The Direction of Causality Between Supply Chain Excellence and Firm Performance

Min Shi, Department of Management, California State University, Los Angeles, USA

ABSTRACT

A widely-accepted measure of supply chain excellence is the Supply Chain Top 25 List published annually by Gartner Research. It evaluates firms from five quality dimensions: return on assets, inventory turns, revenue growth, peer evaluation, and Gartner opinion. However, subjective voting by industrial experts and Gartner consultants are likely to be influenced by financial market variables, such as a firm’s market value, alpha, beta, and market return. This article investigates whether the Gartner list is a true reflection of a firm’s SCM excellence and how market variables affect the Gartner list, especially its subjective quality dimensions. Correlation and regression analysis show that the Gartner list is largely affected by a firm’s market value and alpha, but is not associated with the firm’s beta and market return. Moreover, the Gartner list is influenced by a firm’s prior market information, but is not capable to predict its future performance.

KEYWORDS

Firm Performance, Gartner List, Market Variables, Subjective Evaluations, Supply Chain Excellence

INTRODUCTION

Supply chain management (SCM) has attracted substantial attention across various industries during the past decades. According to Shi & Yu (2013), SCM was viewed by many corporate executives as a strategically important enabler of business with significant impacts on both accounting- and market-based performance. A high reputation in SCM not only stimulates investor confidence, but also facilitates firms to get access to lower costs of capital. Several studies have shown that a firm’s excellent SCM is closely related to its financial success by influencing three of its major drivers: revenue, operating costs and working capital (Christopher & Ryals, 1999; Ellinger et al., 2011).

A widely-accepted SCM excellence survey is the Supply Chain Top 25 List ("the Gartner list"), which is published annually by Gartner Research (formally AMR Research) to promote SCM awareness and its impacts on business. Primarily derived from a master list of Fortune Global 500, the Gartner list is restricted to the manufacturing and retailing sectors and excludes certain industries, such as financial services, insurance, energy, transportation, construction, and communications. Specifically, the overall composite score is calculated based on five quality dimensions: industrial peer evaluation, Gartner expert opinion, 3-year weighted return on assets (ROA), inventory turns, and 3-year weighted revenue growth. The weights used for each dimension are slightly different year by year. For example,
the weights used in year 2011 are 25%, 25%, 25%, 15%, and 10%, respectively. Starting from year 2016, a corporate social responsibility (CSR) score was added as the sixth dimension, thus changing the weights to 25%, 25%, 20%, 10%, 10%, and 10%, respectively. All the scores are then normalized onto a 10-point scale and aggregated into one SCM composite score. As the first and only publicly available reputation index dedicated to evaluating SCM excellence, the Gartner list is widely adopted in recent empirical SCM research (Ellinger et al., 2011, 2012; Swink et al., 2010).

In strategic management, it is well known that management reputation indexes, such as Fortune’s “100 most admired corporation” and “100 best companies to work for in America,” are strongly associated with financial performance (Fulmer et al., 2003; Flanagan, et al., 2011; Brown & Perry, 1994). Therefore, there may also exist a “performance halo” in the Gartner list, which blurs the distinctions among certain quality dimensions due to strong overall impressions. In other words, is the composite score in the Gartner list a good measure of SCM excellence? Does SCM excellence lead to strong financial outcomes, or vice versa?

This paper aims to address these research questions by closely examining the Gartner list under the framework in strategic management. More specifically, it makes contributions to the literature in three perspectives. First, it analyzes the correlations between quality dimensions of the Gartner list so that researchers can better understand the relationship between subjective and objective measures in the Gartner list. Second, by following the research stream of McGuire, Schneeweis, & Branch (1990) and Brown & Perry (1994), it extends the research scope of SCM excellence by investigating the impacts of market variables on the composite scores and subjective evaluations in the Gartner list. Last, but not least, this study examines whether the Gartner list is a good indicator of a firm’s future market performance and risk exposure. The results in this perspective can help practitioners better understand strategic values of SCM excellence.

The remainder of this paper is organized as follows. The next section reviews relevant literature in corporate reputation and supply chain management. The third section lays out the theoretical background and proposes several research hypotheses. Extensive correlation and regression analyses are conducted in the following section and the results are also discussed. In the last section, we conclude the paper and point out future research directions.

LITERATURE REVIEW

There have been extensive interests in literature to examine the relationship between firm reputation and financial performance. Most of studies focus on its existence and mechanism, which disclose how firm reputation makes contributions to financial performance, if any. Although a general wisdom indicates that firm reputation is an integrated part of intangible assets to gain competitive advantages, its contribution and functionality to financial performance evoked intense debates and divergent views within the SCM community.

Some studies have successfully established positive relationships between firm reputation and financial performance based on a resource-based view (RBV), which indicates that a firm with unique and inimitable resources may possess competitive advantage and achieve superior financial performance. Based on Fortune Magazine’s American’s Most Admired Corporations data from 1984 to 1998, Robert & Dowling (2002) find that firms with relatively good reputation are able to persistently maintain superior financial outcomes. Using reputational data from a large-scale survey of 30 largest German firms, Eberl & Schwaiger (2005) investigate the effect of corporate reputation on future financial performance. Specifically, they decompose the concept of reputation into cognitive and affective factors. After controlling for past performance, they find that these two reputational dimensions affect the financial performance in different ways. While the cognitive component, similar to the one used in Robert & Dowling (2002), makes positive contribution to future financial performance, the affective component has a negative impact.
This title is available in InfoSci-Journals, InfoSci-Journal Disciplines Business, Administration, and Management, InfoSci-Operations, Logistics, and Performance Assessment eJournal Collection. Recommend this product to your librarian:

www.igi-global.com/e-resources/library-recommendation/?id=2

Related Content

Optimal Release Policy for Multi-Release Software System

www.igi-global.com/article/optimal-release-policy-for-multi-release-software-system/183689?camid=4v1a

Specification and Performance Characteristics of Scientific Grid Workflows

www.igi-global.com/chapter/specification-performance-characteristics-scientific-grid/64146?camid=4v1a

Technologies for Industry 4.0 Data Solutions

www.igi-global.com/chapter/technologies-for-industry-40-data-solutions/210480?camid=4v1a
Nonprofit Public Libraries and Organizational Performance: Assessing the Impact of Intermediate Outputs on Technical Efficiency With Two-Stage DEA
www.igi-global.com/article/nonprofit-public-libraries-and-organizational-performance/245290?camid=4v1a