

**A STUDY ON CUSTOMER-SUPPLIER RELATIONSHIP (TRUST,
COMMUNICATION AND COMMITMENT) FOR MANUFACTURING FIRMS IN
PENANG FROM THE PERSPECTIVE OF
SUPPLY CHAIN MANAGEMENT MEASURES.**

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ABSTRAK

Prestasi pengurusan rangkaian bekalan (PRB) dan perhubungan pelanggan-pembekal adalah dilihat sebagai subjek berasingan. Faktor perhubungan telah dibuktikan kepentingannya dalam memajukan proses perniagaan. Namun begitu, percantuman antara perhubungan dan prestasi PRB tidak diberi fokus secara meluas. Tujuan penyelidikan ini adalah untuk meningkatkan pemahaman perhubungan antara pelanggan-pembekal secara mendalam berdasarkan kepercayaan, komunikasi dan komitmen, untuk memajukan PRB di sektor pembuatan. Sejumlah 300 borang soal selidik telah diedarkan melalui penghantaran surat, email dan serah secara tangan kepada responden di sektor pembuatan, 112 borang yang baik diterima balik. Analisis regresi berperingkat menunjukkan, bahawa kepercayaan menyumbang kepada kemajuan prestasi secara berkesan, sementara komunikasi dan komitmen tidak. Analisis kesan perantaraan mendapati, kepercayaan mencelah secara penuh hubungan antara komunikasi dan komitmen. Kedua-dua padanan perbezaan dan interaksi tidak menyumbang kepada kemajuan prestasi PRB. Dicaadangkan bahawa dalam penyelidikan masa hadapan, ujian secara meluas perlu di lakukan untuk menyiasat pelbagai kesan tentang padanan perbezaan dan interaksi ini.

ABSTRACT

Supply Chain Management (SCM) performance and customer-supplier relationships have been seen as two separate subjects. While relationship factors have been proven to be important to improve the business process, interlink between relationships and SCM performance has not been focused extensively. The purpose of this research is to contribute to a greater understanding of the relationship between customer and supplier based on trust, communication, and commitment to improve the SCM performance in manufacturing sector. A structured questionnaire has been sent out by mail, email and hand delivery to 300 respondents in manufacturing sector in Penang, 112 usable questionnaires have been received back. Under the hierarchical regression analysis, trust has been concluded to be significant towards improving SCM performance, while communication and commitment did not significantly influence SCM performance. Mediating effect analysis found trusts fully mediated communication and commitment. Both differential and interaction fit were found to be insignificant towards improving SCM performance. It is suggested that in the future research, extensive tests should be conducted to further investigate multiple effects of the differential and interaction fit.

Chapter 1

INTRODUCTION

1.1 Introduction

The modern business environment is characterized by an ever-increasing competition and globalization (Chan & Qi, 2003). Manufacturers have been exploiting innovative technologies and strategies to enhance and sustain competitive advantage. Manufacturers face increasing pressure from customer requirements in product customization, quality improvement, and demand responsiveness. They also face the need to reduce production cost, shorten lead-time, and reduce inventory levels to ensure profitability.

In Malaysia, the manufacturing sector contributes 30.20 percent of GDP in year 2000, estimated at 30.40 percent in 2001 and 31.2 percent in 2002 (source FMM directory 2003). Out of this figure, it provides employment for 27.6% in 2000 and the figure is estimated to remain stable for the subsequent two years. The manufacturing sector remains a key sector for the development of Malaysia's economy.

Supply Chain Management (SCM) is the business improvement tool that links a chain of suppliers, manufacturers, distributors, retailers, that transform their operations and tactics with a more innovative and aggressive supply network (Poirier, 1999). Customer Relationship Management (CRM) defines excellent real time customer services by developing a relationship with each valued customer through effective use of individual account information (Kotler, 2003). If we look at the chain, each of the linkage between supplier-manufacturer, manufacturer-distributor, distributor-retailer, and retailer-consumer; there is a CRM within it. CRM and SCM are interlinked over the chain.

People Soft (2003), examined the ‘great divide’ between SCM and CRM methodologies and approaches by exploring the business drivers behind demand and supply. They claim that failing to synchronize it can cause missed opportunities and poor performance.

