

Strategic supply management, quality initiatives, and organizational performance

Andy C.L. Yeung*

Department of Logistics, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong, China

Available online 26 June 2007

Abstract

Researchers in supply chain management have found over the past two decades that supply management should be not merely a purchasing function but a strategic tool for supply chain integration. Supply management, the cornerstone of the integration of industrial supply chains, has evolved as a key research area. Based on quantitative and qualitative investigations of 225 electronics manufacturing firms, we examine the organizational impacts of strategic supply management (SSM) and the contexts of company size, process type, ISO 9000 certification, and quality management (QM) implementation that facilitate such an endeavor. We reveal that SSM is essentially a quality management initiative that requires bilateral efforts for continuous improvement and thus is not associated with the basic requirements of ISO 9000. We find that SSM improves on-time shipments, reduces operational costs, and leads to customer satisfaction and improved business performance. Developed based on contemporary premises in supply chain and QM, this research refines our understanding of the relationships among quality initiatives, SSM, and organizational performance. © 2007 Elsevier B.V. All rights reserved.

Keywords: Strategic supply management; Quality initiatives; Organizational performance; Empirical research

1. Introduction

The past two decades have witnessed a shift in the role of the purchasing function in supply chains (Carr and Pearson, 1999). In contrast to the traditional view of the purchasing function, the modern idea of supply chain management (SCM) emphasizes the interdependence of organizations working collaboratively to improve the efficiency of the entire logistics channel (Shin et al., 2000; Narasimhan and Kim, 2002). SCM revolves around the efficient integration of retailers, distributors, manufacturers, and suppliers. More recently, the importance of supply management to business performance in the manufacturing industry has

been extensively documented. Researchers advocate that supply management should be not merely a procurement function but a strategic initiative aimed at sustaining beneficial buyer–supplier relationships (Ellram and Carr, 1994; Carr and Pearson, 1999). Strategic management of suppliers has thus evolved as a key research area in operations management (Carr and Pearson, 1999; Shin et al., 2000; Chen et al., 2004).

In this research we focus on strategic supply management (SSM), which is a long-term, planned effort to create a capable supplier base and leverage the benefit of supply management (Monczka et al., 1998; Carr and Pearson, 1999; Shin et al., 2000; Chen et al., 2004). SSM is different from SCM in that the former focuses primarily on the dyadic supply relationship between a manufacturer and its key suppliers (Shin et al., 2000). SSM is one of the most important SCM initiatives and a critical component of modern SCM

* Tel.: +852 27664063; fax: +852 23302704.

E-mail address: lgtandy@inet.polyu.edu.hk.

ideas. Organizations adopting SSM normally learn how to manage a few high-quality suppliers and thus make supply management a key strategic planning process (Chen et al., 2004).

A strategic orientation in supply management is particularly important in a competitive global marketplace. In response to pressures to improve quality and reduce costs, many manufacturers have realized that concentrating on their core competencies while subcontracting out noncore operations is the way to survive the competition (Krause, 1999; Liker and Choi, 2004). To compete with other supply chains offering similar product lines, firms must ensure that their suppliers are high performers. Many firms actively improve supply management by developing close buyer–supplier relationships and become increasingly dependent upon suppliers. Although the need for SSM has received increasing attention in various manufacturing sectors, SSM's performance implications for the buyer firm and the operating contexts that might facilitate such an initiative have not been extensively documented.

In this research we focus on the manufacturing industry in Hong Kong and the Pearl River Delta (PRD) region in Guangdong, which is the most profitable production base in China and one of the largest and most cost-effective manufacturing centers in the world (Hong Kong Productivity Council, 1999; Graham, 2000). To reap the benefits of SCM, local manufacturers of various sizes are jumping on the bandwagon of creating strategic supplier partnerships and leveraging supplier management efforts.

There are two major objectives in our research. First, we examine the contextual factors of company size, process type, ISO 9000 certification, and quality management (QM) implementation that might facilitate SSM. Second, we investigate the impact of SSM on organizational performances, including operational efficiency, customer satisfaction, and business performance. We collected empirical data from 225 electronics manufacturers and conducted our analysis using structural equation modeling (SEM).

2. Theoretical background and research hypotheses

Traditional supply management is characterized by four elements: a large supply base, short-term relationships, low-price bidding, and low flexibility (De Toni and Nassimbeni, 1999). Nowadays, manufacturers have realized the potential benefits of the supplier partnership—a mutual, ongoing relationship that involves a high level of trust, commitment over time, and long-term

contracts (Scannell et al., 2000). Manufacturing organizations around the world are increasingly following the trend of reducing their number of suppliers (Wisner, 2003). The goal is to create and sustain a loyal buyer–supplier relationship that drives both the buyer and the supplier to success. According to the literature, supply management should be included in a firm's strategic planning process (Chen et al., 2004), while supplier performance has to be monitored and enhanced through a regular review system (Monczka et al., 1998; Shin et al., 2000).

2.1. Quality initiatives, company size, process type, and SSM

The operating contexts that facilitate SSM have been investigated by a few researchers. It is generally agreed that leadership by top management shapes organizational quality culture, cultivating cooperative buyer–supplier relationships (Krause, 1999; Yeung et al., 2005). Krause (1999) investigated the important managerial factors that precede and influence firms' orientation to supplier development—a more specific effort initiated by a buyer to improve its suppliers' performance. He found that expectation of relationship continuity and effective buyer–supplier communication are antecedents to supplier development. Based on two in-depth case studies of United Kingdom aerospace companies, Reed and Walsh (2002) suggested that large companies have the opportunity to enhance the technological capability of their suppliers and thus are more likely to adopt supplier development programs. In addition, the anticipation of future technological requirements also leads them to manage their suppliers strategically (Reed and Walsh, 2002). However, the quality initiatives, company size, and process types that are favorable to SSM have not been explicitly examined. These have been speculated on in the literature but still await empirical verification.

Although ISO 9000 does not explicitly spell out the requirements for SSM, it should improve supply management through the development of a better supply management system. ISO 9000 requires an organization to ensure that its supplied components meet the specifications of its products. Suppliers must be evaluated and selected on the basis of their capability, including their quality systems and ability to fulfill their buyers' quality assurance requirements. Naidu et al. (1996) further suggested that through ISO 9000 preparation and registration, an organization can develop its purchasing function more systematically, making supply management a strategic initiative for

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