Strategic Supply Chain Management Practices in Banking

Mr. Navaretnarajah Sanjeepan
Department of Management, Faculty of Commerce and Management, Eastern University, Srilanka

E-mail: sanjeep426@gmail.com

Introduction

Supply chain management is the management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by the final users.

It is the strategic and systematic coordination for supply products and services required by the end users. It also includes coordination and collaboration with channel partners, which can be supplier, customer, intermediaries and third-party service providers.

Supply chain management represents the practices of products and services that reaches to end customers and represents the efforts of the organization.

Strategic supply chain management is plays a very important role in every business organizations. Every links across the Bank’s supply chain is invaluable.

Supply chain management allows businesses to get not only the productivity advantages but also to get long term value advantages. Because, supply chain management includes all the activities from the beginning of planning, management and operations of the resources, procurements and logistics, marketing operations and coordination between all other parties involved in the supply chain.

Supply chain management is an essential element to the operational efficiency. It helps to streamline every business activities from the day to day product flows. It can be applied to the customer satisfaction and overall business success.

Supply chain management allows the firms to rethink and restructure the entire operations and processes to focus on their core competencies and outsource processes.

A good supply chain management links the manufacturers, suppliers, distributors and customers in order to achieve optimum productivity.

An effective supply chain management is ensures that the process runs as smoothly as possible. Without an effective supply chain management, it would not be possible to gain sustainable advantages.

Effective supply chain management is important to:

- Maintain trust between suppliers and partners.
- Reduce the inventory cost.
- Share information between suppliers and partners.
- Improve operational efficiency and quality.
- Improve process integration.
- Increase customer satisfaction.
- Provide effective manufacturing strategies.

Especially strategic supply chain management helps to manage competition among the competitors. It provides several tools and techniques to help a business organization...
towards sustainable competitive advantage and long term value creation.

All these importance of an effective strategic supply chain management makes better future for a business organization.

Thus, effective strategic supply chain management is important to an organization to achieve its objectives.

**Note –** In this article, the term ‘Bank’ mainly focuses on Commercial Banks

**Link between supply chain management and business functions**

Supply chain management is an integrated business model that takes a process based on the view of how all of the business functions and activities needed to work together and how a business relates its customers & suppliers.

Supply chain management plays an important role in the integration of the other business functions of the Bank’s. Supply chain management of the bank cannot achieve its objectives working stand alone.

An effective supply chain management can contribute to the success of the firm with the collaboration of other business functions such as operations, human resources, finance, sales & marketing and information technology.

Every banking activities of the bank have some link with the supply chain of the Bank’s where either initiation is done by the supply chain management or supply chain management is involved in the later part of it/ at the end.

*We can easily understand the link between supply chain management and business functions by the following diagram,*
Operations—supply chain management is linked to the banking operations of the Bank’s as it provides guidelines for the everyday functions. Supply chain management coordinates with the operations to forecast the fleet requirements of the labors and initiates additional purchases.

Supply chain management coordinates with the operations at the right place and right time. It also important to coordinates existing labor force and forecast future requirements to perform the day to day banking operations effectively.

Human resources—supply chain management cannot achieve the objectives without appropriate efforts of employees. Supply chain management coordinates human resources for recruitment, to fulfil the training needs of the employees and also it coordinates the human resources in relation to different requirements as well as in the different customer sites.

Finance—supply chain management is important to control the cost and improving growth of the Banks. Supply chain management coordinates with finance department to prepare the capital budget and approaches for management towards seeking further investment approvals and also to finalize the payment terms for different capital suppliers.

In Bank’s, finance & supply chain management both are linked through various functions such as financial planning, cost management and budgeting.

Sales & Marketing—Customers are the heart of focus for sales and marketing of the Bank’s. Supply chain management helps to streamline the banks supply chain which cannot be attain without the complete knowledge of customers type and segments.

Sales & Marketing department provides its budget for coming financial year whereby it have supposed to put their forecast sales which will be presented to the management for approval. After the approval, it will be presented to supply chain management to estimate & calculate for the coordination of the operations.

Information Technology—IT provides various systems that significantly important to the supply chain management. Advancements of the technology, communication between different entities of supply chain has become more reliable and faster.

