National Certificate: Supply Chain Management

US ID 336719

Learner Guide

Manage relationships between supply chain
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UNIT STANDARD 336719

Unit Standard Title
Manage relationships between supply chain partners

Unit Standard ID
336719

NQF Level
5
Credits
10

Purpose of The Unit Standard

This unit standard will enable learners to manage relationships between supply chain partners. People credited with this unit standard will be able to manage the relationships with supply chain stakeholders in a professional and ethical manner to the benefit of the effectiveness of the total supply chain.

A Learner Credited With This Unit Standard Will Be Able To:

- Interpret the organisational strategy and identify the issues and focuses to be included in relationship management strategies.
- Analyse the relationship between supply chain partners and effective contract management.
- Build and maintain good customer relationships.
- Analyse ethical and professional issues relating to supplier and customer relations.

Learning Assumed To Be In Place And Recognition Of Prior Learning
- Communication at NQF Level 4.
- The execution of supervisory tasks.
- Mathematical Literacy at NQF Level 4.

**Unit Standard Range**

- The applied competence expressed in this standard covers the knowledge and understanding of:
- The linkage of relationship management with the organisational strategy.
- Building relationships through effective contract management.
- Supplier development.
- Fundamentals of customer relationships.
- Ethics and legal issues of relationship management.

**Specific Outcomes and Assessment Criteria:**

**Specific Outcome 1**

Interpret the organisational strategy and identify the issues and focuses to be included in relationship management strategies.

**Assessment Criterion**

- The overall business strategy of an organisation is interpreted to inform the development and strengthening of strategic supply chain partner relationships.
- The importance of the various supply chain components is analysed to determine their effect on the business strategy.
- Various internal and external stakeholders are identified to determine their role in the supply chain.
- Key relationship issues that must be addressed are identified to optimise profit.

**Specific Outcome 2**

Analyse the relationship between supply chain partners and effective contract management.

**Assessment Criterion**

- The need for better contracts management is analysed to ensure improved corporate governance.
The process that will facilitate effective contracting is examined to improve turnaround times.

Various processes and tools for contract management are evaluated to reflect the advantages and disadvantages of each.

Processes for the effective monitoring and controlling of supplier performance are assessed.

Additional approaches to improve supplier relationships are recommended to ensure optimal utilisation of supplier networks.

Specific Outcome 3

Build and maintain good customer relationships.

Assessment Criterion

- Ways in which suppliers can be assisted are discussed to reflect how they could maximise their effective contributions within the supply chain. The discussion needs to include aspects related to strategic importance of supplier development, World Class Supplier Development, best practice applications of this process, advantages and pitfalls, limitations.
- Practical processes for ensuring effective customer relationships within the supply chain are followed.
- Service Level Agreements are produced and negotiated to reflect the interests of both the organisation and the customer.
- Customer relationships are implemented through processes and strategies that facilitate the building and maintaining of effective long-term relationships.
- Internal and external customers are identified to determine activities required for building and maintaining relationships.

Specific Outcome 4

Analyse ethical and professional issues relating to supplier and customer relations.

Assessment Criterion

- Ethical and professional dilemmas are interrogated and examined to ensure compliance to the Codes of Ethics.
- Benchmarks regarding the establishment of policies and procedures are analysed to ensure ongoing ethical conduct.
- Ethical and professional issues are examined to reflect their relationship to corporate governance and legal requirements.
- Recommendations are made to reflect actions that will enhance relationships within ethical parameters.
Unit Standard Accreditation And Moderation Options

- Any institution offering learning that will enable achievement of this unit standard must be accredited by the relevant ETQA.
- Moderation of assessment will be overseen by the relevant ETQA at its discretion.
- Moderation should encompass achievement of competence described in both individual unit standards as well as the integrated competence described in the qualification.

Unit Standard Essential Embedded Knowledge

- Who customers, end users, procurement stakeholders and service providers are and the role that each of them play in the success of the Supply Chain.
- Why it is important to build good supplier relationships.
- The basic process to be followed before contracting takes place.
- The types of contracting that can take place (long term, short term, coverage contracts etc.) and how each will impact on the supplier relationships.
- The impact of administration on good supplier relationships.
- How to develop a contracting checklist (terms and conditions, delivery operations schedule, staffing and supervision, site conditions, work rules safety etc., Invoicing procedures, materials usage, background checks, legal accreditations BEE requirements, insurance and tax certificates, permits, possible conflicts with other work etc.).
- The various possible supplier strategies (arms-length, strategic alliances, proffered supplier, joint venture, strategic sourcing).
- What is meant by operations progress reporting.
- The value of monitoring total supplier performance.
- Various plans to evaluate supplier performance- (The weighted points plan, the categorical plan, the cost ratio plan).
- The common approaches used to motivate suppliers (Punishments and rewards).
- How to use supplier assistance techniques (Transformational training, quality audits, supply system reviews, problem solving, and value analysis).
- The use of supplier surveys.
- Additional approaches to improving supplier relationships (Annual supplier meetings, supplier roundtables, workshops, collaboration).
- The use of cross functional teams to facilitate supplier relationship management.
- How to develop technical distribution specifications for inclusion in the supplier contract and service Level agreements.
The various techniques for determining tariffs and how they will impact on the distribution function (Tariff by weight, volume, size, quantity, distance and frequency).

The various legal and commercial elements of supplier contracts and their implications for distribution.

The various supplier relationship management philosophies and techniques that can be applied during the life cycle of the supplier contract.

How to make an effective supplier development decision.

What exactly is implied by supplier development.

The legal and ethical issues regarding supplier development.

The expected results from supplier development.

The current best practices relating to supplier development.

How to assist suppliers to eliminate waste.

