

Impact of supplier- selection and performance on supply chain



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The Impact of Supplier-Selection & Performance on Supply Chain Strategies And Firm's Performance.

ABSTRACT:

The paper examines the direction of relationship among the various functions on supplier selection and their performance on supply chain management strategies and firm's performance. A secondary survey data among the supply chain professionals within manufacturing firms was undertaken in India, the data is used to provide the evidence and come to the conclusion. The paper also brings insight into the supply effort management along with the supplier evaluation and performance management systems.

KEYWORDS:

Firm performance, supply effort management, supplier selection, supply chain strategy, supplier evaluation, performance management, supplier relationship management.

INTRODUCTION:

The supply chain management strategies have become a modern-day component of a firm's strategy. The success depends upon its supply chain management practices and its related strategy. The globalization of business has had a tremendous impact on the way companies operate and thus it requires the firms to integrate its partners within a supply chain along with its global manufacturing, logistics capabilities and expand its supply chain management strategies and also, the philosophies from its traditional

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internally focused strategies to a common goal of efficiency, speed and end customer satisfaction. The research aims to build a theoretical knowledge for the firm's performance in the context of supply chain management also, the supplier evaluation and Performance measurement systems as the most critical element in translating supply strategy into action unlike traditional measures which prevent continuous improvement. The conclusion and implications for practicing managers and direction are also discussed.

LITERATURE REVIEW AND RESEARCH PROPOSITION:

The overall execution of supply chain involves three essential elements. They are managing the tasks of supply chain, supplier-selection and managing logistics capabilities. The literature search starts with the insight into how the various tasks of supply chain management, functions of supplier-selection criteria are facilitating to formulate the overall supply chain management strategy and thus, it enhances the firm performance. Managing the supply chain involves several tasks like managing supplier relationship, supplier involvement in business processes, emphasizing quality on supplier-selection, leaning the levels of supplier base and amplification of the information.

- The task of supply effort management involves:

(i) Supplier's long-term and strategic relationship: The relationship between the business networks has undergone a paradigm shift in current business scenario. The long-term relationship between the buyer and supplier increases the degree of buyer-supplier coordination. By developing long term relationships in the business network, the suppliers will become a part of a <https://assignbuster.com/impact-of-supplier-selection-performance-on-supply-chain/>

well-managed supply chain, which will have an everlasting effect on the competitiveness of the entire supply chain. Firms are increasingly relying on their suppliers to help them achieve a stronger competitive position, and such a strong position can be achieved only by developing long-term relationships with their supplier. The close long-term working relationships based on trust form the basis of collaborative advantage, which then leads a firm to manage the relationship strategically. Long-term cooperative relationships have been found to have a positive impact on a firm's competitiveness, especially when the level of uncertainty is relatively high in business situations. Thus, managing for long-term relationship is a major task for supply management.

(ii) Supplier involvement: Supplier involvement is one of the critical aspects of supply effort management. Researches have shown that the supplier involvement enhances communication and provides avenues for coordinating activities between the suppliers. A higher level supplier involvement establishes a pattern of cooperation in continuous improvement efforts

(iii) Selection of quality suppliers: Supplier quality is a critical determinant of the overall product quality and costs, the overall quality performance, which helps supply chain managers to select right sources of supplies with due consideration of time, delivery, and price.

(iv) Keeping the levels of supplier base lean: Reduced (lean) supplier base is a unique characteristic of contemporary buyer-supplier relationship. Supply base reduction policies are positively related to the buyer supplier product

design relationship. Research indicates that when limited numbers of suppliers are properly and selectively used, then the firms achieve better customer responsiveness.

(v) Communication: By frequent communication, the firm and its suppliers can enhance their knowledge capabilities and their understating to solve the complex competitive issues by the way of developing innovative solutions. If the firm and its suppliers share information and aim to go beyond the business boundaries like design, engineering, quality, materials procurement, and other defined functions between the buyer and the supplier firms, the performance of the supplier becomes superior. Above all, effective communication improves the buying firm's performance.

Thus, all fundamental activities related to managing suppliers' relationship, supplier involvement in business processes, placing emphasis on quality during supplier-selection, leaning the levels of supplier base and augmentation of the information are collectively called as supply effort management. Such management leads to the enhancement of SCM strategies and overall performance of the firm as well.

- Function of supplier-selection criteria on supply chain management strategy and firm performance.