Overall, Supply chain management is the Centre for all the business functions of the bank and all the activities related to supplier and customers revolve around.

Thus, supply chain management ensures that the each business functions to operate smoothly and effectively both individually & coordination with each other.

Key drivers those moving towards implementing an integrated supply chain

There are some key internal and external drivers those are moving towards implementing integrated supply chain activities in the Banks.
**Internal drivers**

- **Time management** – Shorter collection and delivery time leads to better integration

- **Service equality improvement** – Integration of effective supply chain ensures that after sales services are properly informed of the customer requirements and complaints that result in better services.

- **Cost effectiveness** – Minimizing the errors will ultimately helpful to cost saving through the better integration the supply chains.

- **Key competencies by outsourcing** – Benefits from the outsourcing activities of the bank leads to proper integration and effective supply chain activities.

- **Reducing wastages** – better communication and supply chains ensure that what is needed is procured / used resulting from the reduction of wastages.

- **Improving profitability** – Proper and effective supply chain with proper integration with the business functions is needed to optimize the profit

**External drivers**

- **Sustainability** – Bank’s ensures that it has integrated and effective supply chain management to achieve final objectives.

- **Customer Relationship Management** – Bank is a financial service organization. So, customer satisfaction and service quality is important. It is necessary provided real time information about product availability, better transparency and information. Customer complaints should be addressed and rectified quickly and efficiently.

- **Supplier Relationship Management** – Banks have system to get real time information about their order processing and delivery processes thereby plan logistics and storages accordingly. Suppliers arrange replenishments and check stock status and anticipate orders well in advance.

**Role of logistics in the management of the supply chain and evaluation of procurement practices in Banking**

Logistic is the part of supply chain management that plans, control, implement, forward and reverse flow and storage of products, services and related information in order to meet the customer requirements.

Logistic management involves getting the right product, in the right way, in the right quantity, quality, in the right time, at the right place, at the right cost for the right customers.

Logistic and Supply chain are essential part of one another. If any business organization wants to work properly, then it is compulsory to use logistic in the supply chain management.
Banks maintains their own logistic service department that focuses on easy facilitation & movement of its required products/ services/ materials.

Bank’s also heavily depends on its logistic not only for the required products/ services/ materials, but also to the movement of the employees to the different customer segments.

Smooth movement of required products/ services/ materials through the supply chains facilitate by its logistic department.

Logistic ensures that the right products/ services/ materials are picked from each location and delivered to the branches at the

**Evaluation of procurement practices**

Bank’s procurement department plays a significant role in the day to day procurement of products and services by the way of third party supplier.

The bank procurement practices look beyond the monetary value to gauge ethical behavior and sustainable practices as equally important for successful partnership.

Improved procurement practice and policies of the Bank’s helped to the cost reduction and minimize the wastages.

Bank’s Procurement practices show moderate impact on the banking operations. At the same time it gives higher significance to the stakeholders based on the materiality.

Responsible procurement opportunities have been offer by the Bank’s to make better relationship with suppliers.

Bank’s procurement is done locally. Proportion of spending on local suppliers was 99% in 2015. Many of the software solutions the bank purchased are developed by global players.

Bank’s procurement practices include an independent technical review in addition to the financial evaluation.

**Review of the supply chain and logistic activities in Bank’s**

Supply chain management and logistic activities is a vital for the business sustainability and profitability.

Bank’s maintains large inventory level and large base of suppliers due to the large & wider spread branch network to meet day to day requirements of the banking activities.

Currently Bank’s supply chain is managed manually. It works with variety of individuals and organizations to support to its business activities.

Here, the table shows the Supply chain and logistic activities of the Bank’s.

