



IMPACT OF STRATEGIC SOURCING PRACTICES ON FLEXIBLE SUPPLY CHAIN

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Chap 1:- IMPORTANCE OF STUDY

The journey of non strategic sourcing function into strategic sourcing function started in mid of 1980s. The difference between two can be easily highlighted by following lines. Non strategic function was clerical in nature, reactive to other function, non integrative and focus on the short term issues in opposite to that purchasing focuses more towards strategy when it becomes more proactive with firm goals integrative and focuses on the long term span. Quayle (2001), Quayle (2002) changing role of the sourcing can be given with help of three approaches. 1) flow of goods approach: in which supply chain management presents total good flow from supplier to end user. 2) Managing flow of goods and information approach: integrative philosophy managed and analyzed in order to achieve best outcomes for the entire system including physical as well as information flow. 3) Integrative value added approach: included entire marketing process, marketing activities, focusing more on the customer and insuring that these value provides good support to supply chain performance, and end benefits to the customer. Sahay & Gupta (2006) as firm underlined the necessity of sourcing input for their product, for maintaining competitive advantage in the global market many organizations moderate their view for sourcing from operation to strategic activity. Interest in sourcing activities increased dramatically, the purchasing function was seen as a strategic resource for reaching high quality levels, fast delivery, and cost saving Paulraj(2006) et. all classify strategic purchasing into three levels i) strategic Focus ii) strategic Involvement iii) Visibility and also focused on key role of purchasing function is to integrate the supply activities between the external supplier and internal organizational customer. Thompson(2000) argues that strategic sourcing is new field for empirical measurement beyond basic monitoring of process. Previous research had already shown that benefits from organization supply chain resource, strategy, Structure, Responsibilities approach and policies more effectively are far greater than the possible saving from simple departmental cost / efficiency focus. Carr and Pearson (2002) also suggest the linkage between sourcing strategy and organizational performance began to establish when organization began to realize the impact of sourcing function can have their competitive position and they gradually shifted the role of purchasing from a tactical to a strategic role.

Chap no 2:- RESPONSIVE SUPPLY CHAIN AND CONCEPT OF FLEXIBILITY

The supply chain management refer to planning and executing an integrated business process which include material resource planning, manufacturing requirement planning and finally distribution resource planning many firms achieving significant and competitive advantage by configuring and managing the supply chain process and operation .Global competition demand for the need for linkage between supplier, manufacturing technology and customer with exchange of good/services with information. The information technology proven good base for fasten all the process. Kim(2006)& khutharia(1998) Ultimately market focus has been shifted from the manufacturing organization to the customer. Rather than push approach organization has no option than adopting pull approach .Pull approach has to consider fallowing characteristics. Quayle (2001), T assabehji & Moorhouse (2008)Declining life cycle of product, changing customer preferences customer involvement while designing the product to meet such requirement organization has to focus on improving supply chain performance .customer linkages deal with ability to communicate delivery of the right product at right time and at right place with correct invoice the quality of product can crucially decided by manufacturing flexibility adopted by firm and to maintain good quality of product that to be in time organization has to manage good supplier relationship for the longer times .as result of previous discussion we are going to focus on the two areas namely strategic sourcing ,manufacturing flexibility and supply chain performance.

Chap no 3: DEFINING STRATEGIC SOURCING.

Angdal (2006) controlling highly important & routine decision of sourcing". The purpose is to direct all activities of the purchasing function towards opportunities consistent with firms capabilities in order to achieve long term goal. Thus strategic sourcing help to increase firm's ability to become competitive.

Handfield & Bauner(2000)Defines sourcing as aligning procurement task and supplier performance with the corporate and business strategy of the firm

Carr and Smeltzer (2000) developed empirical definition of strategic purchasing

- I. Strategic purchasing normally written in the long range plan,
- II. Long range plan is reviewed and adjusted to match company strategic plan regularly,
- III. Long range plan included the kind material to be purchased.,

However some studies fung (1999), Noollet(2005) discussed strategic sourcing in the detail, the use of standard purchasing process [sourcing strategy] should reduce the possibilities of errors and ease the task involved in identifying the root cause of problem in whole process, once problem has been identified, the corrective action can be quickly implemented and then process can be redesigned to eliminate the problem area. The strategic sourcing provides us the opportunity to investigate impact of it on purchasing and business performance

Chap 4:- OBJECTIVE OF REVIEW

- 1) To understand the impact of strategic sourcing on supply chain performance.
- 2) To understand key elements of strategic sourcing.

