

THEORIES OF SUPPLY CHAIN MANAGEMENT: A LITERATURE REVIEW

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ABSTRACT

In the current competitive scenario supply chain management assumes a significant importance and calls for serious research attention, as companies are challenged with finding ways to meet ever-rising customer expectations at a manageable cost. While many studies in the area of supply chain management deal with providing conceptual definition of advancements in this area less attentions has been paid to identification and application of theories. The paper provides a thorough analysis of contemporary theories of supply chain management. In analyzing the theories, the historical development of each theory in described through comprehensive review of the literature. This paper provide an overview that, how each of the mentioned theories and views can explain various aspects of organizational supply chain management. After describing the theories and views, it is argued that these concepts some shortcomings in describing the processes associated with various activities in supply chain management.

Keywords: Supply chain management, Supply chain theories, literature review

INTRODUCTION

Supply chain management was a term coined by Keith Joseph Oliver, a consultant belonging to the firm Booz Allen Hamilton, in the year 1982, to explain the method of planning, implementing and controlling what goes on at the supply chain to satisfy customers' wants in a quick, efficient manner. A supply chain is the set of values adding activities connecting the enterprise's suppliers and its customers. These functions includes new product development, marketing, operation, distribution, finance, customer service and other function that related to serving customer request (Chopra and Meindl, 2007). Effective supply chain management is very important to create and sustain

competitive advantage in product and services of the corporations. Gunasekaran and Ngai,(2004);

The literature on supply chain management has been mostly concerned with definition of concepts and less attention has been paid to identify and describe the main theories that can address various aspects of the supply chain operations. Seuring (2003) mentions some of the early works in the theory development in this area conducted by various authors including Handfield and Melnyk (1998), Mears-Young and Jakson (1997), New (1995), and Brush (1997). Grieger (2003) calls for development of the theories that can address the adoption of new technologies and management practices in organizational supply chain. These theories and

views are proposed by several authors to have the potential for explaining various aspects of supply chain management. In this article, it is described that, how each of the mentioned theories and views can explain various aspects of organizational supply chain management. After describing the theories, it is argued that each of these concepts has application and some shortcomings in describing the processes associated with various activities in supply chain management.

TRANSACTION COST ECONOMICS (TCE)

The early studies of transaction cost theory as described in the works of Coase (1937) and others had paid little attention to the internal operation of the organization (Pitelis and Wahl 1998, as cited in Foss 1999). Williamson (1975, 1981) further expanded the application of transaction cost theory by highlighting the role of transaction cost theory in promoting vertical integration and trust in organizations. These aspects of transaction cost theory are supporting evidences for the role of supply chain management in organizations. Transaction cost economics (TCE) offers a natural fit with supply chain management research because it focus on the “make or buy” decision—whether a firm should make a product within the confines of its organizational boundaries or purchase it from an outside provider (Williamson, 1975). TCE argues that, during any economic exchange, the cost of the product or service should include all hidden costs. The overarching goal is to maximise performance by minimizing transaction costs among and between organizations. Given the natural fit and previous use of the TCE in supply chain research, TCE was a popular theory in this special issue as well. Whether we look at supply chain, as a network or as an integrated process, the transaction cost theory explains the vertical connection and integration of various elements of organizational supply chain,

from second tier and first tier suppliers to first tier and second tier customers.

Transaction costs are the expenses generated by identifying fair market prices, negotiating, and carrying out economic exchange (Williamson, 1991). Under some conditions, internalizing an activity minimizes such costs, while under others, buying a product or service from another firm is best. Supply chain managers should balance these contingencies to seek out a suitable balance of relationships across a chain. Consequently, TCE makes assumptions about how relationships are structured, and the development of ensuing forms of leverage. In this way, TCE overlooks two key considerations. The first involves contractual obligations and therefore the way transaction costs are usually dissipated throughout the supply chain. The second centres on the locus of control in supply chains and, in particular, how often minor players are able to exert considerable leverage through structural manipulation.

