

Organization theory and supply chain management: An evolving research perspective

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Abstract

The supply chain is the central organizing unit in today's global industries. We describe how supply chains have evolved over the last three decades, arguing that their organizational history can be divided into three periods. In the first period, the primary focus was on how to make operations throughout the supply chain more efficient. In the second period, the focus shifted from efficiency to effectiveness as leading firms began to incorporate the ideas and expertise of their suppliers and partners into the management of the supply chain. In the current period, some firms are beginning to explore how supply chains can be extended across industries in addition to operating efficiently and effectively within industries.

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1. Organization theory and supply chain management: an evolving research perspective

Supply chains, the network of firms that contributes both inbound and outbound products and services along an industry value chain, have drawn increasing attention from organization theorists since the 1980s. Moreover, scholarly research has shifted over time to emphasize one after another of several organization theory perspectives. Indeed, our own interest in the organization and management of supply chains illustrates those shifting theoretical perspectives. Our research interests have evolved from an initial focus on strategic choice, to one of resource development and utilization, and most

recently to the design of multi-firm network organizations whose capabilities are focused on knowledge sharing and application. A brief review of how and why our theoretical perspectives have evolved illustrates how each one has been and can be applied. Overall, this review will show that supply chain research, which originally focused narrowly on the efficient movement of goods among firms within an industry, now incorporates a substantial amount of organization theory.

2. Strategic choice perspective

The use of market mechanisms inside firms, such as the substitution of markets for hierarchies in the resource allocation process, began to grow in the 1970s, and economists and other scholars increasingly focused their attention on how organizations were incorporating external resources into their internal operations (Halal et al., 1993; Williamson, 1975). As management

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theorists, we wrote about the use of internal market mechanisms to allocate scarce human resources in describing a new type of organization structure that we called the “market matrix” (Miles and Snow, 1978), and our own recognition of the growing use of external resources began with a study of college textbook publishing firms. In the typical textbook publishing firm of the time, product development was a joint activity conducted by the firm and independent authors while design, printing, and other functions were performed either internally or by outside suppliers. Thus, what a firm decided to do – and not to do – clearly was a strategic choice. So, too, was the firm’s decision about how to organize to pursue its chosen set of activities.

Our curiosity about how firms made such strategic choices led us to watch for similar signs in other types of supplier networks, and our examples quickly grew from an ever-widening sample of consumer product firms, components suppliers in durable goods industries, and various types of providers in the service sector. More importantly, we began to see how the supply chain mechanism allowed firms to blend strategies in ways we had previously thought was not possible. That is, supply chain networks allowed firms to make new strategic choices and then create new structural designs to implement them. In our terminology, downstream firms in the value chain could support their prospector market strategies with upstream defender-like structures and processes, or they could choose from a variety of other strategy-structure combinations (Miles and Snow, 1984, 1986). The emergence of the multi-firm network organization opened a whole new arena for strategic choice, and many firms became much stronger competitors by linking with specialist providers in an integrated supply chain.

3. Resource-based view

Our understanding of the various types of network structures that arose became more sophisticated over time. Gradually, we realized that supply chain structures aimed only at cost reductions provided little sustainable competitive advantage because management techniques such as benchmarking, business process reengineering, total quality, and best-practices helped leading competitors learn how to achieve maximum efficiency across their network of suppliers and partners. The automobile industry provided many of the early examples, from BMW’s incorporation of its suppliers’ ideas into its own designs to Toyota’s development of lean production. Ford Motors’ supply chain transformation illustrates the shifting emphasis from strategic choices focused on cost

and efficiency to a resource-based perspective emphasizing enhanced design capability. Ford, which had been the most vertically integrated American automotive firm, went from making its own glass, to purchasing a share in a glass producer (to capture technology while still dictating specifications), to realizing that the glass producer had design skills that complemented those at Ford. Many similar examples have been chronicled in other industries, and today the so-called “extended enterprise” is perhaps best represented by Dell Inc. (Magretta, 1998). Dell’s managers consider the entire supply chain to be an organization, and they manage it for purposes of both efficiency and effectiveness.

Of course, the outsourcing practices of Ford, Dell, and other firms could have been analyzed from the perspective of agency theory (Jensen and Meckling, 1976), given that most managers at the time had to overcome the deeply entrenched belief that firms had to own their resources in order to assure an efficient flow of high-quality goods and services. In our judgment, however, such a focus would have hindered both scholars and managers from recognizing the gains in capability that occurred when firms created trusting, cross-firm relationships that they then used to share knowledge and expertise. We addressed this broad philosophical issue in several articles about the causes of success and failure in supply chain networks, and we summarized our conclusions about the strengths and limitations of multi-firm network organizations in Miles and Snow (1994).

4. Knowledge management perspective

Our most recent research on supply chains and other types of multi-firm networks has come from a knowledge management perspective. While resource-based supply chains provided added capabilities for product and process improvements, some networks seemed to be moving towards improving the process of innovation via knowledge sharing. If, we reasoned, relationships along supply chains and across firms could move from mere cooperation to full-fledged collaboration, a virtually endless array of innovative ideas might emerge—including ideas that might find application outside of the firms’ existing industries. We had seen and written about examples of such collaboration resulting from the voluntary interaction of units in firms such as the Acer Group and Technical & Computing Graphics (Miles et al., 1997), and we began to realize that it was their ability to capture not only the planned but also the unplanned outputs of knowledge sharing that was most promising. Cooperative efforts – sharing

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