How to help suppliers do a value analysis.

The basic barriers to supplier development and how to overcome them.

Who our customers are.

The principles of good customer relationships.

Managing customer contracts.

Effective customer communication.

The basics of customer behaviour.

The ethical aspects of dealing with customers.

Various types of customer contracts and their impact on customer relationships.

The customer requirements and the organisational objectives.

How the distribution activities and approaches impact on customer relations.

The impact of customer service and requirements on the total cost of logistics.

How the development of synergistic relationships with customers can be mutually beneficial.

The fundamental marketing concepts relevant to customer service management and how these impact on the distribution function.

The impact of payment processing on customer relations and the role of the distribution function in influencing payment processes.

The consequences of the termination of customers and how this will impact on the distribution function (depreciation stock, consignment stock etc.).

What professional supply management is.

The principles and standards that underlie ethical behaviour.

Various perceptions regarding ethics.

The critical issues relating to corruption.

The issues of ethics in developing economies.

What conflicts of interests are.

How to deal with confidential information.

What is meant by reciprocity.

The fundamentals of local and international laws that deal with the issues of ethics.

How to avoid "Sharp" practices.

How to deal with competitive bidding.
The management responsibility regarding ethical behaviour.

Unit Standard Developmental Outcome
N/A

Unit Standard Linkages
N/A

Critical Cross-Field Outcomes (CCFO):

Unit Standard CCFO Identifying
- Identifying and solving problems in which responses display that responsible decisions using critical and creative thinking have been made when aligning and executing a supply chain strategy and implement supplier measurements and using these to identify potential supply chain problems and conceptualise appropriate solutions to these problems.

Unit Standard CCFO Working
- Working effectively with others as a member of a team, group, organisation, and community during the application of the team work to work related situations and to other life experience situations.

Unit Standard CCFO Organising
- Organising and managing oneself and one’s activities responsibly and effectively through establishing supplier relationships based on engagement plans.

Unit Standard CCFO Collecting
- Collecting, analysing, Organising and critically evaluating information when developing a market and stakeholder analysis within the supply chain management environment.

Unit Standard CCFO Communicating
- Communicating effectively using visual, mathematical and/or language skills in the modes of oral and/or written persuasion when communicating the goals and objectives of the supply chain persuasively with supply chain partners and use good communication skills to understand the involved supply chain partner dynamics.

Unit Standard CCFO Science
Using science, technology and indigenous knowledge effectively and critically, showing responsibility towards the environment and health of others through discussing what professional supply management is.

Unit Standard CCFO Demonstrating
- Demonstrating an understanding of the world as a set of related systems by recognising that problem-solving contexts do not exist in isolation when incorporating legislation, regulations, policies, procedures and codes of ethics to ensure effective relationships with supply chain partners.

Unit Standard Assessor Criteria
N/A

Reregistration History
As per the SAQA Board decision/s at that time, this unit standard was Reregistered in 2012; 2015.

Unit Standard Notes
N/A
SECTION 1: INTERPRET THE ORGANISATIONAL STRATEGY

Specific Outcome 1:

Interpret the organisational strategy and identify the issues and focuses to be included in relationship management strategies.

Assessment Criteria:

1. The overall business strategy of an organisation is interpreted to inform the development and strengthening of strategic supply chain partner relationships.
2. The importance of the various supply chain components is analysed to determine their effect on the business strategy.
3. Various internal and external stakeholders are identified to determine their role in the supply chain.
4. Key relationship issues that must be addressed are identified to optimise profit.

1.1 Executing Supply Chain Strategy and Strengthening Supply Chain Partnerships (SO1, AC1)

✓ Aligning the Supply Chain Strategy with the Business Strategy

Chances are you’ve heard the term supply chain strategy. Used informally, it is often confused with supply chain management, where supply chain operations are controlled to reduce costs. There’s some truth to this definition but supply chain strategy really is broader; it defines how the supply chain should operate in order to compete. Supply chain strategy is an iterative process that evaluates the cost-benefit trade-offs of operational components.

Business strategy is the companies working plan for achieving its vision, prioritizing objectives, competing successfully, and optimizing financial performance with its business model. It also includes the analytic and decision-making process surrounding what to offer (e.g., products and services), when to offer (timing, business cycles, etc.), and where to offer (e.g., markets and segments) as a competitive plan.
While the business strategy constitutes the overall direction that an organization wishes to go, the supply chain strategy constitutes the actual operations of that organization and the extended supply chain to meet a specific supply chain objective.

A supply chain strategy should always support the intent of the business strategy and it is precisely because of these different “levels” of the enterprise at which strategies necessarily must be developed, that companies so often have major gaps between their highest-level business strategy and their supply chain strategy. There are some additional risks associated with developing these separately, which include:

- Developing a supply chain strategy without a true understanding of the business case and value propositions - the costs and benefits are not known
- Utilizing different or new resources in the operational model development that weren’t exposed to the original business strategy thinking, thereby diluting and weakening the supply chain strategy
- Confusing or conflicting communications to the organization where objectives may be contradictory

✓ Strategic supply chain partner relationships

“Partnering is an attempt to build close, long-term links between organizations in a supply chain that remain distinct, but which choose to work closely together.”

(Boddy et al, 2000, p. 1004)

- Types of relationships:
  - Vertical relationships: these refer to the traditional linkages between firms in the supply chain such as retailers, distributors, manufacturers, and parts and materials suppliers.
  - Horizontal relationships: includes those business agreements between firms that have “parallel” or cooperating positions in the logistics process.

