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## Supply organizations in North America: A 24 year perspective on roles and responsibilities 1987–2011

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## ABSTRACT

The recent completion of a major survey of 249 large North American supply organizations in 2011 permits a longitudinal perspective on supply roles and responsibilities over a 24 year period. The latest survey complements three earlier CAPS studies in 1987, 1995 and 2003, thereby providing a valuable opportunity to examine trends and changes over time. Data was collected from 112 firms that responded in 2003 and 2011, which included 53 firms that responded in 1995, 2003 and 2011 and 24 firms that responded to all four surveys. Major areas of investigation included supply organizational structure, purchase category and supply chain responsibilities, supply involvement in major corporate activities, teams, and CPO reporting line, title and background. Findings indicate that the pace of organizational change remains high, which can represent significant challenges for supply executives. Cluster analysis was used to assess the relationship between supply organizational changes and firm performance. Firms in the “underperforming” category more frequently changed their supply organizational structure, and these changes were more likely directed towards greater centralization, compared to the “growing” and “profitable” clusters. Findings provide important implications for supply executives and opportunities for future research are also identified.

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## 1. Introduction

Chief purchasing officers (CPOs) in large companies are confronted with a wide range of demanding issues and responsibilities, such as pressures to reduce costs, increased globalization of supply chains and sustainability. To address the challenges and opportunities in their supply chains, firms have been making major changes to their supply organizational structures, and to internal supply chain responsibilities and supply leadership (Johnson and Leenders, 2004, 2009). Understanding the changes occurring in supply organizations in these areas is of significant interest to academics and practitioners alike.

This paper updates research presented at the 14th Annual IPSERA Conference at Archamps, France in March 2005. The 2005 paper, which was subsequently published in the *Journal of Purchasing & Supply Management* in 2006, provided a 16 year perspective on organizational change, tracing changes made at large North American companies from survey data collected in 1987, 1995 and 2003 (Johnson and Leenders, 2006). Given the 8 year interval in data collection, 2011 was the logical year to replicate the study.

Our research for this paper traced changes in 112 firms that responded in 2003 and 2011, which included 53 firms that responded in 1995, 2003 and 2011 and 24 firms that responded to all four surveys. Major areas of investigation included supply organizational structure, purchase category and supply chain responsibilities, supply involvement in major corporate activities, teams, and CPO reporting line, title and background. In doing so, this paper focuses on the following research question: How frequently and what kinds of changes are large North American firms making to these areas?

This paper makes two important contributions to the supply literature. First, rather than reporting aggregate figures, this research is able to trace the specific individual changes occurring at these organizations that responded to multiple surveys. It updates earlier research by Johnson and Leenders (2006) and Johnson et al. (1998) to provide a current context for the changes that large companies are making in their supply organizations over a period that spans nearly a quarter of a century.

Second, cluster analysis for 92 firms was used to identify three groups of firms from the 2003–2011 dual respondent group. Findings indicate a relationship between financial performance and the types of organizational changes made in the supply organization.

The following section draws from the strategy, organizational behavior and supply chain literatures to define the dominant research issues in supply organizational change. Next, the survey

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methodology and construct measurement are detailed. In the final sections, the results are presented and the implications for theory and managerial practice are discussed along with implications for future research.

## 2. Previous research

Organizational issues have been researched extensively by academics in the strategy, organizational sciences and supply chain disciplines. Contingency theory and the resource-based view (RBV) have become well-established as foundational for research in supply chain management dealing with organizational change and alignment of organizational capabilities and corporate strategy.

Contingency theory indicates that companies must align their organizational structure and management processes with their strategy in order to maximize performance (Galunic and Eisenhardt, 1994). Contingency theory follows Chandler's (1962) dictum that structure follows strategy, and much of this research has examined the relationship between firm size, technology, or environmental complexity with organizational variables such as structure and formalization.

Structure is also influenced by the need to have a complementary alignment among the internal structural elements of the organization (Miller, 1982). Factors such as task specialization, technology, span of control, size and responsibility of the administrative function, levels of hierarchy and integration, must be balanced among each other.

Most contingency theory research has tended to focus on corporate level variables. However, there has been an increasing amount of attention to the application of contingency theory to supply chain management in areas such as integration (Terjesen et al., 2012; Boon-itt and Wong, 2011), risk management (Trkman and McCormack, 2009), e-commerce adoption (Huang et al., 2010) and supply chain information technology (Buttmann et al., 2008). The focus of this research has been to assess the fit of factors under the short term control of the firm to the strategy and environmental context of the organization.

