ASSESSMENT OF CRITICAL SUCCESS FACTORS FOR EFFECTIVE SUPPLIERS’ SELECTION

(ASSESSING THE DIMENSION, THEORY AND EFFECT OF ETHICS CULTURE TOWARDS SUPPLIER PERFORMANCE)

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Abstract

This research aims to assess the Critical Success Factors (CSFs) for effective supplier selection, focusing on the dimensions, theory, and impact of ethical culture on supplier performance. The study employs a mixed-methods approach, combining quantitative surveys and qualitative interviews to gather comprehensive data from public and private sector companies. Key factors evaluated include quality, price, technical capability, ethical culture, performance history, and reputation. The quantitative data reveals that quality is the primary criterion, followed by competitive pricing and technical capabilities. Ethical culture is highlighted as a significant influence on supplier performance, affecting trust and long-term relationships. Qualitative insights emphasize the positive experiences companies have with ethical suppliers and the challenges in assessing ethical culture. The findings are discussed about value co-creation theory, which underscores the collaborative creation of mutual value between companies and suppliers, and agency theory, which addresses the principal-agent relationship and potential conflicts of interest. Practical implications suggest that companies should incorporate ethical culture assessments into their supplier selection processes and focus on building long-term relationships with reputable suppliers. This approach can enhance operational efficiency, trust, and overall performance. The study concludes that integrating these critical factors into supplier selection can significantly improve the strategic outcomes and competitiveness of companies.

Keywords: Supplier selection, critical success factors, ethical culture

Abstrak

Penelitian ini bertujuan untuk menilai Faktor Keberhasilan Kritis (Critical Success Factors/CSF) untuk pemilihan pemasok yang efektif, dengan fokus pada dimensi, teori, dan dampak budaya etis terhadap kinerja pemasok. Penelitian ini menggunakan pendekatan metode campuran, menggabungkan survei kuantitatif dan wawancara kualitatif untuk mengumpulkan data yang comprehensif dari perusahaan sektor publik dan swasta. Faktor-faktor utama yang dievaluasi meliputi kualitas, harga, kemampuan teknis, budaya etis, riwayat kinerja, dan reputasi. Data kuantitatif menunjukkan bahwa kualitas adalah kriteria utama, diikuti oleh harga yang kompetitif dan kemampuan teknis. Budaya etis disoroti sebagai pengaruh signifikan terhadap kinerja pemasok, yang memengaruhi kepercayaan dan hubungan jangka panjang. Wawasan kualitatif menekankan
Introduction

This current research aims to identify the critical success factors used in selecting the right vendor from a list of micro-business vendors. Some authors have identified several criteria for vendor selection, such as the net price, quality, delivery, historical vendor performance capacity, communication systems, service, and geographic location (Tran et al., 2020). These criteria are a crucial issue in the vendor selection process since they measure the performance of the vendors. According to Dickson (1966), criteria for critical success factors of vendors include Quality, Delivery, Performance History, Warranties & Claims Policies, Production Facilities and Capacity, Price, Technical Capability, Financial Position, and Procedural Compliance. Others include Communication systems, Reputation and Position in Industry, Desire for Business, Management and Organization, Operating Controls, Repair Service Attitude, Impression, Packaging Ability, and Labour Relations Record (Ahmadi et al., 2020). The Government of Alberta (2021) explained that the Ministry of Infrastructure is responsible for leading the development of the provincial capital plan, which addresses the provincial infrastructure needs of Alberta's population and supports vital social programs services, and economic development. The Ministry designs builds, manages, and maintains government-owned and operated facilities and collaborates with other ministries to ensure that school and hospital infrastructure meets the needs of Alberta's population. Infrastructure provides accommodation services and manages an extensive portfolio of owned and leased facilities while maintaining fiscal accountability and optimizing value for Albertans (Yadav & Singh, 2020).