RESOURCE-BASED VIEW (RBV)

Resource-Based View how certain assets and capabilities lay a foundation for competitive advantage and superior performance (Barney, 1991). This theory explains how the unique deployment and combination (referred to as ‘capabilities’) of tangible and intangible resources would possibly assist corporations to attain a sustainable competitive advantage (Grant, Review & Berkeley, 1991; Prahalad & Hamel, 1990; Priem & Swink, 2012). The fundamental approach of the RBV is viewing the firm as a bundle of resources and asserting that resource heterogeneity exist among corporations. more attention has been paid to the application of resource-based view in organizational supply chain management throughout the past decade. Applications of RBV in SCM are primarily focused on structural analysis (Fensterseifer, 2003; Miller & Ross, 2003) and identification of the antecedents for competitive advantage within the supply chain (Barratt & Oke, 2007; Lewis, 2000; Pearson, Masson , 2010). Morash and kill (2002)

used resource based mostly view in their study of global supply chain capability and performance. Halldórsson et al. (2007) maintained that the majority of SCM decisions are underpinned by RBV, at least implicitly.

In another study Yeniyurt, Kim and Cavusgil (2005) illustrated the application of RBV in the impact of IT on organizational supply chain capabilities and performance. Gold, Seuring, and Beske (2009) extended the application of resource-based view to inter-organizational relations of companies. Moreover, they applied this relational side of RBV to “supply chain wide collaboration”. However, this view has been criticized for failing to propose methods for organizations to acquire the resources needed for growth and achieving competitive advantage. Another criticism to this theory is that it's basically concerned with the tangible resources. Relevant problems for future research include: What varieties of unique resources are found at {the supply| the availability |the provision} chain level of analysis? How can these supply chain resources be protected against acquisition and imitation? To what extent do these resources enable supply chains to stand out on the competitive priorities? And are supply chain level resources more or less inimitable than firm level resources?

KNOWLEDGE-BASED VIEW

Knowledge-based view as a comparatively newer theory of organizational processes considers intangible resources of organizations also. Grand (1997) who made important contributions to the development of knowledge-based theory, describes the contribution of many authors from numerous dimensions to the development of this view. These dimensions are: organizational learning, evolutionary economics, organizational capabilities and competencies, and innovation and new product development. Whereas the economic view of operations, like those described by transaction cost theory and classical resource-

based view, promote the acquisition of factors of production i.e. labour and capital, for achieving organizational goals, the knowledge-based view promotes the sharing of knowledge. From the supply chain management perspective, this theory provides evidence of value creation through knowledge sharing in internal and external organizational supply chain collaboration. Hult, Ketchen and Slater (2004) applied the knowledge-based view to the information process and knowledge development in organizational supply chain performance. They could describe the “substantial variance in cycle time” of organizational offer chain performance using knowledge-based view. In another study, Ketchen and Giunipero (2004) mentioned the application of knowledge-based view in strategic management of organizational supply chain management.

They tried to illustrate the use of this view to elucidate the impact of knowledge sharing across supply chain, in firms' outcomes. whereas this theory has been used to illustrate the role of knowledge sharing in value creation, less attention has been paid to explain the process by which, the knowledge sharing will completely have an effect on the organizational output.

RESOURCE - DEPENDENCE THEORY (RDT)

The resource-dependence theory (RDT) focuses on a group of power relationships based on exchange of resources (Pfeffer & Alison, 1987). The asymmetric interdependency that exists in these inter-firm relationships is crucial to reduce environmental uncertainty for a few companies. It recognises that firms don't possess all the resources they could require in the process of value-creation, hence will usually become dependent on one another (Emerson, 1962; Hunt & Morgan, 1996). Thus, RDT contains a high level of value in the supply chain context. The key issue then becomes how organisations manage their power-dependence relationships to take care of their functional and

operational necessities (Pfeffer & Salancik, 1978). in this regard, RDT assumes that organisations usually form coalitions to extend their power and make other organisations dependent on themselves (Heide, 1994). Resource manipulation and control exertion are the strategies offered by RDT to manage uncertainty and dependence in business transactions.

The articles by Ireland and Webb and Crook and Combs discuss RDT's implications for key aspects of supply chain management. Ketchen and Hult (2007) highlighted the dissimilar nature of dependence within the traditional and modern value supply chains. Whereas traditional supply chains have an inclination to behave opportunistically in relation to their power-dependence advantage along the chain, modern value supply chains exploit dependency as a means of fostering trust and commitment to fulfil supply chain requirements (Crook & Combs, 2007; & Webb, 2007).

