WORKING PAPER
Working Paper Number (16-04)

June 1, 2016

A proposed set of criteria for supply chain strategy evaluation

Roberto Perez-Franco

1 MIT Center for Transportation and Logistics
A proposed set of criteria for supply chain strategy evaluation

Roberto Perez-Franco, MIT Center for Transportation and Logistics

Abstract

This note explores the applicability of evaluation criteria to the problem of evaluating the supply chain strategy of an organization. A discussion of supply chain strategy evaluation is relevant today, as the validity of the dominant approach – proposed two decades ago and based on matching types – has come into question. While evaluation criteria have a long history in other disciplines, they are new to supply chain strategy evaluation. To help supply chain scholars assess the applicability of evaluation criteria to supply chain strategy, this note proposes a tentative set of criteria and provides insights derived from the authors’ recent experience with their use in two projects. We propose that the use of criteria for the evaluation of supply chain strategy may be a useful alternative, or at least a complement, to the dominant approach. We invite the empirical validation of these proposed criteria by third parties.

Keywords: supply chain strategy; strategy evaluation; evaluation criteria

Acknowledgements:
The author thanks his colleagues Prof Yossi Sheffi, Dr Mahender Singh and Dr Chris Caplice for their support, and his students Javier Martin, Leonardo Laranjeira, Daniel Mota and Manuel Rippel for the feedback they provided to early versions of this manuscript.

Corresponding Author:
Roberto Perez-Franco
MIT Center for Transportation and Logistics
77 Massachusetts Ave, E40-293, Cambridge, MA 02139
Email: roberto@mit.edu
A proposed set of criteria for supply chain strategy evaluation

Roberto Perez-Franco†

Center for Transportation and Logistics, Massachusetts Institute of Technology

ABSTRACT

This note explores the applicability of evaluation criteria to the problem of evaluating the supply chain strategy of an organization. A discussion of supply chain strategy evaluation is relevant today, as the validity of the dominant approach – proposed two decades ago and based on matching types – has come into question. While evaluation criteria have a long history in other disciplines, they are new to supply chain strategy evaluation. To help supply chain scholars assess the applicability of evaluation criteria to supply chain strategy, this note proposes a tentative set of criteria and provides insights derived from the authors’ recent experience with their use in two projects. We propose that the use of criteria for the evaluation of supply chain strategy may be a useful alternative, or at least a complement, to the dominant approach. We invite the empirical validation of these proposed criteria by third parties.

Keywords: supply chain strategy; strategy evaluation; evaluation criteria

INTRODUCTION

There seems to be a consensus among academics that a good supply chain strategy (SCS) is important for an organization. Before supply chain management (SCM) had a name as a discipline, strategy was already recognized as an important facet of what was then called business logistics (Shapiro & Heskett, 1985). Supply chain strategy, it has been said, is necessary for a supply chain (SC) to realize its potential and provide the business a competitive advantage (Stevens, 1989). In the new century, supply chain strategy has become “an increasingly important topic” (Morash, 2001, p. 50). It has been argued that “top performers have a clear supply chain strategy aligned

† roberto@mit.edu Office E40-293, 77 Massachusetts Avenue, Cambridge, MA 02139, USA.
with overall business objectives and customer requirements” (Varma, Wadhwa, & Deshmukh, 2006, p. 226), that a “successful supply chain strategy is critical to a firm's long-term competitive success” (Narasimhan, Kim, & Tan, 2008, p. 5234), and that “supply chain practices solidly built upon a supply chain strategy can enhance the firm’s and its supply chain partners’ business performance and thus their competitiveness” (Roh, Hong, & Min, 2014).

But what makes for a good supply chain strategy? Or – if the term ‘good’ is deemed too simple – what makes a given supply chain strategy “ideal” (Fisher, 1997, p. 109), “right” (Lee, 2002, p. 106), “optimal” (Kotzab, Skjoldager, & Vinum, 2003, p. 347), “appropriate” (Varma et al., 2006, p. 226) or “suitable” (Brun & Castelli, 2008, p. 169) for a given organization and setting? To fully understand this question, consider the following “idealized problem,” posed decades ago by Rumelt (1979) and rewritten here in terms of supply chain strategy:

Suppose one is given a reasonably comprehensive description of an organization, its overall strategy and its supply chain, as well as its context and environment. Suppose one is also given a supply chain strategy for consideration. What are the legitimate grounds for evaluating this supply chain strategy, and to what theories, knowledge or models can one turn for help in making such an evaluation?

