CHAPTER 1: INTRODUCTION

The competition in today’s business has shifted from “brand versus brand” or “store versus store” to supply chain versus supply chain (Boyer et al., 2005; Ketchen and Guinipero, 2004). In today’s competitive business environment, it is no longer an option to better manage and integrate the supply chain; it is a must (O’Connell, 1999; Spekman et al., 1998;). The success of any firm depends on its ability to manage and integrate its intricate network of relationship with its suppliers and customers. In the past decade there has been growing consensus concerning the strategic importance of integrating with suppliers, manufacturers and customers (Bowersox et al., 1989; Barrat, 2004; Rosenzweig et al., 2003). Increased globalization, rapidly changing technology, shorter product life cycles, a focus on efficiency and increasing customer expectations are some of the main factors that have pushed for integration and close relationships between supply chain partners. The integration of the supply chain towards a ‘seamless’ supply activity has become the priority for firms (Dierickx and Cool, 1989; Frohlich and Westbrook, 2001). The most successful manufacturers are those who have carefully linked their internal processes to external suppliers and customers in unique supply chains. In short, for the new millennium upstream and downstream integration with suppliers and customers has emerged as an important element of manufacturing strategy.

There are a number of industry examples which show the advantage of integrating well with suppliers and customers. The development of the channel partnership between Walmart and P&G helped in improving their profitability, and their joint business revenues have grew from $375 million in 1988 to over $4 billion in 2002 (Micheal, 2002). Similarly the collaborative relationship of General Motors with its suppliers helped in reducing vehicle development cycle times from four years to 18 months (Gutman, 2003). The collaborative relationship between
Michelin and Sears using collaborative planning forecasting and replenishment (CPFR) resulted in a 25% reduction in inventories (Steerman, 2003).

Literature has also shown that supply chain integration (SCI) improves customer service levels (Vickery et al., 2003), market share, sales (Carr and Pearson, 1999) and firm performance, (Frohlich et al., 2001), reduces uncertainty and cost throughout the manufacturing network (Lee, 1997 and Stank et al., 2001). Supply chain integration has been considered as an important supply chain management strategy which is expected to lead to better performance.

However, most of these studies have been done in the US and Western Europe. Hence, it is important to investigate the supply chain integration practices in the context of developing countries and examine how these practices impact financial performance of the firm. This gap triggers the investigation of the relationships between supply chain integration and performance in the context of a developing country, in this case, India.

India has achieved remarkable rate of growth in the past two decades in comparison to other developing countries. The manufacturing sector holds a key position in Indian economy, accounting for nearly 16% of the real GDP\(^1\). After liberalization of Indian economy, it has been center of attraction for foreign investors and many foreign manufacturing firms have entered into Indian market. Foreign manufacturers such as Ford, Hitachi, Panasonic, Pfizer, Volkswagen, Toyota, AstraZeneca, General Motors and others have established their manufacturing facilities in India. The presence of foreign manufacturing companies has created great challenges for Indian manufacturers. According to McKinsey and Company, Indian manufacturers need to adopt new and different business models to compete with their foreign counterparts. To execute

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\(^1\)http://www.ibef.org/industry/manufacturing-sector-india.aspx
these business models successfully, they need to build a global mindset, develop facilities of world-class scale to achieve cost excellence, establish a world-wide marketing capability and strive to efficiently manage their supply chain. Hence, this study investigates the impact of supply chain integration on financial performance of the firms located in India.

As inferred from the literature, the relationship between supply chain integration and financial performance are mediated though some immediate performance outcomes such as customer service or manufacturing capabilities. This study considers three dimensions of supply chain integration viz. supplier integration, customer integration and internal integration and argues that these dimensions would lead to different immediate performance outcomes. For instance, if a company is well integrated only with its suppliers, their relationship would lead to some performance improvement. However, this performance improvement would be different from a company integrated only with its customers. Similarly, a firm focusing only on internal integration may achieve certain performance improvements which would be different from a firm focusing only on external integration, i.e., integration with suppliers and customers. Hence, the current study identifies immediate performance outcome of supplier integration, customer integration and internal integration. The immediate performance outcome resulting from supplier integration has been labeled as supplier related performance outcome (SRPO). Similarly, the immediate performance outcomes resulting from customer integration and internal integration have been labeled as customer related performance outcome (CRPO) and manufacturing related performance outcome (MRPO), respectively. Further, the study investigates the direct and indirect impact of different dimensions of SCI on financial performance of firm. The indirect impact of dimensions of SCI on financial performance is investigated via their corresponding immediate performance outcomes.
The significance of this study lies in its potential contribution to both the academic literature and managerial practices. From the research perspective, this research identifies the immediate performance outcome of three dimensions of supply chain integration viz. supplier integration, customer integration and internal integration and develops valid and reliable instruments to measure these constructs viz. supplier related performance outcome, customer related performance outcome and manufacturing related performance outcome. Further, it confirms the indirect positive relationship between dimensions of supply chain integration on financial performance in the context of developing country. The indirect impact of dimensions of SCI on financial performance is via their corresponding immediate performance outcomes. From the business perspective, this study provides valuable insights managers in designing and implementing supply chain integration practices in India. Since, all the three dimensions of SCI leads to better financial performance via their immediate performance outcomes, the managers can decide whether to concentrate on supplier integration, customer integration or internal integration based on their varying importance to their business.

This thesis is presented in seven chapters. Chapter 2 presents the literature review and highlights the research gaps in the current literature. Chapter 3 presents the theoretical background, conceptual framework and lists the research objectives and hypotheses. Instrument development and item generation for new constructs- supplier related performance outcome, customer related performance outcome and manufacturing related performance outcome are presented in Chapter 4. Data collection methodology is discussed in Chapter 5. Data analysis and results of hypothesis testing are presented in Chapter 6. Chapter 7 concludes the thesis with discussion of managerial implications, research implications and highlights directions of future research.