Among various activities of supplier effort management, the function of supplier-selection is critical. Thus the research focuses functions of supplier-selection criteria as the most critical. In recent years, how to select suitable suppliers has become a key strategic issue and has received considerable attention in the theoretical literature. Supplier selection is the process by <https://assignbuster.com/impact-of-supplier-selection-performance-on-supply-chain/>

which suppliers are reviewed, evaluated, and chosen to become part of the company's supply chain. The secondary survey data among the supply chain professionals within manufacturing firms revealed that there were 7 common factors that is, Quality, Price, Delivery, Technical capacity, Financial position, Production facilities and capacities of Organization are considered important whilst selecting suppliers. Each business unit and department should have a clear understanding of the strategy of the whole firm and have a departmental strategy that complements and aids the overall strategy execution of the firm.

-Supplier relationship management.

Buyer and supplier relationships have become increasingly important for a number of reasons. There is a trend toward specialization away from manufacturing an entire product and to more contract manufacturing and purchasing. In some market segments, it is estimated that 80 percent or more of total product revenue often passes directly to suppliers as payment for labor, materials, and equipment. This significant transfer of value downstream emphasizes the importance and significance of supply chain relationship management. For any buying organization to stay competitive in today's aggressive market sectors, it is essential that they maintain strong relationships with their best contract manufacturers and suppliers. Buying firms experience a great deal of pressure from customers and competitors to keep their edge and stay in business by reducing costs, improving product, improving service quality and enacting continuous improvement. With the decreasing number of suppliers used by buying firms, it is more important than ever to maintain strong buyer-supplier relationships.

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- Supply Chain Management strategies and firm's performance.

Management experts in their theories have discussed about the value system, commonly referred to as the supply chain at present and its impact on competitive advantage. The earlier theories on supply chain contains studies related to SCM and firm's performance. Increasing level of supply chain integration corresponded with increased manufacturing performance. Also, the focus on opportunities for competitive advantage began shifting from inside the manufacturing plant to relationship with suppliers, and then to closer relationship with customers. The current studies have examined how balance scorecard could be used to leverage a firm's supply chain into a source of competitive advantage.

In this research, the firm's performance is represented by thirteen separate measures: return on Investment, return on assets, return on sales, overall quality of the product, overall growth and competitive position of the firm, customer satisfaction, delivery performance, network performance, flexibility of operation and performance, firm business model, ability of the firm to adopt to new situations, corporate governance, employee satisfaction.

- Supplier evaluations and performance measurement systems.

Performance measurement literally means " the process of quantifying action", where measurement is the process of quantification and action correlating with firm's performance. According to theories organizations achieve their goals i. e. they perform, by satisfying their customers with greater efficiency and effectiveness than their competitors. A performance measurement system can be defined as the set of metrics used to quantify

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both the efficiency and effectiveness of actions. One of the most important elements of a Supplier Performance Measurement System (SPMS) are the Critical Success Factors (CSF's) and Key Performance Indicators (KPI'S).

The CSF approach helps managers to determine those factors, which requires management attention. The process also forces managers to develop good measures for those factors and to seek reports on each of the measures. The identification of Critical success factors allows a clear definition of the amount of information that must be collected by the organization and limits the costly collection of more data than necessary.

KPI's represent a particular value or characteristic that is measured to assess whether an organization's goals are being achieved. They reflect the critical success factors, stakeholder requirements, and the expectations of the organization. Carefully selected KPI's to identify precisely where to take action to improve performance. There are many different types of KPI's depending how they are used and what they are meant to example, Strategic or operational, drivers, Qualitative, quantitative, Effectiveness, efficiency, etc

An effective performance measurement process requires consideration of two key issues: performance measurement system and performance indicators. The following describes the functions of a performance measurement:

- To monitor: measuring actual performance.
- To control: identify and attempt to reduce the difference between the planned and actual performance.

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- To Improve: identifying opportunities for improving the current situation.
- To coordinate: providing information for decision making and facilitating internal and external communication.
- To motivate: encourage continuous improvement of workplace behavior.

An effective selection process with the use of the right performance criteria can reduce or prevent problems in the evaluation phase. Supplier development strategies are required to have a drive for continuous improvement of suppliers. An efficient supplier assessment is necessary for the evaluation process and continuous improvement of the capabilities of the suppliers.

The research concludes that soft targets like "commitment to a buyer" have a greater impact on performance than hard measurable criteria. Also, the willingness of the supplier to share information and to cooperate has a significant impact on performance, but is yet considered to be less important.

The focus in the supplier selection process is shifting from the traditional hard and quantifiably performance aspects towards the softer and more qualitative aspects in the supplier buyer relationship.

