. Moreover, the other issues should be personal and private issues within the public law; so-called “unfair” cases ought to be problems between two private contractors; so-called ‘unfair’ cases shouldn’t be the problems which associations ought to deal with, but the problems which the ‘public’ court should rule on only if the private contractors want.”¹⁰⁰ American associations restrict the problems they should deal with to neutral issues, believing they should not be involved in political issues in civil society. In the American automotive parts market, utilitarian liberalism’s influence on the adjudication of conflicts deters the Americans from developing a public method of deliberation in market society.

Under the prevalence of utilitarian liberalism, based on neoclassical economics, the rules of the market are dealt with only in the public realm.¹⁰¹ However, the usage of the term “public” in utilitarian liberalism refers to the government, while the term “private” refers to civil society. Within the utilitarian liberal paradigm, the whole society is constituted of: a) individuals pursuing self-interests rationally; b) voluntary, contractual relations between individuals; and c) the public state. In practice, the distinction between the public and the private refers to the distinction between the governmental and non-

¹⁰⁰ Email-Interview with AIAG on 22 December 1999; Email-interview with AIAG on 12 January 2000; Email-interview with AIAG on 3 December 1999.

¹⁰¹ For different ideas of liberal conception of “public/private,” see Weintraub and Krishan Kumar, eds. *Public and Private in Thought and Practice*; Meadowcroft, *The Liberal Political Tradition*.

governmental sectors. The non-governmental sphere is normally understood in terms of the market. The usage of the public/private distinction is preoccupied with questions of jurisdiction in liberal societies; thus, it tends to sharply demarcate the sphere of public authority of the state from the sphere of voluntary relations between private agents. These utilitarian liberal ideas totally blank out the civic public realm, which is not governmental. The civic public realm is a domain in which individuals discuss and actively deliberate their common activities.

Under the influence of utilitarian liberalism, American associations do not address customers' unfair behavior, even though such behavior is pervasive in society. What American associations address are common and neutral issues. However, this neutrality is very limited. Collective deliberation regarding the creation of neutral rules are avoided. American associations deal with technology and technical standards. Topics such as technology and instruments are seemingly beyond politics; in other words, they are value-neutral. American associations like the AIAG focus on general, technical issues such as electronic commerce, bar-coding, and standardization of products and production.¹⁰² The OESA, which American suppliers in the automotive parts market founded in order to deal with new problems that were emerging in long-term and collaborative markets, could have developed a public way of deliberating governance problems in the same way that the German confederation of supplier associations (ArGeZ) did in the 1990s. The OESA, established in 1998, was built for the purpose of

¹⁰² Interview with A18 on 7 December 1999; Interview with A19 on 8 December 1999; Email-interview with US63 on 22 December 1999.

increasing the suppliers' own collective voice.¹⁰³ However, the OESA did not organize a public way of deliberating and adjudicating so-called unfair cases. The way in which the OESA addresses problems is value-neutral and instrumental. For example, the OESA has deliberated on e-business, not in the sense of whether the customers in e-business behaved in an unfair way, but in the sense of how members implemented e-networks and what technology they were using.

The way the OESA deals with controversial topics such as warranties is simply by providing the value-neutral facts about general trends of the customers' behavior.¹⁰⁴ The OESA does not organize public deliberation in which customers and suppliers criticize unfair behavior and justify their own behavior. The value judgement of customers' behavior depends entirely on an individual agent. Instead of organizing a legitimate way of responding to unfair treatment in a public realm and deliberating fair criteria collectively, the OESA leaves such response and deliberation up to the individual. The correct or legitimate way of responding to the behavior is decided by one's own personal resolution. For example, when Chrysler repealed existing contracts unilaterally by requesting the comprehensive price cut of 5% in December 2000, the way in which the OESA dealt with the problem was not to organize a collective discussion on the fairness of unilateral repeals, but to conduct a phone survey of value-neutral facts such as how many suppliers would accept them. The collected data on each individual resolution or

¹⁰³ Interview with OESA on 1 August 2001. See also "Suppliers Unite for a Strong Voice," *Ward's Auto World*, Sep. 1998; "MEMA Forms Automotive Original Equipment Supplier Association," *PR Newswire*, 5 Aug. 1998; "Mutual Interests," *Ward's Auto World*, July 1999; "New OE Suppliers Group Has Budget, Big Dreams," *Automotive News*, 10 Aug. 1998.

