The Impact of Supply Chain Integration on Performance: Evidence from the UK Food Sector

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Abstract

Supply chain Integration has emerged as a major field of interest over the years that involve the strategic alignment of functions and processes within an organization. However, there have been major debates regarding the true design of the kinds of integration that would lead to performance of supply chains. This study develops a conceptual framework from the literature and defines four constructs of integration (customer, supplier, internal, and information integration) to see how this would lead to improved supply chain performance (such as production flexibility, inventory turns, order fulfillment rate, total logistics costs, and operational performance).

Keywords: Supply chain integration; supply chain performance; UK food sector; Information sharing

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1. Introduction

With the increasing level of competition in the global economy, the search of improved ways of gaining advantage to stay relevant or outwit the competition is evolving. This has made supply chain managers and professionals look at integration as a possible strategy of creating strategic partnerships to improve supply chain performance and achieve cost reduction and reduced lead time [1]. Models of most manufacturing organizations in the past were usually said to be vertically inclined with the focal firm fully or partially owning its raw material suppliers. However, firms realized the inefficiency and rigidity this model caused their supply chains in responding to changing market demands making them switch their models to a horizontal one where integration is chased with other companies that creates a high value chain [2]. Therefore the design and interaction of elements within a supply chain is of major significance [3].

Supply chain integration (SCI) is characterised by a situation where members along the supply chain collaborate and work together for better performance and profitability while meeting the demands of the customer. Firms integrating their information and material flow would lead to optimal management of the supply chain [4]. It involves the alignment of business functions internally within a firm and with its supply chain partners so as to reduce costs, increase customer value and overall performance across the supply chain for all partners [5].

Although the benefits of SCI are greatly covered in literature, the key design elements that will lead to improved performance have not been fully developed. Also there have been inconsistencies in the results as to whether integration really leads to improved supply chain performance. This study aims to make key contributions such as defining key performance indicators through which supply chain integration can be measured. This study defines four constructs of SC integration which are the customer, supplier, internal, and information integration. Customer integration involves the strategic competencies and activities firms apply in providing optimum services with customers through relationship building [5]. Supplier integration refers to the processes and steps involved in sharing information and joint planning with key suppliers to achieve stated objectives and goals of the focal firm with benefits of cost reduction, customer satisfaction and improved lead times [6]. Internal Integration has been said to be the foundation of other kinds of integration and is defined as the linkage of business processes of departments in an organization into a strategic fit for improved performance [7]. Finally, information integration involves the sharing of key information data among supply chain partners through IT systems in order to bring about mutually beneficial outcomes [8]. The study develops a conceptual model and applies to food manufacturing firms in the UK to test if supply chain performance can be achieved from this integrated design and help supply chain managers and professionals investing huge resources to achieve competitive advantage. The focus on food manufacturing industries is due to the fact that this sector is a major driver of the UK economy. The study therefore attempts to answer the research question ‘Does integration has an effect on supply chain performance?’

2. Supply Chain Integration

The rising level of competition that exists among firms globally has brought a shift to do more than just strategy formulation and implementation but to go beyond that and seek partnerships with other firms which would lead to competitive advantage in the market place [9]. Over the years, manufacturing firms have focused on developing strategies that would bring about the much desired level of change and operational performance in the organization. However, firms have realized that creating strategies along with integrating internal functions, suppliers and customers in a business relationship is the proper model for achieving competitive advantage [10]. This created the platform for supply chain Integration (SCI) as practice being adopted by firms that were striving to improve firm performance with closer relationships being built among other links in the supply chain [11]. The shift came with organizations moving from their previous strategies of vertical integration to being an association of firms that collaborate to procure, manufacture and supply products and services to their customers. SCI as a concept is concerned with the synergy that exists between the internal functions of a firm and its external activities across its supply chain that leads to organizational performance [12].
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