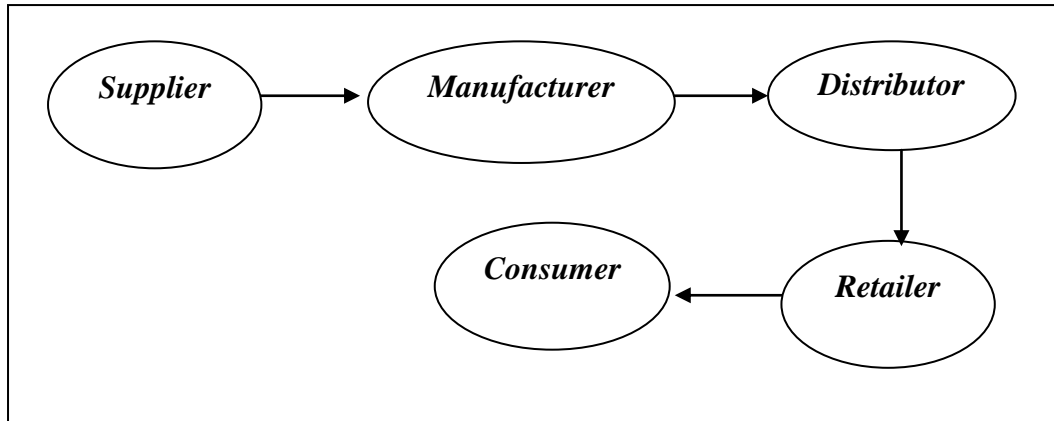


Figure 1.1 Basic supply chain Model

Figure 1.1 above represents a basic supply chain model, each arrow represent a CRM between the two parties.

Supply Chain Management is a new innovation, consisting of a set of tools that drive business processes and performance towards competitiveness; lower production cost, lower inventory indicator, and shorten lead-time. In other words, the reduction in operation costs would enable manufacturing firms to sustain their competitiveness while remaining profitable.

The SCM model was not standardized until the introduction of Supply Chain Operations References (SCOR) model in 1996, which was developed by Supply-Chain Council (SCC). SCC is a non-profit organization with the objective to standardize the practices in a more systematic way. To date, SCC has more than 800 Members Company worldwide.

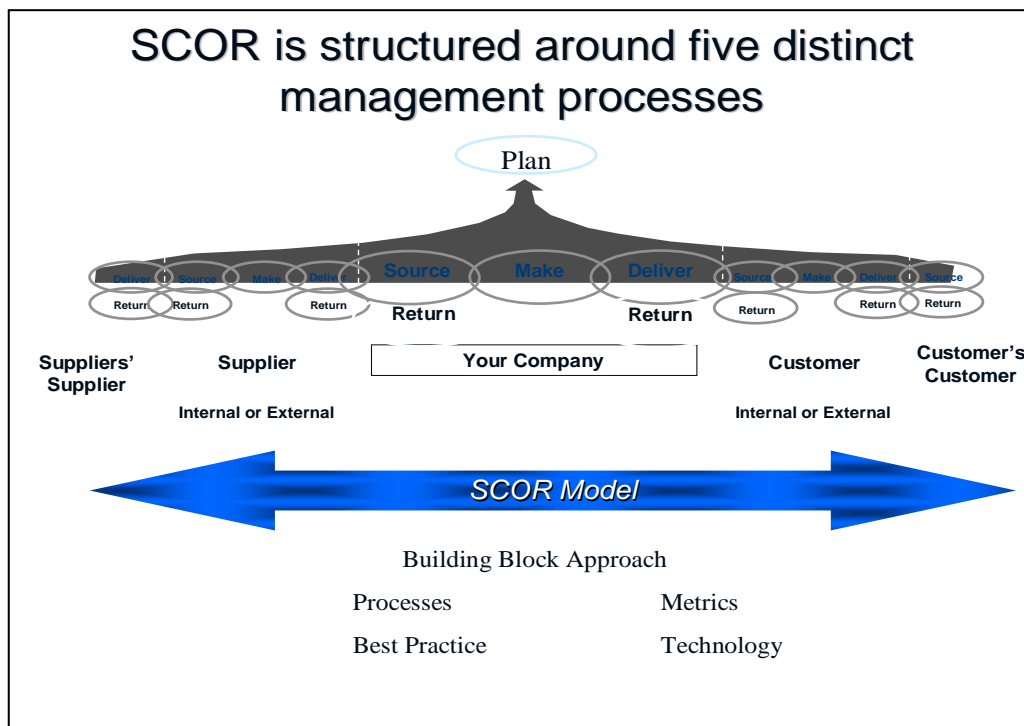


Figure 1.2 SCOR model (source SCC Jan 2003)

Figure 1.2 above is the SCOR model presented by SCC in their mini-seminar presented in January 2003. The model represent five distinct management process, using building block approach with emphasize on four dimension, processes, best practice, metric and technology.