¹⁰⁴ The discussion of the way in which the OESA deals with issues is based on my personal interview with OESA on 1 August 2001.

market trend might help a supplier to consider its choice, but this is not a process of creating norms for market rules. American associations do not deliberate on value-related issues such as customers' unfair behavior and ethical codes. Agents in the U.S. market society believe that politics should occur only in the "public" that is defined by utilitarian liberalism; in other words, the realm of the administrative government and its authority. The politics which American associations engage in is mainly lobbying the government, rather than self-government in civil society.

This is in contrast to the way in which their German counterparts deal with prevalent issues in society. Germans in the automotive parts market debate and deliberate their prevalent unfair cases in formal and informal meetings. Germans in the market believe that they can address unethical issues because such issues are prevalent society-wide. German associations articulated fair norms by organizing democratic participation in the public realm, as will be investigated in chapter four of this thesis. The German public way is in contrast to utilitarian liberalism's conception of the public that facilitates the individual, dyadic way for adjudication of conflicts in the U.S. The civic public realm, which utilitarian liberalism disregards entirely, provides an alternative to market liberalism. This public realm, which stems from Aristotle's conception of politics – participation in collective self-determination – has been rediscovered in Tocqueville's conception of "political society," Hannah Arendt's conception of the "public realm," and Habermas's conception of the "public sphere." This public realm can be reduced neither to the state nor the private (family and intimate relations) realm. However, this civic public realm has not been utilized by agents in the U.S. automotive parts market. Americans who relied on a conception of utilitarian liberalism in the automotive parts

market could not generate a public process for the establishment of fair norms as Germans did. This is why Americans did not develop civic norms even within dense networks of associations. To use Robert Putnam's metaphor, Americans in the automotive parts market do not bowl alone. They are bowling together but they do not talk about politics within their community.

Norms about norm-creation like utilitarian liberalism, rather than *norms about contracts and contractual relations*, strongly influenced the ways of deliberation in the U.S. automotive parts market; thus, they contributed to the prevalence of an extreme form of formal fairness and distrustful relationships. However, this does not mean that norms about norm-creation are not subject to agents' reflexivity, or that the distrustful regime is predetermined by the taken-for-granted culture. Utilitarian liberalism is one of the dominant interpretations of society and has been constantly contested. Actually, Americans in the automotive industry also had a tradition of self-government by associations.¹⁰⁵ Furthermore, Americans in the parts market have recently developed very "untraditional" and publicly mediated institutions, in contrast to the view of relatively strongly utilitarian liberalism. For example, OEMs and suppliers in Wisconsin and Pennsylvania developed public-private consortiums or partnerships, such as the Wisconsin Manufacturers' Development Consortium (WMDC).¹⁰⁶ These private-public consortiums, in which the state, the OEMs, the suppliers, and regional institutes took part, made tremendous efforts not only to upgrade supplier capabilities, but, more notably,

¹⁰⁵ See Scherrer, "Governance of the Automobile Industry," pp. 213-214.

¹⁰⁶ The story of WMDC is mainly thanks to Professor Gary Herrigel. See also Josh Whitford and Jonathan Zeitlin, "Governing Decentralized Production: Institutions, Public Policy, and the Prospects for Inter-Firm Collaboration in US Manufacturing" (Research Paper, 2002).

tried to develop trustful relationships between the OEMs and the suppliers by developing a code of conduct for good behavior and by encouraging customers to develop good supplier relationship practices. This new model of publicly mediated coordination, which agents in the parts market built by reflecting upon their problems in collaborative markets, contests the existing utilitarian model. Publicly mediated coordination leaves it an open possibility whether Americans in the parts markets could develop genuinely trustful relationships in the collaborative market.