The Dominant Approach

The dominant approach to determine whether a supply chain strategy is right for an organization comes from Fisher (1997), the most widely cited article discussing supply chain strategy. Fisher presents a framework – a typology of supply chain strategies – that has become the cornerstone of the received view on what makes for a good supply chain strategy. The framework classifies products, based on their demand patterns, into two categories: primarily functional or primarily innovative. Likewise, it classifies supply chains, based on their priorities, as either physically efficient or responsive to the market. These two dichotomous variables are used to produce a typology with four possible combinations of product type and supply chain type, arranged in a 2-by-2 matrix where each cell represents a supply chain strategy. Fisher claims that two of these combinations – or supply chain strategies – represent advantageous “matches”, while the other two are “mismatches” that should be avoided.

“Typologies,” says Hambrick (1984, p. 28), “ring true, often sounding very plausible. However, since they are largely the product of rather personal insight, they may not accurately
reflect reality.” Fisher’s typology of supply chain strategy, based on his experience, is extremely easy to grasp and intuitively very appealing, and has been "widely accepted by researchers" (Qi, Boyer, & Zhao, 2009). However, multiple efforts to empirically validate it have produced mixed, inconclusive or even negative results (Li & O'Brien, 2001; Lo & Power, 2010; Qi et al., 2009; Selldin & Olhager, 2007), which suggest Fisher’s classification of products and supply chains into dichotomous types, combined with his reduction of the problem of supply chain strategy evaluation to a matching of these types, may have left out decisive factors.

The impact of Fisher’s approach cannot be overstated: it remains, by far, the most influential idea to date regarding the evaluation of supply chain strategy. Several other typologies of supply chain strategy that have been proposed can be traced back to Fisher’s original typology. They revise it and expand it by introducing new types of products and supply chains (e.g. Cigolini, Cozzi, & Perona, 2004; Narasimhan et al., 2008) or new dichotomous variables (e.g. Lee, 2002, which adds supply types). It is possible that one of these expanded typologies may overcome the validity challenges facing Fisher (1997), but they have yet to be empirically tested and validated.

A Different Approach

This note discusses our experience with a different approach to the problem of evaluating the supply chain strategy of an organization, one that relies not on matching types, but on the use of evaluation criteria. In contrast with the dominant approach, this approach focuses not only on matching supply and demand, both of which are external factors, but also on internal factors, such as bridging the gap between the overall strategy of the organization and its supply chain execution, and on sorting out the organization’s competing goals across different areas of interest to the supply chain of the organization.

As part of an initiative in supply chain strategy, we conducted a series of five exploratory interviews with supply chain managers from diverse industries and levels to understand their view of the role of supply chain strategy. Key insights from these interviews were that practitioners expect the supply chain strategy of an organization to provide support to the overall strategy of this organization, and display consistency both internally and with the strategies of related functions. Subsequently, insights from an in-depth collaborative management research projects suggested that support and consistency were useful as criteria to evaluate the supply chain strategy of an organization. Feedback from these projects also suggested additional criteria: that the supply
chain strategy should be comprehensive in its **coverage** of all areas that are relevant to the supply chain, and that its support for the supply chain objectives of the organization should be **sufficient**, that they be fully satisfied. A second in-depth project served to validate these four criteria. Both projects and their findings are described in detail in (hidden citation #1, pp. 89-95.)

Following the advice of Eisenhardt (1989) and Ellram (1996), we went back to the existing literature to explore whether similar criteria had been used to evaluate supply chain strategy before. Although not much was found in the supply chain strategy literature, we found that use of criteria in the evaluation of business strategy goes back at least half a century (Andrews, 1991; Moroney, 2000; Porter, 1996; Rumelt, 1979; Tilles, 1963). Evaluation criteria from several of these authors served to validate and – more importantly – to refine and enrich our understanding of the subject. With the insights from these authors, we revisited the data from our projects, and produced a revised list of evaluation criteria. Details can be found in (hidden citation #2, pp. 25-27).

