



# Supply management practices and performance in the Canadian hospitality industry

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## ABSTRACT

As the competition to gain customers becomes more intense, the hospitality industry has faced increasing pressure to find new approaches to create and deliver value to customers through supply chain management (SCM) practices. Over the past decade there has been a growing realization of the important contribution that purchasing and supply management can have on an organization's performance. This paper addresses SCM practices, with an emphasis on strategic purchasing (SP), in one sector of the Canadian hospitality industry. Using data collected from 105 Canadian hotels, this study tested seven hypotheses of the impact of SP on SCM practices and verified the impact on the hotel's performance. All of the hypothesized relationships were supported. The results indicate that SP is positively related to the relationship with the supplier (SR), communication (COM), service quality (SQ), financial performance (FINP), and customer satisfaction performance (CUSP). The managerial and research implications of these findings are discussed in the paper.

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## 1. Introduction

Supply chain management (SCM) is gaining the interest of many researchers and practitioners in different industries because suppliers have a profound impact on the costs and quality of the buying firms in supply chains (Zhang et al., 2009). Following the path of other sectors, an increasing number of hospitality industry organizations are beginning to adopt SCM practices to improve their performance. Handfield and Nichols (1999) noted "SCM aims to integrate all key business activities through improved relationships at all levels of the supply chain (internal operations, upstream supplier networks, and downstream distribution channels) to achieve a competitive advantage." In fact, SCM – an integrated approach starting from planning and control of materials, logistics, services, and information – flows from suppliers through manufacturers or service providers to the end customer; it represents a major change in modern business management practices. It is a very significant change because it acknowledges that individual firms no longer compete as independent units, but rather as supply chains (Chen and Paulraj, 2004a).

While SCM was gaining attention both in practice and in the academic literature, the concept of strategic purchasing (SP) has also been expanding. Early understanding of the purchasing responsibility was limited to obtaining the materials, supplies, and services required to produce a product or provide a service. However, the role of the purchasing function has recently changed significantly, going from a transactions-oriented function to a higher strategic level function with an emphasis on SCM (Stanley and Wisner, 2001). Carter and Narasimhan (1996) noted that "the difference today is that the ability of purchasing to impact strategic planning has increased in a number of businesses." The current literature search shows that the issue of SP has been extensively discussed in theory. In the context of the manufacturing industry, several empirical studies have thoroughly verified the impact of SP and SCM practices on organizational performance. For instance, Carr and Smeltzer (1999), Stanley and Wisner (2001), Chen et al. (2004), and Paulraj and Chen (2005) have empirically tested the critical role of SP and its impact on buyer–supplier relationships. The empirical literature in manufacturing industry has laid a foundation for developing constructs and proposing relationships among the variables selected for our study of the service industry.

However, to our knowledge no previous study has attempted to empirically demonstrate the relationships between SP and SCM practices in the context of the service industry. This study intends to develop a framework of SP in the hospitality supply chain, recognizing the important role service quality (SQ) plays in the hospitality supply chain. Using the structural equation modeling

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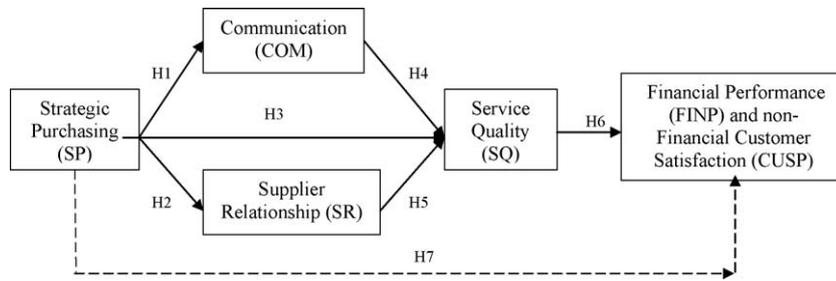


Fig. 1. Strategic purchasing supply chain hospitality model.

(SEM) approach, we empirically investigate the relationships among SP, SCM practices, and financial and non-financial performance in the Canadian hospitality industry.

The rest of the paper is structured as follows. In Section 2, we develop a synthesis of the literature to provide a conceptual foundation for the framework. Then, in Section 3, we develop the logic of the substantive relationships among the study variables, and we state hypotheses. In Section 4, we explain our research methodology and analysis, including the data collection procedure, construct operationalization, and measurement. The testing of hypotheses and the results are discussed in Section 5. Section 6 presents discussion and implications of the study findings. In Section 7, we conclude the study and highlight limitations along with suggestions for future research.