- Range of relationship types:
  - Transactional: is a relationship where both (or all) parties are in it for themselves, and where partners do things for each other with the expectation of reciprocation. Almost all relationships start here.
  - Collaborative: the relationship suggested by a strategic alliance is one in which two or more business organizations cooperate and willingly modify their
business objectives and practices to help achieve long-term goals and objectives

- **Strategic**: represents an alternative that may imply even greater involvement than the partnership or strategic alliance.

**✓ Performance Management**

*Performance Management* is the continuous process of identifying, measuring and developing the performance of individuals and teams and *aligning* performance with the strategic goals of the organization. One needs to have a clear consideration of the extent to which the employee is contributing to unit and organisational performance and how their performance will improve in the future. Tracking performance allows an organization to measure how successful it is in realizing the goals of a strategy. It also makes people understand their contribution and responsibilities, creating a more cohesive, in tune, organization.

Performance management works best when people are rewarded for their performance and reporting is conducted on a regular basis. Moreover, performance goals should be used to communicate business expectations to outside entities as well. The more the extended supply chain is involved, the more the supply chain strategy is supported and reinforced.

**✓ Iterate the Cost - Benefit Evaluation Process**

On a periodic basis (e.g., annually) you should formally revisit your supply chain strategy. Did you meet the goals of the business strategy? Have the needs of your supply chain partners changed? How has the industry changed i.e., new competitors, business practices, products, technology? At this time, you may even want to reassess your supply chain organization, if the changes are significant enough to warrant it. Also, use this effort to look for new opportunities to further position your organization for success.

**✓ Keep Communicating with Your Partners**

Executing a supply chain strategy means dealing with many different entities, both internally and externally. Just as it is crucial to align the supply chain strategy with the business strategy, it is equally important to execute in a manner consistent with these different groups or stakeholders. The goals of your supply chain components and those that you deal with must be similar and conducted at the same speed. Your organization may be able to move at speeds other supply chain entities are unable to maintain, resulting in misalignment and poor efficiencies. Some of your supply chain partners may not have the resources to commit to realizing these goals. Good communication can keep the extended supply chain in sync.
1.2 Supply Chain Components effect on the Business Strategy (SO1, AC2)

The eight components discussed below are interchangeable and ensure a smooth supply chain management system. It ensures the success and reputation of a business.

✓ Planning

This is one of the most important stages. Before the beginning of the entire supply chain, it is essential to finalise the strategies and put them into place. Checking the demand for the product or service, checking the viability, costing, profit, and manpower etc., are vital. Without a proper plan or strategy in place, it will be impossible for the business to achieve effective and long-term benefits. Therefore, enough time must be devoted to this phase. Only after the finalization of the plans and consideration of all pros and cons, can one proceed further. Every business needs a plan or blueprint, or a roadmap based on which the strategies are made. Planning helps to identify the demand and supply trends in the market and this, in turn, helps to create a successful supply chain management system.

✓ Information

The world today is dominated by a continuous flow of information. In order to be successful, it is essential that a business stays abreast with all the latest information about the various aspects of its production. The market trends of supply and demand for a particular product can be best understood if the information is properly and timely disseminated through the many levels of the business. Information is crucial in a knowledge-based world economy, and ignorance about any aspect of business may actually spell doom for the prospects of the business.

✓ Source

Suppliers play a very crucial role in supply chain management systems. Products and services sold to the end user are created with the help of different sets of raw materials. It is therefore necessary that suitable quality raw materials are procured at cost effective rates. If a supplier is unable to supply on time, and within the stipulated budget, the business is bound to suffer losses and gain a negative reputation.

✓ Inventory

Inventory management is critical to the function of supply chain management, because without proper inventory management the production, as well as sale of the product, is not possible. Businesses have now started to pay more attention to this component simply because of its impact on the supply chain.
✓ **Production**

Production is one among the most important aspects of this system. It is only possible when all the other components of the supply chain are in tandem with each other. For the process of production to start it is essential that proper planning and supply of goods, as well as the inventory, are well maintained. The production of goods is followed by testing, packaging and the final preparation for delivery of the finished product.

✓ **Location**

Any business, that wants to survive as well as flourish, needs a location which is profitable for the business.

✓ **Transportation**

Transportation is vital in terms of carrying raw materials to the manufacturing unit and delivering the final product to the market. At each stage, timely transportation of goods is mandatory to sustain a smooth business process. Any business which pays attention to this component, and takes good care of it, will benefit from the production and transportation of its goods on time.

✓ **Return of goods**

Among the various components that create a strong supply chain is the facility for the return of faulty/malfunctioning goods, along with a highly responsive consumer grievance redress unit.

1.3 **Internal and external stakeholders (SO1, AC3)**

Supply chain management initiatives can easily fail when they neglect to engage key stakeholders early and often. Too often, project teams spend months gathering data and developing strategies that are never implemented due to insufficient internal and external support. The key is to follow a disciplined process for identifying, wooing and continuing to engage stakeholders both inside and outside your organization. Stakeholders are affected by the organisation’s activities in different ways and to different degrees. Stakeholders also have power to affect the organisation’s activities in different ways and to different degrees.
✓ Get to Know Your Stakeholders

**Stakeholders** are those individuals or groups who depend on the organisation to fulfill their own goals and on whom, in turn, the organisation depends.

A **stakeholder of a company** is an individual or group that either is harmed by, or benefits from, the company or whose rights can be violated, or have to be respected, by the company.