- 3) To study best practices of strategic sourcing and supply chain flexibility.
- 4) To identify strategic tools and its importance for the strategic sourcing.

Chap no 4:-REVIEW OF LITERATURE

A) MODERN SOURCING PRACTICES- A study by. A Das and R. Narasimhan identified that modern supply chain required more educated weapon to fight with the uncertainty of market. Also Monczka & Trent (1991), Kobosa & Msimangria (2005) contributed in same direction as result research gives following sourcing practices.

- 1) Supply base optimization
- 2) Buyer supplier relationship development practices.
- 3) Supplier capability audit.
- 4) Purchase integration
- 5) Single Vs Multiple sourcing
- 6) Early supplier involvement

1) **Supply base optimization:-** is often perceived as prerequisite for other

Purchasing initiative and constitute distinct purchasing strategy. It generally proceeds other purchasing activities & reduce transaction & supplier production cost. Sbo consist of supplier reduction, reorganization and volume leveraging action that may be facilitate more sophisticated purchasing practices such as buyer supplier relationship development & early supplier involvement in product, process design e.g. Xerox reduced supply base by 92 % in 1980's.

2) **Buyer – Supplier Relationship Development Practices:-** Organization

Engaged in the buyer-supplier relationship development may employ supplier quality and technical assistance programme. Build long-term supplier relationship, form buyer supplier councils and deploy total cost focus. Such practices called as total cost ownership. Total quality management all of which can be included within larger rubric of buyer supplier relationship development.

3) **Supplier Capability Audit:-** Related with supplier performance

purchasing contribute to strategic objective buy selection, developing and monitoring the supply base, increased reliance for supply base for obtaining current and future competitive success has attracted management attention on supplier performance. Supplier performance evaluation & capability audits have become a critical part of purchasing strategies in supply chain management.

4) **Purchasing Integration:** - Purchasing Integration enables fit & alignment between business objective and purchasing practices. It links purchasing plans, policies and action to corporate and cross functional priorities and is key influence on top management perception of strategic importance of purchasing. Purchasing integration requires active involvement of purchasing in the business firm it can be achieved through the mechanism such as cross functional teaming, participation in strategy formulation and focused on activities that are perceived as adding value in the business goals.

5) Single Vs Multiple Sourcing (wat & kin 2003):- Few strategic sourcing practices Getting more focus on corporate canvas. Such decision are longer than the supply management department, the commodity team, or cross functional team responsible for the source of selection these decision affect not only success but also survival of the firm.

The major argument for placing all firm business with one supplier is that in time of shortage, the supplier will give priority to need of special customer, single sourcing justified when:

- 1) Lower total cost result from much higher volume
- 2) The quality control and co-ordination required with just in time manufacturing require single source.
- 3) Special tooling is required and the use of more than one supplier is result in cost.
- 4) More reliable, shorter lead time required.
- 5) An improved commitment on supplier port result.

Although single sourcing having good range of benefits another option exist is called multiple sourcing most widely known as dual sourcing. This concept used by many Japanese companies to establish them self as world class organization this approach useful when;

- 1) To protect buying firm during time of shortages, strike & emergencies.
- 2) To meet customer volume requirements.
- 3) To maintain in competition & provide backup.
- 4) When technology path is uncertain.
- 6) **Early Supplier Involvement [ESI]:-** Early supplier involvement becoming more

Important issue while dealing with new product development. ESI approach brings expertise and collaborative synergy of suppliers into design process. ESI seeks to find win-win opportunities in developing alternatives & improvement to material, services and technology, specification and tolerance, standard order quantities, lead time process, packaging and transportation, redesign assembly changes, design cycle time & inventory reduction. ESI helps in developing trust and communication between supplier and buying firm ESI normally, but not always result in selection of single source of supplier. At most progressive companies this selection process result of extensive competition between two or three carefully qualified potential supplier.

