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Mini Review

Strategic Supply Chain Management: Perception versus Reality – A Review

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Abstract

Supply Chain Management (SCM) has witnessed a sea of change from simply being functional SCM to technological SCM to strategic SCM. Strategic Supply Chain Management or SSCM, as we call it today, is now considered an integral part of business strategy. The reason being, it enhances the capability of firm to develop and maintain competitive advantages in competitive environment. But the change from functional SCM to strategic SCM has not been seamless. Various gaps have been reportedin the transition process from SCM to SSCM in the literature. In the process of fulfilling the gaps, the firm tries to shift to a better process thereby attaching with it some unattended risk. In the process of mitigating such risks, one tends to develop certain perceptions which may not be correct in true sense. Such perceptions, if not identified and corrected on time may have serious implications towards the firm progress in the long run. This paper tries to identify such perceptions and also the reality pertaining to such perceptions.

Keywords: SCM, SSCM, gaps, perception, reality.

Introduction

Supply chain management is a dynamic activity that is constantly changing and evolving in response to changes in technology, competitive actions, and customer demands. Now days the concept of supply chain management has changed from tactical to strategic. Strategic supply chain management enhances the capability of a firm to develop and maintain strategic/competitive advantages in competitive environment. Originally, SCM was viewed rather simplistically as a summation of operational activities in functional areas such as purchasing, operations management, and logistics. Today, SCM is increasingly seen to be a strategic, highly integrative management area that exceeds any single functional perspective[1].

Transition of SCM

The past two decades have witnessed a major change in the field of SCM i.e. from functional SCM to technological SCM to Strategic SCM. Initially, the supply chain was primarily concerned with the suppliers and supplier management. By the mid 1990s, there was a change in concept of supply chain management and focus shifted from the suppliers and supplier management to the entire supply chain. From the middle of the first decade of the 21st century, focus has changed from supply chain management to strategic supply chain management. As this transition takes, there is a strong need for researchers, managers, and educators to reassess the current and future stages of supply chain management with the goal of identifying, presenting, and implementing a new set of agendas agendas targeted at directing, motivating, and facilitating research, knowledge dissemination and management/practice in this area[1].

Strategic SCM

Strategic supply chain management is a long-term, planned effort to create a capable supplier base and leverage the benefit of supply management[2-5]. Strategic supply chain management is different from SCM in that the former focuses primarily on the dyadic supply relationship between a manufacturer and its key suppliers[3]. Strategic SCM is one of the most important SCM initiatives and a critical component of modern SCM ideas. Strategic SCM improves on-time shipments, reduces operational costs, and leads to customer satisfaction and improved business performance[6]. Figure 1 shows the current supply chain process.

Traits of Strategic SCM

Total: In the context of SCM total means both up-stream (supply side) and down-stream (demand side) aspects of supply chain. It also includes market and customer relationships. It also covers both domestic and global issues associated with supply chain management[1].

Strategic: Supply chain acts as a means to enhance the ability of a firm to develop and maintain strategic advantages in a competitive marketplace. Strategic SCM extend beyond the operational dimensions of lead time, quality, and flexibility to the strategic and financial areas.