AGENCY THEORY

The agency theory was discussed in this issue by Morgan et al., additionally offers a natural fit with supply chain management research. This theory focuses on occasions whereby one entity (the principal) delegates authority to a second (the agent) to act on its behalf (Eisenhardt, 1989). In agency relationships, one party (the principal) delegates work to a different party (the agent) (Eisenhardt, 1989; author & Meckling, 1976; Ross, 1973) to compensate for the dearth of expertise or to target core competencies. Once the agent is acting for the principal, it resembles behaviours such as performing for the benefit of the principal or acting as the principal's representative or employee (Mitnick, 1973). As Eisenhardt (1989a) mentioned, whereas the profit maximisation approach and self-interest persists, "...the focus of agency theory [centres] on determining the foremost efficient contract governing the principal-agent relationship". The notion of the contract is used here as a metaphor to explain the agency relationship (Jensen & Meckling,

1976) and is designed based on the end result (such as commissions) or behaviour (such as salaries) of the agent (Eisenhardt, 1989a). Agency theory has been applied to numerous activities associated supply chain management together with, outsourcing (Logan, 2000; Loebbecke and Huyskens, 2009), sourcing (Shook, Adams, Ketchen and Craighead 2009), and supply chain collaboration (Kwon and Suh, 2004).

AT provides a helpful framework to analyse relationships and behaviours in supply chains as a result of these chains are replete with the principal-agent dyads. Issues arise in these relationships as a result of agents usually behave in ways in which benefit them, not principals. for instance, stockholders delegate authority to top managers to run companies. Participants must choose between courses of action that benefits their firm versus one that benefits the chain as a whole.

NETWORK THEORY

Networks perspective –also cited as networks theory within the literature (McNichols and Brennan, 2006)– basically focused with the value generation through inter-organizational relations. Strong and weak ties are key ideas within network theory. As the names suggest, strong ties involve companies that are tightly coupled and loose ties involve companies with a lot of tenuous links (cf. Granovetter, 1973). Each kind presents some advantages to supply chains. It describes, explains, and predicts relations among connected entities (Thorelli, 1986). Supply chains are, in essence, a type of network, thus, network theory has the potential to reveal interesting truths regarding chains. However, as the supply chain networks are expanded to a lot of diverse professional and geographic domains, the organizational supply chains are exposed to numerous kinds of risks. The networks perspective has been utilised for both global supply chain studies as well as supply chain in specific industries or countries (Peck 2005; Zhao, Anand and Mitchell, 2005).The network theory (NT)

provides a broader theory of the inter-organisational interactions in a network atmosphere. It highlights the dynamics of network environments and recognises the influence of partner–partner relationships on an organisation’s operations (Halldórsson et al., 2007). By emphasising the notion of strong and weak ties, the Network Theory states that a network resource view assists managers to develop a lot of realistic assessment of individual node resources and their implications for business.

Moreover, the theory is helpful for investigation trust and longevity in bilateral relationships (Gadde & Håkansson, 2001). By taking a network approach, organisations will design their supply chains so they will benefit from things such as the advantages of strong ties to create reliability, and weak ties to make flexibility to manage their responsiveness. an extra implication of the NT is its utility for supply chain innovation by demonstrating network-wide knowledge-sharing mechanisms and management (Miles & Snow, 2007).

RELATIONAL EXCHANGE THEORY (RET)

The relational exchange theory (RET) centres on the thought of embeddedness, which suggests that cooperative parties act based on certain norms, as opposed to contractual obligations (Granovetter, 1985; Joshi & Stump, 1999). It emphasises soft control mechanisms to attenuate opportunism (Larson, 1992). RET recognizes that the corporations composing supply chains are themselves composed of individuals, and that the interpersonal skills and relationships among these individuals (such as the “credits” and trust they build with each other) shape supply chain activities and outcomes (cf. Nahapiet and Ghoshal, 1998). That is, RET predicts that trust-based relationships are less liable to partners’ opportunism (Granovetter, 1985). In addition, trusting relationships assist in dedicating resources to developing and maintaining relationships, instead of managing transactional tensions or abnormal behaviours within the supply chain (Joshi & Stump, 1999).

By extending the RBV of the firm, Dyer and Singh (1998) emphasized the importance of relational rents resulting from relation-specific assets, knowledge-sharing routines, complementary resources and capabilities and effective governance in cooperative arrangements. This theory plays an outstanding role within the articles by Ireland and Webb, and Krause, Handfield, and Tyler. Within a traditional supply chain, everyone has conflicted loyalties between the firm and chain. The resultant mix of shared and firm-level goals, values, and experiences circumscribes shared sense making and limits performance. In contrast, the alignment among modern value supply chain members creates a context wherein shared goals, values, and experiences produce shared sense making and improved performance..