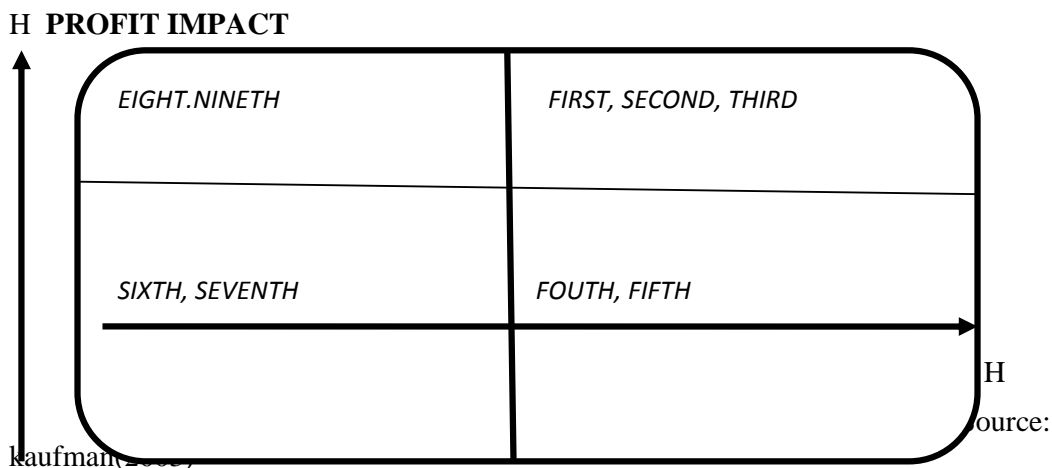
B) TOOL FOR MAKING STRATEGIC SOURCING :- Gelderman & Margolien(2005), Wagner & Kaufmawn (2003) argues that sourcing barriers can be overcome by adopting innovative kind of tools mention as kraljic & Balance score card (BSC). These are two strategic management control tool with an integrated set of leading and lagging performance measure, can secure successful implementation of sourcing strategies namely kraljic matrices and balance score card

Kraljic metrics: - Kraljic introduced first comprehensive portfolio approach for using purchasing and supply chain management. He guided manager to guard their firm against supply interruptions & how to adjust firm to changing economic & competitive environment. His focus was on purchasing & its great application to supply chain management in that context he modified portfolio approach for determining comprehensive Strategy for supply.

Kraljic metrics includes construction of portfolio matrix that classified purchase product & the service on the basis of two dimension profit impact and supply risk (Low and high) this result 2 X 2 matrix & classification into four categories like ,

1) Bottlenecks 2) Non-critical 3) Leverage & 4) Strategic items, each four categories required distinctive approach towards supplier management. Leverage item allows buying company to exploit it full purchasing power, through tendering, target pricing and product substitution, Routing items of low value are ordered regularly therefore high transaction cost. Therefore Strategies are aimed at reducing transaction cost through category management in e-procurement solution. Bottlenecks item because significant problem and risk that should handled by volume insurance, supplier control, safety stocks & backup plans. In same cases the search for alternative products & supplier is needed.

Strategic item required more collaborative Strategy both between buyer and seller. The general idea of kraljic is minimize supply risk. and to maintain Strategic Partnership.



- First point-locked in partnerships
- Second point-Terminate Partnership
- Third point-Accept dependence reduce consequences.
- Fourth point-Reduce dependency find alternative
- Fifth point-Exploit buying power
- Sixth point-Develop strategic partnership
- Seventh point-Pooling requirements
- Eighth point-Individual ordering efficient processing.

Balance Scorecard :- (BSC):-Kaplan & Norton (2002),Kundersen (2003) discussed the importance of balance score card to modified sourcing strategies and its linking with corporate strategy. Content of BSC'S:- It consist of (1) strategic objective that are balanced with respect to (2) predefined perspective. The link between strategic objectives is established through (3) cause effect relationship and hypothesis regarding strength of relationship. In order to able to be plan & control achievement of a strategic objective a BSC contains (4) Financial & non financial indicator for these indicator (5) Target are set only detailed definition of (6) strategic initiatives actions can be guarantee goal achievements. In a (7) BSC matrix, strategic goal indicator & target for each perspective summarized. The graphical representation of the cause effect relationship & hypothesis underlining these are called (8) BSC – map & corresponding verbal description the (9) BSC story.