<table>
<thead>
<tr>
<th>Suppliers list</th>
<th>Products and services receive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility Service Providers</td>
<td>Electricity</td>
</tr>
<tr>
<td></td>
<td>Water</td>
</tr>
<tr>
<td></td>
<td>Telecommunication</td>
</tr>
</tbody>
</table>
Material suppliers | Papers  
| IT related supplies  
| Other stationery  

Premises providers | Individual building owners  
| Firms renting office space  

Contractors | Building  
| Interior decoration & partitioning  

Human Resources | Suppliers of outsourced employees  

Maintenance | IT equipment / software maintenance companies  
| Office equipment maintenance companies  
| Janitorial services  

Staff welfare | Trainers & consultants  

Assets suppliers | Vehicle suppliers  
| IT equipment / software vendors  

Communication | Media  
| General post  
| Telecommunication  

Services | Insurance Companies  
| Auditors  

Thus, supply chain and logistic activities significantly contribute to the Bank’s operations.

**Strategies to maintain relationship with suppliers**

Banks are increasingly turned its attention to improve better relationship with the suppliers and partners.

Bank’s maintains a list of registered suppliers and encourage them by an ongoing dialogue to
ensure that the value is created for suppliers as well as to the business.

Reliability and mutual trust are the key to build strong relationship with the suppliers, and the bank is being accountable for the actions of their suppliers.

Bank’s maintains different level of communication with the suppliers based on the level of dependence and the level of interaction of the suppliers and partners.

- The bank committed to further hence of mutual prosperity as they first established, then strengthen and grow relationship with an ever widening suppliers who share values in terms of long term sustainability.

- Supplier assessment – Bank’s establish an independent technical assessment system to promote sustainable practices with the suppliers.

- Managing indirect environmental impacts – the bank has implemented procedures to mitigate the indirect impacts faced by the supply chain partners.

- Adoption of health & safety standards for suppliers with workers at risk of disease or injury

- Bank’s suppliers are included in the part of the corporate plan.

√ Share information– make awareness the suppliers about what is going in the business, inform them about changes in the key personal, new product & services and so on. It will lead to find new customers to the bank.

√ Provide adequate lead time– the bank should give lead time much as possible for orders. When develops the lead time, it will useful to be knowledgeable about the suppliers needs and production methods.

√ Personalize the relationship - Visiting to the supplier office and include them in the bank meetings and allow them to participate in the bank parties & events.

√ Appointing supply chain specialist – to manage all the suppliers & their activities in relation to better relationship.

√ Supplier code of conduct– emphasis on social, economic, environmental aspects towards sustainable and better supplier relationship.

Use of IT to develop relationship with suppliers

When it comes to the supply chain, technology can make a significant impact. Whether it improves efficiency or reduces costs, there’s no denying the value. The problem is that technology is often under-utilized both internally and externally. It can also strengthen buyer-supplier relationships.

Supplier relations are typically undervalued as buy-side companies fail to see how a balanced relationship with their suppliers can benefit the buying company. Procurement leaders have to
establish favorable relationships with their suppliers in order to ensure quality services and efficient processes. And suppliers who trust and respect their buyers are more willing to make the buyer a priority.

Finding the right supplier is the first step to any successful business partnership, but searching manually takes time and increases the chance of overlooking important details. Technology helps simplify the process and quickly identifies the best fit with just a few simple clicks. Once the sell-side is in place, the next step is setting up the appropriate communication channels and payment processes, all of which can be handled through various technology solutions.

Banks are looking to enhance their supplier relations considers implementing different technologies to advance these four parts of the process:

**E-Sourcing**

Finding the right supplier can be a grueling process if the appropriate technologies aren’t in place. E-sourcing tools allow the com bank to easily compare suppliers, making the selection process more efficient and effective.

With e-sourcing solutions, buyers no longer have to rely on the seller’s word or old contracts when choosing their supplier. Instead, all the necessary information is available in one place. This type of platform allows procurement leaders to view suppliers side by side and determine the best fit.

**Communication channels**

Communication between buyers and suppliers can be both disconnected and sporadic, which leads to unnecessary friction between the two parties. Opening up new channels for correspondence can help establish transparency and prevent miscommunication. Communication platforms that allow buyers and suppliers to communicate in real-time make transaction process more fluid and efficient.

**Payment Capabilities**

Technology can optimize and ease the stress of the payment process by tracking invoices and storing payment information. With payment technologies, Bank’s are able to compare prices and charges up front — helping build trust between business partners. Instead of requesting receipts or transaction information, buyers and sellers can check invoices without unnecessary communication.

