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Journal of Purchasing & Supply Management

journal homepage: www.elsevier.com/locate/pursup

Supply chain management executives in corporate upper echelons



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ARTICLE INFO

Article history:

Received 27 September 2012

Received in revised form

29 January 2014

Accepted 30 January 2014

Available online 11 February 2014

Keywords:

Supply chain organization

Chief Supply Chain Officer (CSCO)

Top management team (TMT)

Panel study

Content analysis

ABSTRACT

Supply chain strategies and their implementation have been recognized as a source of competitive advantage. According to the principle “structure follows strategy”, we expect the number of firms having supply chain management (SCM) functions represented on their top management team (TMT) to have increased in the past years. However, little is known about the degree to which executives responsible for SCM functions (i.e., Chief Supply Chain Officers) are present or absent in TMTs and if their presence is related to firm performance. Therefore, we study the TMTs of large US corporations and show that SCM is present in upper echelons, either through executives whose responsibilities explicitly include SCM or indirectly by executives, especially CEOs, who had acquired SCM experience in their previous positions. However, firms' operating margins are lower when a Chief Supply Chain Officer is present in the TMT.

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1. Introduction

In the 1980s, the interest in supply chains (SC) and supply chain management (SCM) increased tremendously. SCM is viewed more than ever as a source of strategic advantage for organizations (Mol, 2003). This has transformed the position of the SCM function within the organizational structure (e.g., Kim, 2007), the way of organizing the SCM function(s) (e.g., Elmuti, 2002), and the placement of SCM authorities in the organizational hierarchy (Monczka et al., 2005). In this context, we expect first, following Chandler's (1962) principle that “structure follows strategy”, that firms now have more SCM functions represented in their top management team (TMT) and second, that firms having a SCM executive in their TMT demonstrate better firm performance.

The studies on the organizational structure in the field of SCM have already made important contributions to the understanding of SCM's organizational visibility (e.g., Andersen and Rask, 2003; Fearon, 1988; Fearon and Leenders, 1995; Johnson and Leenders, 2006; Kim, 2007; Trent, 2004). These studies, however, relied mostly on case studies, anecdotal evidence, or survey research, instead of more objective secondary data. Most of the questionnaires that are sent to the heads of logistics, purchasing, or SCM fail to examine where on the corporate ladder these persons are situated since it is impossible to infer from a person's job title alone whether or not he or she belongs to the TMT.

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Outside of the SCM discipline, ample research on TMT composition and functional representation has been conducted using objective measures based on archival data. This stream sets its focus either on individual leaders such as the Chief Executive Officer (CEO) or on heads of business units, on governance bodies such as boards of directors, or on the entire TMT (for excellent reviews see e.g., Carpenter et al., 2004; Finkelstein et al., 2009; Pettigrew, 1992). While the research in management disciplines such as marketing and finance (see Section 2.3) is more advanced, no research has – to the best of our knowledge – empirically analyzed the degree to which SCM is explicitly represented by executives in firms' TMTs and if SCM representation is related to firm performance.

The purpose of our article is to shed light on SCM representation in firms' TMTs and its relation to firm performance. This seems a fruitful undertaking given “this area's great potential, its various unresolved and unexplored research issues, and the many unexplored functional TMT members” (Menz, 2012, p. 46), and because numerous management scholars have highlighted the importance of studying the organization of SCM (e.g., Ketchen and Hult, 2007; Kim, 2007; Miles and Snow, 2007; Sandberg and Abrahamsson, 2010; Storey et al., 2006; Tassabehji and Moorhouse, 2008; Zheng et al., 2007). More specifically, we believe that generating insights in this field is valuable for the following reasons. First, scholars need more empirical evidence to support firms in establishing suitable organizational structures and in understanding the consequences of certain structures (Hambrick and Mason, 1984). In this context SCM gained importance as its presence not only enhances the variety of professional expertise on the TMT but also affects the likelihood and speed of translating supply chain strategies into practice (Fawcett et al., 2008). Second, companies

would gain support in structuring their supply chain organizations and in selecting and cultivating upper-level executives (Johnson et al., 1999; Mulder et al., 2005; Richey and Wheeler, 2004). Third, strategists could more accurately predict their companies' or their competitors' moves and countermoves, as the strategic direction of a company is often mirrored in the composition of its TMT (Boal and Hooijberg, 2000). Especially for investors, as the empirical research on the effects of SCM practices suggests (e.g., Hendricks and Singhal, 2005; Wagner et al., 2012), it is critical to know if the executive in charge of SCM is part of the TMT with "direct" access to the top decision makers or if this executive is situated lower in the leadership hierarchy.

We analyze the TMTs of large US corporations from a variety of industries. We hope to ascertain if the executives responsible for SCM and related functions, i.e., the Chief Supply Chain Officer (CSCO), belong to what Finkelstein et al. (2009) call "the small group of people at the top of an organization [that] can dramatically affect organizational outcomes" (p. 3). Next, we examine the extent to which TMT members in general (excluding the CSCO) and the CEO in particular have gained SCM experience from positions that they held earlier in their career. Finally, we compare the performance of firms with and without a CSCO in their TMT.

