

## Supply chain management as a tool to optimize organizational capability and performance

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### Abstract

Business organisations have been persistently exerting the efforts to find out the fundamental factors responsible for the performance nourish the organisational capability building from long before. (Bowersox and Closs, 1996) classify performance measurement into five broad categories viz. cost, customer value and service, asset management, quality and productivity. Organizational Capability connote the ability of an organization to reinforce, boost and ensure the performance of the organization by continuous inflow of raw materials, fulfilling the orders at right time, efficient inventory handling to avoid stock-out situation, reducing cycle time and most importantly the ability to compete the competitors, etc.

Supply Chain Management (SCM) is the managerial and operational strategy which removes each and every hurdle at each and every link in a supply chain so that overall cost may be optimized while delivering best value to the customers as well as chain partners and ensuring best returns, information, competence and continuous up gradation of overall supply chain.

This research paper descriptive in nature, it is based on secondary data and qualitative analysis. It inquires the relationships between the Supply Chain Management and organization capability and performance and finds Supply Chain Management as a tool to optimize organizational capability and performance.

**Keywords:** Supply Chain Management, Organization Capability and its Performance

### Introduction

Supply chain of refers all links through which the product is transferred to consumer from the producer. General supply chain of a product includes producer, wholesaler, retailer and consumer. In today's business scenario supply chain management is of strategic importance as each and every business organisation want to spread its operations within and beyond country in which it operating its business and without efficient supply chain management it is impossible to any business doing so.

### Emergence and concept of supply chain management

Prior to 1950s, there has been no formal concept or theories of supply chain management but the system was prevalent in the corporate world with no recognition. The second half of the twentieth century observed a phenomenal growth and development in the overall concepts and approaches toward it. Indeed, Supply Chain Management is acknowledged in 1990s. Giving through the literature it is found that various researchers and scholar given the definition of supply chain management as per their knowledge, understanding and area of research. Some of the definitions are as follows:

1. (Scott & Westbrook, 1991) <sup>[16]</sup> "Supply chain is used to refer to the chain linking each element of the process from, raw materials through to the end customer".
2. (Cavinato, 1992) <sup>[3]</sup> "The supply chain concept consists of actively managed channels of procurement and distribution. It is the group of firms that add value along product flow from original raw materials to final customer".
3. (Towil, Naim, and Wikner, 1992) <sup>[20]</sup> "The supply chain is a system, the constituent parts of which include material

suppliers, production facilities, distribution services, customers linked together via the feed forward flow of materials and the feedback flow information".

4. (Cooper & Ellram, 1993) <sup>[4]</sup> "SCM is an integrative philosophy to manage the total flow of distribution channel from the supplier to ultimate user".
5. (LaLonde and Masters, 1994) <sup>[10]</sup> Proposed that a supply chain as a set of firms pass materials forward.
6. (Ross, 1998) <sup>[14]</sup> "Supply chain management is a continuously evolving management philosophy that seeks to unify the collective productive competencies and recourses of the business functions found both within the enterprise and outside the firm's allied business partners located along intersecting supply channels into a highly competitive, customer-enriching supply system focused on developing innovative solutions and synchronizing the flow of the marketplace products, services, and information to create unique, individualized sources of customer value".
7. (Christopher, 1998) <sup>[5]</sup> "The supply chain is the network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer".
8. (Handfield & Nichols, 1999) "A supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage, through to the end user, as well as the associated information flows".

Supply chain management is an integrated thread that ties up each and every activities of a business starting from sourcing and procurement, transformation and collaboration with

channel partners in such a coordinated manner that every stakeholder optimizes its profits while delivering best value to customers at least price.

The term supply chain has constraint of a mammoth number of definitions most of which are inconsistent with each other and focused on particular perspectives or characteristics. It is the Christopher (1992) who provides a reasonably generic definition that considers multiple set of firms working upstream and downstream with often multiple firms functioning at each stage in the chain (for example alternative competing suppliers). Thus, Supply Chain Management is a multi-disciplinary and multi-functional set of activities which deals with physical and tangible attributes and activities (i.e. logistics) as well as behavioural and intangible dimensions (i.e. relationship building and management).

During 1990s, a lot of researches were conducted on the Supply Chain Management by various researches to understand and construct the knowledge how it can create capability and competence for organisation and boost the performance of the firms. And today Supply Chain Management has become a well-established discipline in the arena of strategic management which is continuously growing. In a true sense, Supply Chain Management (SCM) is the managerial and operational strategy which removes each and every hurdle at each and every link in a supply chain so that overall cost may be optimized while delivering best value to the customers as well as chain partners and ensuring best returns, information, competence and continuous up gradation of overall supply chain.

