

The impact of HRM practices on the effectiveness of SCM

Uticaj menadžmenta ljudskih resursa na efikasnost upravljanja lancem snabdevanja

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Сажетак: Изазови менаџмента људских ресурса (HRM) у ланцима снабдевања су под снажним утицајем комплексних савремених пословних окружења, која су са друге стране окарактерисана краћим животним веком производа, процватом производње, спољном сарадњом и глобализацијом тржишта и база за снабдевање (Bozarth, Warsing, Flynn & Flynn, 2009; Closs, Jacobs, Swink & Webb, 2008). До данас, истраживачи су мало пажње посветили томе како менаџмент људских ресурса може да помогне организацијама да ефектније управљају својим ланцима снабдевања. Овај рад пружа преглед литературе са циљем да истакне најважније студије, а нарочито да размотри важност коришћења стратегија менаџмента људских ресурса приликом помоћи организацијама у побољшању њихових ланаца снабдевања. На крају, биће представљене разне потенцијалне примене менаџмента људских ресурса у ланцу снабдевања, са посебним фокусом на кориснички сервис.

Кључне речи: менаџмент људских ресурса, управљање ланцем снабдевања, кориснички сервис.

Abstract: The challenges of human resource management (HRM) in supply chains are strongly influenced by complex contemporary business environments, which in turn are characterized by shorter product life-cycles, product proliferation, outsourcing, and the globalization of the supply base and markets (Bozarth, Warsing, Flynn & Flynn, 2009; Closs, Jacobs, Swink & Webb, 2008). To this day, researchers have paid little attention on how HRM practices can help organizations manage their supply chains (SC) more effectively. This paper provides a literature overview with the objective to highlight the most important studies. More specifically, the objective is to discuss the importance of using HRM strategies to help organizations improve their SCM performance. Finally, various potential applications of HRM in SC will be presented, with a special focus on customer service.

Keywords: Human Resource Management, Supply Chain Management, Customer Service.

Introduction

On average, logistics costs represent 7.15% of European GDP or 7.7 % of US GDP - 15 to 16% of China's GDP and 11 to 13% of India's GDP (CSCMP, 2014). It is thus not surprising that both logistics and Supply Chain Management (SCM) are gaining on

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importance. Their growth is also influenced by the changes in human resource management (HRM) practices. Support for this may be found in a recent case study by Okeudo (2012), which examined the relationship between HRM practices, company performance and key logistics and SC capabilities (LSC). The findings have shown that most HRM core practices, such as recruitment and selection, performance appraisal, training and development, health and safety of employees, compensation and benefits have a major impact on the company's performance. The research findings further indicated that logistics service providers (LSP) would benefit greatly from establishing orientation programmes for new employees and from continuous trainings for updating the competencies of existing employees.

To date, with the exception of few studies carried out in the USA, UK and Europe (e.g. Guest & Hoque, 1994; Hoque, 1999), and Asia (e.g. Khatri, 2000; Murayama & Yokota, 2009) the role and importance of HRM in logistics or SCM have received scant attention. The aim of the present paper is, nevertheless, to present the most important studies that have addressed these issues. More specifically, the objective is to provide an insight into these issues from the viewpoint of SCM.

SCM is a well-known term, but is often being replaced or equated with logistics. In recent years, most modern researches that have examined the role of HRM in SCM or logistics companies have predominately focused on HRM within SCM activities (e.g. Gowen & Tallon, 2003; Othman & Ghani, 2008; Fisher, Graham, Vachon & Vereecke, 2010) without differentiating between the two terms or discussing whether HRM problems identified within SCM activities can also be found in logistics. To this end, the present paper begins by defining these two terms and emphasizing the differences between them.

Two Concepts: SCM and Logistics

Logistics and SCM are two concepts, which are often being used interchangeably, thus causing much confusion. The word "logistics" comes from the Greek adjective "logistikos" which means "skilled in calculating". The first use of the word was in Roman and Byzantine times when there was a military administrative official with a title Logista. But some researchers believe it comes from the French word "logis" means dwelling, originally designated the word of organizing the transportation, resupplying, and housing of the troops of an army (Zanjirani Farahani, Asgari & Davarzani, 2009).

Both terms, logistics and SCM, are anything but new ideas as the principles of the effective flow of materials have already been known since the building of the pyramids. One of the important milestones in the history of logistics was also the expansion from Europe to Americas (Christopher, 1992, p. 1).

