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# Optimization of the Customer – Supplier Relationship through the Implementation of Transparency Strategies and Their Impact on Enterprise Competitiveness

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## **Abstract**

Mexican enterprises need to have supply management models with which they can get a more competitive market position, optimize their resources and systematize their purchasing processes.

Such models have to be based and grounded on corporate governance principles in order to achieve balance of the operating strategy, based on the organizational culture, mission and objectives of the companies. This allows them to adopt tools to optimize their resources, achieve more transparency and quality in all their processes, making them more competitive and flexible.

Although it is true that all enterprises operate in a different way, there are certain key considerations that when implemented they strengthen any company and make them transcend.

## **Key words**

Supply management, Corporate governance principles, Competitiveness, Resource optimization, Quality process and transparency strategies.

## **Introduction**

The lack of an adequate supply management system in some companies can cause a significant waste of resources, which has a negative impact on their competitiveness. In order to avoid this, they need to adopt transparency practices in their purchasing processes and strategies, so as to make them reliable and profitable.

Thus, if Mexican companies apply supply management based on corporate governance principles, they will be able to optimize their resources and increase their market share both at the national and international levels.

Some of the main advantages companies get from adequately managing their supply chain and in the process fostering a relationship with their suppliers are: significantly improving their internal and external image, saving all kinds of resources, improving quality and service to final consumers, optimizing their purchasing processes, which translates into increased profitability and productivity.

In addition, it is of the utmost importance that companies be ready to meet market demand, even when it is uncertain and variable, since this will make the difference between different companies, this will also promote customer loyalty and fidelity.

It is necessary that concepts that are closely related with this issue be integrated; concepts such as information technologies (IT), purchasing strategies, co-makership (business partners), internal control systems, continuous improvement, quality and competitiveness, strategies and structures for short-, medium- and long-term delivery, supplier selection, evaluation and certification processes, transparency strategies and multi-criterion decision making, among others.

It is worth mentioning that by implementing purchasing processes that follow real requirements of companies and a win-win relationship across the entire chain value, the competitiveness of organizations can be increased.

On the other hand, a company must direct its efforts to the creation of different plans that allow it to strengthen the company and the economy of the country where it is located achieving in this way sustained and expansive growth.

We can no longer think about the success of a company itself, today we need to think of making strategic alliances with all business partners (suppliers) in order to generate value in and across the entire chain value and related processes, which will make companies consolidate over time.

This paper analyses the way companies can implement a healthier supply management that provides high performance to their processes and helps build a plan that allows them to adapt to any market.

Some tools are presented that can help companies adopt selection and certification criteria for their current suppliers.

Note that the more communication, technology and flexibility are available in supply chain processes the better the results obtained through its management, since this will allow it to integrate in accordance with the internal and external conditions of the company, providing advantages against its competitors.

A company becomes more consistent when it acts with social responsibility and quality in its processes; therefore it should always ensure that its day to day actions are consistent with the social needs and the well being of its customers (both internal and external) so that in their minds it is positioned according to the benefits and positive contributions it offers.

## Supply Management

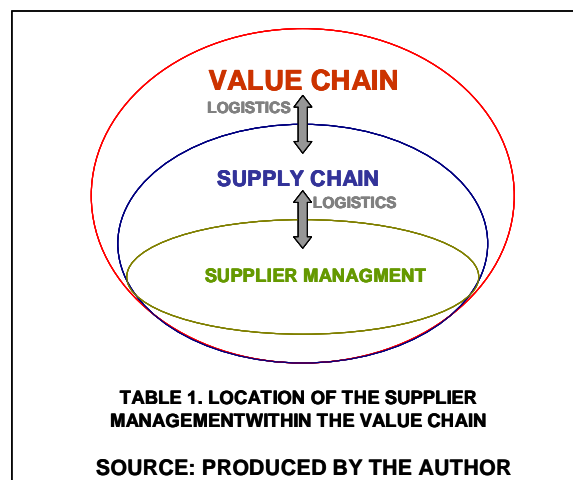
To define the concept of supply management, it is necessary to previously analyze the following streams:

1. The main objective of the supply chain, which according to Abebe & Elmuti, (2005) in the article “RFID Reshapes the Global Supply Chain”, is to “create maximum value at the lowest cost possible for the consumer”.
2. The concept of supply chain, which these authors describe as a group of three or more companies directly linked by products, services, financing, and information, which operates to join supplier, producer and distributor in a single process.
3. Regarding logistics, they describe it as a key tool for supply-chain management, it helps plan and organize the movement of materials and products to and from suppliers and customers. Furthermore, it also guarantees the accurate delivery, accurate shipment of the proper products in the right places and at the planned times.