**Operation Transparency**

Trust is the foundation of any successful relationship, but it can be difficult to achieve in a buy-sell relationship when each company has a different set of goals for the partnership. These automated processes simplify basic tasks, taking pressure off sellers and buyers and creating a window-like channel for both sides. This type of transparency establishes an equal relationship and reduces over-dependence on one side of the deal.

**Role of IT in supply chain management**

Information technology consists of tools and techniques used to gain awareness, to analyze and execution of the information to increase
the performance of the supply chain management.

Information technology is a key supply chain driver that serves as the glue which allows other drivers work together for the coordination and integration of the supply chain.

Information technology makes the supply chain visible to the managers at all level. So, they can make better decisions to improve the supply chain activities.

Information technology reduces the function in the transaction between supply chain partners through cost effective information flow. It helps to more effective banking services and speed, greater flexibility in the bank supply chain management activities significantly reduces the usage of the papers.

It support to collaboration and coordination of supply chain activities by information sharing. It would be useful to decision support in the banks.

Bank’s branches are asymmetric in the new modern technology availability, given interior locations and geographical spreads poses massive in the supply chain management.

In today competitive business environment, the usage of information technology is considered as a prerequisite for the effective management of the complex supply chain activities.

Banks are under the pressure to manage their supply chain, to improve efficiency and logistic operations while remaining responsive to the customer demands and market conditions.

Therefore, Banks have to adopt modern technology to increase the efficiency of the operations and to support their supply chains by achieving Better Corporation over the supply chain.

**Effectiveness of IT in managing the supply chain**

Information technology plays a vital role to bringing together various technologies and integrated them to optimize different situations in the supply chain management.

Usage of the information technology helps to forecast demand, proper inventory information, other demand information and product capacity information with the intention of increasing the effectiveness of the supply chain.

Information technology can enable more effective & efficient supply chain planning, collaboration and execution thereby reducing resource requirements.

**Ex :-**

*Transaction process* – Information technology helps to increase the efficiency of repetitive information exchanges between the supply chain partners such as billing, order processing, and delivery verification and so on.

It will help to reduce the cost of supply chain management, elimination of the human errors/mistakes, speeding up information transfers.

Bank’s uses modern information technology to robust its supply chain management in the following manner:

- Banks have implemented just-in-time inventory system that works by maximizing information exchange between manufactures and supplier
The bank manages a website for improving customer awareness and providing web presence.

The bank uses ERP system for managing its supply chain. Besides the main system, it employs an assortment of information technology systems to stay connected with other entities of Com bank supply chain.

Besides communication, ERP system provides management with data/information about various functions and processes such as marketing, procurement, logistics, operations, sales and customer feedback.

Contribution of IT in the management of the supply chain

In the banking industry Information Technology (IT) is the heart. From acquiring a customer, servicing the customer's needs, building the customer relationship to managing employees, processes and partners, every action in the bank's value chain relies on technology to ensure efficacy and efficiency.

The bank creates a unique value proposition, either based on lowest cost or by delivering a unique innovative service. Technology can enable Banks to cut costs in their value chain, either by improving the efficiency of existing processes Bank's are now diversifying and providing innovative and customized value added services to customers.

Information technology and its tools enables supply chain management in a very effective manner.

Information technology would be contributed to the management of Bank’s supply chain in many ways.

- It provides information, visibility to the branch managers to make effective supply chain decisions.
- It contributes to collaborate with the supply chain partners.
- It helps to allow decisions based on the total supply partners.
- It contributes to the E-business solutions, support planning, collaboration and improve agility of the supplier networks.

Thus, Information technology contributes to the management of the supply chain of the Bank’s.

How IT assist in the integration of different parts of the supply chain

Information technology is an integral part of the supply chain management of the Bank’s. IT provides faster and reliable communication medium for communicating among supply chain entities.

Information technology helps to the banks to reach its target customer segment, create awareness and receive customer preferences/feedbacks.

This comprehensive customer relationship management (CRM) system will definitely help managing supply chain more effectively.
Information technology helps to providing a system for better management of supplier relationships.