Score carding process : - When organization decide to employ the BSC concept for implementation & controlling strategies they have to go through several steps, in order to initiate step, up roll out, & continuous use a score carding process consist of (1) preparing score carding (2) defining perspective (3) defining strategic objectives, assigning them to perspective (4) develop cause effect relationship (5) selecting indicators (6) defining challenging targets (7) defining strategic initiative (8) planning the roll out of BSC.

C.DIMENSION OF STRATEGIC SOURCING:

Qualyle (1998), Paulraj (2006), Slack (2005) Discussed various dimensions of strategic sourcing these research provide strong empirical support for importance of strategic sourcing by showing that moving towards more & more right advanced stages firm at nascent stage of strategic purchasing can achieve better supply integration. In this study author have classified strategic sourcing in to three level based on its underlining dimension of strategic focus, strategic involvement, visibility.

(a) strategic focus –

- The purchasing function has normally written long range plan.
- Purchasing focus longer term issue that involved greater risk.

(b) strategic involvement:-

- Purchasing included in strategic planning process.
- The Purchasing function has good knowledge of strategic goals.
- Purchasing performance measured in term of contribution to firm success.
- Focuses of competitive strategy.
- Top management emphasis purchasing strategic role.

(c) Visibility / Status:-

- Top management consider purchasing is vital part of corporate strategy.
- Purchasing views important to top most management.

- Chief purchasing officer have high visibility in top management.

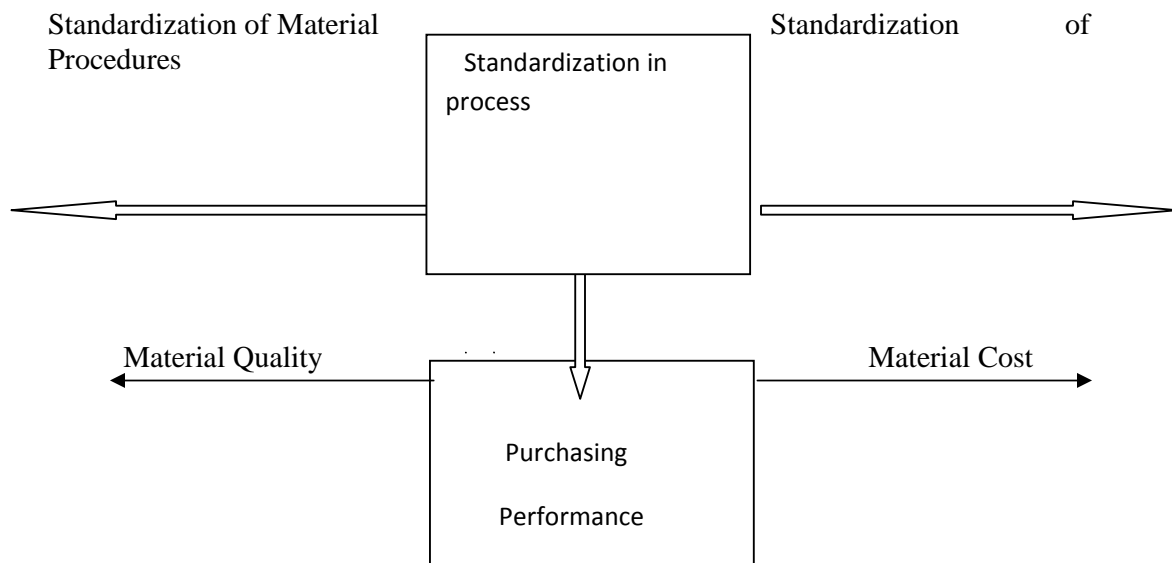
Also this study direct our attention to supply integration that represent buyer / supplier integration and focuses on supply side of value chain, supply chain, integration can occur in terms of (1) Relational Integration which is further divided into two parts limited number of supplier and long term relationship. (2) Process integration can be further explain on the basis of logistic integration (3) Information integration is divided into two basic terms first is two way communications & inter organizational system (4) Cross organizational teams which further talk upon supplier involvement for general and product development.