INSTITUTIONAL THEORY

Institutional Theory is the centre piece of the article by Rogers, Purdy, Safayeni and Duimering. This theory emphasizes the role of environmental pressures, several of them subtle and evolving, on firm activities (DiMaggio and Powell, 1983). A foundational component of institutional theory is that organizations become homogeneous as a operate of isomorphism over time. The roots of institutional theory are often found within the political science studies. This area of study has full-fledged a shift of attention from the old institutionalism to the new institutionalism, which was promoted post world war II. While the main target of old institutionalism is on behaviourism (merely concerned with the behaviour of the elite or top management) and rational selection, the new institutionalism takes an open system perspective (Scott, 2003; Peters, 2005). The old institutionalization theory is characterised by being legalism, structuralism, holism, historical, and based on normative analysis. The characteristics and assumptions of the old institutionalism theory have been criticized and challenged. These developments paved the way toward the new institutionalism. The developments related to each of the old institutionalization characteristics and assumptions

opened a fresh window toward the new institutionalism. As a result, there exists a “variety of [new] institutional theory”, however there are variety of “common core that binds all the approaches together” (Peters, 2005: 18). The new institutional theory has been illustrated as an open system perspective in contrast to the rational system as described by Scott (2003). The open system view of supply chain encourages the attention to the role of environment within the behaviour of organization, its components, and its members. From the institution theory perspective, supply chain management should pursue two main goals: 1- watching the environment for collaborative opportunities, and 2- distinguishing the simplest practices within the industry and comparison the organizational operation with best practices, for continuous improvement (Scott, 2003; Movahedi et al., 2009). According to the institutional theory “external pressure”, play a significant role in shaping organizational methods associated with supply chain management. For example, strategies related to the organizations’ choices of technology adoption and supply chain collaboration (Ketchen and Giunipero, 2004). However, since organizations are all monitoring their environment and try to adopt the best practices, it's expected that “organizations become homogeneous as a function of isomorphism over time” (Ketchen and Hult, 2007).

STRATEGIC CHOICE THEORY

This theory is concerned with the decision-making in organizations for achieving the defined goals. Strategic choice theory stands in opposite to externally centered approaches like institutional theory. Strategic choice contends that managers’ selections play an incredible role in organizational success or failure (Child, 1972). A central issue in strategic choice theory is strategic renewal and repositioning. A foundational assumption is that corporations will enact and actively form their surroundings.

This theory seeks to provide answers to some of the aspects of supply chain management

studies like (Ketchen and Hult, 2007): - Direct and indirect effects of supply chain decision-making on profit and stock prices. - Adaptation of organizational supply chain strategies to organizational lifecycle (Meyer and Coleman, 1978) - supply chain strategies that can address numerous organizational strategies. The conditions that created each of those strategies to be more effective. one of the restrictions of the strategic choice theory in describing supply chain activities is that this theory is more involved with the governance structure and political forces in decision making and has less attention to the useful execution of organizational processes. Child (1997) highlights by describing that the strategic choice theory emphasizes the role of authoritative management group who can “influence the structures of their organizations through an basically political process”. Ketchen and Hult (2007) consider strategic choice theory as an appropriate theory for describing ‘strategic supply chain management’ studies. According to these authors, strategic choice theory with specialize in best value selection, can describe: a. the extent to which ‘best value supply chain’ models can affect the organizational outcome –in comparison to ‘traditional supply chain’. the extent to which ‘best value supply chain’ models will ‘enact their environment’ –in comparison to ‘traditional supply chain’. However, unlike “externally centered approaches like institutional theory” the strategic choice theory focuses on methods at intra-organizational level to provide certain capabilities like agility and adaptability (Ketchen and Hult, 2007).

STAKEHOLDER THEORY

Stakeholder theory in the context of organizational supply chain should concentrate on the of activities related to the various processes among the supply chain. Following this lead, the supply Chain Operations Reference model (SCOR) produced by supply Chain Council (SCC) as one of the most used models in academic domain and businesses– will give supportive framework for application of stakeholder theory.

