THE TRIANGULAR RELATIONSHIP BETWEEN SUPPLY CHAIN MANAGEMENT PRACTICES, COMPETITIVE ADVANTAGES AND ORGANIZATIONAL PERFORMANCE

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Abstract— In the research studies conducted on SCM, there is increased complexity regarding its concepts because of its evolutionary nature. The focus of the recent researchers and empirical findings on SCM has been on the upside and downstream of supply chain and some other aspects of it. Therefore, the current study is carried out to examine the relationship between supply chain practices, competitive advantage and organizational performance. The current developments in the practices of Supply Chain Management have been described by such as outsourcing, maintaining customer relations, quality and purchasing, flow of information, process flow and partnership with suppliers. For representing SCM practices, customer relations, quality, and purchasing have been used by Tan et al. in their research study. The core competencies, and inter-organizational systems including reduction or elimination of excess level of inventories, EDI have been included by authors in SCM practices concentration the reduction of inventory levels can be done by delaying the customizations to the supply chain end. Six perspectives of SCM practices have been identified by use of factor analysis. SCM and its practices have been demonstrated from different perspectives in literature. The results of the current study are providing support to the proposed hypothesis. The results are obtained through smart PLS. In author knowledge this is among pioneering studies on this issue.

Keywords: Supply Chain practices, Indonesia, SEM-PLS

1.0. Introduction

With the increase of competition in 1990s, there has been increased globalization of markets. This has been linked with several challenges to place the product and services at the right time and place in the markets keeping the cost at its low. It has been increasingly
realized by the organizations to improve organizational efficiency in terms of procurement to product and then distribution. Managing the complete supply chain in an effective manner has become the need in this era of increased competition. It has become essential to understand supply chain management and implement its politics to stay in competition and increase profitability (Govindan et al., 2015; Hernawati & Surya, 2019). By practicing SCM, organizations can compete in the globalized markets with dynamic conditions (Ali & Haseeb, 2019; Haseeb, Abidin, Hye, & Hartani, 2018; Haseeb, 2019; Suryanto, Haseeb, & Hartani, 2018).

Supply Chain Management has been defined by Council of Logistics Management (CLM) as a process, which involves coordination of business working with other businesses particular to supply chain in order to increase the performance of the organization as well as supply chain in long-term (Zsidisin et al., 2005; Romli & Ismail, 2014). In order to identify the link between trading partners and explore the nature of this relation, Supply Chain Management has been defined in explicit terms. There is dual need and purpose of managing effective supply chain. It aims at improving the performance of an organization (Roberta-Pereira et al., 2014; Castorena, Enriquez, & Adame, 2014; Dim & Ezebasili, 2015; Wang & Lu, 2016). Moreover, it ensures the performance management of entire supply chain. Both these objectives are integrated by SCM by seamless flow of material and information integration across the supply chain in an effective manner (Kordlouie et al., 2018).

Increased concern has been shown by consultants, managing persons of businesses and academicians towards the concept of SCM (Glickman & White, 2006; Duru & Chibo, 2014; Purnama, 2014; Nazal, 2017; Taqi., Ajmal & Ansari, 2018). Supply Chain Management is being recognized by organizations as way to move towards sustainable business and achieving competitive advantage. For this, business organizations are increasingly incorporating sustainability in the development of products and services in this competitive market environment (Rondinelli, & Berry, 2000). In literature, there are different viewpoints regarding Supply Chain Management. For instance, there are different concepts of SCM in the existing literature on supply management, operations management, marketing, supply management, purchasing, organizational theory and information system management. Certain perspectives of SCM have been explored by different theories such as resource dependency theory (Roberta-Pereira et al., 2014), social political perspective (Glickman & White, 2006), transaction cost analysis, resource-based view and competitive strategy (Roberta-Pereira et al., 2014; Tanoos, 2017; Chowdhury., Habibullah & Nahar, 2018).

