

Supply management orientation and supplier/buyer performance

Hojung Shin^{a,*}, David A. Collier^{a,1}, Darryl D. Wilson^{b,2}

^a Department of Management Sciences, Max F. Fisher College of Business, The Ohio State University, 2100 Neil Avenue, Columbus, OH 43210, USA

^b Florida State University, College of Business, Tallahassee, FL 32306-1042, USA

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Abstract

Academics and practitioners agree that excellence in supply management results in better quality, customer service, and channel performance. Yet, most of these studies are either conceptual in nature or actual case studies. The primary objective of this research is to test the impact of a supply management orientation (SMO) on the suppliers' operational performance and buyers' competitive priorities (cost, quality, delivery, flexibility). Three major research hypotheses associated with SMO, Supplier Performance (SP), and Buyer Performance (BP) are tested using a confirmatory structural equation modeling approach. The results of this research support the conclusion that an improvement (increase) in the SMO improves both the suppliers' and buyers' performance (i.e., a win-win situation for the supply chain). In addition, the influence of SMO on delivery- and quality-related performance is more statistically significant than on cost or flexibility performance. In fact, when volume and process flexibility are top competitive priorities, a supply chain management orientation may not be an effective way to achieve the desired flexibility. The article ends by discussing other conclusions and suggests directions for future research. © 2000 Elsevier Science B.V. All rights reserved.

Keywords: Supply chain management; Competitive priorities; Supplier performance; Covariance structure modeling

1. Introduction

The positive impact of the supply chain management on a firm's performance has been reported from many industries. Proctor & Gamble (P&G) strengthened its leadership position in the consumer package goods industry by excelling at supply chain

management. P&G has generated more than US\$325 million in supply chain savings by using Continuous Replenishment Program and Efficient Customer Response. In the automobile industry, Chrysler launched a supplier involvement program, Supplier Cost Reduction Effort (SCORE), benchmarking the supply chain management practices of Japanese companies. Chrysler announced that it achieved more than US\$1.2 billion in cost savings through 1997 due to the SCORE program. Also, Honeywell Industrial Automation and Control reported a 90% reduction of product defect rates based on its supply management program during the period of 1990 through 1996.

As opposed to traditional procurement and distribution channels composed of independent organiza-

* Corresponding author. Tel.: +1-614-688-9432.

E-mail addresses: shin.49@osu.edu (H. Shin), collier.4@osu.edu (D.A. Collier), dwilson@garnet.acns.fsu.edu (D.D. Wilson).

¹ Tel.: +1-614-292-8305.

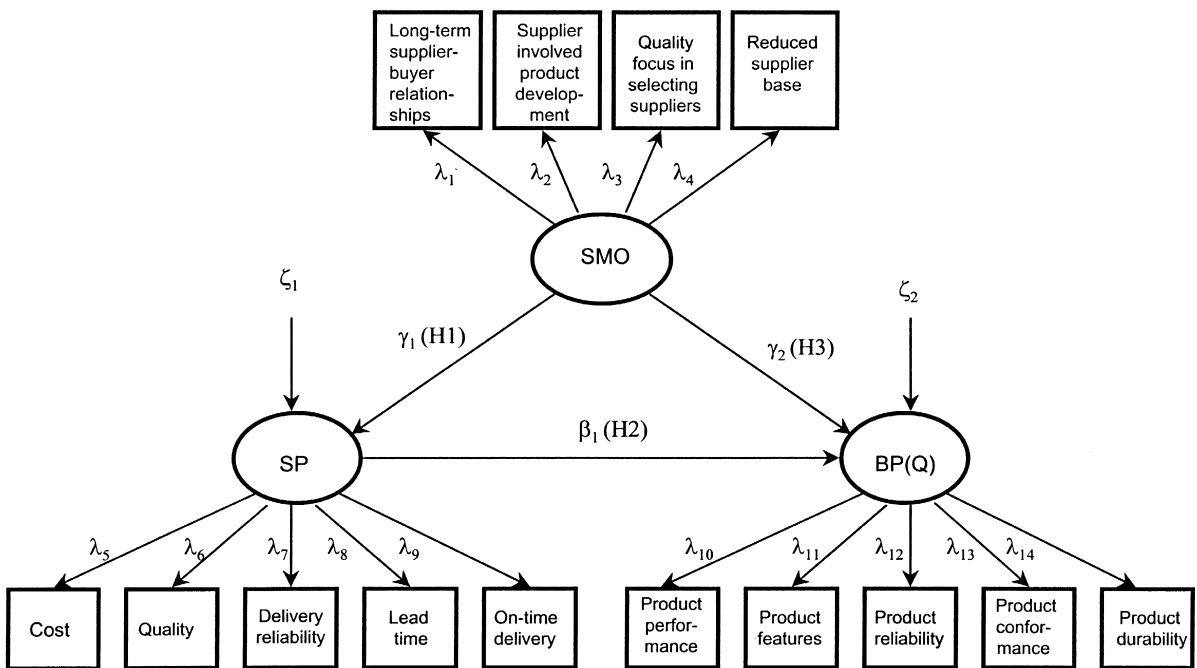
² Tel.: +1-904-644-2047.

tions, a ‘supply chain’ consists of interdependent organizations working for the efficiency of the entire supply chain. In general, ‘supply chain management’ can be defined as “an integrative philosophy to manage the total flow of a distribution channel from the supplier to the ultimate user” (Cooper and Ellram, 1993, p. 13). The term ‘supply chain’ or ‘supply chain management’ is widely used in the literature even when the procurement side of manufacturing is the primary interest (Choi and Hartley, 1996; Forker et al., 1997). However, since our research focuses primarily on the dyadic supply relationship in the supply chain, we use the term Supply Management or Supply Management Orientation (SMO) throughout this research to describe the management efforts or philosophy necessary for creating an operating environment where the buyer and supplier interact in a coordinated fashion.

Considerable research has been conducted on buyer–supplier relationship management or supply

management, but most of these studies are conceptual in nature or based on a few case studies. Moreover, the existing literature fails to address empirically what improving supply management really means in practice and how it is related to the companies’ operational performance. In this context, the primary objective of this research is to test empirically the impact of an SMO on the performance of both supplier and buyer. We test the following three questions with corresponding research hypotheses using a confirmatory structural equation modeling approach (Bollen, 1989; Bollen and Long, 1993; Hair et al., 1995).

- Does an improved SMO improve supplier’s performance?
- Does an improved supplier’s performance improve the buyer’s performance?
- Does an improved SMO improve internally the buyer’s performance as well?



SMO - Supply Management Orientation
 SP - Supplier Performance
 BP- Buyer Performance

Fig. 1. General covariance structure of the models (illustrated based on Quality Model).

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