### Literature Review

Going through the literature on Supply Chain Management, it can be seen that the literature is very much scattered here and there. It is also found that the concept of supply Chain Management is not unanimous. It has defined by various scholars differently as per their knowledge, understanding and research area. Performance of Supply Chain Management can be measured on three dimensions namely internal performance measurement, external performance measurement and comprehensive Supply Chain performance measurement (Agrawal, 2010) <sup>[1]</sup>. Internal performance measurement of Supply Chain can be segregated into five categories as (Bowersox and Closs, 1996) <sup>[2]</sup> classify performance measurement into five broad categories viz. cost, customer value and service, asset management, quality and productivity. External performance measurement of supply Chain management encompasses two dimensions namely Customer Performance Measurement and Competitive Performance Measurement (Agrawal, 2010) <sup>[1]</sup>. Comprehensive Supply Chain performance measurement is an integrated performance measurement system that focuses on measurement of holistic corporate objective of maximization of value to all stakeholders (Agrawal, 2010) <sup>[1]</sup>.

In this study intensive literature review runs around these three dimensions of Supply Chain performance Measurement assessing the relationship between the Supply Chain Management and organization capability and its performance.

In the business universe organizations have always been keen to understand and unfold the factors and determinants of the performance. This was the basic philosophy that the journey to determine the bases of firm performance has long been focal point to the strategic management field (G. Tomas M. Hult,

David J. Ketchen Jr. and Mathias Arrfelt, 2007) <sup>[9]</sup>. Going through the literature it can be observed that many prominent scholars (for example, Summer et al., 1990; Rumelt, Schendel, and Teece, 1994; Hitt, Boyd, and Li, 2004) <sup>[19, 15, 8]</sup> have contended that constructing understanding about why some firms outpace others is the foundation of the field. Efficient and effective Supply Chain Management has been perceived to be one of the pertinent determinants of organization capability and its performance over last one and half decades. Now organizations leveraging their supply Chain to get the competitive edge over the competitors. Some scholar observe that in contemporary years, the basic nature of competition has more and more moved from firm versus firm to supply chain versus supply chain (Handfield and Nichols, 2002; Slone, 2004) <sup>[6, 17]</sup>. The supremacy i.e. capability of organization and its performance is assumed to be subjected to the excellence of Supply Chain Management as when competitors such as UPS and FedEx rattle, it is not only their individual competencies that they have in form of capital, man power, technology and their discrete organizational structures, but rather the united abilities of their own supply chains, that decide the aftermath.

The reflection of significance of strategic supply chain management can be sound how organizations such as Wal-Mart, Zara, Toyota, and Dell have exploited their supply chains as competitive missiles to gain pluses over aristocracies. In the meantime, failure of strategic management of supply chains leads to grave negative outcomes for the organization (G. Tomas M. Hult, David J. Ketchen Jr. and Mathias Arrfelt, 2007) <sup>[9]</sup>. For instance, Lee (2004) <sup>[11]</sup> describes how supply chain hitches led Cisco to write off \$2.25 billion in inventory in 2001 and led Motorola to lose many decisive early camera phone sales in 2003. Inferences drawn for profits and sales, it is perchance not astonishing that the proclamation of a major supply chain problem corrodes an organization's market value by an average of 10 percent (Hendricks and Singhal, 2003) <sup>[7]</sup>. (Sameer Kumar, Heidi Jensen and Heather, 2008) contend that Businesses leverage supply chains to achieve or surpass many key performance aims that considerably impact the bottom line. They also concerned about the Global supply chain claiming that there is risk involved with the high performance due to the chances of theft and terrorist attach and to avoid these happening they suggest to incorporate the information technology in the whole chain. (C. Ranganathan, Jasbir S. Dhaliwal and Thompson S. H. Teo, 2004) <sup>[13]</sup> observe that the benefits realized by SCM are considerably affected by both assimilation and external diffusion of Web technologies.