Irrespective of increased concern of scholars towards Supply Chain Management, there has been insufficient guidance in literature for practicing SCM (Zsidisin et al., 2005). The origin of SCM is interdisciplinary and there is confusion pertaining to its concepts. The nature of its concept being evolutionary is the reason for insufficient material on guidance for practicing SCM. In literature, no particular definition of SCM has been accepted. There are two different paths involved in SCM, the sourcing of material (purchasing activities) and supply chain management; transportation of goods and services and management of logistics (Christmann & Taylor, 2001). The integration of supply base is similar to SCM in meaning according to the perspective of supply chain management and purchasing. Both of these aspects have emerged from the roots of traditional material activities and purchasing (Linton et al., 2007). However, from the perspective of logistics management and transportation, the meaning of SCM has
been similar to integrated logistics systems. The focus of this concept is on reduction of inventories across the supply chain and within the organization (Zikmund-Fisher et al., 2009; Nze., Ogwude., Nnadi, & Ibe, 2016; Kimengsi & Gwan, 2017; Cheng., Phung., Hsiao., Shen & Chen, 2018; CHE & Sundjo, 2018). The two aspects of SCM work on the integration of activities across the supply chain.

In the research studies conducted on SCM, there is increased complexity regarding its concepts because of its evolutionary nature. The focus of the recent researchers and empirical findings on SCM has been on the upside and downstream of supply chain and some other aspects of it (Tabachnick & Fidell, 2007). On the supplier side, there have been researches conducted on supplier involvement [10], manufacturing performance (Zikmund-Fisher et al., 2009), selection of supplier (Linton, et al., 2007), success factors, orientation of supplier management (Zikmund-Fisher et al., 2009) maintaining relations with suppliers for improving response system, etc.

According to the studies conducted by Ketokivi and Schroeder (2004) and (Govindan et al., 2015), the relation between retailers and manufacturers has been focused in the downside of supply chain. Some of the recent studies have worked on the upstream and downstream side of supply chain respectively. The relation between practices of customer relations, supplier management and performance of an organization was studied by. The impact of supplier and customer integration was analyzed by (Zhu & Sarkis, 2007). on organizational performance. As claimed by Russ and McNeilly (1995), the constructs are linked with the organizational performance through practices of supplier evaluation.

An instrument was developed by Zhu et al. (2013) for the measurement of SCM at the conceptual level and orientation of supply chain. A set of supply chain tools and approaches was developed by Geffen and Rothenberg (2000), in order to study the strategies related to SCM. The service providers of Information Technology have conducted several case studies related to the SCM implementation. These service providers of IT include SAP, i2 and JDEdwards. Several firms have also carried research on this including AMR Research and Forrester Research. In literature, several histories and cases have been reported in which SCM has been implemented in a successful manner. For responding to different perspectives of SCM, such studies offer a way of representation of efforts. The usefulness of SCM implementation from previous studies is distracted when the upstream and downstream aspects of However, the supply chain are incorporated by relating them with the performance of organization and competitive advantage.

This research study aims at empirically testing the association of SCM initiatives with organizational performance and achievement of competitive advantage. A set of different activities, which are implemented by an organization for the establishing effectiveness in supply chain management is referred to be SCM.

The SCM practices are based on different concept such as upstream and downstream aspects of Supply Chain. Data has been collected through use of a questionnaire survey and constructs of operational measures is empirically tested (Ketokivi & Schroeder, 2004). The hypothesis is tested using modeling of structural equation. This research study will present a better understanding regarding the scope and understanding of SCM activities by addressing the upstream and downstream sides of supply chain in SCM. This research will allow practitioners to test the SCM practices, antecedences and consequences. The research will further offer
a valid instrument for the measurement of practices related to SCM. This will be done by offering evidence related to the influence of SCM practices on the organizational performance and competitive advantage. Through empirical testing, the research will give guidance for SCM practices measurement and implementation in an organization along with future implications in this research area.

2.0. Literature Review

2.1. SCM practices

A set of different activities, which an organization conducts for increasing effectiveness of its supply chain is referred as SCM practices. The current developments in the practices of Supply Chain Management have been described by Mittal and Kamakura (2001), such as outsourcing, maintaining customer relations, quality and purchasing, flow of information, process flow and partnership with suppliers. For representing SCM practices, customer relations, quality, and purchasing have been used by Tan et al. in their research study.

