

A FRAMEWORK FOR STRATEGIC PURCHASING AND SUPPLY MANAGEMENT: IMPLICATIONS FOR INDUSTRY AND FURTHER RESEARCH

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Abstract

This paper examines literature on strategic purchasing and supply management in light of the importance executives in organizations are expected to attach to it. It is the reality of the world that competition is heightening; resources are increasingly being depleted with government interventions growing day by day. Purchasing and supply management executives need to understand the transformation of traditional purchasing to strategic purchasing and supply management (SPSM) and the link the latter has with overall corporate strategy and subsequent organization performance. This link has not been clearly articulated in literature, not at least with the consideration of all the key elements of SPSM. This paper presents literature on this important subject, analyzes the literature giving the SPSM framework and provides implication for industry and future research. For industry adoption of purchasing in its new outfit, strategic purchasing and supply management is paramount as this as argued, is expected to affect the bottom line of firms positively. For researchers, studies on supply base flexibility, supplier socialization or supplier integration each in isolation is not sufficient. Focus should be on exploring status and outcomes of practice of the three jointly because this represents real life situation. Relationship between the three can be analyzed against firm performance in the long run. Moderation analysis can also help, using any one of the three elements as the moderator. Further, use of time series data or panel data may give more meaning as the variables represent strategic issues whose outcomes require a long time.

Keywords: *Supplier Integration, Supply Base Flexibility, Supplier Socialization, Business Strategy, Corporate Strategy*

INTRODUCTION

Due to increased depletion of natural resources, government intervention in supply markets and heightened competition executives can expect supplies to be disrupted overnight. Moreover, there is intense pressure on companies to devise means of enhancing their performance and competitive advantage. Consequently, firms have recognized the significance of enhancing their purchasing and supply performance (Knowles et al., 2005). Today's firms can no longer effectively compete in isolation of their suppliers and other entities in the supply chain. They need to shift their attention from competition between firms to cooperation and collaboration between them and their suppliers (Miguel et al., 2010). Firms should embrace strategic purchasing and supply management (SPSM) as an activity used to fill gaps in firms' resources and capabilities thereby enhancing their performance (Grover, 1993). Strategic purchasing and supply management imply decisions and actions that focus on building long term partnerships with suppliers that could lead to exchange of innovative ideas, co-development of products, and improvements in quality and service (Gil, 2009). It also involves joint problem solving with suppliers thereby replacing confrontation with cooperation. It is established that supplier socialization, supplier integration and supply base flexibility (Cousins et al., 2006; Douglas and Michael, 2004; Tonchia and Tramantona, 2001) are the dimensions of strategic purchasing and supply management.

LITERATURE REVIEW

Buvik and John (2000) argue that successful strategic purchasing and supply management activities should directly influence the bottom line of firms. Therefore they can be regarded as a strategic weapon to yield capabilities for firm advantage particularly in reduced costs (Dyer, 2000). These capabilities in strategic purchasing and supply management, which Dyer refers to as relational capital (*ibid*) and Sanchez (1995) as relational resources and would enable firms to acquire or access rent-yielding resources (Das and Teng, 2000). There should be increasing focus on SPSM among firms (Dyer, 2000).

Supplier Socialization is the level of interaction and communication of various actors within and between firms, which leads to the building of personal familiarity, improved communication, and problem solving (Cousins et al., 2006). It is the process of interaction and communication between individuals of different organizations in building improved business relationships. Carr and Smeltzer (1999) have documented how firms practicing supplier socialization are able to foster long term, cooperative relationships and communication, and achieve greater responsiveness to the needs of their suppliers. Socialization may also be understood as the process by which an individual acquires the social knowledge and skills

necessary to assume an organizational role. The process enables individuals in a buyer-supplier engagement to acquire knowledge each other's enterprise's social values. Examples include; rules of thumb, special language, ideology that helps to edit a member's every day experience, standard of relevance of work, prejudices, and models for social etiquette (Cox, 1996). Cox further contends that supplier socialization fosters communication, which is critical to achieving effective integration throughout the supply chain. The dimensions of supplier socialization are frequency of open communication, frequency of joint team building activities, number of organization culture items shared such as rules and regulations and value systems and any other process of formal personal interaction that treats the supplier's indirectly or directly concerned with purchaser's supplies as human beings first then business partners (Zollo et al., 2002).

Supplier Integration refers to decisions and activities that extend the buyers factory to the suppliers yard and vice versa (Prahalad and Ramaswamy, 2003). The dimensions of supplier integration are trainings on supplier operations, supplier training on purchaser operations and joint firm operations. Further, the two authors argue that mechanisms for facilitating this integration include the participation of suppliers in design, procurement, and production stages, as well as the use of ordering systems and information technology to exchange information. These processes and activities enable the supplier to know the contribution and importance of their supplies to purchaser's operations and purchasers to know the operations of the supplier in order to increase understanding and increase the benefits accruing from the supplier – buyer relationship. Integration with suppliers is an effective strategy for improving firm performance. According to Buvik and John (2000), tighter integration with suppliers results in improved performance. This is a logical conclusion because supplier's greater access to technology, better understanding of requirements, improved translation of requirements into specifications and enhanced understanding of how components are used in assembly and function should result in a higher rate of achieving goals.

