

## Effects of Hedging against Risk management Strategy on Supply Chain performance

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### Introduction

In an organization today the importance of supply chain performance support for successful organization strategy implementation has for a long time been recognized in the SCM literature but the management of risks as a result of interruptions has not received adequate attention (Cooper, 2003; Magnan & Christopher, 2005). Chopra and Sodhi (2004) identify the wider consequences of a failure to manage risks effectively. These include not just only financial losses but also reduction in product quality, damage to property and equipment, loss of reputation in the eyes of customers, suppliers and the wider public, and delivery delays. There is also evidence that economic, political and social developments over the past decade appear to be increasing the risk of supply chain disruptions as supply chains are getting longer and more complex and are involving more partners due to the increase in global sourcing (Hendricks & Singhal, 2005).

A perfect Supply chain environment encourages fierce competition among suppliers, often requiring playing one supplier against the others, and uses rewards or punishment based on performance. In this environment partners are interchangeable and under the discipline of a free market, promote a healthy and vigorous supply base determining the performance of supply chains in most organizations (Brau, 2005). Lewis (2003) notes that, the essence of supply chain management is as a strategic weapon to develop a sustainable competitive advantage by reducing

investment without sacrificing customer satisfaction. Since each level of the supply chain focuses on a compatible set of objectives, redundant activities and duplicated effort can be reduced. In addition, supply chain partners openly share information that facilitates their ability to jointly meet end-user's needs bringing adequate change to its performance (Lewis, 2003). While reduced cost is typically a result, supply chain performance should emphasize leveraging the skills, expertise, and capabilities of the firms who comprise this competitive network referred to. The importance of getting close to key customers and thus a sustainable supply chain risk management strategy extends these linkages upstream and down (Cooper, 2003).

Supply chain risk strategy development should be part of the business unit planning process which includes efforts aimed at developing and maintaining global information systems, addressing strategic aspects of make-or-buy issues, and accessing and managing innovation with the purpose of protecting and enhancing core technologies (Peck, 2005). Developing a supply chain strategy is based on understanding the elements of sourcing strategy, information flows (internal and external), new product co-ordination, concurrent procurement, teaming arrangements, commodity/component strategies, long-term requirements planning, industry collaboration, and staff development (Magnan, 2005).

Supply chain management is built on a foundation of trust and commitment (Rice & Caniato, 2003). The consensus is that trust can contribute significantly to the long-term stability of an organization (Slack, 2011). Commitment is the belief that the trading partners are willing to devote energy to sustaining this relationship (Smith, 2004). Hence, through commitment partners dedicate resources to sustain and further the goals of the supply chain and to a large degree, commitment "ups the ante" and makes it more difficult for partners to act in ways that might adversely affect overall supply chain performance (Slack, 2011). Trading partners throughout the

supply chain become integrated into their major customers' processes and more tied to their overarching goals. For instance, in most business transactions, supply chain partners willingly share information about future plans and designs, competitive forces, and R&D. Partners recognize that their long-term success is as strong as their weakest supply chain partner (Abdallah & Moneim, 2004).

### **Hedging Against Risk Strategy**

In today's global competitive markets, effective supply chain management and performance suggests seeking close, long-term working relationships with one or two partners (both suppliers and customers) who depend on one another for much of their business; developing interactive relationships with partners who share information freely, work together when trying to solve common problems when designing new products, who jointly plan for the future, and who make their success interdependent improving supply chain performance as a whole (Christopher, 2005).

Many literatures today about SCM and performance have not forecasted on understanding the effect of risk management strategies on supply chain performance among manufacturing companies in their research more than on a general level. In supply chain performance, coordination becomes the main challenge from an organization's point of view (Ketchen & Hult, 2006). Literature reveals that the nature of SCM needs a force standing above the functional silos and focusing on the complete cross functional organization that helps manage the risks of disruptions (Magnan & Christopher, 2005).

In an organization risk management strategies should therefore be the main enabler for supply chain performance initiatives (Lewis, 2003). Similarly, Chopra and Sodhi, (2004) maintain that

managing risk is central to purchasing management. Perhaps, the most established body of work dealing with risk and industrial purchasing comes from the work of the IMP (Industrial Marketing and Purchasing) Group (Chan & Qi, 2003). Typical activities along supply chain can be involved in and take personal responsibility in order to increase coordination for the supervision of increased information sharing across company border and hence develop stronger supply chain relationships (Slack, 2011). Its therefore important that supply chain technologies is an important tool that an organization must take time for, and understand to enhance its understanding and improve its performance (Rudberg & Olhager, 2003).

Based on a growing amount of research on the link between supply chain performance and strategic management it can be argued that supply chain performance is expected to take an active part when it comes to the realization of the strategic potential of SCM practices and the change should tightly be aligned with a company's overall goals and strategy (Kennerly & Neely, 2003). It's therefore evident that the link between supply chain performance and risk management strategy, and how to change logistics operations has becomes an issue for manufacturing industry and investments in SCM practices, such as relationships and IT systems, are typically long-term inevitable strategies that improves supply chain performance (Ketchen, 2006).

## **Conclusion**

According to Rutherford, (2010) introducing controls in supply chains to reduce the consequences of the risk event, through hedging—the organization may increase the buffer stock for lower levels in the supply chain to minimize the disruptions if they miss one delivery. Jüttner, (2005) states that disruption can also be minimized by reducing the risk to the supply chain through outsourcing the delivery function to a third party who recruits and manages their own

drivers and fleet of vehicles Supply chain performance can therefore be further improved by instituting measures that reduce the likelihood of the event occurring. For instance, truck drivers may have less incentive to go on strike if they are given bonuses, or other incentives, for delivering commodities on time. To reduce such risk occurrences, it's important to align the incentives of the delivery function staff by introducing performance incentives to their contracts. Past literature indicates that lack of connection with strategy, focus on cost the detriment of non-cost indicators, lack of balance approach, insufficient focus on customers and competitors, loss of supply chain context-thus encouraging local optimization and lack of system thinking leads to a poor performing chain in any organization (Chan & Qi, 2003). According to Stephen, (2001) and Morgan, (2004), a balanced approach for effective supply chain and organization performance is crucial hence single indicators cannot be adequately taken to measure supply chain performance but business processes, technology and metrics all provides good reflectors of supply chain performance in a manufacturing industry Few researchers have explored whether the benefit of supply chain performance are out-weighted by the cost of implementing and maintaining risk strategies.

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