The core competencies, and inter-organizational systems including reduction or elimination of excess level of inventories, EDI have been included by Christmann and Taylor (2001). in SCM practices concentration the reduction of inventory levels can be done by delaying the customizations to the supply chain end. Six perspectives of SCM practices have been identified by Glickman and White (2006).These aspects include information sharing, integration of supply chain, customer relation management, Just in Time approach and geographical proximity. For measuring supplier-buyer relation, supplier base reduction, communication, long term relationship and cross-functional teams along with involvement of suppliers have been used in the similar way, goals, visions, information sharing, integration of process, supply chain leadership, risk sharing, cooperation, etc. have been used for analyzing the concept of SCM.

SCM and its practices have been demonstrated from different perspectives in literature. However, the common goal or purpose of SCM practices is to improve organizational performance. Five different aspects such as customer relationship, strategic supplier partnership, information sharing level, postponement and quality of information sharing are used in the literature review for the measurement of SCM practices (Rondinelli & Berry, 2000). The upstream and downstream sides of supply chain i.e. supplier relationships and customer relationship are covered by these five constructs. These constructs include flow of information across the supply chain, level and quality of information sharing, internal process of supply chain and postponement.

The main perspectives of Supply Chain Management are involved in the above-mentioned dimensions; however, these cannot be considered complete. Several other aspects such as Just in Time or lean factor, integration of logistics (Rondinelli & Berry, 2000), geographical proximity, shared goals, visions, and leadership of supply chain are important to be considered in literature. These dimensions are of great value and recognition, but these are not involved because of the survey length and parsimony of instruments of measurement.

The current research study defines SCM practices to be a concept with different dimensions. Following is a detailed view on these dimensions.

2.1.1. Strategic supplier partnership

The long-term association among the suppliers and an organization is regarded as Strategic Supplier Partnership. This concept involves the strategic and operational capacities of an organization for achieving certain objectives (Zhu & Sarkis, 2004). The
focus of a strategic partnership is on establishing a direct and long-term relation, which leads to problem solving and mutual planning. The shared benefits are increased by the formation of strategic partnerships particularly in the field of products, markets and technology (Hoffman & Ventresca, 1999). Organizations are supported to increase their effectiveness through strategic partnerships with suppliers. Some of the suppliers also share the success of products by taking responsibility. Cost effectiveness can be brought in the process by early participation of suppliers’ in designing process of the product. Moreover, this helps in the selection of best and suitable technologies for product designing (Atud, 2017).

Organizations, which are strategically aligned with their partners, can reduce their time and effort involved in the process. For an effective supply chain, it is crucial to maintain supplier partnership.

2.1.2. Customer Relationship

A complete range of practices involved in establishing long-term association with customers, managing their complaints and driving their satisfaction are involved in Customer Relationship (Delmas & Toffel, 2004). Practices of Customer relationship management are the aspect of customer relationship management, which is considered crucial element, according to Christmann and Taylor (2001).

Henriques and Sadorsky (1996), highlighted that establishment of committed relationships is a source of sustainability for the organizations. In this era of increased level of mass customization and dynamic expectations by consumers, customer relationship management is becoming increasingly crucial for the survival of organizations. Establishment of good relationships with supply chain partners as well as customers is required for successful implementation of SCM initiatives (Shultz & Holbrook, 1999).

An organization is able to differentiate its products from other brands through development of close customer relationship by ensuring customer loyalty and satisfaction. By offering value to the customers, organizations can achieve great benefits (Geng et al., 2007).

2.1.3. Level of Information Sharing

There are two aspects of Information sharing. These include quality factor and quantity factor. For implementing SCM, both of these aspects are equally important. The previous research studies conducted on SCM have considered these constructs to be independent (Geng & Côté, 2003). The extent to which information is transmitted from the organization to its supply chain partner is involved in the quantity factor (Darnall et al., 2008). Information sharing can differ from strategically aspects to tactical and from logistics actives to information of customer and general market.

Several research studies have proposed that keeping he marketing data updated at every level of supply chain is the way towards efficient supply chain. Information can become a source of competitive advantage, which it is share with strategic partners across the supply chain. According to Florida (1996) information sharing lies among the five basic units, which form a strong supply chain relationship Zhu et al. (2013) suggested that strategic supply chain partners who share information on regular basis are able to work in coordination. By working in coordination, these can understand the customer requirements and respond to these in a better way. The effective use of information with respect to time and relevancy is considered as a source of competitive advantage through which an organization can differentiate its products from others, as claimed by (Zsidisin & Hendrick, 1998). It has been revealed by the research findings are the simple flow of information including streamlining across the
chain leads to management of effective supply chain.