Our article proceeds as follows. In Section 2 we describe the conceptual framework upon which we formulate four research questions based on a literature review. Section 3 describes our methodology before the results for each research question are presented in Section 4. Finally, we summarize our research and give concluding remarks on the limitations of this study and areas for future research.

2. Literature review and development of research questions

2.1. Chief Supply Chain Officer

The Chief Supply Chain Officer (CSCO) is the highest executive with designated responsibility for SCM. According to the CSCMP (2010) "this position is ordinarily found in large corporations and less often in small- and medium-sized companies" and (s)he "must be a strategic thinker with confidence and speed in execution [and] have the ability to interact at the highest levels of the company". Although this definition might seem self-explanatory, there is no consensus on what comprises SCM (e.g., Li et al., 2006b; Mentzer et al., 2001). Scholarly work has even confirmed that the "SCM vision remains fuzzy at most organizations" and that "most individuals do not have a clear perception of what SCM means in relation to their tasks" (Fawcett et al., 2008, p. 44). To the best of our knowledge, no scholarly work unambiguously explains the functional areas related to SCM or finds the "root function" of SCM. For example, Larson et al. (2007) regard logistics as the nucleus for SCM but found that definitions and perspectives of SCM differ within the logistics function. For some supply chain professionals, logistics is a part of SCM but for others, SCM is a sub-function of logistics.

Due to these ambiguities, we consider SCM an "umbrella term" (Andersen and Rask, 2003, p. 84) that encompasses two different viewpoints. As a consequence, the CSCO can be seen in a narrow sense and encompass terms such as supply chain management or value chain management. Alternatively, in a wider sense, adjacent SCM functions such as purchasing or logistics are considered.

2.2. The role of the top management for supply chain management

Four decades ago, researchers in the field of SCM and related functions explored the standing and influence of these functions in the hierarchy of corporations with interesting results. For example,

Ammer (1974) concluded that "the obvious reason why many purchasing managers do not frequently participate in non-purchasing decisions and instead operate within a narrow definition of their job is lack of organizational visibility. They simply are not close enough to the top to know what is going on" (p. 20). In the following years, many researchers highlighted the importance of TMT commitment for implementing supply chain strategies (e.g., Fawcett et al., 2008; Gibson et al., 2005; Lancioni, 2000). Based on empirical evidence gathered via a survey of supply chain professionals from manufacturing firms in North America, Trent (2004) revealed that large firms "perceive an executive position responsible for coordinating and integrating key supply chain activities from supplier through customer ... as important" (p. 11) for an effective organizational design. This study has found that many organizational design features that are related to the involvement of the upper echelons such as regular presentations by the Chief Purchasing Officer (CPO) to the CEO, a higher-level CPO with a title related to purchasing and supply management, or executive buyer-supplier councils which coordinate the upstream activities with key suppliers are evaluated as indispensable to reach supply and procurement objectives. Larson's et al. (2007) study on enabling factors for SCM implementation clearly showed that top management support has the greatest impact on the success of supply chain strategies. Sandberg and Abrahamsson (2010) performed case study research to analyze the enabling role of the top management for SCM practices. They identified four archetypal roles for top management: supply chain thinker, relationship manager, controller, and organizer for the future.

2.3. Organizational visibility of supply chain management and other functions in corporate upper echelons

In the past decade, many studies of the organizational status of SCM were published (e.g., Aquino and Draper, 2008; CSC, 2007, 2010, 2012; Eyefortransport, 2011; Heckmann et al., 2003; IBM, 2009; SCM World, 2010; Wilding et al., 2010). In addition to investigating the proliferation of the supply chain concept, its influence on the business, and a forecast on the future of SCM, some scholars have begun to investigate the position of the leading supply chain executive in the corporate hierarchy.

As early as 2002, an empirical study by Booz Allen Hamilton (Heckmann et al., 2003) noted that "at most companies today, SCM tends to be pushed down the leadership hierarchy" to the point that "SCM is rarely considered part of a company's overall business strategy and, thus, is not usually included in the strategic planning process" (p. 3). Consequently, the survey found that "in companies where responsibility for SCM resided below senior management, annual savings in the cost to serve customers are just 55% of what they are when SCM is a component of the overall business strategy" (p. 2). A survey conducted by CSC, the *Supply Chain Management Review*, and Neeley Business School at Texas Christian University (CSC, 2012) has recently concluded that 51% of the responding firms have "an executive officer who manages all supply chain functions" (p. 9). Considering the formerly revealed figures of 38% from 2007 (CSC, 2007) and 49% from 2010 (CSC, 2010), more firms now report having an executive officer who manages all SCM functions. Furthermore, firms that are leaders in their industry "are more likely to have a single officer in charge of a wide span of supply chain management activities and functions" (CSC, 2010, p. 10). In a global survey of supply chain professionals, SCM World (2010) revealed that on average 54% of the respondents have "an executive position with end-to-end supply chain responsibility" (p. 8) and that best-in-class companies are 50% more likely to have such an executive position. Finally, on their study on supply chain strategy in the board room, Wilding et al. (2010) received a positive response from 72% of the firms to the

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