Forbes global magazine says, Mumbai's Tiffinwalas have achieved a level of service to which western businesses can aspire. Efficient Organisation is not the first thought that comes to mind in India, but when profit motives is given free rein, anything is possible. To appreciate Indian efficiency at its best, watch the Tiffinwala at work.' The error free operation of Dabbawala, one error or less in 6 million transactions, has made them probably the only six-sigma organization in India. The Mumbai Dabbawala Association is an often quoted name in the corridors of supply Chain Management. The association is also enigma for all B schools not only in India but also institutes like MIT Sloan, for they lack technology, yet there is an extremely efficient technique. The majority of employees are illiterate but still the association has Six Sigma and ISO 2001 certification in its kitty. It is not only known for its flawless supply chain but also for its implacable record of 116

years of service without a single strike. So, the best citation how the effective Supply Chain management enhances the performance of an organization can be easily understood looking at the performance of Dabbawala. A Dabbawala is a person in the Indian city of Mumbai, whose job is to carry and deliver freshly made food from home in lunch boxes to office workers, students and then the boxes back to source. Dabbawala's are a 119 year old organization, started in year 1890 and registered as a charitable trust in 1956. They cover an area of 60 to 70 kms in Mumbai. Every day, more than 200000 lunches get moved by an estimated 4500 to 5000 Dabbawalas, all with extremely nominal fee and with utmost punctuality. They are one of the few organisations in the world to achieve a Six Sigma rating. According to a survey, there is only one mistake in every 6000000 deliveries. All of them, around 5000 individuals, come from the same community 'Khor Maratha' and the same rural area: a few villages near Pune, Maharashtra. It is only the effective Supply Chain Management of that has made able Dabbawala to achieve Six-sigma standard of service (Agrwal D. K. 2010) [1].

Unique Supply Chain management and direct business model made able Dell Computer Corporation to take on IBM. Generally most of the students just want to pass their examinations. Michael Dell dreamed to take on IBM. That's a pretty ambitious goal for a student selling made-to-order personal computer (PCs) over the phone out of his dormitory room at the University of Texas. In 1984, Dell dropped out the school so that he might pursue this urge fulltime ignoring that he had only \$ 1000 as seed money founded Dell Computer Corporation. Only twelve year later, Dell Computer Corporation had market share of the domestic PC maker, more than that of IBM. Dell was the leader, by 2001, with more than 25 per cent market share astonishing Compaq (13 per cent), Hewlett-Packard (10 per cent), Gateway (8 per cent) and leaving targeted IBM far behind with only 6 per cent market share (Agrwal, 2010) [1].

Supply Chain Management is the growth engine (Harrison, 2008). It is the Harrison who has been instrumental in having P&G to think regarding supply chain while keeping the customer in soul. Hence everything now initiates at store shelves and works its approach backward to suppliers. The reintroduced focus on supply chain management enables P&G to realize an extra \$ 1 billion sale last year (The Economic Times, 9 April, 2008). Harrison adds that if the Supply Chain is not efficient, products do not reach customers and marketing will not exist. He further says that in ensuing time, supply chain efficiencies will be of strategic advantage to companies. He also wagers, 'with commodity prices hitting the roof, supply chain capability will be the differentiator between companies who win and those who don't' (Agrwal, D. K. 2010) [1].

In the ending of 1996, the documentation company Xerox (formerly known as Modi Xerox) has set up its integrated supply chain. The basic strategy behind it was to make entire process, starting from manufacturing unit to the customer, transparent as order-to-delivery cycle was taking as long as almost twenty-one days. Hence Xerox implemented process reengineering, eliminated unnecessary administrative procedure and invested in an extensive info-tech network. Presently the order-to-delivery cycle reduce to just seven days (Agrwal, D. K. 2010) [1].

## Objective

This research paper is inclined to assess relationships between effective Supply Chain Management and organization capability and its performance.

## Research Methodology

This research paper is descriptive in nature based on secondary information collected from various books and research papers and reviewing the literature that fulfills the needs of the objective.

## Conclusions

In corporate world Strategic Management field has always interested to find out the determinant of the performance and capability of firm and Supply Chain Management has been found to be a pertinent determinant. As (Handfield and Nichols, 2002; Slone, 2004) [6, 17] contended that presently corporate war has moved more and more toward 'Supply Chain Management Versus Supply Chain Management' as compare to 'organisation versus organisation'. (Harrison, 2008) claims that Supply Chain Management is the growth engine of organization i.e. it has the ability to capacity building and enhances the performance of the organization. It is the Supply Chain Management initiatives that enable Mumbai Dabbawala Association to get moved more than 200000 lunches by an estimated 4500 to 5000 Dabbawalas every day, all with extremely nominal fee and with utmost punctuality. Supply Chain Management positively affect at the bottom line of the various activity involved in whole chain that lead to high performance as by the ending of 1996, the Xerox became capable to reduce the order-to-delivery cycle to just seven days from twenty-one days by setting up its integrated supply chain and implementing process reengineering. The literature leads to the fact that Supply chain Management initiatives has a positive relationship with the organization capability and its performance.

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