Quality of information - Quality of information involves adequacy, credibility, timeliness as well as accuracy of information transmitted. Information sharing is a crucial factor and the nature of information share determines the effectiveness of SCM (Walton et al., 1998). Several examples exist in literature, where incorrect or delay in information is shared across the supply chain leading to improper functioning (Zirger & Maidique, 1990). Quality of information can be affected by informational asymmetries within the supply chain. Information can be distorted by organization, which reaches their competitors, supply chain partners as well as customers (Walton et al., 1998). A built-in reluctance is involved in the organizations, which share more than the minimum of information because of the fact that disclosure of information can be a power loss. Considering all these aspects, it is important to ensure quality of information shared for SCM (Zirger & Maidique, 1990). Information should be perceived as a strategic asset by the organizations with minimum distortion and delay in sharing.

Postponement – It is a practice of taking an activity related to sourcing, production and delivery from one point to a later point across the supply chain (Peck, 2006). It is important to consider two basic factors in the strategy of postponement. The first thing is to determine the number of steps for postponing and the second thing is to determine the steps to be postponed. This process allows an organization to relocate the making process as per the changing needs and expectations of customers and differentiate products (Jüttner, et al., 2003). The flexibility of an organization increases by keeping the material same and responding to the changes in demand of consumers. Moreover, the cost of supply chain can be minimized by keeping inventories similar (Childerhouse & Towill, 2003). Postponement must go with the market demands, nature of products and structure of manufacturing in an organization along with the logistics system. It can be suitable to implement this process when there is need to innovate products (Tennant, 2002), develop products with specialization and high value density, to alter the time of delivery and achieve economies of scale.

2.2. Competitive Advantage

The extent to which an organization position itself at a different level from its competitors is regarded as competitive advantage (Christopher & Rutherford, 2004). An organization can differentiate its products or services from its competitors by use of several capabilities. The literature findings go with the identification of quality, price, flexibility and delivery to be important aspects for achieving competitive advantage for an organization (Chapell et al., 2005). Moreover, several recent studies have incorporated competition based on time to be a crucial factor. Time has been considered to be a competitive edge source as found by several researchers including (Christopher & Rutherford, 2004; Wibisono et al., 2018). Based on the previous research studies, Chapell et al. (2005), presented a framework consisting capabilities for achieving competitive advantage. These include premium pricing, competitive pricing, dependable delivery, value to customer quality and innovation in production Jüttner et al. (2003). Considering the dimensions identified in literature, this research study includes cost, price, product innovation, delivery dependability and time to market as the five dimensions for achieving competitive advantage (Kadhim et al., 2018; Samad, 2018).

2.3. Organizational performance (OP)

The performance of an organization is the extent to which it achieves the set aims and
objectives. The goals with reference of financial performance and market orientation are examined for evaluating organizational performance (Christopher & Rutherford, 2004). Supply Chain Management aim at reducing the time of inventories and increasing productivity in short term (Ul-Hameed et al., et al., 2019). In long term, it aims at increasing profits for owners and stakeholders and market share. Organizations can be compared based on their financial outcomes (Braithwaite & Hall, 1999). Organizations implement initiatives such as SCM to increase organizational performance (Naway & Rahmat, 2019).

Organizational performance has been measured by using market and financial criterion by a number of previous research studies (Setyadi, 2019; Rawashdeh, 2018). These criteria include market share, ROI, growth of return on investment, profit margin and overall position of the organization in the market competition (Zirger & Maidique, 1990). In order to estimate the organizational performance, this research study will be using the same items.

2.4. Theoretical Framework:

The current study is carried out to examine the relationship between supply chain management practices, competitive advantage and organizational performance. Basing on the resource-based theory the following hypothesis are drawn to achieve the objective of the current study.

H1 SCP has significant impact on the OP

H2: CA has significant impact on OP.

H3: SCP has significant impact on CA.

