

CUSTOMER INTEGRATION AND SUPPLY MANAGEMENT PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: AN EMPIRICAL INVESTIGATION

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Abstract

In this paper we investigate the relationship between customer integration and supply management performance of small and medium enterprises (SME) in Oman. The results of the study clearly indicate that customer integration has a significant influence on supply management performance in terms of customer's commitment and customer's trust. However, there is some possibility for the SME to improve their supply management performance through increasing strategic supply management skills, internal integration and the current status of supply management for Omani SME.

Keywords

Supply management performance; Customer integration; Small and medium enterprises; Oman.

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1.0 Introduction

Supply management performance is one of the major strategic instruments for firms striving to achieve competitive success (Tan, 2002). Supply management researchers recommend that amongst others, customer integration strategy is an indispensable tool to improve the performance of supply management. The present study explores the impact of customer integration on supply management performance using empirical data analysis. Previous research addressed the nature of supply management skills and their importance in enhancing the performance of firms (e.g.; Giunipero and Flint, 2001; Giunipero and Percy, 2000; Giunipero et al., 2005). Our current research on the Omani SME is a preliminary step towards observing the impact of customer integration on its supply management accomplishment.

Oman has one of the least developed SME sectors in the GCC region. The current statistics suggests that there are only around 20,000 such enterprises operating in the country, and they employ only 15

to 20 per cent of the total workforce. Compared to other countries in the Middle East, particularly the Levant and North Africa, that have an SME sector that contributes nearly 60 per cent of GDP and employ more than 70 per cent of the available workforce. Oman's SME sector has a considerable growth potential which offers a very real opportunity for investors and entrepreneurs.

Much of the SME activity in Oman is the preserve of expatriates from the Indian sub-continent, and bilateral trade with India now stands at more than US\$3.3 billion. The 140-plus Indian-owned SMEs are especially active in telecoms, manufacturing, fertilizers and financial services.

Access to finance is a common barrier to SME growth in Oman, with loans to small businesses accounting for less than 5 per cent of local banks' credit portfolios. But Bank Dhofar has recently unveiled dedicated SME banking services, with faster processes and tailored interest rates, while HSBC has opened a Business Banking Unit to offer the same kind of services. In 1997 the United Finance Company opened with the expressed goal of aiding Oman's private-sector business community, especially in more remote areas of the country. It has already partnered with government in key initiatives such as Intilaaqah Training Programmes, Sanad Incubators for IT and Knowledge Oasis Muscat Incubators.

Once a key stop for traders on the Indian Ocean, Oman has managed to preserve its position as a good foreign business haven. Currently ranking as the sixth best place to do business in the Arab World, it has long-standing ties with the UK, good relations with all Middle Eastern countries, and recently signed a Free Trade Agreement with the US, all of which provide strong protection for foreign businesses investing in Oman.

2.0 Literature Review

2.1 Supply Management Performance

According to Carr and Pearson (2002), a strategic supply management function can help a firm to sustain its competitive advantage in a number of ways. First, it provides value in the area of cost management. Effective management of the cost of inputs to production saves the firm's money that go straight to the firm's bottom line profits. Second, it provides the firm with valuable information concerning supply trends that will enable the firm to make better decisions and achieve its goals. Third, it establishes close relationships, where appropriate, with customers, to improve the sales volume of the materials. Thus, a strategic supply management function is one that meets the needs of the firm and promotes consistency between its capabilities and the competitive advantage being sought by the firm.

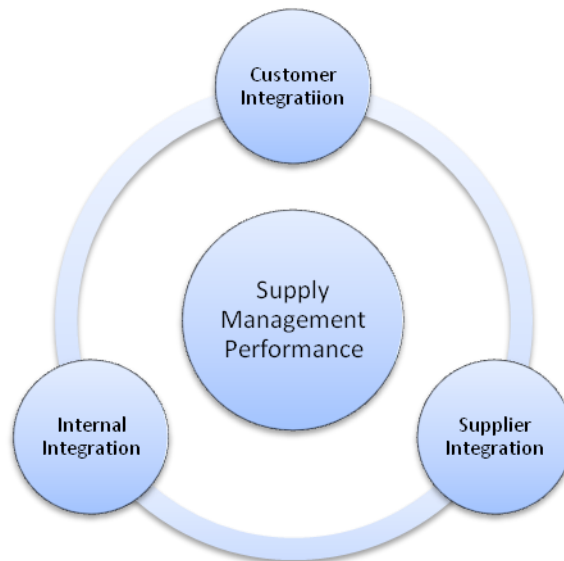


Figure 1. Supply management performance relation with customer, supplier and internal integration.