## 2. Framework development

Fig. 1 represents the conceptual framework linking strategic purchasing with supply management practices, such as supplier relationships and communication (Chen et al., 2004), service quality (Seth et al., 2006), and financial and non-financial performance. The main objective of this research is motivated by the work of Carr and Smeltzer (1999) and Stanley and Wisner (2001) and by the recent works of Paulraj and Chen (2005), Paulraj et al. (2006, 2008) and Chen et al. (2004). The former study results indicate that SP is positively related to changes in supplier responsiveness to the supplier market, supplier communication, and firm performance. Stanley and Wisner (2001) provide evidence of a positive direct relationship between SP and SQ. Paulraj and Chen (2005) conducted an empirical study using the data collected from 221 U.S. manufacturing firms. The results of their study provide robust support for the link of SP, supply management, and customer responsiveness to the financial performance of the buying firm. Their study revealed that SP can have a profound impact on supply chain performance for both buyer and supplier firms. Paulraj et al. (2006) noted that it would be interesting to see future research that includes service-oriented constructs and uses a sample of service firms. This research study extends the SP concept from the manufacturing perspective to the service industry perspective.

Five components of the hospitality supply chain have been identified from the literature on strategic purchasing and the limited writings on SCM in the hospitality industry. These components have been synthesized to develop a framework and seven related hypotheses of financial and non-financial performance from the SP perspective. It should be pointed out that the antecedents of SP and supply management practices identified in this research cannot be considered complete. Although other factors are of great interest – such as restructuring, governance, and transaction cost economizing (Williamson, 1991) – they are not included due to the length of the survey and the concerns regarding the parsimony of this research. The five components and

their relevant hypotheses are discussed in the following sections and shown in Fig. 1.

The first component identified from the manufacturing perspective is SP. Various studies have discussed the strategic nature of purchasing strategy (Cousins and Spekman, 2003). They have argued that purchasing has an increasingly crucial role in the management of the firm's resources, developing from a buying function to becoming a strategic partner in the supply chain (Ellram and Carr, 1994). We join other researchers to support the argument that purchasing cannot take a place in the firm's strategy until it is viewed as strategic. Recent studies have examined the links of SP, SCM practices, and a firm's performance. Chen et al. (2004) used a path-modeling technique, and they empirically examined the links among SP, supply management, and financial performance. Also, Carr and Smeltzer (1999) tested four hypotheses on the relationship of SP to SCM. Based on an extensive review of the literature, Chen and Paulraj (2004b) developed a framework and seven related hypotheses of dyadic performance from the purchasing perspective. The unique contribution of this framework developed by Chen and Paulraj (2004a) is the emphasis on SP that is not very common in other papers. They stress the importance of managing buyer–supplier relationships for mutual benefit; this investigation also documents how supply management contributes to enhanced operational (i.e., customer responsiveness) and financial performance for the buying firm.

The second component related to the hospitality supply chain is communication. A considerable number of authors have indicated the importance of effective communication for a successful supply chain (Chen and Paulraj, 2004b; Krause et al., 1999). If a supply chain is to meet the demand of a highly competitive company, there must be a strong two-way communication between the entities involved. When supply chain partners share important information relating to materials procurement and product design issues, they are more likely to improve performance dimensions, such as quality, time, and cost (Paulraj et al., 2008). Empirical research shows that strategic alliances in which partners exchange timely, accurate, and relevant information, and share critical and “sensitive” information are more successful than alliances that do not exhibit those COM behaviors (Paulraj et al., 2008; Mohr and Spekman, 1994). The rapid development of information technologies (IT) also plays a significant role in enhancing the lodging industry communication. IT allows airlines to communicate effectively with hotels to see the room rates and availability for their customers. Two-way communication can increase the efficiency and service quality of the entire supply chain (Buhalis, 2003).

A third component strongly emphasized in the literature is the issue of the supplier's relationship to the supply chain environment. Ellram and Carr (1994) provided an extensive review of the SP literature and concluded that, among the key strategic issues for purchasing, the type of SR desired is critical; they stated, “Suppliers play a key role in supporting a firm's competitive strategy” (p. 13). The SR is important not only because it has an impact on the

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