So, what makes for a **good** supply chain strategy? We propose that a supply chain strategy should serve at least three general **purposes**: (i) translate the overall strategy of an organization into supply chain objectives, policies, choices and – ultimately – actions; (ii) focus the effort that the organization puts into supply chain activities towards the fulfillment of its supply chain objectives and – ultimately – its overall strategy, and (iii) harmonize and prioritize the competing efforts that take place in different areas of interest across the supply chain. We propose that – in order to fulfill these purposes – a supply chain strategy should possess certain **properties**. We argue that these properties, in turn, can serve as criteria to evaluate the merits and shortcomings of the supply chain strategy of an organization. For the purposes of this paper, the supply chain strategy of an organization is defined as the collection of objectives, policies and choices relevant to its supply chain, spanning across multiple areas of interest and several levels of abstraction.

**PROPOSED CRITERIA**

We propose the following set of tentative criteria for the evaluation of a supply chain strategy.

**Coverage**

The supply chain strategy of an organization must be comprehensive, in that it must address – or **cover** – each and every area of decision that matter for the supply chain. Since coverage is about avoiding blind spots in the supply chain strategy, its evaluation relies on expert knowledge of what
areas matter to the supply chain of a given organization. Called “the frame test” by Rumelt (1979, p. 199), coverage is about knowing that “the critical issues” for a strategy have been identified and “are being worked on” (Rumelt, 1979, p. 200). For example, in our second project, several of their supply chain experts – after examining a thorough summary of their current supply chain strategy – realized that this strategy had nothing to say about collaborating with customers, an area that they considered increasingly important for their supply chain (hidden citation #1, p. 189.)

Clarity

The supply chain strategy of an organization must be clear. For this, the strategy must not only be “made explicit” (Tilles, 1963, p. 114) but it should also be “made clear” (Andrews, 1991, p. 118). In a “clear supply chain strategy” (Varma et al., 2006, p. 226), each of the objectives, policies and choices that compose it must be clearly understood by those making decisions based on them. For example, in our first project, one of the general objectives of the supply chain strategy was to “Grow spread”. Although unintelligible to others, the meaning of this objective was clear to the supply chain experts of that organization: increase the difference between the cost of producing a good and the price it commands from the customer.

Internal Consistency

The supply chain strategy of an organization must be consistent with itself. This property of a strategy – called “internal consistency” by Tilles (1963, p. 115) and by Andrews (1991, p. 119), “goal consistency” by Rumelt (1979, p. 199), and both “consistency” and “strategic fit” by Porter (1996, p. 70) – is one of the most fundamental of all strategy evaluation criteria. It refers to “fit, unity, coherence, compatibility and synergy” (Andrews, 1991, p. 119) among different objectives, policies and choices in a strategy. In our experience, it is useful to think of internal consistency in a supply chain strategy in terms of three levels: compatibility, coherence and synergy.

Compatibility, the most basic level of internal consistency, is about avoiding what Rumelt (1979, p. 199) calls “gross inconsistencies” within a strategy: the different objectives, policies or choices in the supply chain strategy are expected to be compatible – i.e. able to co-exist – with each other. For example, a compatibility evaluation in our second project revealed that their objective of serving customer segments differently according to their needs was incompatible with their policy of using the same logistics configuration in their supply chain to serve all segments. “To me, it was like a light bulb went off…,” said their Senior VP of SC, describing his reaction to
the findings of our evaluation: “We are trying to do everything!” (hidden citation #1, p. 227)

**Coherence** refers to reduced antagonism among the different objectives, policies or choices in the supply chain strategy, whereby they “cumulate or do not erode” (Porter, 1996, p. 71) – or at least erode as little as possible – each other’s positive “cumulative impact” (Tilles, 1963, p. 114) on the overall goals. Porter (1996, p. 71) calls this “simple consistency” and “first-order strategic fit”. “A key function of strategy is to provide coherence to organizational action”, says Rumelt (1993, p. 2), and warns that “problems of strategic inconsistency” may result in “conflict” and “bickering” across functions. Our experience shows that this is true also in supply chain strategy: a coherence evaluation in our first project allowed us to a three-way coherence conflict at the core of their current supply chain strategy, involving their objectives for manufacturing, inventory levels and customer service. The VP of SC in this organization confirmed that this “3-way conflict is a very, very important item right now”, one of “the fundamental issues we're struggling with” (hidden citation #1, pp. 226-227.)

