

Relationship between Supplier Integration and Supply Management Performance of Small and Medium Enterprises in Oman

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Abstract

The aim of the paper is to see the relationship between supplier integration and supply management performance of small and medium enterprises (SME) in Oman. The overall findings of the research suggest that supplier integration strongly influences on supply management performance in terms of supplier trust, supplier commitment and supplier coercive power. However, there is still some room 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 Chain Management, SME's, Supplier Integration etc..

1.0 Introduction

Supply management performance is a powerful driver and a significant strategic tool for firms striving to achieve competitive success (Tan, 2002). Supply management scholars suggest that amongst others, supplier integration strategy is an essential resource to improve the performance of supply management. This study explores the impact of supplier integration on supply management performance using quantitative 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 an initial step towards observing the impact of supplier 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 nearer 60 per cent of GDP and employ 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.

2. 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 dollars 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 suppliers, to improve the quality and efficient delivery 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.

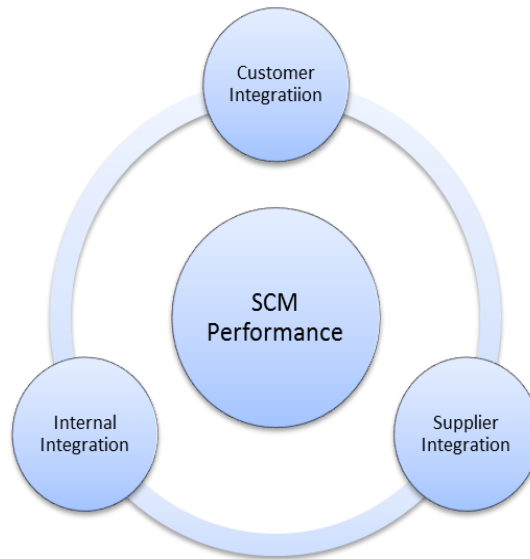


Figure 1. Supply chain performance relation with supplier-customer integration

2.2 Supplier Integration

Supplier integration is defined as “the combination of internal resources of the buying firm with the resources of selected key suppliers through the meshing of intercompany business processes to achieve a competitive advantage” (Wagner, 2003). In this regard, Michael and Tan (2001) indicated that effectively selecting suppliers and managing their involvement are resources that enable firms to achieve supply management goals, such as customer satisfaction. In the same study, the authors reported that supplier integration is a valuable source of competitive advantage because it enhances responsiveness, flexibility, and timesaving. When implemented appropriately, the advantages of supplier integration are numerous; benefits should directly improve supply management (Birou and Fawcett, 1994). The higher the level of supplier integration the higher is the supply management performance.

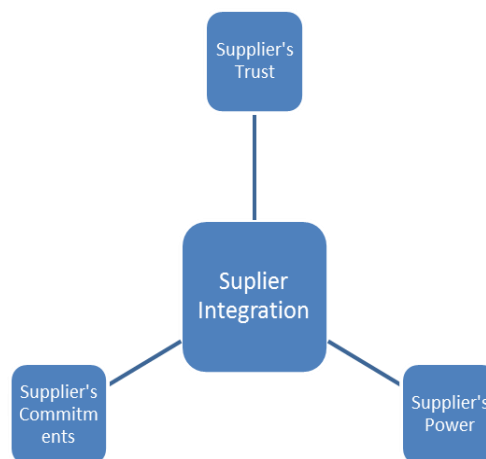


Figure 2. Supplier Integration relation in terms of Suppliers Trust, Commitment and Coercive Power

2.3 Trust

In Schoorman et al. (2007), trust was defined as the willingness to be vulnerable to another party. In a buyer-supplier relationship, the buyer has the belief that a supplier is able to perform in a consistent way, has the integrity to fulfill agreements as promised and has a strong desire (or benevolence) to serve this particular buyer's needs. Therefore, the buyer will be willing to take risks and to cooperate and integrate his resources with the supplier. Possessing trust lower transaction costs and prevents opportunistic behavior in inter-firm collaboration, thus allowing firms to invest more resources into collaborative innovation activities (Wang et al., 2011). In an earlier study by Morgan and Hunt (1994), the authors posited and tested a theoretically-driven relationship between trust and relationship commitment and between trust and cooperation. Both relationships proved significant and positive. Their definition of cooperation is similar to our definition of supplier integration and therefore, we hypothesize that there exists a direct relationship between trust and supplier integration and an indirect one through commitment. So, we propose that:

H3: The higher the level of trust with the buying organization on a given supplier the better is the supplier integration.

H4: The higher the level of trust with the buying organization the higher is the level of relationship commitment.