The SCOR model defines the business processes and provides a comprehensive toolset linking business processes to metrics, best practices and technology (Stephen, 2001). Since then, SCOR model has become a process reference model for effective communication among trading partners (Reichardt & Nichols, 2003). It describes a supply-chain in five major performance indicators, which are reliability, responsiveness, flexibility, cost, and efficiency in asset utilization. SCOR model named it the five performances attributes. These five attributes interlink and drive business processes into becoming a better strategic vision for the firm in accomplishing tactical goal while meeting customer requirements.

Many writers (e.g. Tan, Lyman & Wisner, 2002; Gunasekaran, Patel & Tirtiroglu, 2001) have discussed at length about these performance indicators and the success of the model but they fail to integrate both into the customer-supplier relationship, which have long been rooted in the business process. This might be due to the fact that relationship in supply chain management is the most difficult and important component in effective SCM (Handfield & Nichols, 1999).

1.2 Background of the Study

Several researches (e.g. Stephen, 2001; Lambert & Pohlen, 2001) have been conducted on the excellence of SCM in regards to extend of use as a tool for improvement to sustain a firm's competitive advantage. The setbacks of these researches are that they focus more on manufacturers in developed countries. Therefore, in neglecting manufacturers' from developing countries, the real scenario in the manufacturing industry is not well understood. This is because firms are moving their manufacturing operations away from developed countries to developing nations in order to reduce their operations cost. Since cost reduction is closely linked to the establishment of SCM, it remains critical to investigate its performance in developing countries.

There is a growing gap in the performance between the leading and average companies. The more integrated firms perform better in comparison to the average fragmented company in an industry. The widening gaps explain the industry inequality. Leading supply-chain performers are applying new technology, new innovations, and new processes to great advantage. The average performers and the laggards have a limited window of opportunity to catch up.

While SCM has become a hot topic over the last decade, many writers were focusing on the macro view only. They failed to identify the problems faced by manufacturers in developing countries in SCM performance, let alone the operations within the firm.

In order to get the SCM models running in a large scale, commitment in a substantial amount of investment and top management are required in the information system, purchasing software, training and development. Manufacturers will face the problem of allocating sufficient resources to accommodate the requirements set by their customers.

Most SCM model use Electronic Data Interface (EDI) and the Internet to perform real time transaction and information database. Thus, management must commit to a new working environment. SCM helps manufacturers in reducing transaction cost, faster and more accurate information flow while maintaining global competitiveness (Stephen, 2001).

Besides, manufacturers have to deal with variables from multiple customers. There is much EDI software in the market, such as SAP, People Soft, JD Edward and BAAN are flowing among Multi National Corporations (MNC) with customized setting.

There are many problems that can cause a weak link among the manufacturers, such as poor customer service, company not profitable, weak cash flow, cycle times, poor quality, inventory, excessive transportation costs, and poor communication. These eventually affect their SCM performance.

Manufacturers must be willing to share information and communicate the plans in order to move forward to make their company successful. The trust element is very important in determining the success of SCM, by sharing information and

sharing risk towards achieving common goal. Sharing information and getting into the information highway, by using Internet, Electronic Data Interface (EDI), can led to supply chain partners agreeing upon expectations with their unique capabilities and expertise (Knechtges & Watts, 2000).

Among the various problems faced by manufacturers in Malaysia, this paper intends to study the relationship factors that could potentially contribute to the SCM performance. The relationship factor as described by trust, communication and commitment role in determining SCM performance.

1.3 Problem Statement

The outcome of the post-financial crisis witnessed many firms suffered from the lost of revenue and corporate confidence on the market. More importantly, relationship between suppliers and customers were affected to the extent that there exist no lax in payment terms. This phenomenon gives rise to the importance of firms in evaluating and strengthening their internal processes. By concentrating on the perceived lack of relationship management of the supplier-customer relationship, firms can realign its business processes to meet global challenges.

Due to this very reason, there has to be integration between SCM performance and customer-supplier relationships, which has been viewed as two separate subjects. Although relationship factors have been proven to be important to improve the business process, interlink between relationships and SCM performances have not been focused extensively. Therefore, the lack of understanding in the level of perceived trust, communication and commitment between manufacturers and their customers is surmised to be the cause of the decline in the performance of manufacturing firms.