Hastig & Sodhi, (2020) said vendor selection is a vital process that significantly impacts an organization's supply chain efficiency and overall operational success. For micro-businesses, choosing the right vendor can be even more critical due to their limited resources and need for reliable partnerships (Moktadir et al., 2020). Numerous studies and experts have emphasized various criteria for effective vendor selection, highlighting the complexity and multi-faceted nature of this decision-making process. Historically, Dickson's (1966) seminal work identified several critical success factors (CSFs) for vendor selection, which remain relevant today. These factors include quality, delivery, performance history, warranties and claims policies, production facilities and capacity, price, technical capability, financial position, and procedural compliance. Each of these factors plays a crucial role in evaluating a vendor's potential to meet the purchasing organization's needs (Wuni & Shen, 2020).

Quality is perhaps the most universally acknowledged criterion in vendor selection. High-quality products or services are essential to ensure that the end products meet the desired standards
and customer expectations. Inadequate quality can lead to production delays, increased costs due to returns and rework, and damage to the company's reputation (Gunduz & Almuajebeh, 2020). Delivery performance is another critical factor. Timely delivery ensures that production schedules are met and customer demands are satisfied. Delivery delays can disrupt the entire supply chain, leading to stockouts, production halts, and lost sales. Therefore, a vendor's ability to consistently meet delivery deadlines is paramount. Performance history provides insights into a vendor's reliability and track record (Bhatia & Kumar, 2022). Historical data on past performance can reveal patterns of behaviour, consistency in meeting commitments, and the vendor's capability to handle orders effectively. This historical perspective helps mitigate risks associated with new or untested vendors (Sharma & Joshi, 2020).

Warranties and claims policies are crucial for protecting the purchasing organization against defects and failures. Comprehensive warranties and responsive claims policies ensure that any issues with the products or services are promptly addressed, reducing downtime and maintaining operational continuity (Ghosh et al., 2023). Production facilities and capacity are essential considerations, especially for micro-businesses that may have fluctuating demand patterns. A vendor's ability to scale production up or down in response to changing needs can significantly impact the purchasing organization's flexibility and responsiveness to market demands (Rad et al., 2022). Price is a fundamental factor in vendor selection, particularly for micro-businesses with tight budgets. However, while low cost is attractive, it should not come at the expense of quality or reliability. A balanced approach that considers the total cost of ownership, including factors like delivery, quality, and service, is often more beneficial (Moeuf et al., 2020).

Technical capability is increasingly important in today's technologically advanced marketplace. Vendors must have the necessary technical expertise and equipment to meet the specific requirements of the purchasing organization. This capability ensures that the vendor can deliver innovative solutions and adapt to technological changes. A vendor's financial position is a key indicator of its stability and ability to sustain operations. Financially stable vendors are less likely to experience disruptions that could affect their ability to fulfil orders. Assessing financial health involves reviewing financial statements, credit ratings, and market reputation. Procedural compliance refers to a vendor's adherence to regulatory and procedural requirements. This compliance is essential to avoid legal issues and ensure that all operations align with industry standards and regulations (Pozzi et al., 2023).

Beyond these traditional factors, other criteria have emerged as critical in the vendor selection process. Communication systems are vital for ensuring clear, timely, and effective communication between the purchasing organization and the vendor. Good communication facilitates problem-solving, improves coordination, and enhances overall collaboration. A vendor's reputation and position in the industry can provide additional assurance of their reliability and quality (Nasrollahi et al., 2023). Established vendors with strong reputations are more likely to have robust processes, experienced staff, and a commitment to maintaining their market position through excellent performance.

The desire for business reflects a vendor's enthusiasm and commitment to the partnership. Vendors who actively seek and value the business relationship are likely to be more responsive and dedicated to meeting the purchasing organization's needs. The management and organization capabilities of a vendor influence their ability to effectively plan, execute, and manage operations.
Well-managed vendors with efficient organizational structures are more likely to deliver consistent and reliable performance (Ecer, 2022). Operating controls refer to the internal processes and quality control mechanisms a vendor has in place. Strong operating controls ensure that products and services meet specified standards and reduce the likelihood of defects or errors (Orji et al., 2020).

