

Abstract

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Linking SCM strategy to financial performance: a scenario analysis approach

Abstract Purpose: This paper proposes a new approach to link supply chain management (SCM) strategy to a company's financial performance. **Research approach:** Financial performance results for a company are evaluated and analysed using Du Pont ratio analysis in order to identify financial performance drivers that require improvement (revenue, cost, and/or assets). Then, the focus areas for enhancing the financial performance in terms of relevant supply chain (SC) operations are traced; their corresponding SC performance measures are identified. Finally, the appropriate SC strategy is formulated based on the standard performance metrics of the supply chain operations reference (SCOR) model in order to enhance and control the performance of relevant SC operations; consequently the company's overall financial performance. **Scenario analysis** is undertaken to illustrate how the developed approach can be applied according to possible financial performance results. To demonstrate the applicability of the proposed approach, a case study of a manufacturing company is conducted. **Findings:** Originality: This approach links SCM strategy to targeted financial results by focusing on the performance of the relevant supply chain operations; formulating the appropriate supply chain strategy to enhance it. Different scenarios are proposed to illustrate the most influential supply chain strategy with regard to the targeted financial results. **Research impact:** Five alternative scenarios are identified. For each scenario, the possible targeted financial results are identified (increasing profitability, (or) improving efficiency). Then, the corresponding path is determined (managing cost, increasing revenue, improving asset utilisation) through assessing the contribution of each financial performance driver. Finally, the appropriate supply chain strategy is formulated based on the standard performance metrics of the SCOR model (managing SC costs, increasing SC agility, improving SC reliability, increasing SC responsiveness, managing SC assets). **Practical impact:** The proposed approach allows companies to control and have visibility of their operations through linking supply chain operations' performance with financial performance results. It can be used as a strategic performance management tool to increase the effectiveness and the efficiency of a company's SCM strategy in meeting targeted financial performance results; to contribute to the overall improvement in the company's performance. **Keywords:** Supply chain financial link, Supply chain operations reference model, Du Pont ratio analysis, Scenario analysis