

## Chapter 9

# Effect of Customer Power on Supply Chain Integration and Performance<sup>1</sup>

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### ABSTRACT

*Supply chain integration (SCI) has received increasing attention from academic researchers and practitioners in recent years, however, our knowledge of what influences SCI, and how SCI influences the performance of supply chains and manufacturers within the supply chain is still very limited. Although researchers in marketing and management have investigated power and relationship commitment issues within and between organizations, few have examined their impact on SCI. This chapter studies the relationship between power, relationship commitment and integration between manufacturers and their customers within a supply chain. The impact of customers' SCI on the customer service and financial performance of manufacturers is also investigated. The authors propose and empirically test a model using data collected from 617 manufacturing companies in China. The results show that customers' use of different types of power has different impacts on manufacturers' relationship commitment. Expert power, referent power and reward power are very important in improving manufacturers' normative relationship commitment, while reward power and coercive power enhance instrumental relationship commitment. The authors also find that normative relationship commitment have a greater impact on customer integration and customer service by manufacturers than instrumental relationship commitment. Customer integration significantly enhanced manufacturers' customer service and financial performance. The improvement in customer service of manufacturers positively influenced their financial performance.*

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## INTRODUCTION

Global competition and escalating customer expectations have forced manufacturing companies to focus more on delivery speed, dependability and flexibility to meet changing customer requirements (Boyer & Lewis, 2002; Flynn & Flynn, 2004). To enhance these capabilities, many companies have implemented supply chain integration (SCI) strategies (Bowersox, Closs & Stank, 1999). SCI is defined as the degree to which a firm strategically collaborates with its supply chain partners and collaboratively manages intra- and inter-organization processes, to achieve effective and efficient flows of products, services, information, money, and decisions, with the objective of providing maximum value to customers at low cost and high speed (Bowersox, et al., 1999, Frohlich & Westbrook, 2001). Extensive literature has cited the importance of SCI in achieving a competitive advantage (Bowersox & Morash, 1989; Lee & Billington, 1992, Morris & Calantone, 1991), as well as in enhancing operational performance (Ahmad & Schroeder, 2001; Frohlich & Westbrook, 2001; Johnson, 1999; Narasimhan & Jayaram, 1998; Stank, Keller & Closs, 2001a). However, limited empirical research has been done on the antecedents of SCI. Stank, et al. (2001) classified SCI into six types: internal, customer, material/service supplier, technology and planning integration, measurement, and relationship integration, developing and testing an instrument for measuring the effect of SCI competencies in different types of integration on firm performance, finding that customer integration was the dominant competence influencing overall and individual performance. Because of the importance of customer integration in improving a firm's performance, this chapter focuses on the integration between manufacturers and their customers.

Although researchers and practitioners have realized the importance of SCI, our understanding of what enables SCI is still very limited. Cox (2001) addressed the importance of power in business

strategy and operational performance, finding that competence in supply chain management should start from understanding the power and business strategy of suppliers. He indicated that understanding the supplier's power perspective could enhance effective procurement and supply management, introducing a power matrix which illustrated how a buyer can enhance its competence. However, this study was limited to the author's personal observations, with no empirical evidence.

Maloni and Benton (2000) examined the impact of different types of power on the strength of relationship between auto parts suppliers and automobile manufacturers and how it influenced the performance of supplier, manufacturers and the supply chain. Relationship strength was operationalized by five elements: commitment, conflict, conflict resolution, cooperation, and trust. They found that expert and referent power was positively related to the strength of the relationship, while coercive and legal legitimate power were negatively related to it. They also found that a stronger relationship was related to the performance of suppliers, customers and the supply chain. In another study, Benton and Maloni (2005) investigated the relationship between: 1) the use of different types of power by the supplier, 2) strength of the supplier-manufacturer relationship, 3) performance of the supplier, manufacturer, and the supply chain, and 4) supplier satisfaction. The power-affected manufacturer-supplier relationship was positively related to supplier performance and satisfaction, however, they failed to find a causal relationship between performance and satisfaction.

While there is a dearth of research on the factors that influence SCI, marketing researchers have studied factors that influence inter-firm relationships in general. Brown, Lusch and Nicholson (1995) empirically investigated the impact of power and relationship commitment on marketing channel members' performance from a relationship marketing perspective. They found that suppliers' use of power was related to retailers' commitment

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