2.2 Customer Integration

Customer integration generally means managing a company's interactions with current and future customers. It involves using technology to organize, automate, and coordinate sales, marketing, customer service, and technical support. The main purpose of such integration is to create value for customers and stakeholders.

Customer integration is defined as to value creation and that value emerges and assessed in different activities and interactions at a specific moment when resources are integrated, operated on with a specific intention to create value (Bo Edvardsson et al., 2012). It is a dominant element of supply chain integration process that contributes to a business's ability to compete (Bowersox et al., 1999). Each business environment has its own way of defining and identifying integration factors. A make-to-stock firm might narrow customer integration to incorporating the retailers, while make-to-order and assemble-to-order companies require a more diverse approach. Supply chains explore customer requirements to compare customer expectations with the attributes for each integration factor.

Although customer integration related research has received a fair amount of attention in recent years—from both academia and practitioners—there is no comprehensive study that clearly identifies the critical sets of customer integration attributes and factors while defining a procedure for establishing comparative metrics for the relevant attributes. In fact, the customer integration process leads to increased customer satisfaction for a business. In this regard, Chow et al. (2008) confirmed that customer satisfaction can be the result of supply chain competency achievements, in terms of quality, service, operations, distribution and design effectiveness.



Figure 2. Customer integration relation with customer commitment and customer trust.

2.3 Customer Commitment

Research shows that there are three forms of customer commitment: relational commitment, instrumental commitment and value-based commitment. In this section all these three types of customer commitment are discussed briefly.

2.3.1 Relational commitment

Customers can become highly attached to a company's people. An emotional tie may be formed with an individual person, a work group or the generalized company as a whole. Customers who talk about 'my banker' or 'my mechanic' or 'my builder' are expressing this attachment. They feel a sense of personal identification with that individual. Often, these are employees who 'break the rules' or 'go the extra mile' to completely satisfy customers. They are reliable, competent, empathic and responsive. When these employees recover an at-risk customer, they create a friend. Customer-focused organizations make heroes out of these individuals. They are feted and celebrated.

2.3.2 Instrumental commitment

This occurs when customers are convinced that no other offer or company could do a better job of meeting their needs. They are not just very satisfied, but unbeatably satisfied. All expressed and latent needs have been met. When a customer feels that his or her bank has the best products, the best access, the best processes, the lowest interest rates on loans and the best reputation, he or she is committed.

2.3.3 Values-based commitment: customers become committed when their values are aligned with those of the company. Values can be defined as core beliefs that transcend context and serve to organize and direct attitudes and behaviours. Customers have many and varied core beliefs, such as environmental consciousness, honesty, child protection, independence, family-centredness and so on. Many of these reflect cultural norms. Where these values coincide with those of an organization, the customer may become committed to the organization. Companies that are accused of using child labour, damaging the environment or otherwise acting unethically place themselves at risk (Buttle, 2008). In fact commitment has emerged in the literature as a critically important element for an effective relationship. In order to have a higher degree of

integration with customer, there has to be information sharing and coordination of the processes between the buyer and the customer. Thus our proposal is:

H1: The Higher the level of customer commitment the higher is the level of customer integration.

2.4 Customer Trust

Schoorman et al. (2007) defined trust as the willingness to be vulnerable to another party. In a customer-supplier relationship, the customer has the belief that a supplier is able to perform his/her duties in a consistent way, has the integrity to fulfill agreements as promised and has a strong desire (or benevolence) to serve this particular customer's needs.

Customers' trust can be compared with a glue that holds the business relationship together and is expressed repeatedly in a company's actions. It is one of the best investments for a company. It is an absolutely essential part of sales, as well as business in general. Customers' trust is such an important issue in business which is very hard to gain and very easy to lose as well. It is so powerful that when customers trust a company then the company can charge higher prices than its competitors do, offer a different set of features than its customers are looking for, and require a longer wait for delivery and customers will still buy from the company. In fact, it is one of the most cost-effective ways to sell more.

In order to build customers' trust it needs ongoing commitment to integrity, honesty, authenticity, capability of keeping promises, taking care of customers' best interest at heart, and so on. Along with these, the company needs to focus on doing its all jobs well, to be transparent with customers about any mistake and to be attentive with customers' need over time. In order to improve customers' trust, a company should build trust in its products and services, marketing, and industry as well. It needs to show its mutual understanding, friendly dialogue, open mind, real integrity, professionalism, consistency and truthfulness with its customers. So, we propose that

H2: The Higher the level of customer trust the higher is the level of customer integration.