From what is mentioned above, we can conclude that one of the key activities of the supply chain (which forms part of the chain value) is supply management.

It is based in certain tools, like logistics, in order to manage and link each supplier providing the materials and services used in acquisition processes, so that the result is to satisfy all the expectations of the end-consumer in due time and manner.

Figure 1 summarizes the position of supply management, which lays within the activities and processes that form the supply chain and thereby the chain value as a competitive strategy to provide improved benefits and results to end-consumers. This management uses logistics as a tool to manage the related information between the point of origin of materials and services and the point of final consumption.



Although it is true that companies have models, procedures and standards to manage the relationships with their suppliers, there are also companies that waste an enormous amount of resources (material and human) every year because they don't have adequate strategic planning. Some of them use control systems in their supplier and purchase selections that are not consistent in the supplier selection and purchasing processes, so that the image of the projects (both internally and externally) has a negative impact. The foregoing, puts their transparency policy, credibility and trust in the value chain at risk, generating conflicts of interest and affecting the use/abuse of company assets.

### **Advantages of Proper Supply Management within the Supply Chain**

Effectively and efficiently managing the supply chain can make the difference for a company to be competitive, profitable and to provide such a satisfactory ability to respond to customers that helps position itself and win their fidelity.

When a company fully understands on the one hand the real needs of their customers (knowing the market as well as the demand) and on the other hand is aware of all the activities, capabilities and limitations that integrate the supply-chain processes, it can help it have a safer, more efficient and responsible operation.

Having an open communication as well as flexible processes enables companies to control the volatility and uncertainty produced by the internal and external environment, to optimize the resources and to make better decisions.

When we know exactly every process or activity involved in the supply chain, we can define certain strategies that continuously improve its quality in order to make it increasingly more profitable and competitive.

According to Santamaría (2004), in the article "Best-in-class Supply Chain", the integration of the supply chain synchronizes all participants (suppliers, manufacturers, distributors, brokers, employees and shareholders) in order to meet real and concrete customer needs. The final objective is to establish strong communication and trust bonds among the participants so that they function effectively as fully aligned organization in order to optimize processes and fulfill wishes, desires, needs and preferences of the final consumer.

Currently, this management must be supported by Information Technology (IT) which, according to Abebe & Elmuti (2005), helps coordinate interorganizational activities. Integrating IT to the supply chain resulting in collaborative planning, forecasting and replenishment processes.

Based on what Santamaría (2004) mentions, Internet technology is generally used to allow a perfectly integrated exchange of information, goods and services across organizational boundaries. This creates closer relationships among all the steps of the supply chain to deliver the product, in the right place, with the right cost and at the right time.

It is worth mentioning that the integration of the supply chain places the companies that know how to handle it in an advantage position, increases their market share and avoids unnecessary losses.

Another important advantage of correct supply-chain management is that by having the information needed and precisely knowing the needs of the customers the best way to manage inventories, avoid cancellations, reduce unnecessary storage costs and improve the relationship with suppliers, who should be viewed as commercial partners can be better forecasted.

A well planned supplier management can standardize purchasing procedures, by analyzing real needs of both the company and its customers (end-consumers). This with the purpose of integrating the supplier with the company as a business partner. To that end, it is necessary to take into account certain issues, such as:

1. Total cost of supplier selection.
2. Total cost of quality and services offered.
3. The cost associated with the degree of compliance (accountability) that the supplier offers to fulfill what is stated in the contract.
4. The cost of the risk shared by the supplier in all its procedures to execute the contract.
5. The cost of other considerations and commercial competitive advantages offered in order provide benefits to the end-consumer.

All the points mentioned above help and provides significant benefits to design and develop better processes to act as business partners (between supplier and customer) and in this way stay in the market longer, on the medium- and long term.

### **Information Technology: an Essential Role for the Synchronization of Activities that Create Value for the Company**

Following what Santamaría comments, the use of information is essential for the coordination of activities. Therefore, success is based on the intelligent use of information. Supply chains evolve constantly according to the constantly changing environment (market and customer needs).

In addition, he also mentions that supply-chain management involves flow of materials, information and financing across an entire network of clients, suppliers, manufacturers and distributors.

The following paragraphs describe the elements that form each flow:

- ❖ The materials flow includes the physical flow of products through the chain, from suppliers to customers, and the flow of reverse activities through returns, service, recycling and product elimination.
- ❖ The information flow includes the transmission of orders and delivery status.

- ❖ The financial flow includes credit conditions, payment programs and consignment and property title agreements.

Coordination and integration of these flows within the company and with other companies are critical for the effective management of the supply chain, which is very important for the creation of value.

