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Supply chain risk management in financial crises—A multiple case-study approach ☆

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ABSTRACT

Supply Chain Risk Management has become a key concern for organizations, which is even further emphasized by the current economic and financial crisis. Against this background, this paper investigates successful approaches and experiences by companies in dealing with this new reality, especially as it concerns the supply side. Using in-depth case studies conducted among eight European enterprises, we develop a set of propositions about how companies manage supply risks in financial crises, highlight how their risk management approaches have shifted, and illustrate how they are related to Enterprise Risk Management. Our framework is further differentiated based on whether firms are predominantly engaged in manufacturing or services—a factor influencing how supply chain risk is managed. Transaction cost economics serves as our main theoretical anchor. By rigorously grounding our research in both theory and empirical evidence, we provide valuable insight for both academia and practice.

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1. Introduction

The financial crisis led to a steep increase of corporate insolvencies in 2008 and 2009, with an unprecedented large number of high-profile insolvencies and bankruptcies (e.g., Lehman Brothers, Washington Mutual, General Motors, CIT, Chrysler, Thornburg Mortgage, Indymac). Almost every region and every industry has been affected by the crisis in one way or the other, making the management of risk associated with the crisis an absolute necessity for firms. This is particularly emphasized for companies being tightly interlinked in a supply chain network comprised of multiple entities (most notably customers and suppliers) who themselves may severely suffer under the financial crisis. In addition, with the trend towards outsourcing and companies increasingly focusing on their core competencies, effective and efficient supply chain management has become a key component of corporate strategy, competitive advantage, and success (Narasimhan and Talluri, 2009); due to the scarcity of resources and the strained environment, this importance is even heighted during economic crises. Within this setting, the sourcing of products, services and capabilities can thus be endangered by supplier defaults (Wagner et al., 2009). Due to these developments and realities, supply chain risk management (SCRM) has become a key concern for industry to be better able to detect, predict, avoid or reduce the effects of supplier disruptions and defaults. The negative effect of supplier defaults has been shown by Hendricks and Singhal (2005), who reported a median decrease in operating income of 31.28% for firms that had experienced a supply chain glitch caused by suppliers. Overall, supply disruption costs today are higher than ever before (Aydin et al., 2009), necessitating the further investigation of SCRM.

Even without the financial crisis, SCRM has become a necessity for many firms. Globalization, improved infrastructure and information technology has led supply chains to become longer and more complex, resulting in higher supply chain vulnerability (Tang, 2006a, 2006b; Aydin et al., 2009). The importance of SCRM was for example illustrated by the results of a recent survey, which revealed that 90% of firms felt threatened by supply-side risks (Snell, 2010). However, at the same time, respondents in 60% of the firms noted that they were not confident or knowledgeable enough about supply risk issues (Snell, 2010). The further study of this topic, especially with the focus on the financial crisis, is therefore warranted and crucial.

While enterprise risk management (ERM) has been an important component of all facets of business (Wu and Olson, 2009a, 2009b, 2010a), its criticality is stressed for supply chain management. Since this aspect is outside the internal control of the enterprise, selecting and managing suppliers, while at the same

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