**Synergy** refers to reinforcing relationships – preferably, but not necessarily, mutual – between objectives, policies or choices in the supply chain strategy, whereby one of them augments the positive impact that another has on the overall goals. Porter (1996, p. 71) calls this “second-order strategic fit”. In our projects, we found several examples of synergy: for example, in the first project, their policy of manufacturing exclusively in high volume plants had – according to their SC experts – synergy with their objective of minimizing the cost of procuring raw materials (hidden citation #2, Fig. 10, p. 32).

**External Consistency**

The supply chain strategy of an organization must be consistent with “the chosen context” (Rumelt, 1979, p. 197). This expectation that a strategy should “both match and be adapted to its environment” is called “consonance” by Rumelt (1993, p. 3). This environment includes the rest of the organization, the market and industry or – if not competitive – the specific setting of the organization, and the world at large. “Consistency with the environment” – described by Tilles (1963, p. 115) as an “important test of strategy” – is about whether its components “really make sense with respect to what is going on outside”, both “now” and “in the future”. In our first project, for example, we found an external inconsistency between the firm’s intention of retaining their market share in premium products mostly through high product quality (e.g. without heavy
investment in product innovation), and the fact that the new premium products in their industry were all the result of innovation.

**Support**

The supply chain strategy of an organization must support the overall strategy. More than simply being consistent with the overall strategy (Porter, 1996, p. 71), each component of the supply chain strategy—each objective, policy and choice—must support (i.e. must enable, advance or help realize) some element of the overall strategy. A component that provides no support—directly or indirectly—to the overall strategy, or whose net support is negative, should be modified or eliminated from the supply chain strategy. An example of a supportive component is found in our first project, where the policy of “working as an integrated organization” was deemed by the team of experts as very supportive of most objectives in the overall strategy of the organization.

**Sufficiency**

Each one of the objectives that have been set for the supply chain of an organization should be realized by the combined support it receives from the policies and choices in the supply chain strategy. This was called the “workability test” by Rumelt (1979, p. 201): whether “the proposed policies and actions work together to produce the results sought”. An example of a sufficiency shortcoming comes from our second project: one of the high-level objectives set for their supply chain, namely to “make our customer's business less complex and more cost effective,” was found by a team of experts as not being fully satisfied by the policies and actions of the supply chain (hidden citation #1, pp. 186.)

**Feasibility**

The supply chain strategy of an organization must be feasible. Each one of its objectives, policies and choices must be realizable in practice given the competencies and resources (physical, human, financial, technological, etc.) available to the organization, and the constraints of its setting. Called “competence test” by Rumelt (1979, p. 200) and “feasibility” by Rumelt (1993, p. 7), this criterion was described as “appropriateness in the light of available resources” by Tilles (1963, p. 115) and as consistency with “competence and resources” by Andrews (1991, p. 119). Exploring the feasibility is especially important in the case of a new component for the supply chain strategy. In our second project, the organization decided to “move away from price, and into
value and solutions”. Before committing to this change in their supply chain strategy, they determined it was feasible by means available to them. (hidden citation #1, pp. 220.)

For all the criteria described above, we have enough supporting evidence from our projects to consider they warrant further examination and validation from third parties. Some criteria that seem promising, but for which we do not have empirical evidence yet, include the following:

- **Actionability**, the notion that the supply chain strategy should be specified in enough detail to be a good guide for taking actions,

- **Parsimony**, the notion that the supply chain strategy should only use the resources that are necessary to provide the desired level of support to the overall strategy,

- **Riskiness**, proposed by Tilles (1963, p. 118) as “acceptable degree of risk” and echoed by Andrews (1991, p. 119) as “feasible” “level of risk”, a notion concerning whether the supply chain strategy represents more risk than the organization or supply chain are willing to face.

- **Advantageousness**, a criterion that applies to supply chains in competitive settings, regarding whether the supply chain strategy provides the organization a unique differentiating competitive advantage (Andrews, 1991; Porter, 1996; Rumelt, 1979, 1993).

**AN INVITATION TO DISCUSSION**

Each criterion we have proposed above has either enough supporting empirical evidence from our projects or enough equivalents in the literature on business strategy evaluation to warrant further examination. However, since the proposed set of criteria – as presented here – was formalized after our projects were completed, we cannot claim that they have been validated. It becomes necessary, then, that these criteria be formalized, tested and validated. It is our hope that the present note will start a discussion about the important subject of supply chain strategy evaluation, about the role of criteria in the evaluation process, and about whether these criteria – or any others – are valid and useful to practitioners and academics undertaking it.

**REFERENCES**