Despite the emergence of this new model of publicly mediated coordination, private-public consortiums are still at the early stage of evolution, and the utilitarian liberal model continues to prevail in the current U.S. automotive parts market. In particular, the utilitarian liberal model has been reinforced by the practices of individual solutions, such as quick growth of consolidation and reliance on individual power instead of horizontal cooperation and collective solutions. Particularly, formal associations are discouraged from organizing public deliberation by the members' reluctance to discuss unfairness; conversely, without initiation and guidance of formal associations, individuals in informal meetings are discouraged from developing collective deliberation. Ideas and practices are mutually reinforced. In light of this, this section investigates in detail how utilitarian liberalism is confirmed by practices in individualist solutions – in other words, how ideas and practices are mutually reinforced.

In the absence of a public method of deliberating and acting in concert within civil society, and in a situation in which agents rarely refer to the court, Americans in the automotive parts market depend on individual resolution and power. Without active efforts to create the public realm on the part of associations under the influence of

utilitarian liberalism, the specific contractors in conflict rarely choose the collective solution. The reason for suppliers' reluctance to a collective solution is primarily that the risk and burden assumed by each supplier in the absence of associations' initiation are too large, larger than the benefits. American suppliers in the automotive parts market have not created social adjustments even in numerous social networks because few people want to talk about their own unfair cases in a public sphere. When I asked why they did not discuss such unfairness in formal meetings, most suppliers retorted, "Who dares to speak such things?" It is very difficult to appoint a representative who can address such unfair behaviors in a public way.

In the absence of associations' initiation of public deliberation, informal discussions among suppliers could hardly contribute to the development of a public way of building fair norms. Although American suppliers meet with other suppliers in numerous informal settings, such as golf clubs and trade fairs, they are very cautious of other suppliers because other suppliers might take advantage of any shared information.¹⁰⁷ In these informal meetings, some suppliers complain of so-called unfair behavior, although only rarely. If a supplier complains of unfair behavior, surrounding suppliers might console the supplier by showing pity. But most of the American suppliers that I interviewed believed that complaints in informal meetings did not provide any solutions, particularly in situations in which formal associations do not initiate a public way of adjudication. While associations are discouraged from organizing public deliberation by members' reluctance to participate in the meetings, suppliers in the U.S.

¹⁰⁷ Interview with A26 on 5 January 2000; Interview with A7 on 22 November 1999; Interview with A11 on 30 November 1999; Interview with A18 on 7 December 1999; Interview with A23 on 9 December 1999.

automotive parts market are also discouraged from discussing their own experiences of so-called unfair cases because associations do not initiate and guide the public deliberation of fair governance. Initiation might be needed from either side.

In the absence of horizontal coordination and deliberation among suppliers, powerful customers easily take advantage of their power. American suppliers do not know how other suppliers respond to so-called unfair pressure and treatment. The information that a supplier has about competitors is public knowledge that everyone knows through newspapers and journals – where they operate, the price of competitors, and whether they're unionized.¹⁰⁸ Another way in which suppliers gain information about their competitors in the same market segment is through their own customers. According to consulting company researchers who studied the process of price reduction in the U.S. in 1997 and 1999, suppliers did not know how many discounts customers requested from competitors and what price cuts the competitors gave to their customers.¹⁰⁹ When American suppliers did know of competitors' offers to customers, almost all suppliers were surprised. Some suppliers were shocked, believing they had given too much to their customers, compared with their competitors. In the absence of public deliberation, in which agents criticize unfair behavior and justify their policies, American customers easily abuse the unclear governance of long-term and collaborative contracts in the individual, dyadic relation between two contractors.

In the individual dyadic relationship, American suppliers have little choice, except bearing unfairness or increasing their own leverage in the market. The easy way to

¹⁰⁸ Interview with A11 on 30 November 1999; Interview with A13 on 2 December 1999.

