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## An examination of strategic supply management benefits and performance implications

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### ABSTRACT

There has been a growing body of literature documenting the impact of strategic supply management on firm performance. Yet, despite of its importance, there has been little research on how this impact is achieved from a social network perspective and on the link between strategic supply management and customer responsiveness. This study develops and empirically tests a conceptual model employing two increasingly important constructs that reflect intermediate benefits of having a strategic supply management function: relational embeddedness and network scanning. We then explore the relationships between those intermediate benefits and customer responsiveness using structural equation modeling from a sample of 204 US manufacturing firms. The research findings indicate that organizations engaging in strategic supply management are able to directly achieve greater levels of customer responsiveness by scanning their supply base network, and indirectly by having socially embedded relationship ties with those suppliers.

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### 1. Introduction

Many organizations today are placing greater reliance on the supply management function in order to attain competitive advantage. With the requisite capabilities and opportunities, supply management can leverage and align a firm's internal skill sets and strategic direction with that of the supply base to effectively and efficiently manage its supply chains. The key aspect for this to occur is that supply management must be strategic in orientation. Prior research has used various terms interchangeably with regard to purchasing/supply management being strategic. Carr and Pearson (1999) view *Strategic Purchasing* as consisting of formally written long-range plans that are reviewed and adjusted to match changes in the company's strategic plans on a regular basis. These plans incorporate various types of relationships to be established with suppliers. Therefore, strategic purchasing serves to align the relationships formed with suppliers to meet the overarching needs of the firm.

*Strategic Sourcing* has recently been viewed in a similar fashion by Ogden et al. (2007), which consists of (1) professionalism—incorporating purchasing's skills, knowledge and professionalism; (2) status within the organization; and (3) supply management—its sophistication in managing external relationships. Another recent

study by Paulraj and Chen (2007) examines *Strategic Supply Management* as a second-order construct, which consists of *Strategic Purchasing*, *Long-term Relationship Orientation*, *Communication*, *Cross-Organizational Teams*, and *Supplier Integration*. Regardless of the terms used, when the supply management function appropriately aligns the relationships with the supply base to that of the corporation, organizations have the ability to achieve performance benefits to include those associated with cost, flexibility, delivery speed and reliability, the confirmation of customer orders, and handling customer complaints (Carr and Pearson, 1999; Chen et al., 2004; Paulraj and Chen, 2007). This interorganizational alignment, and its benefits, takes place when firms have achieved higher levels of strategic supply management. On the basis of the literature, in this paper we define strategic supply management as the level of strategic focus and strategic involvement of the purchasing function (Paulraj et al., 2006; Paulraj and Chen, 2007).

There is a growing body of literature documenting the importance and the impact of strategic supply management on a firm's performance. However, to the best of our knowledge, prior studies have not looked at *how* those benefits are achieved from a social network perspective, nor have they looked at downstream supply chain benefits associated with having a strategic supply management function. Grounded in the social network literature, we examine the effects of strategic supply management on a firm's network relational embeddedness and scanning, and how those factors affect customer responsiveness. The extant literature has recently recognized the importance of the social context underlying supply chain transactions (Griffith et al., 2006; Cousins

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et al., 2006; Bakker and Kamann, 2007); therefore, looking at the impact of strategic supply management from a social network perspective is timely and relevant. Grounded in this theoretical lens, we propose two intermediate benefits of strategic supply management. First, we focus on the social context fostered with the supply base, which we conceptualize as *Network Relational Embeddedness*. Second, we examine how strategic supply management influences *Network Scanning*, which consists of gaining insight to the technological developments and market opportunities that may arise in the supply base. Specifically, for purposes of this paper, network relational embeddedness is defined as the degree of closeness and reciprocity (Granovetter, 1973; Gulati, 1998) that takes place between a purchasing organization and its network of relevant supplier relationships. Network scanning, which is similar to “scout activities,” as defined by Ancona and Caldwell (1992), refers to the frequency with which a purchasing firm gathers supply market knowledge from its relevant supply network. These two intermediary benefits are examined to determine if firms can better respond to meeting customer requirements. Since supply chains inherently look at the interconnectedness of a minimum of three firms (Mentzer et al., 2001), the benefits of strategic supply management can have supply chain management implications (supplier, firm, and customer).