Organizational integration has become an issue of primary importance in the management of services and operations. In order to increase operational flexibility in the face of rapidly changing markets and technologies, organizations are finding it necessary to enhance focus on their core competences and divest themselves of ancillary activities (Prahalad and Hamel, 1990). This necessitates closer and more deliberate action them in order to coordinate the activities required to develop, produce and deliver competitive products and services. Organizational integration particularly with suppliers has emerged as a critical mechanism for facilitating this action (Frohlich and Westbrook, 2001). In particular, organizational integration

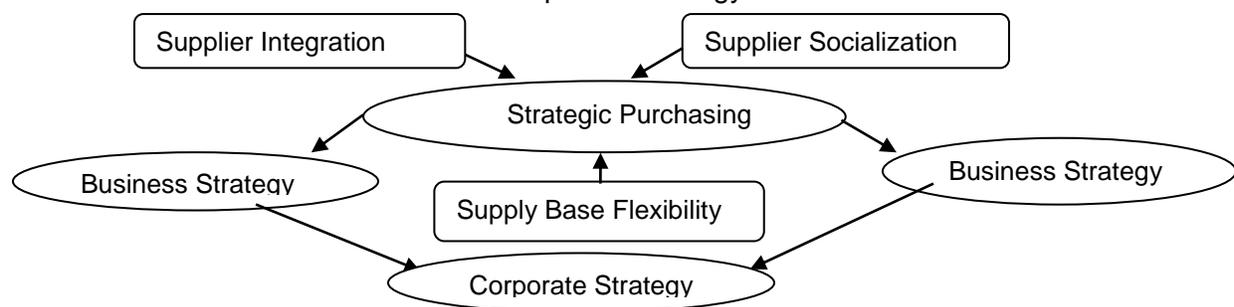
has been previously advocated for enhanced performance in new product development (NPD) (Fliess and Becker, 2006).

Integration of suppliers at the operational level makes the supplier an extension of the firm's factory, emphasizing continuity of supply and an end-to-end pipeline. These linkages permit increased coordination with suppliers at a tactical level, enabling the firm to deal more effectively with the complexity and uncertainty present in their environment. The development of a strategic partnership approach is fundamental to the success of supplier integration efforts (Douglas and Michael, 2004). The approach must rest on a firm base of; supply market research, spend analysis, customer requirements knowledge, supplier selection criteria, and other formal processes. Integrating suppliers should have a lasting effect on the competitiveness. More specifically, buyers and suppliers (Vickery *et al.*, 2003) and supplier capability management both characterized by long-term relationship orientation should positively affect customer responsiveness.

Supply base flexibility refers to the degree to which a firm's key suppliers are able to customize products, be responsive to delivery changes, and to accept late 'mix' and volume change, that is, adapt to the needs of the purchases (Douglas and Michael, 2004). Flexibility should be considered from a time point of view and should be understood as the ability to change something not only quickly, but efficiently (*ibid*). This is similar to the concept of lean and agile supply (Mason-Jones *et al.*, 2000) which advocates working collaboratively with fewer suppliers to reduce costs, improve cycle times and foster innovation development. Strategic purchasing practices of firms are therefore considered critical to fostering and facilitating close interactions with a limited number of suppliers, thus making effective use of their supply base (Cousins, 1999).

PROPOSED FRAMEWORK FOR STRATEGIC PURCHASING AND SUPPLY MANAGEMENT

Figure 1: Interaction of Strategic Purchasing and Supply Management with Business and Corporate Strategy



Source: Compiled by Author

The works above present cases of individual elements of SPSM. Cousins (1999) and Mason-Jones et al. (2000) have focused on supply base flexibility. Both Cousins Mason-Jones argue for lean supply base to foster performance in costs, innovation, cycle time and overall effectiveness. Cox (1996) and Carr and Smeltzer (1999) on the other hand, advocate for supplier socialization but while Cox contends that socialization leads to communication improvement for integration, Carr and Smeltzer contend it builds long term, cooperative relationships and communication. The authors converge on improved communication as an outcome of socialization. Douglas and Michael (2004), Vickery et al. (2003), Fliess and Becker (2006) and Petersen et al. (2003) focus on supplier integration. The first two authors dwell on its nature and practice, the second advances customer responsiveness and competitiveness as outcomes of integration. Fliess and Becker say new product development improves with organization integration while Petersen argues for overall firm performance stemming from of integration.

IMPLICATIONS FOR INDUSTRY AND FURTHER RESEARCH

While theory emphasizes the benefits that accrue from strategic purchasing and supply management practice, it is apparent from the works above that the authors have concentrated on the individual elements of strategic purchasing and supply management (SPSM). None of the studies mention the status of the three elements together yet their practice is seldom in isolation of one another. Consequently, information about them practiced together by firms has remained unknown. indeed actual status and role SPSM in whole is unclear however, based on theoretical arguments, Industry practitioners are advised to emphasize the three elements, supplier socialization, supply base flexibility and supplier integration together. Researchers should conduct further joint investigation into status and outcomes of SPSM because this is what is practical in the real world. Analysis can be done on the relationship between the three with long term prosperity of firms in various industries as can analysis on contribution of any one of them in the relationship between the other two and performance for various industries. Further, use of time series data or panel data may give more meaning as the variables represent strategic issues whose outcomes require a long time.

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