H4: CA mediates the relationship between SCP and OP.

Figure 1: Conceptual framework

3.0. Methodology

This research aims at analyzing the influence of external governance mechanism including board characteristics related to supply chain management and operation performance. The basic purpose of this research study is to signify the role of resource based view in relationship between supply chain practices, competitive advantage and organizational performance. For achieving the set objectives, this research has used quantitative research methods supported with a questionnaire. The data collection has been done from managers of different firms operating in Indonesian manufacturing sector. The managers were from the fields of production, and operations. Questionnaire survey was conducted among 650 respondents, but the complete questionnaires were about 435, which shows the response rate to be 67 percent.

The present study has targeted two main categories of manufactures, firstly foreign manufacturing suppliers and exporting manufacturers of products in Indonesia, and secondly heavy polluters or manufacturers who are responsible for greater environmental pollution. In the initial process of data collection, convenience sampling was employed in order to deal with any misunderstandings regarding survey questions or in case of facing difficulty in data collection. Responses were collected from the respondents, after detailed explanation of questionnaire items through workshops and site visits.

4.0. Research Analysis and Discussion

When the theoretical model is not properly defined by theories, partial least square is
considered to be applicable (Janaki et al., 2018) or even when the model is of complex nature involving structural paths and latent variables. This research study makes use of smart PLS because of an unexplained structural path involved in it. Moreover, this study has implemented two steps PLS methodology. Several studies including (Hoffman, & Ventresca, 1999) have employed two steps involved in SEM analysis. In the first step, Confirmatory Factor Analysis (CFA) is linked with the model of measurement. CFA analysis has been used for the evaluation. In the second step, the structure relationships are specified with the use of a path model and hypothesis testing. For testing confirmatory factor analysis, a second order measurement model was used based on the items of every construct. Through the construct’s validity, reliability and uni-dimensionality, the fitness is estimated for the measurement model.

The ability of a tool to measure a construct is referred as Validity (Zhu et al., 2013). The measurement accuracy of different tools and instruments is determined by Validity. It ensured by the construct validity that theoretical variables are represented by the degree of measurement tools designed for the purpose. There are two parts of construct validity, which are discriminant validity and convergent validity (Zhu et al., 2013).

A factor is said to be significant and valid if the value of factor loading comes out to be more than 0.5. This study thus analyses the outcomes of a loading factor using the Smart-PLS technique. Reliability and validity of data were considered before testing the proposed hypothesis. The values of both Average Variance Extracted and factor loadings were above 0.5, while the value for composite reliability turned out to be higher than 0.7. Therefore, present study achieved the level of convergent validity. Content validity measure is referred as the degree to which the measurement of the manufactured products is adequately assessed and measured. However, all the developed items for measuring the latent variables must have greater factor loadings as compared to rest of the constructs, that can be ascertained through extensive investigation of the literature review. Reviewing literature will result in selection of factors based on their validity, in the available literature. Based on the outcomes of factor analysis, it confirms that all items are loaded accurately to their respective variables. Convergent validity is examined using reliability analysis, composite reliability, and factor loadings. Moreover, average variance extracted (AVE) is also used in understanding validity. Convergent validity depicts that within parent factor, variables either dependent or mediating, can correlate with each other.

Table1: CFA

<table>
<thead>
<tr>
<th></th>
<th>CR</th>
<th>AVE</th>
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<tbody>
<tr>
<td>CA</td>
<td>0.915</td>
<td>0.812</td>
</tr>
<tr>
<td>SCP</td>
<td>0.895</td>
<td>0.772</td>
</tr>
<tr>
<td>OP</td>
<td>0.932</td>
<td>0.617</td>
</tr>
</tbody>
</table>

The extent to which a factor is linked with other factors of a construct is referred as Convergent validity (Roberta-Pereira et al., 2014). Uni-dimension of items, composite reliability and AVE (average variance extracted) measures the convergent validity. The extent to which measurement of one construct differs from another is referred as Discriminant validity. The second step is CFA in which the structural association among the latent variables is specified with the use of a path diagram in order to test the hypothesis. This research study establishes discriminant validity by comparing loading items with cross loadings. This has been presented in Table 1. Scholars of path modeling have
suggested that cross loadings should be less than all the items loadings.