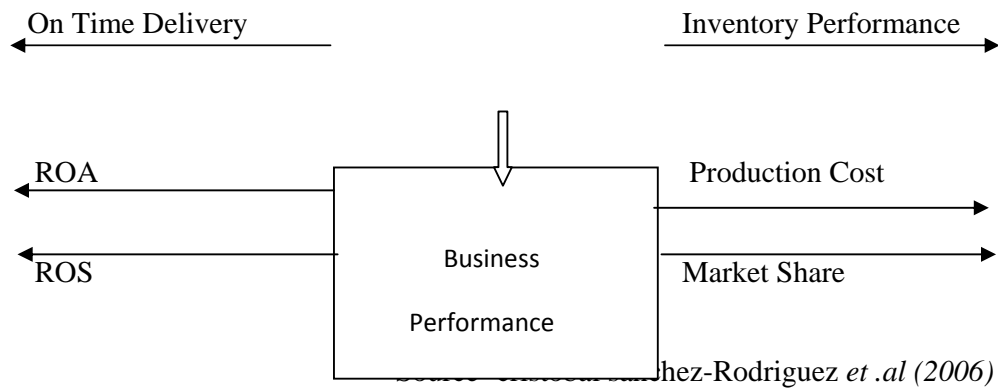
D. IMPACT OF SOURCING STRATEGIES ON SUPPLY CHAIN PERFORMANCE.

l sanchez-Rodriguez *et .al* (2006) Standardization of material i.e. replacement of several material component by single component that has all functionalities of the material component that it replace is one important purchasing decision. The main objective of this study is examining impact of standardization of material and standardization in purchasing on purchasing and business performance. The study covers following features of the standard procedure.

- 1) They represent best, simple and safest way to do on activity.
- 2) They provide method for managing knowledge through the preparation of know-how and expertise.
- 3) They can be used as reference to evaluate Performa.
- 4) They provide basis for both maintenance & improvement activities.

Research model based on the three latent variable of study 1) Standardization in purchasing, purchasing performance and business performance as well as relationship among them. Standardization in purchasing (STP) construct included measures of standardization of material and standardization of purchasing procedures. Purchasing performance (PP) included four indicator material costs, inventory performance, and material quality, on time delivery & finally business performance (BP) this measure consist of return on asset, return on sale, production cost, and market share.





E.Relationship between supplier and degree of linkage among , supply chain performance

Internal integration and customer:

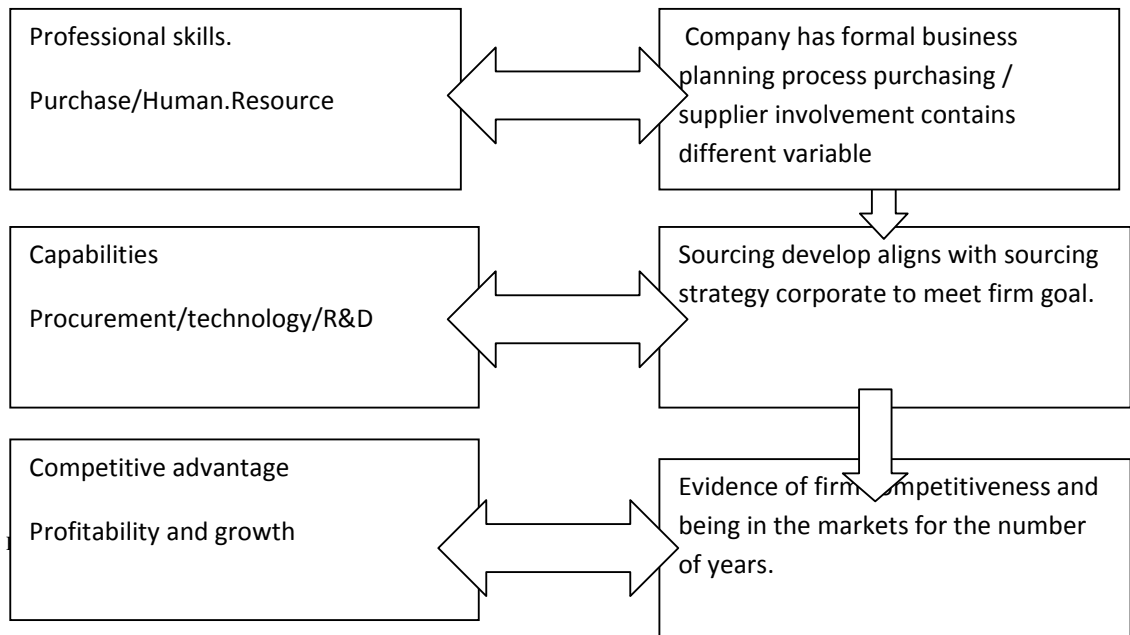
The main purpose of this paper is to present relationship between supply chain linkage and supply chain performance this study will also give more focus on the internal integration. It has been claimed that internal integration is most important contributor to cost containment while integration with supplier is best strategy to achieve supply chain reliable performance- Lee *et.al* (2001) ,Large (2006), Elanimi(1999). Availability of electronic ordering system for customer is an important strategy in containment fast & easy ordering is the best strategy for customer in performance reliability, reliable delivery with supplier collaboration in managing a broad supply chain operation is the best way to link with suppliers, access to inventory information create the most favorable environment in internal integration.