2.4 Relationship Commitment

Commitment has emerged in the literature as a critically important element for effective relationships. Relationship Commitment is defined as an enduring desire to maintain a valued relationship (Hofenk D, et al., 2011). Relationship commitment increases the exchange partners' confidence in the effectiveness of future relational exchange, motivating the exchange partners to maintain the relationship. It also emphasizes shared values and long-term attachment within an inter-organizational relationship. As a result, relationship commitment ensures interactions between the partners (Zhao X, et al., 2011). In order to have a higher degree of integration with the supplier or customer, there has to be information sharing, coordination, and synchronization of the processes between the buyer and the supplier or the customer. For this to occur, relationship commitment can work as an enabler. In the reviewed studies commitment was found to be positively and directly related to relationship effectiveness and integration (Hofenk D, et al., 2011; Kwon Y, 2011; Zhao X, et al., 2011). Thus our proposal is:

H5: The Higher the level of relationship commitment the higher is the level of supplier 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 are knowledgeable about their firm's functional activities through a well-designed questionnaire. The main target populations of our study were those who are 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 (SMP) mainly depends on three important integrations namely, supplier integration, internal integration and customer integration. In this paper we wanted to see how supplier integration influences on supply management performance in terms of supplier trust, supplier commitment and supplier coercive power. The set of these three main factors is again related with a number of other factors such as supplier commitment, information technology, supplier functional quality, supplier technical quality, supplier competence, supplier adjustment, supplier conflict handling, and relationship termination cost with the supplier. Each of these factors is composed of a number of sub factors.

Table 1 shows the responses of the SME's for the suppliers commitments. In almost all the dimensions to find out the suppliers commitments in supplier integration the SME's in Oman has positive responses. This shows SME's in Oman has strong relationship with their supplier.

Table 1: Supplier commitments response of SME's

Dimensions	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Deciding to work with this supplier was a definite mistake by the our business	2.9	29.4	29.4	35.3	2.9
The supplier makes adjustments to meet our needs	11.8	76.5	8.8	2.9	0.0
The supplier makes its products to our needs	17.6	58.8	23.5	0.0	0.0
The supplier is flexible when our product requirement/offering is changed	14.7	70.6	14.7	0.0	0.0
The supplier is flexible when our production or sales process is changed	11.8	61.8	23.5	2.9	0.0
Our business does feel a strong sense of belonging to the supplier	14.7	58.8	17.6	5.9	2.9
It would be very hard for our business to leave the supplier with existing relationship, even if we wanted to	11.8	70.6	14.7	2.9	0.0
The supplier deserves our business loyalty	11.8	70.6	17.6	0.0	0.0
Our business has sense of obligation to the supplier	14.7	55.9	20.6	5.9	2.9
Our business does feel like 'part of the family' with the supplier	8.8	47.1	38.2	5.9	0.0
The supplier spends much energy in our business relationship	17.6	61.8	20.6	0.0	0.0
Our business has the intentions to maintain and develop this relationship because we like to be associated with it	20.6	64.7	14.7	0.0	0.0

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

Table 2: Supplier trust (Benevolence)

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Even in the change circumstances, supplier will be ready to offer us assistance and support	20.6	55.9	23.5	0.0	0.0
In making important decisions, supplier is concerned about our welfare	17.6	61.8	17.6	0.0	2.9
When we share our problems with the supplier, we know that it will respond with understanding	17.6	61.8	17.6	2.9	0.0
Accountability exists in supplier	14.7	67.6	17.6	0.0	0.0
When it comes to things that are important to us, we can depend on the supplier's support	17.6	64.7	17.6	0.0	0.0

Table 3 shows the responses of the SME's for the supplies coercive power. In almost all the four dimensions to find out the suppliers coercive power in supplier integration the SME's in Oman have positive responses. Though the SME's are not strongly agree in but more than 60% agree that the supplier has coercive power.

Table 3: Coercive power of the supplier

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
The supplier would somehow get back us if we did not do as they asked and they would have found out my business	2.9	55.9	35.3	5.9	0.0
The supplier often hinted that they would take certain actions that would reduce our profit if we did not go along with their requests	5.9	64.7	20.6	5.9	2.9
The supplier might have withdrawn certain needed service from us if we did not go along with them	2.9	61.8	29.4	5.9	0.0
If my business did not agree to their suggestions, the supplier could have made things more difficult for us	2.9	61.8	29.4	2.9	2.9

5. Conclusion

The aim of the paper is to see the relationship between supplier 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 supplier integration strongly influences on supply management performance in terms of supplier trust, supplier commitment and supplier coercive power. In future study a structural equation model will be developed to verify the current work findings.

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Biography

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