Table 2. Discriminant Validity

As explained earlier, that after analyzing the validity and reliability confirmation, the establishment of the structural model and its estimation is the next step. For this, SEM has been used for hypothesis testing after the validity and reliability confirmation. The research examined the direct and indirect influence. For determining the mediation, indirect effect was evaluated. P-value has been considered in this process. For hypothesis testing, p-value to be at the minimum 0.05 level was considered. The structural model was assessed after the measurement model. The study has made use of standard bootstrapping process for determining path coefficient significance using a sample of 500 as well as 249 cases. By following the guidelines offered by well-recognized researchers, the process was carried out. The direct results reflect that the p-value is less than 0.05 for all the hypothesis. The first hypothesis of supply chain financial risk and supply chain management has come out to be significant. The second hypothesis is also positive and significant as it shows significant relationship between supply chain operational performance and supply chain performance. Table 3 shows the direct results of this research study.

Table 3: Direct Effect

<table>
<thead>
<tr>
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<th>(β)</th>
<th>SD</th>
<th>T-value</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>0.111</td>
<td>0.035</td>
<td>3.161</td>
<td>0.002</td>
</tr>
<tr>
<td>H2</td>
<td>0.207</td>
<td>0.043</td>
<td>4.810</td>
<td>0.000</td>
</tr>
<tr>
<td>H3</td>
<td>0.321</td>
<td>0.051</td>
<td>3.161</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The research has analyzed the mediating role of competitive advantage in the relationship between supply chain management practices and organizational performance. The results reflect that the t-value is higher than 1.96 but p-value is less than 0.05. This leads to the acceptance of H4.

Table 4. In-Direct Effect through Mediation

<table>
<thead>
<tr>
<th></th>
<th>(β)</th>
<th>SD</th>
<th>T-value</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>H4</td>
<td>0.329</td>
<td>0.07</td>
<td>4.019</td>
<td>0.000</td>
</tr>
</tbody>
</table>

It has been recommended by the assessment of PLS-SEM structural that there is need for another important criterion, which is the assessment of R-squared valued. It is also named as coefficient of determination (Delmas & Toffel, 2004). The variations in the dependent variable because of the independent variables are represented by the value of R-square. Table 5 shows the value of R-square calculated for this research study.

Table 5. Expected Variance

<table>
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<tr>
<th></th>
<th>(β)</th>
<th>SD</th>
<th>T-value</th>
<th>P-Values</th>
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<tbody>
<tr>
<td>OP</td>
<td>0.518</td>
<td>0.550</td>
<td>0.801</td>
<td></td>
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\[ R^2_{\text{OP}} = 44.1\% \]

The results of the current study have shown a great deal of agreement with the hypothesized results.

5.0. Conclusion

In the research studies conducted on SCM, there is increased complexity regarding its concepts because of its evolutionary nature.
The focus of the recent researchers and empirical findings on SCM has been on the upside and downstream of supply chain and some other aspects of it. A set of different activities, which an organization conducts for increasing effectiveness of its supply chain is referred as SCM practices. The current developments in the practices of Supply Chain Management have been described by such as outsourcing, maintaining customer relations, quality and purchasing, flow of information, process flow and partnership with suppliers. For representing SCM practices, customer relations, quality, and purchasing have been used by Tan et al. in their research study. The core competencies, and inter-organizational systems including reduction or elimination of excess level of inventories, EDI have been included by authors in SCM practices concentration the reduction of inventory levels can be done by delaying the customizations to the supply chain end. Six perspectives of SCM practices have been identified by by use of factor analysis. SCM and its practices have been demonstrated from different perspectives in literature. However, the common goal or purpose of SCM practices is to improve organizational performance.

Five different aspects such as customer relationship, strategic supplier partnership, information sharing level, postponement and quality of information sharing are used in the literature review for the measurement of SCM practices. The upstream and downstream sides of supply chain i.e. supplier relationships and customer relationship are covered by these five constructs. These constructs include flow of information across the supply chain, level and quality of information sharing, internal process of supply chain and postponement. This Study is among the pioneering study on the issue

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supply chain integration. Omega, 31(1), 17-27.