On the other hand, information must be shared in due time and manner with the relevant stakeholders and with those involved in the procedures. Although it is true that the lack of an open and flexible communication may cause the failure of any organization, inadequately sharing information or sharing it with the wrong people might lead to the same problems, since this information could be used against the businessman and/or for the benefit of his competition.

The use of information technology has led to the creation of many programs and tools that foster commercial intelligence and help businessmen make better decisions, achieving higher impact in their markets.

Nonetheless, Bob Violino (2004) in his article “Fortifying Supply Chains” describes that there are some commercial and technological elements which are key to the management of the supply chain, such as:

**Visibility:** Knowing exactly which is the place, position, characteristics, inventory, etc. of the products handled by the company and providing a complete follow-up of that information. Likewise, it also helps to have better visibility of where the company stands at that time, which can help create business strategies that position it as a leader in front of its direct and indirect competition.

**Lack of communication:** Effective collaboration as business partners is one of the key elements to achieve the successful optimization of the supply chain. A lot is said about on-line collaboration, product standardization, extranets and similar efforts to exchange information electronically among supply chain partners. But apparently, this is not as common as it should.

**Integration deficiencies:** A truly effective supply-chain management requires rigorous supplier integration systems. However, many companies have not given the necessary importance to this urgent need. It is clear that better integration with suppliers and other business partners will be part of the tool development agenda of many companies that are trying to create more efficient supply chains.

**Being at the level of expectations:** Evaluating the effectiveness of the supply chain is something every manager or leader should constantly do to understand the benefits it provides for the generation of new clients, retention of existing clients and differentiation from competition.

**Budget reductions:** Within the supply chain, information technology is an essential part of the business and a corporate priority. It also helps the company to go beyond, covering not only customers and suppliers, but all partners involved in buying and selling products.

He finally comments that some of the information technologies that help, foster and strengthen the supply chain are:

Order processing and dispatch programs, inventory management programs, electronic data exchange and ERP and Web portals. A small number of companies have implemented commercial intelligence, on-line collaborations, performance management, logistics planning and software programs, collaborative product information management programs and radio frequency identification (RFID).

The problem this technologies face is that many companies don't have the resources (material and human) to implement them and turn them into a competitive advantage that generates important benefits in the medium- and long term.

## **Corporate Governance: Triggers Trust, Transparency and Cooperation**

According to the Organization for Economic Cooperation and Development, OCDE (2004), the Principles of Corporate Governance are an “instrument offering non-binding standards and good practices as well as a guidance on implementation, which can be adapted to the specific circumstances of individual countries or regions”.

Likewise, quoting Cruz, R. *et al* (2006, p.13-14) “corporate governance is the mechanism the shareholders have to counter-balance and guide business management in order to ensure the right efficiency levels and to guarantee quality, opportunity and the right information sharing level about the financial and operating conditions of the company. The counter-weight is a strengthening and balancing action that prevents important decisions from being taken by just one person, but rather in a multidisciplinary decision forum: the Board of Directors.”

In consequence, we can say that implementing corporate governance practices in a company requires a commitment that must be planned, managed and supported by everyone in a position to influence or make decisions.

Such practices should be previously analyzed and discussed by a group of people with experience in different areas of the company and who are involved in the processes related to the supply chain. This should be done with the intention of enriching and providing added quality to every decision made and to manage the increased capacity, efficiency and effectiveness in the activities to be performed, to achieve the best possible social impact and a successful economic and financial position within the organizations.

To be able to get the participation of everyone involved in decision making, it is important to keep a logical and sequential order of all the processes and activities performed, along with command lines and responsibilities, to promote good coexistence, respecting the hierarchies established by the company, without creating bureaucracy or submission.

If this is not achieved, a real change in all the company and the necessary capacity of response will hardly consolidate.

Figure 2 shows a scheme of how information should flow within the organization, so that the guidelines and standards can be implemented in the most efficient way.



**FIGURE 2. HIERARCHY LINE FOR THE DECISION MAKING**

Considering everything mentioned above, we can say that the expected benefits of implementing corporate governance principles are:

<b>COMPANY</b>	<b>INDIVIDUAL</b>
Transparency in processes and information	Creation of a sense of belonging
Credibility and trust	Enjoyment of work
World-class image	Identification with the company
Flexible and efficient procedures	Motivation to work with quality
Peace-of-mind for everyone involved (work environment)	Full knowledge of every activity and process to be performed
Taking advantage of available human capital	Constant training
Fast, real-time communication	Consensus between personal and corporate interests
Agreement of shareholders	Development opportunities within the company
Decision making that is agreed between shareholders and directors	Working responsibly, taking care of everyone's interests
Competent organization design ...	Being more competitive within the activities to perform ...