1.4 Research Objectives

The principal purpose of this research is to contribute to a greater understanding of the relationship between customer and supplier based on trust, communication, and commitment to improve the SCM performance in manufacturing sector. This model has been expanded to the supplier's perception of his/her own relationship and supplier's perception of his/her customer's relationship. This model will also try to look at the gap between supplier's perception of his/her relationship and his/her customer's relationship, is there any difference between them and if they interact to create a better SCM performance.

This research intends to study the customer-supplier relationship for manufacturers in Malaysia, and their performance in Supply Chain Management (SCM).

Among the objectives, are

- 1) To identify the impact of Trust on the level of performance in SCM.
- 2) To identify the impact of Communication on the level of performance in SCM.
- 3) To identify the impact of Commitment on the level of performance in SCM.
- 4) To investigate the interaction of Trust, communication and commitment on performance in SCM.
- 5) To investigate the differential of trust, communication and commitment on performance in SCM.

1.5 Research Questions

This research intends to answer the following questions,

- 1) Does trust between manufacturers and his/her customers affect SCM performance?
- 2) Does communication between manufacturers and his/her customers affect SCM performance?
- 3) Does commitment between manufacturers and his/her customers affect SCM performance?
- 4) Can the interaction between customer and supplier's trust, communication and commitment explain the SCM performance?
- 5) Can the differentials between customer and supplier's trust, communication and commitment explain the SCM performance?

1.6 Definition of Key Terms

1.6.1 Trust

Trust is defined as the willingness to be vulnerable (Sharma, 2001), one party's confidence in an exchange partner's reliability and integrity (Morgan & Hunt, 1994). In business, trust involved honesty and dependability that they believed that their partners were reliable and would honor their promise. Trusting is a relationship enable exchange partner to make a leap of faith. So we can see there are many different level of trust, some company command greater trust compared to others. The fact is how well or how deeply the two partners trust each other; there will always be an area of difference because the two parties inevitably will have some goal difference (Kumar, 1996).

In this study, trust is defined as a mutual event, when one party trusts the other; he may expect the other party to trust them as well. Trust facilitates closer customer-supplier relationship by reducing the tendency of firms to take advantage of

each other, firm can be relied upon fulfill obligations, they will behave in a predictable manner, and act and negotiate fairly when the possibility of exploitation exist. Organizational culture, structure, and policies are also likely to affect the level of trust in the partnering organization. (Zaheer, McEvily & Perrone, 1998).

1.6.2 Communication

Scientific definition, described communication as a subject on which everyone has an opinion, usually at odds with everyone else, therefore misunderstandings will continue. Possible reasons are lack of thought, time pressure, proxy messengers and language problem. The role of communication intends to bring both sides into an effective working relationship (Fynes & Voss, 2002).

In this study, communication is defines as sharing with members of the target audience and reducing level of ambiguity. In SCM, communication happens between the finished line (demand), and the starting point (supply) and all components within the network chain. It must be able to communicate through the SCM network. The presence of information technology provides the infrastructure for information management. For ease of communication, electronic mail, web-base data search and transmission, the digitization and connectivity improve the responsiveness, transaction cost, and cost of operation.

1.6.3 Commitment

The presence of relationship commitment is central to successful relationship, not power and its ability to condition others. Commitment encourage firms to work at preserving relationship investments by cooperating with exchange partners, resist attractive short-term alternatives in favor of the long term benefit of staying with

existing partners, and view potential high risk action as being prudent. Consequently commitment produces an environment of harmony that will promote efficiency, productive, and effectiveness (Morgan & Hunt, 1994).

For this study, commitment is defines as how well mutual parties honor their promise, how they place priority and committed to the business contract. This must be built through the formulation in the company's policy. Shared thinking and commitment must replace fear, distrust, and arrogance to create and maintain an efficient supply chain. (Poirier, 1999)

1.6.4 SCM Performance Measures

SCM performance derives from objective tools of measurement in the business process with the objective of becoming lean, flexible and responsive. For this study, the best-known SCM performance measure is adopted from the Supply Chain Reference Model (SCOR) (refer figure 1.2). There are four building block approach suggested by SCOR model, metrics have been selected for this study. The metrics measures SCM performance on reliability, responsiveness, flexibility, cost and efficiency toward assets utilization.