✓ Comparison of Internal and External Stakeholders

<table>
<thead>
<tr>
<th>Basis for Comparison</th>
<th>Internal Stakeholders</th>
<th>External Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Meaning</strong></td>
<td>Internal stakeholders are members of organisation; the directors, managers and employees who operate within the organisation's boundaries. Key internal stakeholders in procurement and plans and activities include senior management; procurement managers; and the managers and staff of other functions or units of the organisation whose work and goals interact with those of the procurement or supply chain function.</td>
<td>External stakeholders include a number of parties who are not directly connected to the organisation, but who contribute to its activities, or are impacted on by its activities. They include the government, pressure and interests’ groups, the media, local communities and wider society.</td>
</tr>
<tr>
<td><strong>Nature of Impact</strong></td>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td><strong>Who are they?</strong></td>
<td>They serve the organization</td>
<td>They get influenced by the organisations work</td>
</tr>
<tr>
<td><strong>Employed by the entity</strong></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Responsibility of the company towards them</strong></td>
<td>Primary</td>
<td>Secondary</td>
</tr>
<tr>
<td><strong>Includes</strong></td>
<td>Employees, Owners, Board of Directors, Managers, Investors etc.</td>
<td>Suppliers, Customers, Creditors, Clients, Intermediaries, Competitors, Society, Government etc.</td>
</tr>
</tbody>
</table>
1.4 Key relationship issues (SO1, AC4)

✓ Confidentiality

For supply chain to work effectively in a partnership arrangement, both parties need to know more about one another than before. Sometime organisations need to share strategic level information as well as operational level information. If there is an anticipated demand due to promotion strategy, all supply chain partners need to have advance notice in order to prepare their own organisations for the increase in demand. As companies become more and more dependent on their supply chain members, they will have to find new and innovative ways to manage the risks associated with sharing proprietary and sensitive information with supply chain members.

✓ Research and Development

In the area of new product development, supply chain partners will have to share new product information. Suppliers will bring with them proprietary technologies to be used in their customer’s products, and customers may need to share new product specifications and requirements with their suppliers. Hence, with the increasing partnership between supply chain members, the control of information and new technologies sharing become increasingly important.

✓ Increased Service Level Requirements

Companies must find innovative ways to improve customer service through process improvement. In order to meet the challenge of ever-increasing customer requirements, supply chain partners must work together to manage pre-transaction and post-transaction elements.

✓ Shared Responsibility

As supply chain structures begin to evolve, increasing investments in information systems and technology will be required to integrate supply chain organisation. Such inter-organisation issues will continue to challenge supply chain managers.

✓ Vulnerability

In supply chain situation, different types of vulnerabilities can arise: Adverse selection - this refers to the inability to evaluate accurately the quality of the assets the other partner brings
to the relationship. For example, a buyer may not know exactly whether the supplier’s production system can meet his requirements. **Moral hazard** - this refers to the inability to evaluate the assets committed when a relationship exists. For example, if a supplier based on a buyer’s request, increase its production capacity and advised that he has done that. However, there is no means to ascertain that the supplier has indeed invested in the plant and increase the production capacity then a moral hazard exists. This will result in asymmetric investment by which one partner commits more to the relationship than other.

- **Loyalty**

Loyalty is about truthfulness and faithfulness. This only occurs after a period of time and produces reliable performance and one party develops a sense of loyal bonding with the other party. When this happens, it is the belief of one party that the other party will perform well in unusual situations, when it really counts. This relationship only happens through strong interpersonal bonds.

- **Competence**

Competence is about ability. When we say a person is competent, it means that the person is able to do something relatively well. This form of trust is different from the trust that developed due to reliability. The competence type of trust has three key areas: Functional competence, interpersonal competence, business sense competence.

- **Reliability**

This type of trust is based on the ability to produce a consistent and predictable outcome over a period of time. Apart from this, one could also expect that being reliable is also mean that there is integrity and honesty of the other party and the party is consistently act on a set of moral codes or standards even in unusual situations. By applying pressure to get something done on the other party in a supply chain partnership is not going to achieve collaborative outcome because it is just not on a willingness and committed basis by both supply chain parties and the relationship is not going to last to produce the desired outcomes. For example, if a supply chain partner forces a supplier into a supply chain relationship, and then the supplier is less likely to act reliably. On the other hand, if a freight forwarder commits to deliver on time based on standard lead-time but repeatedly delivered longer than the prescribed time, the shipper who engages the freight forwarder will likely to look for a more reliable freight forwarder some time later.
SECTION 2: ANALYSE THE RELATIONSHIP BETWEEN SUPPLY CHAIN PARTNERS AND EFFECTIVE CONTRACT MANAGEMENT

Specific Outcome 2:
Analyse the relationship between supply chain partners and effective contract management.

Assessment Criteria:

1. The need for better contracts management is analyzed to ensure improved corporate governance.
2. The process that will facilitate effective contracting is examined to improve turnaround times.
3. Various processes and tools for contract management are evaluated to reflect the advantages and disadvantages of each.
4. Processes for the effective monitoring and controlling of supplier performance are assessed.
5. Additional approaches to improve supplier relationships are recommended to ensure optimal utilization of supplier networks.

2.1 The need for better contracts management (SO2, AC1)

A contract is a formal agreement whose purpose is to ensure that stipulated functions are carried out. Contracting is an integral part of the way the organizations conduct business.

✓ Effective Contract Management

Effective contract management is dependent on the interaction of the following elements:

- **Plan**: Identify contracting objectives and contracting strategy.
- **Procurement**: Fairly and objectively, select the most qualified contractors.
- **Contract Formation**: Ensure the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions as well as established processes that are cost effective and aligned with the cost of providing the goods and /or service.
- **Contract Administration:** Monitor and enforce the terms and conditions of the contract.

Organisations should have in place a range of legislation and related policies that set out the framework for contracting. This Part of the Guide provides a summary of, or a reference to, the legislation and policy that can impact on contracting activities.