¹⁰⁹ Interview with A9 on 24 November 1999; Interview with A13 on 2 December 1999.

increase leverage is consolidation of their market through the buy-out of other companies in the market. Adversarial acquisitions among suppliers contribute to the atrophy of horizontal relationships. Adversarial acquisitions, the lack of horizontal relationships, and the absence of public deliberation tend to reinforce one another.

The conception of prevalent fairness is constituted in the process of adjudication of conflicts. In the process of solving conflicts in individual, dyadic relations, and in the absence of public deliberation, the criteria for governing conflicts are more likely to be set by powerful customers, and fair criteria become more extremely formal because few adjustments among agents make common grounds as reference to adjudication more poor. In a situation in which there is little possibility for collective adjustments of fair norms, American suppliers tend to accept customers' opportunistic behavior as it is, although that behavior may be distasteful. In addition, even the power-driven conception of formal fairness is justified by the utilitarian liberal conception of justice in the market. A president of a supplier association describes the prevalent way of responding to so-called unfair treatment by saying that "they [unfair behaviors] have been in the industry for many years; many people say, 'if you can't stand the heat, get out of the kitchen.'"¹¹⁰ Americans in the automotive part market believe that the rules set by the powerful customers are given; if you don't like them, you are free to leave. Although the freedom to exit is limited in the real market, power-driven rules are justified by utilitarian liberalism – any result in the market is fair if an action is made by free choice. American suppliers come to believe their customers' rules are fair insofar as they treat all competing suppliers equally. Under this extreme type of formal fairness – no matter how

¹¹⁰ Interview with A30 on 21 January 2000.

customers behave, they are fair if they treat competitors equally – American suppliers are less likely to deliberate customers’ prevalent opportunistic behavior in the public realm again. Although the extreme type of formal fairness grows out of the individual way of adjudicating conflicts, it reinforces the individual way.

To sum up, contrary to prevalent beliefs, long-term contracts have not generated stable and trustful relationships. On the contrary, due to their incompleteness, long-term contracts open new possibilities for powerful contractors to abuse unclear governance. In particular, the American automotive parts market suffers from rancorous conflicts and distrustful relationships in long-term and collaborative contracts. The reason for the failure to establish fair partnerships in the U.S. is neither due to sparse associations, nor due to traditional norms and liberal laws about contracts and contractual relations.

The main reasons for power-driven formal fairness and distrustful relationships in the U.S. market are mainly due to the individual, dyadic ways of conflict adjudication. Although Americans in the automotive parts market have no fewer associations and social networks than Germans do, Americans in the market have not organized a public way of deliberation in which agents criticize opportunistic behavior and deliberate fair norms collectively. Not *norms about contracts and contractual relations*, but *norms about norm-creation*, particularly utilitarian liberalism, influenced the way agents recognize problems and the way agents address conflicts. Although so-called unfair cases are prevalent society-wide, Americans in the automotive parts market have not recognized the problems as an public issue, under the influence of the utilitarian liberal idea of the public/private dichotomy. In the absence of associations’ initiation of public deliberation, agents prefer individual solutions, which discourage associations from

organizing public deliberation. Thus, initiation from either side is needed for the establishment of public deliberation. In this sense, the new, untraditional experiment of publicly mediated coordination matters although it is still at the early stage of evolution. The publicly mediated coordination shows not only that utilitarian liberalism is not an unreflective norm about norm-creation, but also that the new experiment still leaves open the possibility for American fair partnerships. Nevertheless, until now, the utilitarian liberal model still prevails and is reinforced by the practices of individual solution, such as adversarial acquisition. In the absence of a public way of deliberating fair norms, American suppliers tend to confirm the extremely formal rules set by powerful customers. The extreme type of formal fairness in the U.S. automotive parts market grows out of the individual, dyadic method of adjudicating conflicts and reinforces the individual way.