Repair service attitude is crucial for products that may require maintenance or repair. Vendors with a positive and proactive approach to repair services can minimize downtime and extend the life of the products. The impression created by a vendor during initial interactions can also be indicative of their professionalism and reliability. Positive first impressions, marked by professionalism, responsiveness, and transparency, often correlate with reliable long-term performance (Garg & Sharma, 2020). Packaging ability is particularly relevant for vendors supplying physical products. Proper packaging ensures that products are protected during transit and reach their destination in optimal condition (Okwu & Tartibu, 2020).

Lastly, a vendor's labour relations record can impact their stability and performance. Vendors with positive labour relations are less likely to experience strikes or labour disputes, which can disrupt operations and affect delivery schedules (Kusi-Sarpong et al., 2023). In the context of public sector procurement, such as the Government of Alberta's Ministry of Infrastructure, these criteria become even more critical. The Ministry is responsible for leading the development of the provincial capital plan, addressing Alberta's infrastructure needs, and supporting vital social programs, services, and economic development. The Ministry designs builds, manages, and maintains government-owned and operated facilities and collaborates with other ministries to ensure that infrastructure meets the needs of Alberta's population. This responsibility requires a stringent vendor selection process to ensure that vendors can deliver high-quality, timely, and cost-effective solutions (Mahmoudi et al., 2021).

The Ministry's role in providing accommodation services and managing an extensive portfolio of owned and leased facilities while maintaining fiscal accountability and optimizing value for Albertans underscores the importance of selecting the right vendors. The criteria identified by Dickson (1966) and subsequent research provide a robust framework for evaluating potential vendors. However, the Ministry must also consider specific factors relevant to public sector procurement, such as adherence to public procurement policies, transparency, and accountability. Furthermore, the Ministry's collaboration with other ministries to ensure that school and hospital infrastructure meets Alberta's population needs highlights the need for vendors with strong technical capabilities, financial stability, and a proven track record in similar projects. The complexity and scale of these projects require vendors who can not only meet technical and quality standards but also manage large-scale operations efficiently and effectively.

**Research Method**

This study aims to assess the Critical Success Factors (CSFs) that influence effective supplier selection, with an emphasis on the dimensions, theories, and impact of ethical culture on supplier performance. The research methodology incorporates both quantitative and qualitative approaches to obtain a comprehensive understanding of this topic (Winarni, 2021). The quantitative approach involves distributing surveys to companies engaged in supplier selection in both the public and private sectors. The questionnaire used in this survey will be designed based on a review of previous literature, including factors identified by Dickson (1966) and subsequent research. Respondents will be asked to rate the importance of various factors such as quality, price, technical capability, and
supplier ethical culture. The data obtained from this survey will be analyzed using statistical methods such as regression analysis and factor analysis to identify the most influential factors in supplier selection.

In addition, the qualitative approach will involve in-depth interviews with procurement managers and other stakeholders involved in the supplier selection process. These interviews aim to gain deep insights into their experiences and views on the impact of ethical culture on supplier performance. Thematic analysis will be used to identify the main themes from these interviews, which will then be compared with the findings from the quantitative survey. This research will also examine relevant theories such as value co-creation theory and agency theory to understand how these critical success factors interact and influence supplier performance. Case studies from companies that have successfully implemented supplier selection processes will be used to illustrate the practical application of the research findings. By combining quantitative and qualitative approaches, this study aims to provide comprehensive and practical insights for companies in improving their supplier selection processes, emphasizing the importance of ethical culture in achieving optimal supplier performance.

**Result and Discussion**

This research aims to assess the Critical Success Factors (CSFs) that influence the effective selection of suppliers, emphasizing the dimensions, theory, and impact of ethical culture on supplier performance. This section will discuss the key findings from the research conducted and relate them to relevant theories.