1.7 Significance of Study

SCM has been viewed as an important tool in improving business performance. It is vital to study SCM performance in customer-supplier relationship dimension, in order to understand its impact on manufacturer's performances. With the research findings on the role of trust, communication, and commitment, it may help the policy makers and manufacturers to re-look at their current strategies to ensure the right emphasis have been put in place. In practical, the finding can be a

source of reference in decision making for middle manager in manufacturers to the succession of SCM performance.

1.8 Organization of Remaining Chapters

This report consists of five chapters; chapter one consists of an overview and background of the study. The business environment today, the popular tools in business processes, Supply Chain Management (SCM), the SCOR model and its measurement attributes, definition of the key variables, trust, communication, commitment and SCM performance. Chapter two presents the literature review on SCM, various views on the customer-supplier relationships, trust, communication and commitment. The model framework and hypotheses as proposed in the research. Chapter three present the methodology used in the study, questionnaire and measures development, data collection and further analysis on the study. Chapter four presents summary of the findings, statistical result, and relationship between variables. Chapter five concludes the discussion of the result, the implication and contribution and suggestion for future research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

Competition in the 21st century will no longer be firm against firm, but supply-chain against supply-chain (Johnson & Pyke, 2000). The rise of global markets, outsourcing and increasing virtual companies has focused management attention on competition between supply-chains.

Supply-chain has been viewed as a logistic function in the past, is no longer true. Today's supply-chain is an integration of multi-functions with the support of information technology. It integrates engineering, product design, manufacturing and logistics; a dynamic system that drives the technology and management changes.

The future trend will be towards a demand network and customer driven webs. "Supply-chain don't come by itself, it's an integrated system operating both intra-company and inter-company to operate globally on a real time basis, a web-based virtual system" (Johnson et al., 2000).

Relationships are a firm's most valuable resource due to the fact that, in today's business firms can no longer operate in a faceless environment. The increasing pressure towards customization, even though the same physical product is exchanged or the same service is delivered, the offering can be significantly different in other areas – one being the relationship between a seller and a buyer (Helfert, Ritter & Walter, 2002). The relationship between two actors has a history because the actors do remember (Helfert et al., 2002). They will take into account the history that form the relationship factor, eventually concluded the trust, communication and commitment level within the exchange activities.

Relationship topples the traditional requirement of product quality, good services and a competitive price. All these have changed from ‘enablers’ to become ‘qualifiers’ (Veloutsou, Saren & Tzokas, 2002). It can threaten and reduce the marketing effectiveness in the market place, still the marketing relationship play an important role in one-to-one interaction and mass-customization (Veloutsou et al., 2002).

Transaction Cost Theory describes strategic adaptation of firms to continually balance the external market coordination cost with internal control costs. Relational resources, such as partnership and alliances, further enhance the role of trust, increases informal institution of relationship, innovation and knowledge management (Morgan & Hunt, 2002).

2.2 Supply Chain Management (SCM)

SCM is the practice of coordinating the flow of goods, services, information and finances as they move from raw materials, to parts supplier, manufacturer, wholesaler, retailer, to customer. The simple supply chain model can be viewed at Figure 1.1. This process includes order generation, order taking, information feedback and the efficient and timely delivery of goods and services (Russell, 2001).

Advanced supply chain management is a practice used by leading companies to improve a total system of supply, linked directly to current demands in chosen markets, so that efficiency savings are accrued and shared across the network (Poirier, 1999).

SCM is a network of multiple businesses and relationships. It offers the opportunity to capture the synergy of intra-company and inter-company integration and management (Hyland, 2002). It is believed to be a significant driver in business

performance, to the extent that it warranted the Supply-Chain Council (SCC) to derive the Supply Chain Operation References (SCOR) model in 1996 (Stephen, 2001).

Since SCM can be viewed as an interlink between firms in the distribution channels in Channel Theory, it therefore can be defined as “a single entity that consists of a number of interdependent firms that are involved in the task of distribution of products to satisfy the ultimate consumer” (Svensson, 2002). The interdependency between firms will create necessity for co-ordination, synchronization, co-operation and integration between firms (Stephen, 2001). SCM is no longer a new thing as this relationship already exist far before the introduction of information technology that proliferate the real time response in the material and information flow in the SCM model.

SCM is an extension of the channel theory; they are the philosophy and tools that describe how this interdependence can work smoother in making demand visible to all exchange partners and the business process. How the extended business process can work better in improving customer demand to better supply replenishment?

