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Strategic supply management: The relationship between supply management practices, strategic orientation and their impact on organisational performance

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Abstract

A theoretical model is presented for conceptualising the relationship between the management of supply, strategic orientation at the business-unit level and their proposed link with firm performance. The shortcomings of existing approaches in accounting for the wide variety of purchasing practices in a comprehensive supply management framework are discussed as well their alignment with strategic orientation. The paper concludes by presenting a model and propositions concerning firm-level supply management, strategic orientation and firm performance.

Keywords: Purchasing strategy; Strategic co-alignment; Supply management; Supply management practices

Educator and practitioner summary

This paper lays out a theoretical link between an organisation's performance and the contribution that supply management makes in the firm. This forms the basis of an informed practitioner or classroom debate about how to link purchasing strategy to a more sophisticated view of firm-level strategy and how any performance differential can arise from their strategic co-alignment.

1. Introduction

The relationship between business strategy, make/buy decisions and supplier management have been a focal point of investigation by a number of academic disciplines, namely economics (Poppo et al., 1995), marketing (Buvik and John, 2000), operations management (Narasimhan and Das, 2001), accounting (Balakrishnan, 1994) and strategic management (Venkatesan, 1992; Ring and Van de Ven, 1992; Rossetti and Choi, 2005). Moreover, a number of previous studies (e.g. Monczka and Trent, 1991; Watts et al., 1992; Narasimhan and Das, 2001; Brown and Cousins, 2004) have conceptually linked purchasing at the functional level with the business strategy of the firm. However, there are no conclusive studies that adequately address the relationship between the management of supply, a firm's strategic orientation and its impact on financial or operational performance (cf. Tracey, 1998; Gilley and Rasheed, 2000; Das and Narasimhan, 2000; Narasimhan and Das, 2001; Park et al., 2001; Ellram and Lui, 2002; Ellram et al., 2002).

The aims of this paper are to extend the concept of the management of supply, introduce a construct called supply management practices, and offer a model and propositions to test its direct and interaction effects with strategic orientation and firm performance. The proposed model for supply management practices uses an extended version of a purchasing practices scale developed and tested by Narasimhan and Das (2001). A well-tested framework for operationalising firm level strategy, the Miles and Snow typologies of strategic orientation, is used to discuss its

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alignment with supply management practices. Building on previous research that found strategic co-alignment has a moderating effect on firm performance (see Conant et al., 1990; Sabherwal and Chan, 2001; Rodriguez and Ventura, 2003; Vorhies and Morgan, 2003), the performance impact of the relationship between supply management practices and strategic orientation is proposed.

This paper is presented into two parts. Firstly, the supply management practices construct is outlined, building on a revised version of the Narasimhan and Das (2001) purchasing practices framework. We discuss the difference between the unit of analysis for measuring purchasing practices at an organisational rather than a functional level, and define the scope of the supply management practices construct at the firm level. Next, the strategic orientation construct is outlined. It links the constructs of supply management and strategic orientation with operational and financial performance in a conceptual model using propositions.

2. Purchasing competence and supply management

Purchasing competence, according to Narasimhan and Das (2001) comprises certain key categories of purchasing activity shown in Fig. 1. They are grouped into four categories that relate to the purchasing–supply base interface. Supply base leveraging, buyer–supplier relationship development and supplier performance evaluation are separate categories of externally facing purchasing practices. In contrast, purchasing integration refers to an internally focused set of practices that involve the integration and alignment of strategic purchasing practices and goals with that of the firm.

The definition of purchasing practices that Narasimhan and Das (2001) use is based on the identification of tasks that the purchasing function will undertake in a manufacturing organisation. Specifically, they use the functional literature related to purchasing as the basis for the development of their scale. Collectively, the four categories are used by Narasimhan and Das (2001) to investigate the influence and relationship between purchasing practices and generic manufacturing performance, and the mediating effect that purchasing integration practices can play.

The conceptual boundary for articulating purchasing practices was set within the functional domain of purchasing. However, according to Aldrich (1979, p. 245) several individuals are involved at different hierarchical and functional levels, building relations and social bonds that influence the decisions made in inter-firm interactions. This role as a mediator or negotiator between two sides was recognised as a crucial interface between the organisation and environment. It also reflects Tracey's (1998, p. 66) argument that purchasing is a spanning process providing horizontal connections across the value chain. This is particularly critical with supply management tasks that encompass outsourcing (Gilley and Rasheed, 2000; Rossetti and Choi, 2005), partnering and strategic alliances (Cravenset al., 2000; Muthusamy and White, 2005), and strategic sourcing (Tayles and Drury, 2001). Therefore, to take account of the inter-firm nature of purchasing, a transaction cost approach is used as a theoretical foundation to frame the variety of forms that purchasing takes. The inter-firm nature of purchasing is therefore used to extend Narasimhan and Das' (2001) definition of purchasing practices from a functional to a firm-level construct.

3. The scope of supply management

Make versus buy decisions, informed by Williamson's use of transaction cost economics, broadens Das and Narasimhan's (2000) concept of purchasing practices and purchasing integration away from functional procurement decisions. Harland et al. (2004, p. 2) provide a conceptually wider definition arguing that supply management is "an holistic approach to managing operations within collaborative inter-organisational networks, allowing the formulation and implementation of rational strategies for creating, stimulating, capturing and satisfying end consumer demand through innovation in products, services, supply network structures and infrastructures… This concept frames the convergent issues and interests relating to inter-organisational flows of resources, products and services within supply networks."

This definition drives a process to capture all those episodes and relationships that a focal organisation should manage with third party suppliers. This gives an organisational view of the way that the firm manages factor inputs (both tangible and intangible) in a way that satisfies its productive objectives (Gadde et al., 2003, p. 361).

The root of Harland et al.'s (2004) definition of supply management is based on the make versus buy decision, and subsequent management of the supply relationship. Williamson (1975, 1979, 1985, 1991) takes the notion of the firm as a nexus of contracts in which make versus buy

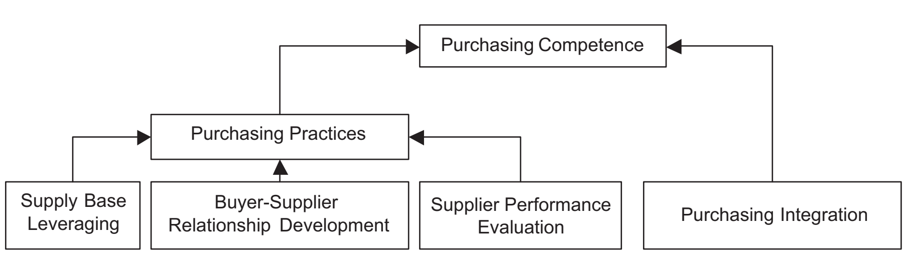

Fig. 1. A model of purchasing integration practices and purchasing competence. Adapted from Narasimhan and Das (2001).