The resource-based view (RBV) proposes that firms seek to acquire and control bundles of resources that when combined become sources of competitive advantage. Strategic resources are defined as assets, capabilities and organizational processes controlled by a firm, which have value, are rare, are difficult to imitate and have few substitutes (Barney, 1991). A firm's resources can either be acquired in the case of tradable resources, e.g., patents, or can be path-dependent, accumulating over time, e.g., supply expertise (Black and Boal, 1994; Dierickx and Cool, 1989).

While RBV is a widely applied perspective for studying firm strategy, it also has clear implications for internal firm organizational structure. Firms must have internal organizational structures, with established hierarchies, cross-functional teams and reporting relationships. Organizational structures must align with business processes, which represent capabilities critical to the production and delivery of goods and services. Furthermore, firms can create competitive advantage when they are able to create linkages with critical suppliers that successfully exclude competitors from forming the same relationships (Rungtusanatham et al., 2003). The ability to be able to assess opportunities and execute accordingly, implies the existence of appropriate structures and processes to identify and assess opportunities for new supply sources, relationships, improvement prospects, and performance advantages (Mol, 2003).

The relational view is a more recent perspective that has emerged from the growing literature related to trust and the benefits of relationship-building to obtain mutual benefits. It proposes that a

firm's critical resources may be boundary spanning and embedded in inter-firm resources, thereby representing "relational rents" (Dyer and Singh, 1998). Whereas RBV focuses on how individual firms acquire sources of competitive advantage, the relational view focuses on how partnering firms jointly generate relational rents. One example of empirical research involving relational rents is Dyer's (1996) article on Chrysler's keiretsu supplier network. He argues that the Japanese model of cooperative relationships can be a potential source of competitive advantage.

The relational view identifies four potential sources of inter-organizational competitive advantage: relation-specific assets, knowledge-sharing routines, complementary resources and capabilities, and effective governance (Dyer and Singh, 1998). Consequently, capturing relational rents requires organizational capabilities with respect to external relationship management (e.g., key suppliers). Firms must be capable of not only successfully managing their internal organization, but also accurately anticipating the value provided from investing in supply network relationships.

### 2.1. Supply organizational structure

The traditional debate regarding supply organizational structure has been the level of centralization. Factors favoring centralization include standardization of products and business processes (Pfohl and Zöllner, 1987), cost reductions created through opportunities to allocate resources efficiently and economies of scale (Dröge and Germain, 1989; Rheem 1997) and improved levels of knowledge and expertise through the dedication of staff and resources (Dröge and Germain, 1989). Meanwhile, decentralization provides the benefits of improved service and lower costs by pushing decision-making responsibility closer to the end user, promotes closer working relationships between suppliers and end-users and provides increased opportunities for end users to manage total cost of ownership factors (Leenders and Johnson, 2000). However, despite the potential benefits of decentralization, research does indicate that some level of centralization is required to support strategic initiatives of the supply organization (Johnson et al., 2002).

The primary benefit of using a hybrid organizational structure approach is that it provides the opportunity to combine the key features of centralized and decentralized structures (Leenders and Johnson, 2000). While the hybrid organizational model is the most commonly used within large supply organizations, there is still considerable variation with respect to how the hybrid model can be structured and implemented. For example, Rozemeijer (2000) developed five organizational structure design rules to help determine the appropriate corporate purchasing approach, summarized as: consideration of organizational goals and strategies, take business unit concerns into account, early cross-functional involvement in sourcing projects, build mutual trust and credibility with business unit managers and address the side effects of purchasing initiatives.

Contingency theory suggests that companies will make changes in their organizational structure and management processes to adapt to changes in their external competitive environment and/or to changes in strategy, with the objective of maximizing performance (Galunic and Eisenhardt, 1994; Chow et al., 1995). Changes in corporate structure towards greater centralization or decentralization are implemented to align structure with strategy, ultimately with the objective of improving the competitive position of the firm. The resulting alignment between supply organizational structure and corporate structure represents a challenge for the CPO, who must deliver value regardless of the structure of the supply function (Johnson and Leenders, 2001).

The relational view proposes that firms will make changes to internal supply processes and responsibilities that create relationships

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