Logistics has always played a key role in conflicts (e.g. Simpson & Weiner, 1989), particularly in World War I and World War II, where the need for an efficient and effective movement of troops and supplies was of key importance (Lummus, Krumwiede & Vokurka, 2001, p. 426). The Dictionary of Modern War (Luttwak, 1971) defines logistics as all activities and methods connected with supply of armed force organizations, including storage requirements, transport and distribution. It also in-

volves a great deal of planning and calculation as well as physical activities. Given its potential, business organizations soon started to recognize the impact logistics management can have for achieving competitive advantage (Christopher, 1992, p. 1). Several business fields have tried to define logistics. However, an organization APICS (Cox et al., 1998) provided two separate definitions, from military and business perspective, the latter being the art and science of obtaining, producing, and distributing material and product in the proper place and in proper quantities. From the military perspective, the definition also includes the moving of personnel. Cavinato (1982) also defined logistics in a business context as the management of all inbound and outbound materials, parts, supplies and finished goods. Logistics thus consists of integrated management of purchasing, transportation, and storage on a functional basis.

Logistics and SCM Today and their Differentiation

According to Christopher (1992, p. 2) logistics involves strategic management of procurement, movement, storage of materials, parts and finished inventory, including relevant information flows through the organization and its marketing channels to maximize the cost-effective fulfilment of orders. He further stipulates that SCM is a wider concept than logistics. He thus asserts that logistics is essentially a planning orientation and framework that wants to create a single plan to the flow of products and information through business. SCM, on the other hand, builds upon this framework to achieve the connection and co-ordination between the process of other entities and the organization itself. Christopher (1992, p. 3) further identifies SCM as the management of upstream and downstream relationships with suppliers and customers whose aim is to deliver superior customer value at lower cost to the SC as a whole.

The professional organization most closely associated with the logistics profession was the Council of Logistics Management, which defined logistics as the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services and related information from the point of consumption for the purpose of conforming to customer requirements. (MHL, 2004) In 2005, the organization was renamed to Council of Supply Chain Management Professionals with the objective to adhere to the needs of their members, who were found to have been interacting with more people within and outside their organizations. As their roles also evolved the CLM wanted to reflect the activities of the SC. The continuous development of professions within the SCM led to ambiguous definitions and the confusion with the term logistics management. The board of directors of CSCMP along with industry experts proposed official definitions for the two terms. In this respect, CSCMP (2014) points out that SCM encompasses the planning and management of all activities involved in sourcing and procurement, conversion and all logistics management activities. It also includes coordination and collaboration with channel partners, from suppliers, intermediaries to third party service providers and customers. In its essence, SCM integrates supply and demand management within and across companies. It includes all logistics management activities as well as manufacturing operations and drives coordination of processes and activities with and across marketing, sales, product design, finance, and

information technology. In contrast, CSCMP (2014) views logistics management as that part of SCM that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements. Activities of logistics management therefore include inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, inventory management, supply/demand planning, and management of third party logistics services providers. The logistics function further includes sourcing, procurement, production planning and scheduling, packaging and assembly, and customer service at all levels of planning and execution: strategic, operational and tactical. As such it not only integrates a function, which coordinates and optimizes all logistics activities, but also logistics activities with other functions including marketing, sales manufacturing, finance, and information technology.

Importance of HRM in Logistics

As pointed out in the previous section, most researchers see SCM as a concept wider than logistics, i.e. as management of all activities in sourcing, procurement, conversion and all logistics management activities. And while both seek to optimize the companies' inventories, supplies, and transport routes with the objective to optimize costs, similar approaches were taken in the field of human resource management. But what exactly is HRM? There is no universal agreement on the meaning of HRM, albeit the term has been widely used for the last two decades. Before that it was known as "personal management". Dessler (1991) made no differentiation between personal management and HRM and saw the latter as a modern expanded version due to technological change in the work environment and a shift in societal values. Torrington and Hall (1998) explained the difference between the two concepts by stipulating that personal management is considered as workforce-centered, while HRM is viewed as resources-centered. According to Storey (1995) HRM is a distinctive approach to employment management, seeking to obtain competitive advantage through deployment of committed and skilled workforce, using an array of techniques. Okeudo (2012), on the other hand, claims that it is a system, a philosophy, policy and practice that can influence employers that work in an organization. Its practices include training and development, performance appraisal, reward/compensation management, safety and health, recruitment and selection, and industrial relations.

Pfeffer (1994) recognized that people in organizations are an important source of competitive advantage. Many researchers have drawn attention to the increasing interest in HRM due to assumptions that employees and the way they are managed are critical to the success of a company (e.g. Kamoche, 1996; Lado and Wilson, 1994; Wright, McMahan & McWilliams, 1994). With performance being considered one of the major organizational goals, however, various questions about understanding the relationship between HRM practices and company performance started to arise. It remains a fact that a well-established HRM plays a significant role in the strength of organizations, particularly when facing modern business challenges; if it is effective and

competitive, it will produce quality and productive individuals and reduce job dissatisfaction, absenteeism, or staff turnover (Okeudo, 2012).