In addition to the legislative and policy framework, there are a number of factors that are important at all stages of the contracting process. These are:

- Managing risks
- Managing relationships
- Managing resources
- Specifying responsibilities
- Behaving ethically, and
- Keeping records.

These factors, together with the stages of the contracting process, are illustrated in Figure 2 below.
2.2 Facilitating effective contracting (SO2, AC2)

✓ Stages of a contract

- **Planning**: The planning stage refers to planning and budgeting activities. During this time, strategic objectives are converted into approved budgets and operational plans. Budgets and operational plans will have sufficient detail to identify the need for contracts to carry out the approved operations.
- **Creation**: This step involves preparing the first draft of the contract documentation.

- **Collaboration**: Collaboration is the drafting and negotiating process, which includes internal and external reviews to ensure that the contract will give legal effect to the requirements of all parties to the contract.

- **Execution**: Execution is the act of signing the contract, making it legally enforceable and formalizing the terms and conditions agreed to.

- **Administration**: The goal of contract administration is to monitor delivery under the contract to ensure that it achieves its original objectives and includes tracking and auditing of contract terms such as: pricing and discounts; timeliness of payments and or receipts; performance in delivering agreed service level or specification of goods and services; and amendments.

- **Closeout/Renewal**: Regardless of whether a contract is being closed or renewed, a review process should be undertaken to various levels of detail depending on the classification of the contract.

  ✓ **Key tasks**

  The key tasks involved in developing a contract are:

  - Identify and manage risks.
  - Obtain senior management commitment and involvement.
  - Identify resource needs.
  - Identify and assign responsibilities.
  - Obtain stakeholder input.

  ✓ **Behave ethically**

  Determine the form of the contract, including:

  - Determining the need for a written contract
  - The use of standard form contracts
  - Determining the contract approach
  - Define contract deliverables, and
  - Establish a performance management regime.
Keep records

Depending at what stage of the overall procurement cycle contract development is being undertaken, it may be possible to draw on relevant material developed earlier in the cycle. For example, useful information may be contained in policy documents on the decision to outsource the provision of goods or services, in tender documentation or other plans in place in the acquiring entity. Such material should be reviewed to ensure it is applicable to the current circumstances before it is used as a basis for contract development.

2.3 Various processes and tools for contract management (SO2, AC3)

The contract management process is the interaction between the vendor and the purchaser that ensures that both parties meet their respective obligations in any procurement relationship.

The aim is to meet the operational, functional and business objectives required by the contract and provide a profitable interaction.

The contract management process includes:

1. Managing Service Delivery
   - **Advantages**: Products are delivered as and when they are ordered.
   - **Disadvantages**: There can be increased pressure and unnecessary mistakes.

2. Managing the Relationship
   - **Advantages**: Increased communication.
   - **Disadvantages**: There is the risk of becoming too “close” to the employee.

3. Managing the Contract
   - **Advantages**: the ongoing contract administration ensures that the day-to-day procurement activities follow the spirit and sections of the contract.
   - **Disadvantages**: This process is very time consuming.
4. **Seeking Improvements**

- **Advantages**: improvements within a procurement mean greater efficiencies and an increase in profits.
- **Disadvantages**: It is also time consuming, and the improvements may benefit one party more than the other.

5. **Ongoing Assessment**

- **Advantages**: the entire procurement activities are assessed on a continual basis to ensure that the contracts are adhered to and the purchasing processes follow.
- **Disadvantages**: each contract needs to be continuously evaluated and reviewed and changes need to be made, which is time consuming.

6. **Managing Change**

- **Advantages**: In a long-term procurement relationship, there are sometimes changes in activities, requirements or products available. Managing change means companies stay up-to-date.
- **Disadvantages**: there can be resistance to change.

2.4 **Processes for the effective monitoring and controlling of supplier performance (SO2, AC4)**

**Supplier performance management** is a business practice that is used to measure, analyze, and manage the performance of a supplier in an effort to cut costs, alleviate risks, and drive continuous improvement. It is a function often associated with third party management. The ultimate intent is to identify potential issues and their root causes so that they can be resolved to everyone’s benefit as early as possible.

✓ **Assessment of supplier performance**

The diagram below shows the processes used for monitoring and controlling supplier performance at each level.
Supplier Performance Management Process:

There are a number of key factors which can be used to assess supplier performance, and which can be used as a yardstick for determining whether good practice is being achieved in specific situations. Some examples of these issue key performance indicators are:

- Product quality
- MTBF (Mean Time Between Failure)
- Percentage of incoming rejects (delivery accuracy)
- Warranty claims
- Service Quality (against agreed SLAs)
- Call-out time
- Customer service response time
- On time delivery performance against agreed delivery lead times
- Relationship/Account Management
- Accessibility and responsiveness of account management
- Costs are maintained or reduced
- Payment terms
Monitoring the performance of suppliers requires a range of skills, in particular relationship management. It is the responsibility of the employer to negotiate and agree appropriate performance criteria at the time the contract is let and these measures, together with a commitment to continual improvement should be clear to all concerned. The level and frequency of performance monitoring is dependent on the value and criticality of the contract to the buying organization.

2.5 Additional approaches to improve supplier relationships (SO2, AC5)

✓ Supplier Management Solutions and Strategies for Better Relationships

Having long-lasting, trusted relationships with dedicated suppliers should be a primary goal of any business that strives to succeed in the market, so let’s find out which strategies can help achieve this.

1. Realizing that your suppliers are not just vendors, they are your partners: They are your partners, and this partnership should be based not only on financial transactions, but also on mutual trust and loyalty. Make your suppliers feel like they are a part of your business. Inform them about your processes, such as releases of new products and promotions, and listen to their concerns.