Hyland (2002) describes supply chain as an uprooted tree where the branches are the customers and the roots are the suppliers, each firm will structure their chain based on three key elements: network structure, business processes and management. These elements consist of multiple relationships vis-à-vis their structural dimensions of the network and their processes. Hence, SCM facilitates the integration and alignment of operations to garner increases in the firm's overall business performance.

The business processes link customer relationship management, service level, demand pipeline and order fulfillment; subsequently, this link to the supplier relationship, manufacturing flow, product development and returns. The inter-firms

business processes that SCM intend to link with considering the complexity of the chain.

SCM's role in management component are the structure of the management itself, the planning and control operations, work and task structure, organization, facilities, information flows, power and leadership, culture and attitude, and anticipation of sharing risks and rewards across the chain (Hyland, 2002). Success of SCM lies on the understanding of coordinating each component and their interdependence.

Johnson and Pyke (2000), suggest a framework comprising of 12 components of a typical supply chain course. These are location, transportation and logistics, inventory and forecasting, marketing and channel restructuring, sourcing and supplier management, information and electronic mediated environments, product design and new product introduction, service and after sales support, reverse logistics and green issues, outsourcing and strategic alliances, metrics and incentives, and global issue. Additionally, Johnson and Pyke (2000) found that incentives play an important role in improving supply chain performance. On the other hand, Beth et al. (2003) found that supply chain modeling allows for a more effective management of risks and uncertainty in the market, which in turn increases cash flow and customer retention. Lynch (2003) added that the sharing between partners in the value chain generates up to 60 percent of the total innovation in the industry.

Chan and Qi (2003) describe SCM for modern business, as a revolutionary philosophy and approach to manage the business with sustained competitiveness. According to him, the existing performance measurement theory fails to provide the necessary support in strategy development, decision-making, and performance improvement. He proposes a more innovative performance measurement, a process

based systematic perspective model to measure the holistic performance of complex supply chains.

2.3 SCM Performance Measure

Over the last decade of evolution of SCM, a steady stream of articles dealing with the theory and practice of SCM have been published, but the topic of SCM performance measure does not receive adequate consideration in SCM (Beamon, 1999; Holmberg, 2000; Gunasekaran et al., 2001; Chan & Qi, 2003).

Several approach have been used as performance measures for SCM, but the most standardized and widely accepted model comes from the Supply Chain Council (SCC), Tan, Lyman and Wisner (2002), for example used a combination measure of performance, SCM practices and supplier evaluation practices for the study in strategic perspective. They describe the level of trust and communication as part of the SCM characteristics (Tan et al., 2002).

Gunasekaran, Patel and Tirtiroglu (2001) described SCM performance metrics at three main levels, strategic, tactical and operational; they created a framework of measurement align with firms eventual goal, that is customer satisfaction.

As an indispensable management tool, performance measure provides the necessary assistance for performance improvement in pursuit of supply chain excellence (Chan & Qi, 2003). Traditionally, performance measurement is defined as the process of quantifying effectiveness and efficiency of action (Chan & Qi, 2003). It also provides feedback to enable managers to monitor firm's performance, diagnose problems, to facilitate inter-understanding and integration among the Supply Chain member.

Beamon (1999)(in Chan & Qi.,2003) categorizes performance measures in two groups, qualitative and quantitative; in multiple dimensions, customer satisfaction, responsiveness, flexibility, supplier performance, cost and others.

Supply-chain performance measures, such as delivery, quality, time, and cost. Delivery refers to on time delivery of product and services. Quality is performance on product and services that meet customer satisfaction, create loyalty, and produce repeated order. Time refer to business cycle, replenishment time, number of days in account receivable. Cost is the direct and indirect cost associated with producing the product and services.

Metrics and incentives examine measurement and other organizational and economic issues (Johnson & Pyke, 2000). This category includes both measurement within the supply chain and industry benchmarking (CLM, 1994 & PRTM 1997). This metrics provides link between performance measurement and supply chain improvement.

2.3.1 Reliability

Reliability in supply chain is defined as how reliable is the order fulfillment, the delivery performance of each supplier in delivering product in seven dimension (CTO of Supply chain council, Stephen, 2001)

- a) Correct product
- b) Correct place
- c) Correct time
- d) Correct condition and packaging
- e) Correct quantity
- f) Correct documentation

g) Correct customer

Supply chain delivery reliability refers to the delivery performance; fill rates, perfect order fulfillment. It means delivering the correct product, to the correct place, at the correct time, in the correct condition and packaging, in the correct quantity, with the correct documentation, to the correct customer (Stephen, 2001).