As mentioned before, logistics is more than procurement, processing, movement and storage of materials, parts and finished goods. Namely, for effective operations, it also requires effective HRM practices. Okeudo (2012) reported the findings of a study that examined the relationship between HRM practices mentioned earlier and the key logistics and SC capabilities of providing integrated logistics services (ILS), using ICT to solve complex logistics problems, devising flexible SC solutions and offering industry specific logistics expertise. One of the main findings of the effective SCM and logistics is minimization of total costs and maintaining a desired customer service level (Kenderline& Larson, 1988), therefore, effective HRM is crucial, especially for:

HR scheduling because customers appreciate timely information about order status, product availability, delivery schedules and invoice settlement; the service flexibility; finding industry specific specialists for new market development, to name but a few.

This then suggests that in order to increase performance and gain and/or maintain competitive advantage effective SCM services need to develop high-quality HRM practices. Barney (1986, 1991, 1995) and Pfeffer (1994) have argued that, because resources that have historically provided organizations with competitive advantage are easily and rapidly imitated, the HRM of the organizations may be an extremely important source of competitive advantage, especially in logistics. The latter was also mentioned by Barney (1997) who emphasized the resource-based view (RBV), which is a theoretical paradigm from the field of strategic management. It assumes that resources and attributes of the company are more important for competitive advantage of a company than industry structure and competitor's actions. Barney (2001) defined resources as tangible and intangible assets a company uses for choosing and implementing its strategies. This definition not only includes organizational, financial or physical resources, but also human resources. From the viewpoint of RBV technology, natural resources and economies of scale can create value. Moreover, these sources are available to almost anyone anywhere and are easy to imitate, whereas HR which is defined as "the pool of employees under the company's control in a direct employment relationship" (Wright and McMahan, 1992, p. 6) can provide the company with a source of competitive advantage.

From this we may argue that well established HRM in any organization, especially in organizations with well-established SCM plays a significant role and is a major source of competitive advantage. Today, researchers of SCM attach greater importance to HRM especially in several fields; one of them is recruitment of skilled professionals for SCM or logistics. Researchers (e.g. Trunick 2003; Hong et al., 2004; Kerr, 2005) indicate the lack of logistics professionals that can no longer be ignored. Support for this may further be found in several studies that have dealt with identifying the appropriate competencies which have a positive contributing factor for service of logistics providers (e.g. Li & Vellenga, 1993; Bookbinder & Tan, 2003; Lin, 2007; Lieb,

2008). Modern SCM and also logistics companies need talented and skilled people to be able to learn quickly about tools and apply them for productivity gains, as well as workers who emphasize customer service and are motivated to ensure fewer work shortages.

Conclusion

During the ongoing economic crisis the companies' survival is typically coupled with downsizing. Paradoxically, however, efficient SCM, the aim of which is to optimize the processes as effectively as possible is not only dependent on employees, but also on HRM as a whole. Recently, the growing number of SCM (logistics) companies was found to have an impact on the following: degree of competition, labour shortage and the corresponding increase in employee turnover (Okeudo, 2012, p. 59). Hence, costs of employee replacement have forced companies to compete for employees. This is an issue that constantly drives companies to access its inner processes and capabilities, in order to remain competitive and maintain or maximize their performance.

A number of researchers stipulate SCM to be a broader concept than logistics (e.g. Christopher, 1992; MHL, 2004; CSCMP, 2014). From this, it would then follow that, when performing SCM activities, the role of HRM is greater than for example, in logistics. Therefore, the findings that HRM has a significant impact of a company's competitive advantage and its overall performance do not come as a surprise.

From this brief overview, many questions need to be addressed in greater detail. Findings discussed in this paper indicate that organizations with well-established SCM and LSP's would benefit greatly from establishing relevant orientation programmes for new employees. Namely, such programmes would provide continuous training for updating employee competencies. In the future, the aim is to examine the ways in which HRM practices in SCM could be improved so as to enhance SCM and the overall performance of a company.

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Resume

The present contribution addresses the issues concerning the lack of attention human resource management scholars have been dedicating to the field of supply chain management and how HRM practices could help companies towards a more effective supply chain management. It has thus been noted that HRM has a significant impact on a company's competitive advantage and its overall performance. However, further studies are needed that will provide support for the more general claims.