2. Technology makes supplier relationship management simple: Invest in supplier management software to keep track of information about your suppliers in one place.

3. Timely payments are crucial: If you don’t want to lose your suppliers, step one is making sure to pay them on time.

4. Ensure strong relationships are developed: Make sure to maintain strong and regular communication with each of your suppliers. Keep them regularly informed and up to date, on your strategy and plans so that they know where they fit in and how they can help, plan for and benefit from those plans.

5. Price is what you pay, value is what you get: Nothing is better for growing your profits than getting a quality service or materials for the right price. If you have the financial flexibility use it.

6. Detailed agreements make supplier relationships easier: If you are buying from a vendor on a regular basis, Supplier Relationship Agreements are essential.

7. Evaluate the risks: Always evaluate the risks of dealing with a supplier, especially if you have a complex supply chain. Ask for references, examples of their previous work, years in business, areas of expertise, how they deal with a crisis, what they did the last time they had to deal with a crisis, and so on. Are they competitively priced? Do
they have the right experience? Do they have the capacity to deal with your orders? Are they financially stable? And so on.

8. **A dedicated SRM process is a worthy investment**: A dedicated Supplier Relationship Manager, or even if it’s only a part of someone’s role, having people in your organization who are responsible for the SRM process is essential.

9. **Get everyone onboard**: Having a Supplier Relationship Management Process is important but getting everyone in your organization on board.

**Formative Assessment 2**
SECTION 3: BUILD AND MAINTAIN GOOD CUSTOMER RELATIONSHIPS

Specific Outcome 3:
Build and maintain good customer relationships.

Assessment Criteria:

1. Ways in which suppliers can be assisted are discussed to reflect how they could maximize their effective contributions within the supply chain. The discussion needs to include aspects related to strategic importance of supplier development, World Class Supplier Development, best practice applications of this process, advantages and pitfalls, limitations.
2. Practical processes for ensuring effective customer relationships within the supply chain are followed.
3. Service Level Agreements are produced and negotiated to reflect the interests of both the organization and the customer.
4. Customer relationships are implemented through processes and strategies that facilitate the building and maintaining of effective long-term relationships.
5. Internal and external customers are identified to determine activities required for building and maintaining relationships.

3.1 Maximising the effective contribution of suppliers within the supply chain (SO3, AC1)

✓ Strategic importance of supplier development

Supplier development strategies are long-term activities undertaken jointly by both the supplier and the buying organization. The development can cover a variety of facets, from improvement activity (i.e. improving delivery performance) through to aligning product or service requirements.

Supplier development doesn’t occur with all suppliers, typically development activity will occur with suppliers that are being retained (consider the application here of your supplier
evaluation system where often suppliers will fall into the categories or maintain, develop or exit. The development activity is usually tailored to meet the needs of the buyer, but it’s often a mutually supportive activity which forms part of the ongoing relationship.

✓ Best Practice application of this process

Supplier development reviews are a key step within the supplier development process. Reviews are carried out to:

- Review business issues/problems;
- Ensure performance is aligned with requirements;
- Monitor ongoing projects/initiatives; and
- Share information and business strategy.

Any supplier development strategy will have identified key targets that need to be met and the supplier development review is an opportunity to see whether or not these are being attained.

The review will also offer the chance for the supplier to highlight any way in which the customer can support them. For example, your review may indicate a poor understanding of requirement, improved demand signal, access to specification documents etc.

✓ Advantages of Supplier Development

- Improved knowledge and collaborative sharing throughout the extended enterprise
- Increased responsiveness to customer needs and market dynamics
- Establishing and manufacturing of new designs, improved quality and reliability of products will be achieved
- Increased profits margins as a result of reduces costs of production
- Enhances the positive impact of the business in the market place
- Reduce its inventory costs to a minimum
- Helps companies to achieve streamlined business operations
- Ultimately contributes to the continuous improvements of the company’s projects
- Minimized defective products leading to reduced investment costs

✓ Limitations/Pitfalls of Supplier Development

- Lack of Supplier Commitment
- Insufficient supplier resources
- Lack of trust
- Poor alignment of Organizational Cultures
- Insufficient Inducements to the Supplier
- Unsupportive managers are a common pitfall
3.1 Practical processes for ensuring effective customer relationships within the supply chain (SO3, AC2)

✓ Customer relationship management (CRM)

- CRM is a model for managing a company’s interactions with current and future customers. It involves using technology to organize, automate and synchronize sales, marketing, customer service and technical support.
- The focus is on creating value for the customer and company over the longer term.
- When customer value the customer service that they receive from suppliers, they are less likely to look to alternative suppliers for their needs.
- CRM enables organization’s to gain ‘competitive advantage’ over competitors that supply similar products or services.
- When introducing or developing CRM, a strategic review of the organization should be undertaken.
- Organizations need to address four issues:
  - What is our core business and how will it evolve in the future?
  - What form of CRM is appropriate for our business now and in the future?
  - What IT infrastructure do we have and what do we need to support the future organisation needs?
  - What vendors and partners do we need to choose?