Since SCM operates in a global business platform, reliability is essential to counter different cultures, long distance communication and expensive transportation cost. The most important thing is the time line in reaching market in the correct specification and condition.

The link of supply-chain that directly deals with customers is the delivery of goods or services, and therefore, it is called 'driver of customer satisfaction' (Gunasekaran et al., 2001). The delivery channel, vehicle scheduling, and warehouse location plays an important role in delivery performance.

2.3.2 Responsiveness

Responsiveness refers to the speed in providing product to customer, the order fulfillment lead-time (Stephen, 2001).

- a) How fast and dynamic is the supplier in responding and committing the order placed?
- b) How fast can they turn the order into delivery?
- c) How fast the speed of the suppliers in responds to customer request for technical and business issues, materials issues or operation issues?

In supply chain responsiveness, is commonly referred to as an order fulfillment lead times, how responsive are firm responses to customer's request (Stephen, 2001)? The customer query time, the time it takes for a firm to respond to

customer inquiry information (Gunasekaran et al., 2001). The customer's needed to be informed about the status of an order, the potential problems on stock availability and delivery.

2.3.3 Flexibility

Flexibility is the agility of supply-chain response to market changes to maintain competitive advantage, manage and operate the production that is product focused,

- a) Changing the production in product model and schedule without much hassle,
- b) Produce additional volume in short lead-time.

Flexibility of delivery system meets customer needs; it can positively influence the decision of customers to place order, winning and retaining customer (Gunasekaran et al., 2001). By being able to provide high flexibility customer will be more satisfied and willing to place more order, hence retaining bigger customer share. Technologies such as flexible manufacturing system (FMS), group technology (GT), computer integrated manufacturing (CIM), communication system (CS) and information technology (IT) make flexibility system important and have high impact on winning customers (Gunasekaran et al., 2001).

2.3.4 Cost

Supply chain cost refers to the cost associated with operating the supply chain, cost of good sold (COG), value added productivity, warranty returns, processing cost. Cost of goods sold (COGs) refers to,

- a) Cost of direct materials
- b) Cost of processing ordering and procurements man-hour

- c) Cost of transportation
- d) Cost of machine and manufacturing man-hour
- e) Cost of storage and inventory holding cost

The total business unit's cost of managing the planning, sourcing, producing and delivering (Reichardt & Nichols, 2003). By using economies of scale, appropriate capacity and location plant will improve the productivity and reduce the logistic, transportation and operating cost.

2.3.5 Efficiency in Assets Utilization

Effectiveness of organization in managing assets to support demand satisfaction, fix and variable cost, inventory turns, cash to cash cycle, assets turns and manufacturing throughput time (TPT). Return on investment, covering account receivable, plant, property and equipment. The overall flow of accounts receivable, inventory holding and accounts payable measures the health of the operation in financial position (Reichardt & Nichols, 2003).

2.4 Customer-Supplier Relationship

The study of customer-supplier relationships is grounded in some well-established framework such as transaction cost theory, political economy theory, social exchange theory, and resource dependency theory (Fynes & Voss 2002). In the manufacturing industry, inter-organizational relationships can improve performance and competitiveness of the firm. It improves cost effectiveness, quality; and creates competitive advantage, with the initiation of strategic alliances among the customers (buyer) and suppliers (seller). Strategic alliances help to improve the learning among

alliances that encourages mutual and reflective alliances, encourages higher levels of trust, communication and commitment (Love & Gunasekaran, 1999).

Beth et al. (2003), explains supply chain challenge today as building relationships. They argue that SCM is not just about software and systems, but extends to talent, as the technology and marketplace grow more complex, a pool of talented people is needed to work the system up.

In the relational exchange theory, explained in long-term relationship, a buyer and seller behave like a team to compete with other teams of buyers and sellers rather than competing with each other. Trust and Commitment are two important constructs that must be active throughout the duration of relationship (Sharma, 2001).

In the study of customer-supplier relational paradigm, trust identified was the most frequent used dimension. Other frequently cited dimensions were satisfaction, adaptation or transaction specific investments, power or dependence, communication, commitment and co-operation (Fynes & Voss, 2002). Relationships extending along a continuum from transactional exchanges through value added exchanges and finally to collaborative exchanges (Dyer & Ross, 2003).