3.0 Data Collection and Research Methodology

We collected data from 34 highly competitive small and medium enterprises in Oman. The data were collected by directly asking questions to the decision makers of the enterprises who were knowledgeable about their firm's functional activities through a well-designed questionnaire. The main target populations of our study were those who were involved with the supply management function within the firms in Oman. A simple random sampling technique was employed to collect the data in this study.

4.0 Results and Discussion

As we know that the success of a business or an individual firm depends on how well the supply management performs as a whole. Supply management performance mainly depends on three important integrations namely, customer integration, internal integration and supplier integration. In this paper we want to see how customer integration influences on supply management performance in terms of customer commitment and customer trust. The set of these two main factors is again related with a number of other factors such as customer adoption, customer communication, customer

competence, customer functional quality, customer technical quality, and business conflict handling. Each of these factors is composed of a number of sub factors/dimensions. For example, we compose customer communication with i) customer keeps firm management informed about new development, ii) customer informs firm management about delivery problems at once when they occur, iii) customer's sales personnel frequently visit the place of business, iv) customer spends enough time to know firm's personnel and employees, v) customer frequently discusses new possibilities with the firm management, vi) customer provides opportunities to the firm management to participate in goal setting for performance, vii) customer informs firm management if there are quality problems, and viii) customer fulfills promises. Similarly all other factors are also composed of a number of sub factors/dimensions.

Table 1 below shows the responses of the SME's for the customers' commitment. In almost all the 12 dimensions to find out the customers' commitment in customer integration the SME's in Oman has positive responses. This clearly indicates SME's in Oman has strong relationship with their customers.

Table 1: Customer Commitment Response of SME's

	Strongl y agree	Agree	Neither agree nor disagre e	Disagree	Strongly disagree
Customer commitment					
Deciding to do business with this customer was a definite mistake	6.1%	21.2%	27.3%	33.3%	12.1%
The business makes adjustments to meet customer needs	11.8%	67.6%	17.6%	2.9%	0.0%
The business makes its products according to customer needs	26.5%	50.0%	17.6%	5.9%	0.0%
The business is flexible when customer product requirement/specification is changed	20.6%	58.8%	17.6%	2.9%	0.0%
The business is flexible when customer buying process is changed	20.6%	58.8%	20.6%	0.0%	0.0%
Customer do feel a strong sense of belonging to the business	14.7%	70.6%	14.7%	0.0%	0.0%
It would be very hard for customer to leave the business with existing relationship, even if business wanted to	11.8%	61.8%	20.6%	2.9%	2.9%
The business deserves customer loyalty	11.8%	76.5%	11.8%	0.0%	0.0%
I have sense of obligation to the customers	31.3%	56.3%	12.5%	0.0%	0.0%
I do feel like 'part of the family' with the customer	36.4%	54.5%	9.1%	0.0%	0.0%
The business spends much energy in customer buying relationship	30.3%	66.7%	3.0%	0.0%	0.0%
Business have the intention to maintain and develop this relationship because customer like to be associated with it	36.4%	60.6%	3.0%	0.0%	0.0%

Table 2: Customer Trust Response of SME's

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Customer trust (Benevolence)					
Even in the change circumstances, business will be ready to offer customer assistance and support	21.2%	72.7%	6.1%	0.0%	0.0%
In making important decisions, business is concerned about customer welfare	42.4%	57.6%	0.0%	0.0%	0.0%
When we share our problems with the customer, we know that it will be served with proper understanding	48.5%	48.5%	3.0%	0.0%	0.0%
Customer accountability exists in business	27.3%	60.6%	9.1%	3.0%	0.0%
When it comes to things that are important to us, we can depend on the customer's support	21.2%	60.6%	15.2%	0.0%	3.0%

Table 2 shows the responses of the SME's for the customer trust. In almost all the dimensions to find out the customer trust in customer integration the SME's in Oman has positive responses. The customer and supplier (SME's) trust relations are seems to be very strong.

5.0 Conclusion

The aim of the paper is to see the relationship between customer integration and supply management performance of small and medium enterprises (SME) in Oman. An empirical study has been done for that purpose through a well-designed questionnaire. The overall findings of the research suggest that customer integration strongly influences on supply management performance in terms of customer commitment and customer trust. In our future study a structural equation model will be developed to verify the current research findings.

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