Information technology provides data management services that are used for tracking and monitoring various logistics and procurement processes.

**Factors that must be considered when looking at making improvements to the supply chain management practices**

There are some factors that must be considered when looking at making improvements to the supply chain management practices.

**Transportation** – transportation expenditures must be lower with the logistic strategies. Proper logistic strategies will lead to reduce the transportation cost.

**Inventory management** – It is a very essential part of the business organizations. Supply chain management practice can be improved in a better way by the effective inventory management.

**Information system** – Information system is the heart of the supply chain management. It has the integration of all the areas of the banking activities.

**Effective order processes** – effective order processes will helpful to the supply chain management to perform their tasks in the better ways.

**Material handling** – supply chain & logistic practices can be improved and by effective material handing processes.

**Warehousing** – Warehousing of the Bank’s is to be important part of the supply chain.

**Social environmental impacts** – Bank’s analyze & manage the social and environmental impacts of the supply chain activities by the supplier assessment

**Business climates** – presently business climate changes rapidly and it becomes more competitive as ever in nature. So companies have to divers their resources to focus on what they can do best and what they not to do to achieve the organizational objectives.

**Social Responsibility** – Bank’s ensure that its partners in the supply chain conduct business activities in a proper manner to avoid corruption, anti-competitive behavior and morale hazards

**How an improvement strategy will benefit overall performance**

There are many points which tell us the benefits of improvement strategies of the supply chain management on the overall business performance of the Bank’s.

- Trust and better relationship with the suppliers and partners.
- Operational excellence and improved customer satisfaction
- Information sharing among the suppliers and partners
- Preparation based on the discussions rather than the segregation
- Reduction in inventories cost and handling cost
- Proficient banking services

**Furthermore It,**
Reduced cost – effective supply chain management strategies can help to reduce the wastages, overhead expenses in a many ways.

Improved supply – effective supply chain strategies will helpful to provide 360 degree visibility to the entire banking operations and to the bank supply chain network. It useful to monitor the supply chain activities across all suppliers, operations, warehouse and distribution centers.

Enhanced collaboration – better communication and information sharing will helpful to the all key stakeholders informed toward better & sustainable relationship.

Minimize delays – all the banking operations can be seamlessly coordinated and executed activities ensures the high level of delivery of the services without delays.

Overall, an improvement supply chain strategy will benefit the bank for the long term sustainability and profitability.

Current and potential barriers that could prevent or hinder improvement strategy

When implementing a supply chain improvement strategy, the Businesses needed effective tools for supply chain management. The supply chain is inherently is often times unpredictable and always dynamic, and ineffective supply chain management means poor business performance and a lower bottom line.

Conventional solutions to the supply chain management problem have proved moderately effective, but they have been unable to render data visible, manageable and accessible.

There are some potential barriers that could prevent the improvement strategies in the supply chain management.

Incompatible Technology -

Take Supply Chain flexible integration making disparate technology platforms compatible can be a huge challenge in the banking industry.

Especially when you are working with multiple suppliers in multiple regions with varying levels of technology expertise and connectivity flexibility. While all companies can use internet, email, and some version of fax interchangeably, more specialized systems for Inventory Management, Business Intelligence, and Content Management are unlikely to be the same between partner companies.

Selecting collaboration software that fits the IT resources, budget, and integration requirements of both buyers and vendors can be the single biggest hurdle to bilateral collaboration.

Technology that is flexible enough to support a wide array of external internal systems for planning, procurement, and finance, along with disparate connectivity protocols, can not only significantly reduce this barrier, but actually enable more suppliers, partners and internal groups to collaborate via the same platform.

Short Term Focus

Short term focus Collaborative efforts between bank and its suppliers will not show significant returns in a single quarter. If management is incentivized based on short-term results, then investments in long-term stability can be a hard sell.
This may not matter for small investments, but a full service vendor like banking, collaboration portal or adding new warehouse to improve logistics with overseas vendors can often-times have a large upfront investment that is hard to justify.

References

[1] ‘X’ Bank official website -

[2] ‘X’ Bank annual report 2015 -

[3] ‘X’ Bank annual report 2014 -