The development and management of relationship extend to six markets according to Voloutsou et al. (2002), namely internal, customer, referral, supplier, influencer and employee recruitment markets. The marketer roles expand to customer advocate, internal integrator, and strategic director and within network organizations, partnership broker.

In a study done by Sharma (2001), long term relationships operate under the framework of cooperation, which need to be developed and managed for effective function. The roles of sales people include business communication, resolution of disputes, assessment of customer needs and helping management understand them,

enforcement of business processes, and selling new product to customers (Whiting, 1998; Sharma, 2001).

Nevertheless, a realistic conceptualization of inter-organizational relationship should include organizational perceptions (Tikkanen & Alajoutsijarvi, 2002). The organizational perceptions assessed should also consider the exchange quality or relationship-specific satisfaction between the various actors within and between organizations (Berger & Luckman, 1966). The structural characteristics of continuity, complexity, symmetry and informality are said to facilitate the exchange quality. On the other hand; adaptation, cooperation and conflict, social interaction as well as routinization remain essential dimensions in understanding the inter-organizational relationship (Hakansson & Snehota, 1995; Tikkanen & Alajoutsijarvi, 2002).

Today, the relationship has witnessed a shift from discrete transactions and short-term economic exchange to long-term inter-organizational relationship. This can be viewed from the perspective of historical path-dependency, where business performance in the future critically depends on the relationships formed and nurtured at present (Tikkanen & Alajoutsijarvi, 2002).

2.4.1 Trust

Modern business relationship has moved one step ahead and emphasized strongly on long-term relationship, which places more emphasis on value added services. Other elements such as communications, information exchange and level of trust and commitment are the key determinants of the business prosperity and choice of choosing business partnership. Trust is one of the key components in preserving the said long-term relationships. Yet, it's an incredible challenge to establish trust and maybe even harder to maintain it. Underlying the challenge is the question of how to

institutionalize trust between customer and supplier. Institutionalizing trust would enable the alliance between parties to continue even after the founder had departed (Beth et al., 2003).

The confidence an organization has in the ability and motivation of the alliance partner is surmised to produce positive outcomes for the organization (Sivadas & Dwyer, 2000; Khin, 2001). Khin (2001) added that establishment of trust among partners will ensure a positive climate for the successful relationships, which would lead to a sustainable long-term relationship. Thus, this enhances competitiveness as well as reduces transaction cost (Ikram, 2002).

In the business context, trust is rarely all encompassing; one may trust the partner in some issues but not others (Kumar, 1996). The elements of fairness, interdependence, and bilateral communication are required as the business transits from a power to trust game. It is a difficult task requiring changes in culture, management systems and attitudes (Kumar, 1996). Additionally, trust is a mechanism based on shared values and norms supporting the collective collaboration within the environment (Ikram, 2002). It is a necessary ingredient in a highly complex form of social relations and processes that are necessary for the generation and maintenance of collective action (Ikram, 2002).

Trust helps manufacturer relationships realize their full potential. When both sides trust each other, they are able to share confidential information, to invest in understanding each other business, to customize their information systems or dedicate people and resources to serve each other better. Trust saves monitoring cost, captures heart and minds of partners to go for extra miles (Kumar, 1996).

Trust enables fast decision, which lets you be more innovative and get rid of unproductive work (Beth et al., 2003). Lack of trust causes firms duplicate activities and resources, reduce the efficiency level.

The basic barriers in building trust among business partners are imbalance of power in term of size and leverage. The potential draw back will be, when the balance of power changes, victims will seek ways to resist, and finally provide better value to customer by exploiting each other. The way to build trust and establish a harmonious relationship is the alignment; align the interests of the multiple parties so that they have some common values and goals (Beth et al., 2003).

Trust is established when two parties doing things jointly and in an aligned fashion over a period of time with no major surprises (Beth et al., 2003). The interdependency plays an importance role in maintaining trust; company must work towards interdependency with each other; unless if they distrust each other, they then will move away from the interdependency with each other.

The supplier will try to build the trust by paying greater attention to their partner's preferences, encourage their employees to build personal relationship with their partners, assign dedicated employees to take care of customer's account, recruiting people, training people with stronger sense of customer relationship, and create values that common or similar with customer's objectives.

Social Exchange Theory (Heide, 1991; Ikram 2002) suggests that business activities are not just limited to exchange of product and services, but also extended to information exchange, problem-related exchange, only actors who trust and who are committed to the other side are willing to share information. Trust exists to the extent that a customer in a relationship believes the supplier to be honest, benevolent and