In this model, each of activities in organizational supply chain is related to a group of supply chain stakeholders. Identification of stakeholders within the field of operations can be conducted from numerous views. Bourne and walker (2005) describe many approaches in this regards. One could be supported the identification of individual and collective interest groups (Cleland, 1995). another way is identifying the stakeholders based on the individual positions and responsibilities like clients, project managers, external service providers, and “invisible team members” (Briner, Hastings and Geddes, 1996). These groups of stakeholders are the employees who are involved in sourcing, planning, making, delivering, and return. Stakeholder theory not solely can be used in investigations on the internal supply chain, but can also be applied within the external supply chain of organizations. It also has wide implications in competition among supply chain of organizations. Whereas stakeholder theory will provide strong framework for identifying and defining the supply chain stakeholders, it has certain shortcomings for describing some aspects of organizational supply chain. a number of these shortcomings include providing specific strategies for value creation and, management of governance and power structure in organizations.

SYSTEMS THEORY

Ludwig von Bertalanffy provide seminal contribution to the development of systems theory specifically throughout the 1950s. Bertalanffy’s contributions to the methodology of science were largely from physics and biology perspective. For instance, in his paper published in the 1950 – while he was a professor in the University of Ottawa– Bertalanffy analyses the open system view of equilibrium of living organisms in contrast to the closes systems. His researches before the 1950s were largely from biology perspective, that led to development of organism system theory. after the 1950s,

his analysis was mostly around the methodology development of science, that led to the development of general system theory. Bertalanffy challenged classical modelling, that were based on mathematical view of the systems, and argued that these open systems are affected by the time issue. Therefore, a dynamic view of systems is required for understanding these open systems (Sarjoughian and Zeigler, 1995; Lowaon, 2003). Gripsrud, Jahre and Persson (2006) explore the historical background of application of systems theory in supply chain management and specifically in the context of logistics. They argue that the neoclassic economic theories were dominant during the period of 1950s-1970s. Throughout this era, the main focus was one “total cost” and “trade-offs”. However, since the 1970s systems theory has become the dominant theory for explaining the domain and functioning of organizational supply chain. The post 1970s era itself witnesses a shift of focus. whereas the balance of cost and service as well as trade-offs were the centre of attention till 1985, the main focus of the idea was shift around 1985 to explain efficiencies and the role of processes. This latter period continues to date.

CONCLUSION

No satisfactory overarching theory has been given to guide supply chain development. There are might be three reasons for this lack of a theoretical foundation. First, the supply chain field may be a comparatively new concept, Second, the quickly evolving nature of the phenomenon has thus far proved to be a tough challenge for academicians to understand, predict and control with any measure of consistency (Hunt, 1991; Mentzer, 2001). Finally, a lot of the supply chain research conducted throughout the past dozen years have been processed versus strategically oriented (Cooper et al., 1997; Croxton et al., 2001). A lot of this work, however, tends to be restricted to description of the process steps themselves and has not been

connected back to the strategies that drive company decision-making. Since SCM is changing into progressively strategic for firms and strategies must be modified over time in light of market and competitive pressures (Hunt and Morgan, 1995; Christopher and To will, 2002), the study and practice of the phenomenon will doubtlessly continue to change in the coming decade.

All the existing theories associated with supply chain management have a number of limitations; transaction cost theory may be a valuable framework for describing the vertical integration in supply chain management studies. While knowledge-based view addresses some perspectives of collaboration, it focuses simply on the actors and consequently processes, which are directly involved with the organizational operations. Strategic choice theory is more involved with the governance structure and political forces in decision-making and pays less attention to the functional execution of organizational processes. Agency theory provides justifications for the behaviour of organizational player at individual, group and organizational level similar to strategic choice theory, it has a static view towards the stakeholders as actors, which need be managed and structured within the most optimum way to attain individual, group and/or institutional goals.

Strategic choice theory and agency theory acknowledge the complex relations among the organizational actors, they do not offer a mechanism to explore and establish these relationships. System theory is the functional paradigm view is dominant, which may limit its application in the process view of organizational management philosophy. Networks perspective is restricted with its focus on connecting the entities. This issue bounds the capability of networks perspective to explain the process perspective of operations, which goes on the far side merely connecting nodes (Stanford-Smith and Chiozza, 2001; Davenport and Short, 1993). Further development of theory on supply

chain activities to strategic management thought can enable researchers to better understand supply chain ways and also the decisions that lead to structural evolution over time. Cooper et al. (1997). Taking lessons from the strategic management literature and extending them to the multi-entity setting of the supply chain provides several supply chain components to consider when managers seek to improve performance in their supply chains. There are some scope for future research, to develop new theory associated with supply chain for example- from customer's perspective or to modified in some existing theories of supply chain for the for efficient and effective results. Such a requirement would be much too confining to be practical. Rather, the strategies should be complementary across corporations to mutually support an overall, shared supply chain objective.

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