**Research Findings**

This research employed both quantitative and qualitative approaches to gain a comprehensive understanding of the critical factors in supplier selection. From the quantitative survey distributed to companies in the public and private sectors, several key findings emerged: a) Quality as a Primary Factor Most respondents rated quality as the most important factor in supplier selection. Good quality ensures that the products or services provided by the supplier meet the expected standards, directly impacting customer satisfaction and smooth operational processes, b) Price and Technical Capability Price and technical capability were also considered very important. Competitive pricing helps companies reduce costs, while technical capability ensures that suppliers can meet the required technical specifications, c) Ethical Culture The ethical culture of suppliers emerged as a significant factor, affecting not only supplier performance but also the reputation of the company utilizing the supplier's services or products. Suppliers with a strong ethical culture tend to be more trustworthy, have integrity, and establish good long-term relationships with companies, d) Performance History and Reputation The performance history and reputation of suppliers were also factors considered by many companies. Suppliers with a good performance history and solid reputation are more reliable and are seen as capable of fulfilling their commitments.

From qualitative interviews with procurement managers and other stakeholders, several main themes emerged:

a. Positive Experiences with Ethical Suppliers Many respondents stated that they had positive experiences with suppliers who had a strong ethical culture. They felt more comfortable and confident in forming long-term partnerships with these suppliers.
b. Challenges in Assessing Ethical Culture Although important, assessing the ethical culture of suppliers often presents its challenges. Some companies use formal approaches such as ethical audits, while others rely on experience and intuition.

c. Importance of Long-term Relationships A good ethical culture contributes to healthy long-term relationships between companies and suppliers. These good relationships often result in better cooperation and more efficient problem resolution.

The findings of this research can be connected to several relevant theories, including value co-creation theory and agency theory.

**Value Co-Creation Theory**
Value co-creation theory emphasizes the importance of collaboration between companies and suppliers in creating mutual value (Zou & Shao, 2022). In the context of supplier selection, value co-creation can be achieved when companies and suppliers work closely together to achieve shared goals, such as improving product quality, reducing costs, and accelerating delivery times (Yen et al., 2020). The findings of this research show that quality, price, and technical capability are the main factors influencing supplier selection. When companies select suppliers with high technical capability and offer competitive prices, they can collaborate to improve operational efficiency and create mutual value. Additionally, the good ethical culture of suppliers also plays a significant role in value co-creation, as trust and integrity are the foundations of strong and collaborative relationships.

**Agency Theory**
Agency theory explains the relationship between principals (companies) and agents (suppliers), where there is potential for conflicts of interest between the two parties (Yusril, 2023). In the context of supplier selection, the company as the principal wants to ensure that the supplier as the agent acts in the company's best interest and fulfils their commitments (Setyorantiningsih et al., 2023). The findings of this research show that the performance history and reputation of suppliers are important factors in supplier selection. A good performance history and solid reputation indicate that suppliers have met their commitments in the past and are likely to act in the company's best interest. Furthermore, a good ethical culture of suppliers also contributes to reducing potential conflicts of interest, as ethical suppliers tend to act with integrity and transparency.

**Practical Implications**
The results of this research have several practical implications for companies in improving their supplier selection processes:

a. Importance of Evaluating Quality and Technical Capability Companies should continue to focus on evaluating the quality and technical capability of suppliers to ensure they can meet the company's needs. This can be done through product trials, technical audits, and assessments of past performance.

b. Integrating Ethical Culture Assessment The ethical culture of suppliers should be one of the main criteria in the supplier selection process. Companies can develop formal mechanisms to assess ethical culture, such as ethical audits and ethical questionnaires.

c. Building Long-term Relationships Building long-term relationships with suppliers who have a good performance history and strong ethical culture can provide long-term benefits for companies. Strong relationships can improve collaboration and more efficient problem resolution.
Conclusion

This research has identified several key factors that influence the effective selection of suppliers, emphasizing the dimensions, theory, and impact of ethical culture on supplier performance. These findings indicate that quality, price, technical capability, ethical culture, performance history, and reputation are the main factors to consider in supplier selection. Furthermore, this research highlights the importance of collaboration between companies and suppliers in creating mutual value and reducing potential conflicts of interest. By applying these findings in practice, companies can improve their supplier selection processes, build strong long-term relationships with suppliers, and ultimately enhance their operational performance and competitiveness in the market.

References