Therefore, it can be said that companies should try to focus on the human side, providing their personnel with the resources (both human and material) needed to adequately perform their functions. In this way they will feel

motivated and will work to achieve a personal and professional development within the framework of profitability and transparency, which will be reflected in the productivity and competitiveness of organizations.

It is also vital to look after the interests of shareholders, avoid bureaucratic and impractical processes, foster fast and active communication and come to a consensus about the interests of all the stakeholders in order to achieve the core objectives of the business.

Cruz, R. *et al.* (2006, p.13) define the implications of corporate governance within organizations. This is done in a practical way, since once it is applied the company not only needs a board of directors, it also depends on the course of action followed by companies to manage with integrity, transparency and efficiency; values that ensure its subsistence and growth.

To accomplish this, it is necessary that both the members of the board of directors and the leaders are clear on the requirements of the company and can quickly address any disagreement.

On a final note, it is worth mentioning that the principles of corporate governance help companies protect the interests of their shareholders, avoid unethical or illegitimate negotiations, foster continuous feedback and come to a consensus about the interests of all the stakeholders in order to achieve the core objectives of the business.

### **Development of Competitive Supplier Management Based on the Corporate Governance Principles**

Analyzing the advantages of correctly and competitively managing the relationships between companies and their suppliers, we can see that the results become better commercial terms (including: price, quality, service, delivery and collection times).

In addition, there are other factors promoting client-supplier relationships, such as the promoting loyalty and fidelity bonds, respect, commitment and real concern about the well being of a business partner, among others.

Having a healthy relationship with suppliers helps resolve differences for both parties.

Finally, the objective is to have both parties use the most convenient tools to overcome these differences, place the company in a better competitive position and to be able to differentiate it from its competitors, namely:



Sharing a balanced (healthy) relationship, as well as having open communication in both ways

Now, if we additionally apply the principles of corporate governance to supplier management, this will be reflected in competitive business opportunities for the company. When transparency and business ethics strategies are implemented, linking the interests of all the stakeholders (shareholders, directors, creditors, suppliers and other collaborators), we promote the generation of economic and financial advantages and the creation of a robust, more profitable business structure.

## Discussion

Today, companies have to plan, execute and control their processes, which should be aimed to provide a competitive supplier management. Such processes should try to implement better corporate practices that help control every activity and make it more efficient. It is essential for the company to be as flexible as possible and to have the best capacity of response to its environment (internal and external) in order to get the desired results for the shareholders and directors.

In order to achieve this, the company needs to have tools that help evaluate every procedure involved in the supplier management. Everything mentioned above should be based on the ability of companies to meet their requirements and supply the necessary products/services. Having and sharing truthful and timely information will minimize the potential operating and administrative risks surrounding said management.

The following tool proposes a methodology to identify and rank the priorities the companies may have, who are responsible of performing them and in which step of the process they are.

Following, you will find an example of this tool:

<b>CRITERIA TO BE ANALYZED</b>	<b>PROCESS IN WHICH IT IS INVOLVED</b>	<b>PERSONS IN CHARGE OF THE PROCESSES</b>
<b>Purchasing quality</b>	Inventory analysis	Pedro Reyes L. (Marketing)
	Request for materials	Ulises Ramos C. (Acquisitions)
	Order reception	Joaquín Álvarez B. (Warehouse)
	Delivery verification	Lourdes Cyma B. (Warehouse)
	EDI registration	Patricia López P.(Warehouse)
<b>Date: 14-03-2008</b>	<b>Elaborated by: JEB</b>	<b>Next revision: 14-04-2008</b>

To be able to apply this tool, we should first choose the main criteria that the company needs to select and manage the relationship with its suppliers, applying an evaluation to analyze if the requirements are fulfilled at the level required by the company.

Next we provide an example of how a company can select suppliers who sell steel for the production of heavy machinery.

First we analyze the suppliers available in the market (supply study) and interview each of them. The proposals they send are received to finally call for an acquisition tender and enter into contracts with the winning supplier.