The survey was administered to individual identified from a list of US executive officer, manager & among four hundred despondence 122 were considered as valid. A vigorous multivariate statistical modelling process was employed to seek a possible linkage between the level of Integration & supply chain performance.

Also the impact of purchasing and supplier involvement on strategic sourcing and it's impact on firm performance studied by By Carr *et. al* (2002), Guinipero (2006).This study focuses on supplier involvement in the firm using resource base view of the firm. Author has selected three important factor 1) strategic purchasing 2) purchasing supplier involvement 3) firms financial performance variables under the strategic purchasing are.

- 1) Purchasing long range planned reviewed & adjusted
- 2) Comprehensive purchasing strategy have been developed to support company strategies.
- 3) Purchasing consistently provide inputs to top management
- 4) Company has formal business planning process purchasing / supplier involvement contains following variable.
 - i) Key suppliers are involved in the design process of our product.
 - ii) Purchasing develops innovative strategies to support new product development.

- iii) Purchasing participates an cross-functional team.
- iv) Key supplier is involved in our strategic planning process.



Source: Lee et.al (2001) ,Large (2006), Ellaram (1999)

The importance of issue's included 1) leadership strategy, marketing, waste reduction, financial management, customer time, team, R & d, new technology, inventory reduction, JIT, purchasing, supplier development, EDI, Benchmarking 2) priorities for customer included, quality, price, reliability, capability to support, time , E-commerce, R & D, purchasing expertise, value analysis. 3) Priorities of customer included price, quality almost same as above.

F.IMPACT OF TECHNOLOGY ON FLEXIBLE SUPPLY CHAIN:

Much of the hype associated with the impact of electronic business is associated with the business to business (B2B) model. Analysts believe that enormous cost savings and efficiencies can be achieved through the utilization of e-procurement, a component of theB2Bmodel. **Paul hawkings (2004), Kerstel(2004)**The role of procurement and the emerging use of large information systems to conduct e-procurement is analyzed and presented with the results of a survey of 38 major Australian organizations. The current direct and indirect procurement practices of the sample organizations will be analyzed together with an analysis of the e procurement drivers and barriers. The main results show that direct procurement is heavily dependent upon traditional practices whilst indirect procurement is more likely to use “e” practices. Small-medium organizations are more nimble at adopting e-procurement practices. Technical issues dominate e-procurement barriers, with cost factors dominating e-procurement.

REASERCH GAPS:

From the literature of strategic sourcing, strategic tool provides important base line for manufacturing strategies for the organization; more work should be expected for the development of new tool.

- It was also found out that lack of consistent and well agreed criteria what constitutes strategic sourcing.
- Most of the studies has been done on strategic sourcing is in context of u.s.and u.k, and European countries more in-depth study is required to understand importance of strategic sourcing in the Indian context
- The relationship between strategic sourcing and supply chain Performance appears to be critical for the success of organization but the nature of this is not well defined

CONCLUSION:- The conclusion can be made that purchasing single function has gained in importance. and become an integral part of supply chain management .It was also found that supply chain management focused on developing the relation with supplier. Supply chain management provides multiple benefits including improved supplier co ordination this improved coordination resulted in the greater commitment to large range supplier relationship with focused on reducing cost to buying organization.

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