The Characteristics of a good Performance Measurement system are:

- Delivery and Service Quality: Service level, On-time delivery, Correct quantity, Quality

- Responsiveness: Willingness to change products, services to meet your changing needs, Quick response time in case of emergency, problem, or special request, Willingness to participate in new product development, The flexibility to respond to unexpected demand changes
- Information Sharing: Use of electronic data interchange (EDI), Willingness to share sensitive information

Evaluation of supplier performance is considered as goal. The evaluation criteria may vary across different industry. In automobile industry the Supplier evaluation criteria are: Quality (Q), Cost (C), Service (S), Business performance (BP), Technical Capability (TC), Delivery performance (DP) and environmental performance (EP) are considered the most important criterion. The Sub-criteria under each criterion are:

- Quality (Q): Product durability and Reliability (PDR); Quality systems (QS); Percent Rejection (PR); Reputation and Position in the market (RP).
- Cost (C): Competitive Pricing (CP); Unit Price (UP); Quantity Discount (QD); Payment Terms (PT).
- Service (S): Handling of Complaints (HC); Availability of product/service (APS); Training equipment (TE); Flexibility (FL).
- Business Performance (BP): Financial Stability (FS); IT usage (IT); Technical Capability (TC); Personnel Capability (PC).

- Delivery Performance (DP): Delivery of Lead Time (DLT); Expedition of Orders (EO); Flexible Transportation Modes (FTM); Safety and Security of Components (SS).

- Environmental Performance (EP): Environmental management systems (EMS), environmental management competencies (EMC), environmental costs improvement (ECI) and pollutant effects improvement (PCI).

Philips case study:

“ Philips is the world sixth largest supplier of semi conductors. The innovations in digital audio, video and mobile telecommunications positions the company as a leader in consumer, multi-media and wireless communications markets. Semiconductors have used a global supplier rating system (SRS) since 1995. An enhanced version has been implemented since 1999. In brief the SRS monitors and rates the performance of the preferred and strategic suppliers on the following main criteria (In order of importance): Quality, Price, Technology Support, Logistic, Responsiveness, Commitment and Dependency. At the end of each quarter, the person responsible for the SRS completes the reporting. Since a supplier may be dealing with several affiliates simultaneously, several scoring reports will be generated. These case study reports will be consolidated into one single report taking the lowest of all assessing centres for each criterion. The core is then communicated and reviewed with the supplier. An improvement plan is expected from consideration for the yearly company awards. The SRS project team will review the SRS performance system every two years. As an

integral part of the continuous improvement program, Philips expects to progressively raise the target levels, expected of the suppliers”.

CONCLUSION:

There are few interesting observations that need to be given attention based on this empirical study. Primarily, the variables that are related for developing the construct of supplier effort management, supplier-selection, supply chain management strategies and firm performance are consistent concepts, and have been found to be empirically important in the domain of SCM research. The research offers a few important advantages to the practicing managers. The knowledge of managing the critical tasks in supply chain activities will be useful for managing various activities in the supply chain. For example, the criteria like establishing supplier long term relationship, creating avenues to involve supplier in firm's business process, selection of good quality suppliers, leaning the level of supplier base, maintaining frequent communication with suppliers customers have to be considered for managing the critical activities in supply chain. The scientific way of managing the supply effort will enhance the function of the overall supply chain. In addition, managers have to ponder the decisive factors like managing pre and post sales services, covering the distribution by both widespread and selective way, ascertain prompt delivery speed and reliability, efforts to bring low total cost distribution will synergize the overall function of supply chain. Further, managers have to think on the various tasks involved in supply chain management strategies. The tasks like searching for new ways to integrate supply chain management activities, establishing communication platform to share customers' future needs, <https://assignbuster.com/impact-of-supplier-selection-performance-on-supply-chain/>

creating a greater level of trust in whole supply chain, extending supply chain beyond the firm's suppliers / customers will also enhance the overall function in managing the supply chain. The discussion reveals that the managers of manufacturing firm have to invest more effort in managing the supply chain tasks. It is recommended that the supply effort management & supply chain strategies functions have to be managed separately because of the nature of task. Though these functions have to be managed separately, and exceptional care has to be given for supplier-selection. Further, special integrating tasks should be identified and further appreciation of such tasks to be made to make proper coordination among them. There are many different opinions about the design of good performance measurement system. Many authors differ in the use of individual performance measures, as well as the connection with other measures within the system or with the environment. However, there is consensus about one theme in literature and that is when a company can measure itself at different levels against a corporate direction (mission and vision) than it has the opportunity to create competitive advantage. The translation of the companies' direction into individual performance measures (KPI's) provides a foundation for continuous improvement. For the design of a supplier performance measurement system, companies should be aware of common problems. Also the use of technology for supplier evaluation can enable and scale performance measurement, but a company must have both a means of deriving meaningful metrics and a closed-loop, sustainable performance management process in order to benefit from these software packages.