## 2. Theoretical foundation and hypotheses development

The role of strategic supply management is critical for a firm's responsiveness because it creates value through the management of relationships with firms external to the organization, including the evaluation and selection of suppliers (Carr and Pearson, 1999). According to Mandal and Deshmukh (1994), supplier selection is one of the most important activities charged to a sourcing team. However, one of the key questions in strategic supply management is more often about how to interact with existing counterparts to leverage the potential of the relationship than about how to choose new ones. This key quest underscores the need to further explore the capabilities afforded by strategic supply management to a focal firm (Reck and Long, 1988). One such capability pointed out by the literature is the working relationships between a focal purchasing firm and its suppliers (Chen et al., 2004). From a social network perspective, the social structure underlying commercial transactions is a major factor in determining the success of working relations. One of the central tenets of the social network literature is that socially embedded ties have the capacity to carry information that would otherwise be withheld and to impact norms of behavior (Granovetter, 1973; Gulati, 1998; Uzzi and Lancaster, 2003). Given that the social context of relations can confer informational benefits, and one of the important activities performed by strategic supply management is gathering supply information (Burt et al., 2003), we focus on the implications of the social context for the ability of a focal purchasing firm to gather market knowledge from the supply base, which we conceptualize as network scanning. As such, drawing on the social network perspective, this study proposes two increasingly important intermediate benefits afforded to a focal firm by strategic supply management: (1) the development of the social context surrounding the interaction with the supply base, i.e. its level of network relational embeddedness; and (2) the ability to gather market knowledge from the supply base to anticipate or address customer needs, i.e. network scanning.

### 2.1. Network relational embeddedness

Social network theory maintains that exchanges occurring through interfirm ties vary in the strength with which they are

embedded in social attachments, ranging on a continuum from a low level of embeddedness consisting of arm's length ties, to a high level of embeddedness involving relational embedded ties (Dacin et al., 1999). Relational embedded ties surround their commercial transactions in social attachments. These types of relationships create behavioral expectations that extend beyond transacting and marketing learning, as they shift from encouraging opportunism to that of trustful cooperative behavior. This shift creates a new basis for transferring knowledge across firm boundaries (Uzzi, 1997). In contrast, relationships with arm's length ties are detached, impersonal, and atomistic. For instance, Dyer and Nobeoka (2000) argue that the natural tendency of firms is to keep valuable knowledge proprietary and not share it for the collective improvement of the network. Therefore, an appropriate incentive structure must exist to assure that knowledge will flow to feed the information processes of a firm.

The relational embeddedness literature typically proposes that entities that are strongly tied to each other are likely to develop a shared understanding of the utility of certain behavior as a result of exchanging information in strong, socializing relations, which in turn influences their actions (Uzzi, 1996). Embeddedness can also be approached as the capacity for social ties to carry information that diminishes uncertainty and promotes trust between entities (Granovetter, 1973; Gulati, 1995). Therefore, relational embeddedness can become a unique source of knowledge about a partner's capabilities (Gulati, 1998). In fact, the literature suggests that the benefits of relational embeddedness to firms originate from the access to knowledge it provides (e.g. Gulati, 1998). Beyond the access benefits, social network theory suggests that firms with established strong relational embeddedness make the effort to transfer knowledge that is more beneficial for the parts involved (Hansen, 1999). For instance, Granovetter (1992) points out that, in interactions characterized by social embeddedness, the parties involved will have greater motivation to be of assistance to each other and, typically, will be readily available to help. Therefore, in a relationally embedded supply interaction, the firms are not only more likely to transfer knowledge, but also to spend more time articulating the knowledge transferred.

### 2.2. Network scanning

Purchasing firms can formally implement numerous organizational activities aimed at gathering information or knowledge. Direct experience is perhaps the single most important learning process and the most commonly researched in the extant literature (e.g. Kopcsó and Nemitz, 1983; Smunt and Watts, 2003; Uzumeri and Nembhard, 1998). However, the current competitive environment makes it very risky for a purchasing firm to rely exclusively on experience as the main source of knowledge. Therefore, searches carried out by firms having a strategic supply management orientation are particularly germane for the purpose of achieving customer responsiveness. The organizational learning literature points out two major forms of knowledge acquisition through searching: scanning and focused search (Huber, 1991). Scanning refers to the relatively wide-ranging sensing of a firm's external environment. Focused searching occurs when units actively search in a narrow segment of the firm's external environment, often in response to actual or suspected problems or opportunities. In contrast to a conceptual emphasis on recognizing a problem as the impetus for searching, Huber (1991) suggests that a significant proportion of network scanning is a consequence of proactive managerial initiatives. Hermann (2007) defines scanning as the process of gathering information from multiple sources and using this information to

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