✓ Supplier engagement model

- Effective supplier relationship management requires an enterprise-wide analysis of what activities to engage in with each supplier. The common practice of implementing a “one size fits all” approach to managing suppliers can stretch resources and limit the potential value that can be derived from strategic supplier relationships. Supplier segmentation, in contrast, is about determining what kind of interactions to have with various suppliers, and how best to manage those interactions, not merely as a disconnected set of siloized transactions, but in a coordinated manner across the enterprise. Suppliers can be segmented, not just by spend, but by the total potential value (measured across multiple dimensions) that can be realized through interactions with them. Further, suppliers can be segmented by the degree of risk to which the realization of that value is subject.
✓ Joint activities

Joint activities with suppliers might include:

- Supplier summits, which bring together all strategic suppliers together to share the company’s strategy, provide feedback on its strategic supplier relationship management program, and solicit feedback and suggestions from key suppliers.
- Executive-to-executive meetings
- Strategic business planning meetings, where relationship leaders and technical experts meet to discuss joint opportunities, potential roadblocks to collaboration, activities and resources required, and share strategies and relevant market trends. Joint business planning meetings are often accompanied by a clear process to capture supplier ideas and innovations, direct them to relevant stakeholders, and ensure that they are evaluated for commercial suitability, and developed and implemented if they are deemed commercially viable.
- Operational business reviews, where individuals responsible for day-to-day management of the relationship review progress on joint initiatives, operational performance, and risks.

✓ Value measurement

- SRM delivers a competitive advantage by harnessing talent and ideas, from key supply partners, and translates this into product and service offerings for end customers.
- One tool for monitoring performance and identifying areas for improvement is the joint, two-way performance scorecard.
- A balanced scorecard includes a mixture of quantitative and qualitative measures, including how key participants perceive the quality of the relationship.
- These KPIs are shared between customer and supplier and reviewed jointly, reflecting the fact that the relationship is two-way and collaborative, and that strong performance on both sides is required for it to be successful.
- Advanced organizations conduct 360 degrees scorecards, where strategic suppliers are also surveyed for feedback on their performance, the results of which are built into the scorecard.
A practice of leading organizations is to track specific SRM savings generated at an individual supplier level, and also at an aggregated SRM program level, through existing procurement benefits measurement systems.

Part of the challenge in measuring the financial impact of SRM is that there are many ways SRM can contribute to financial performance.

These include cost savings (e.g., most favoured customer pricing, joint efforts to improve design, manufacturing, and service delivery for greater efficiency); incremental revenue opportunities (e.g., gaining early or exclusive access to innovative supplier technology; joint efforts to develop innovative products, features, packaging, etc. avoiding stock-outs through joint demand forecasting); and improved management of risk.

✓ Systematic collaboration

In practice, SRM expands the scope of interaction with key suppliers beyond traditional buy-sell transactions to encompass other joint activities which are predicated on a shift in perspective and a change in how relationships are managed, which may or may not entail significant investment. Such activities include:

- Joint research and development
- More disciplined and systematic, and often expanded, information sharing
- Joint demand forecasting and process re-engineering (has unlocked savings of 10-30 percent for leading organizations)

✓ Negotiation

It is the aim of every purchasing professional to conclude the best deal for the organisation he or she represents.

3.2 Service Level Agreements (SO3, AC3)

A service-level agreement (SLA) is a contract between a service provider and a customer; it details the nature, quality, and scope of the service to be provided. It is also called a service level contract. The most common component of SLA is that the services should be provided to the customer as agreed upon in the contract. This can be a legally binding formal or an informal "contract" (for example, internal department relationships). The agreement may involve separate organizations, or different teams within one organization.
3.3 Processes and strategies that facilitate the building and maintaining of effective long-term customer relationships (SO3, AC4)

✓ Build your network

- Your network includes business colleagues, professional acquaintances, prospective and existing customers, partners, suppliers, contractors and association members, as well as family, friends and people you meet at school, church and in your community.
- Networking is a long-term investment. It is essential to continually add value to the relationship.

✓ Communicate effectively

- Effective communication is listening to your customer needs, understanding them, setting and establishing expectations and most importantly keeping customers informed.
- Set up council and forums with a set of users to collect customer feedback/input.
- Communication helps build up a great relationship.

✓ E-mail marketing keeps relationships strong on a shoestring budget.

- Give customers options to subscribe to your communications in the areas that interest them. Make sure they have the capability to opt-out at any time.

✓ Rewarding loyal customers

- Drives repeat sales
- Increases average order values
- Discount-orientated customers often switch if a competitor offers higher discounts
- A good loyalty program can help increase the conversion rate

✓ Attract loyal customers

- Brand advocacy occurs when a customer becomes a brand advocate. Brand advocates are your raving fans who encourage others to support your company.
3.4 Activities required for building and maintaining relationships with Internal and external customers (SO3, AC5)

✓ Identify and map internal and external customers

- Internal ‘customers’ are said to be the people in your company or a partner that you provide your services to in order to deliver your company’s products or services.
- External customers are said to be those people that actually buy your company’s products or services

✓ Activities for building and maintaining relationships with internal and external customers

- Focus on exceptional communication
- Maintain a positive attitude
- Acknowledge your client as an individual
- Share knowledge
- Exceed expectations

Formative Assessment 3
SECTION 4: ANALYSE ETHICAL AND PROFESSIONAL ISSUES RELATING TO SUPPLIER AND CUSTOMER RELATIONS

Specific Outcome 4:

Analyse ethical and professional issues relating to supplier and customer relations.

Assessment Criterion:

- Ethical and professional dilemmas are interrogated and examined to ensure compliance to the Codes of Ethics.
- Benchmarks regarding the establishment of policies and procedures are analysed to ensure ongoing ethical conduct.
- Ethical and professional issues are examined to reflect their relationship to corporate governance and legal requirements.
- Recommendations are made to reflect actions that will enhance relationships within ethical parameters.

4.1 Ethical and professional dilemmas (SO4, AC1)

✓ Code of Ethics

A code of ethics is an umbrella concept defining the morals, principles and values under which an organization operates. It includes the professional responsibility to society as well as aspects such as honesty, integrity and humanity. The code describes the company’s obligation to its stakeholders. The code is publicly available and addressed to anyone with an interest in the company’s activities and the way it does business. It will include details of how the company plans to implement its values and vision, as well as guidance to staff on ethical standards and how to achieve them.