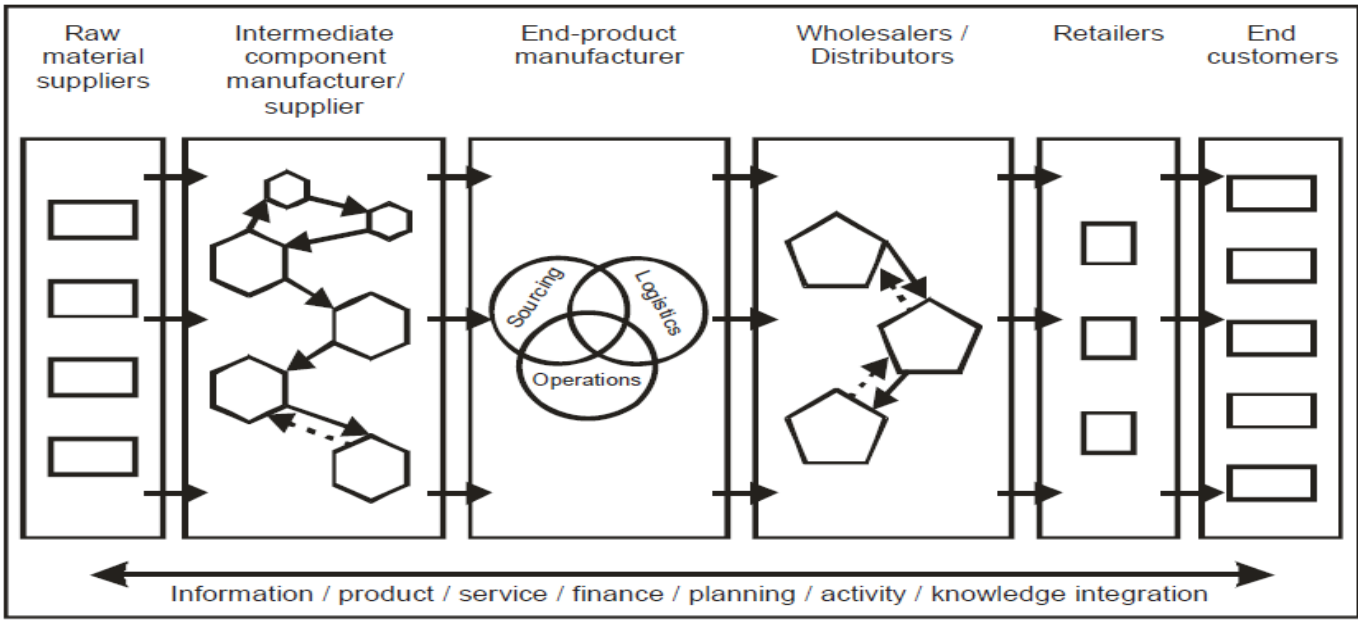

Figure - 1
The current supply chain

However, for SCM to be strategic, supply chains must be driven by marketing strategies, targeting of customers, and the creation of value propositions that are highly attractive to the customers[1].

Dynamic: Supply chains are not static. They are constantly changing and evolving as a result of strategic changes taking place within the firm, competitive actions, changes in technology, and shifts in targeted customers or in customers' needs[1].

Process Integration: Identify and integrate the supply chain business processes for smooth functioning of the system.

The bottlenecks are identified during integration process and eliminated. The eight key supply chain business processes are[10], customer relationship management, customer service management, demand management, order fulfillment, manufacturing flow management, supplier relationship management, product development and commercialization, returns management.

Gaps in Strategic SCM

In the transition of SCM to strategic SCM gaps are being faced. These gaps can be grouped into following categories[1].

Strategic visibility and alignment: In many organizations, there is lack of strategic perspective of the supply chain. Top management is not able to understand the value of the supply chain and benefits that need to be better measured and recognized. Organizations have to exploit the value of supply chain management into alignment of operations, logistics and supply management[1].

Talent management and leadership: Top management has to develop competency models to identify and prepare individuals for key supply chain roles. Individuals need to advance through supply chain competencies, gaining cross-functional experience. Global business skills need to be developed for resolving supply network paradoxes. For this knowledge at both the operational and strategic levels is needed[1].

Optimization, risk and cost Supply chain models: There are insufficient validated models for supply chain optimization, risk minimization, and cost. Organizations have to develop well defined supply chain models for evaluation and optimization of the entire chain. Management needs better understanding of the risk drivers and strategic importance of risk management.

Process orientation: Organizations must be process oriented to fully extract the potential value of supply chain alignment. This requires measurements that cross functional boundaries and the information needed to adequately monitor performance and improvements[1]. Appropriate information is sometimes difficult to extract and there are incompatible IT systems among organizations.

Relationships and trust: For effective supply chain management, personal relationships among people across processes and organizations are very necessary. This requires an appropriate reward structure and top management has to support internally. In case of mergers and acquisitions, the relationship has to be rebuilt[8]. Externally trust, communication, and integrated processes are all prerequisites.

Supply chain architecture and structure: There is a need for better methodologies of total supply chain network design. Value

streams need to be mapped for value drivers using defined procedures and prioritization mechanisms and rules. Information Technology may be considered for same[9-11].