In this example, the most important criteria that the company will evaluate to decide if a supplier will get the contract are the following (it is worth mentioning that these criteria should be established by each company based on its most important requirements to be the best and most competitive in its market):

- ❖ Steel should meet certain minimum quality characteristics
- ❖ Price should be competitive in the market
- ❖ The supplier must have experience with the product and with handling its logistics
- ❖ Delivery times should meet the requirements of the company
- ❖ Payment should be made 30 days after the supplier delivers the product
- ❖ There is a penalty for not delivering on time and/or not paying on time
- ❖ The supplier is in charge of delivering the steel free of all liens, burdens or taxes
- ❖ There is a significant delivery volume (this because storage costs are low and the cost of not having the steel in time and manner is extremely high)

To evaluate these 8 criteria, we need to form a workgroup (with experts: assembly technicians, lawyers, managers and contract operators) which will weigh each criteria according to the importance it has and the efficiency it provides to the company. This is done through a Likert scale (statistical model) and based on that criteria it is analyzed and evaluated to select the supplier that is better qualified.

**Analysis of the degree of compliance by supplier:**

The degree of compliance is evaluated by the workgroup based on the documents provided by each supplier (their technical and economic offer) as well as the accumulated experience of the market and the resume of the company. The score is analyzed on a 0-100 statistical model, where 0 is the lowest score and 100 is the highest.

Next we calculate the average of all scores for each criterion (made by the workgroup) and a final sum is made.

<b>CRITERIA TO EVALUATE</b>	<b>Supplier 1</b>	<b>Supplier 2</b>	<b>Supplier 3</b>
Characteristics (quality)	70	60	25
Competitive price	65	40	15
Experience	90	65	80
Delivery time	45	65	60
Payment conditions	85	95	75
Penalty for non-fulfillment	85	50	90
Free delivery	45	45	85
High-delivery volume	30	65	90
<b>TOTAL of the scores given by the workgroup while evaluating the proposals</b>	<b>515</b>	<b>485</b>	<b>520</b>

**TABLE 3: Criteria to Evaluate**  
**Source: Produced by the author**

At first sight we could say that Supplier 3 is the most efficient, because its score was the highest. However, if we consider the weight of each criterion we see the following:

<b>CRITERIA TO EVALUATE</b>	<b>Supplier 1</b>	<b>Supplier 2</b>	<b>Supplier 3</b>
Characteristics (quality) <b>20%</b>	14	12	5
Competitive price <b>20%</b>	13	8	3
Experience <b>10%</b>	9	6.5	8
Delivery time <b>10%</b>	4.5	6.5	6
Payment conditions <b>10%</b>	8.5	9.5	7.5
Penalty for non-fulfillment <b>10%</b>	8.5	5	9
Free delivery <b>10%</b>	4.5	4.5	8.5
High delivery volume <b>10%</b>	3	6.5	9
TOTAL analyzing the efficiency level of each supplier	<b>65</b>	<b>58.5</b>	<b>56</b>

**TABLE 4: Weighing of the evaluated criteria to achieve a more competitive supplier selection**  
**Source: Produced by the author**

As you can see in the table above, even when at first sight Supplier 3 appeared to be more competitive (in Table 3), once the most important criteria according to the degree of efficiency required by the company were applied, we got to the conclusion that the best option was Supplier 1 (see Table 4) This evaluation criterion is not absolute and can have variations depending on the type of company and its needs.

### Conclusions

The development and execution of proper supplier management based on corporate governance principles lead companies to get great benefits and to be more competitive in today's globalized and constantly changing environment.

One of the biggest benefits of good supplier management is the optimization and efficiency of the resources used, because it takes advantage of all the capabilities of the company to make it more profitable, achieve sustained growth, a permanence and position in the market, as well as the possibility of generating greater opportunities and better business conditions.

If we have consistent management within the supply chain, we will be able to minimize the risks and make more assertive and functional decisions.

It is very important that everyone involved in the chain has deep knowledge of the processes, activities, strategies, mission, vision, objectives and command lines to recognize the relevance of their job for the final results of the company. This will help motivate employees so that they can perform their functions better, because they will recognize the advantage and contributions they give the company.

Companies should not forget that human resources are the trigger for any change or restructure to be successful. The results of the company will be achieved depending on the performance showed while doing their functions.

On the other hand, having technological tools and statistical models helps analyze and better understand the situation surrounding the company, including supplier behavior within the supply chain. This can be an important resource for the company to generate value and growth.

Consolidating fast and efficient communication, as well as establishing a command line will help draw strategies that mark the behavior and course of the organization, and will also help the decision making process.

Understanding that any company must focus its efforts to create value on the short-, medium- and long term, and one of the key activities to accomplish this is to draw strategies allowing an effective management of the supply chain. Furthermore, one of the most important activities forming this management is competitive and effective supplier management.

In addition, the implementation of corporate governance strategies throughout the supplier management process will help gain the trust (of all stakeholders), credibility and transparency (in information and financial issues).

Companies today have to chart their objectives, with a social responsibility and awareness in mind in order to provide significant benefits to the community. This will reflect in better quality of life for human beings in general.

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