Primarily ethics in business is affected by three sources - culture, religion and laws of the state. It is for this reason we do not have uniform or completely similar standards across the globe. These three factors exert influences to varying degrees on humans, which ultimately get reflected in the ethics of the organisation. For example, ethics followed by Infosys are different than those followed by Reliance Industries or by Tata group for that matter. Again, ethical procedures vary across geographic boundaries.
Religion

It is one of the oldest foundations of ethical standards. Religion wields varying influences across various sects of people. It is believed that ethics is a manifestation of the divine and so it draws a line between the good and the bad in the society. Depending upon the degree of religious influence we have different sects of people; we have sects, those who are referred to as orthodox or fundamentalists and those who are called as moderates. Needless to mention, religion exerts itself to a greater degree among the orthodox and to lesser extent in case of moderates. Fundamentally however all the religions operate on the principle of reciprocity towards one’s fellow beings!

Culture

Culture is a pattern of behaviours and values that are transferred from one generation to another, those that are considered as ideal or within the acceptable limits. No wonder therefore that it is the culture that predominantly determines what is wrong and what is right. It is the culture that defines certain behaviour as acceptable and others as unacceptable.

Law

Laws are procedures and code of conduct that are laid down by the legal system of the state. They are meant to guide human behaviour within the social fabric. The major problem with the law is that the law cannot cover all the ethical expectations and especially with the ever-changing outer environment the law keeps on changing but often fails to keep pace. In business, complying with the rule of law is taken as ethical behaviour, but organisations often break laws by evading taxes, compromising on quality, service norms etc.

Dilemma of Ethics in Production

There are certain processes involved in the production of goods and a slight error in the same can degrade the quality severely. In certain products the danger is greater i.e. a slight error can reduce the quality and increase the danger associated with consumption or usage of the same exponentially. The dilemma therefore lies in defining the degree of permissibility, which in turn depends on a number of factors. Bhopal gas tragedy is one example where the poisonous gas got leaked out due to negligence on the part of the management.

Usually many manufactures are involved in the production of same good. They may use similar or dissimilar technologies for the same. Setting a standard in case of dissimilar technologies is often very difficult. There are many other factors that contribute to the
dilemma, for example, the involvement of the manpower, the working conditions, the raw material used etc.

Social perceptions also create an impasse sometimes. For example, the use of some fertilizer by cola companies in India recently created a national debate. The same cold drinks, which were consumed until yesterday, became noxious today because of a change in the social perception that the drinks are not fit for consumption.

4.2 Benchmarks regarding the establishment of policies and procedures (SO4, AC2)

A good Code of Ethics is characterized by the presence of the implementation mechanisms associated with it.

These include activities that the organisation needs to set up (or revise) in order to support the diffusion and knowledge of the code, to foster the sharing of values and rules of behaviour, and to monitor the effective implementation of the code and manage its periodic review.

The essential elements of a code include assurances of support for the policies from:

- Organizational leadership,
- Practical guidance on what is expected regarding ethical issues,
- Commitments concerning stakeholder relationships,
- Example Q&As, scenarios or decision trees,
- Details of how the code will be implemented and monitored, and
- The consequences of misconduct.
- Signposts to further support, advice and other relevant policies should also be included.

4.3 Ethical and professional issues with regards to corporate governance and legal requirements (SO4, AC3)

✓ King Codes and Corporate Governance
The aim of the King Code’s is to provide guidelines to good Corporate Governance. Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders’ desires.

The King Committee was formed in 1992 under the auspices of the Institute of Directors. The purpose of the King Report was to promote good standards of corporate governance. The King Report of 1994 did not only provide guidelines on financial and regulatory matters, but also advocated for an inclusive approach.

An inclusive approach to corporate governance stipulates that directors should have regard to a wide variety of interests when managing a company. Triple-bottom line management is important. The triple-bottom line approach refers to economic, social and environmental factors.

Directors should consider all three of these factors when they manage a company. The economic aspect of this approach concerns financial and non-financial aspects of the business of the company. The environmental aspect relates to the effect on the environment caused by the products or services of the specific company. The social aspect embraces relationships with stakeholders, other than only the company’s shareholders.

Another King Report was issued in 2002 (King II). In King II the seven characteristics of good governance are listed. They are: -

- **Discipline** (a commitment by the company management to adhere to behaviour that is universally accepted).
- **Transparency** (the ease with which an outsider is able to make meaningful analysis of a company’s accounts).
- **Independence** (the extent to which mechanisms have been put in place to minimise or avoid potential conflicts of interests).
- **Accountability** (individuals in a company should be accountable for the actions they take).
- **Responsibility** (this pertains to behaviour that allows for corrective action and or for penalising mismanagement).
- **Fairness** (the systems that exist in a company must be balanced in taking into account all those that have an interest in the company and its future).
- **Social responsibility** (a well-managed company will be aware of social issues and respond thereto).
Corporate Governance Compliance:

King Code emphasizes that businesses should conduct all business dealings with the following in mind:
- Ethics
- Independence
- Integrity
- Social Responsibility
- Environmental responsibility etc.

This, in turn, results in:
- Greater accountability and transparency
- Fair and ethical pay
- Justification between the link between remuneration, value creation and key performance indicators within the social, economic and environmental context.

4.4 Recommendations to enhance ethical relationships (SO4, AC4)

- Clear expectations of what is okay and what is not okay
- Modeling desired behavior (especially from organizational leaders)
- Reinforce the behavior you want and do not reinforce the behavior you do not want
- Focus on skill building and problem solving
- Provide the tools people need to act ethically
- Provide corrective feedback

Formative Assessment 4