Strategic SCM as a Push system

Push is typically defined as the model in which the delivery of materials, the production of goods and/or the shipment of goods to customers is done according to a predefined schedule. In push system the firm has to develop the strategic advantage in competitive market according to the strategic changes in firm, competitive actions, changes in technology and shifts in customer needs well in advance and they have to make strategies related to marketing, customers and values that will attract the customer is made in well advance[12].

Organizations have to decide in advance about the safety stock, safety lead time, lot sizing, demand and they have to coordinate demand management and supply chain management in order to avoid inefficiency and the failure of meeting demands, resulting in higher inventories. This further decouples the supply chain from the true demands. Organizations have to manage schedules in proper manner in push system. In the organization, where distortions occur in schedules, the schedule-driven model presents low efficiency, slow response, high inventories and low customer service levels.

Strategic SCM as a Pull system

Pull is the determination to produce exactly what the customer's need, in the quantity and time closest to when they need it. Organizations must use Pull principles to condition its corporate culture, strategy, value chain configuration, and its day-to-day operations.

To emulate the pull system model, a company needs to either redefine its business and culture to conform to their 'pull' operational model or to rethink the elements in the model according to their chosen business definition. However, many companies have tried to replicate the pull system model without understanding and reconciling culture, strategy, value chain configuration and day-to-day operations. The result has been frustration and failure instead of expected success. In fact, it is considered that most supply chain management techniques can be applied in a pull or in a push mode, depending on the culture and competence with which they are applied[12]. In this system all the strategies related to marketing, customers and values that will attract the customer is made at the time closest to when they need it.

Choice of system in Strategic SCM

Even if a chosen business model establishes some preference for one technique over another, at different points in the value chain different techniques may be appropriate to plan and manage the demand, the production activities, the resources, and the supply of materials. Knowing when and where to apply each of the different techniques is critical to attain the maximum performance in converting materials, productive resources and technology into the products demanded by the customers[12].

Organizations have to use both system according to the situation and conditions. They have to decide well in advance about their strategies relating to customer, marketing and to other aspects and also have to modify their strategies according to change in technology, competitive actions, customer demands and environment.

Perception vs. reality in SSCM

The above discussion has provided following three points which are perceived to be true while applying strategic supply chain management, wherein reality seems to be different.

Mergers and Acquisitions (M and A's): Perception: M and A's improves overall performance by achieving their strategic objectives. **Reality:** Mergers and Acquisitions are done with high expectations towards improved financial performance and greater revenues. Effective manufacturing and logistics practices are crucial for improved financial performance. Yet many of the typical tactics for increasing productivity and reducing costs post-merger—such as closing plants, laying off workers, and reducing wages—end up disrupting the supply chain and result in poor operational performance and reduced revenue[13].

Recent research studies suggest that up to 60 % of mergers have a detrimental effect on the overall performance of the combined firm, and fewer than 25 % of all acquisitions achieve their strategic objectives[13].

Collaboration among supply chain partners using IT: Perception: Collaboration among supply chain partners using IT as integrator is seamless. It facilitates an integrated flow of information, enhances revenue, reduces cost and improves operational flexibility. **Reality:** The firms increasingly rely on collaborative partners towards a successful strategic SCM for survival. This tendency has accelerated in recent years as firms increasingly leverage information technology to enhance their supply chains. Unfortunately, it has also increased a firm's vulnerability to an array of IT-specific risks. The IT integration among supply chain strategic partners has most worrisome security risks stemming from supply chain partners identified as network intrusions (68%), data theft (64%), virus infections (49%) and fraud/misuse (43%)[9].

Strategic SCM as push or pull system: Perception: SCM can be used strategically for different systems without any hitch. **Reality:** SCM strategy is different for pull as well as push system. When both pull and push system exist simultaneously, the combined strategy generally pose risk towards proper implementation.

Conclusion

As we move ahead from functional SCM to strategic SCM, the involvement and integration of various participants of SCM in totality becomes a necessity. As such the decision making process becomes cumbersome, if not difficult. One cannot deny the fact that in such a scenario, various inputs for a strategic decision may be laced with certain perception, far from reality, and a major role player towards the decision making process.
This paper has tried to give some overview of gaps in strategic SCM from existing literature and this gap results in certain perceptions which are different from the reality. The suggestions may not be exhaustive but a step towards identification of such perceptions which are different from reality. The risk factor involved may thus be eliminated by correcting such perceptions.

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