

## The effects of customer and supplier involvement on competitive advantage: An empirical study in China

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### ABSTRACT

The focus of this paper is on the effects of customer and supplier involvement on competitive advantage in the firm. Using the resource-based view and knowledge-based view of the firm, hypotheses are developed concerning customer involvement, supplier involvement, and competitive advantage. Hierarchical multiple regressions are employed to test the hypothesized relationships. The data used was collected from 139 Chinese manufacturing firms across different industries. Each variable except control variables in the model is measured by a number of scale items. Both reliability and validity (content validity, convergent validity, and discriminant validity) are demonstrated. The results of the regression analysis show that (1) customer involvement has positive impact on product quality, delivery reliability, process flexibility, and customer service; and (2) supplier involvement leads to decreased cost. These findings are interpreted in the context of Chinese manufacturing setting and enhance the understanding of the roles of customer and supplier involvement in China's business environment.

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### 1. Introduction

Since the mid-1990s, the strategic role of customer and supplier involvement has received considerable attention in academic and business journals as well as in the business practices (Chang, Chen, Lin, Tien & Sheu, 2006; Lundkvist & Yakhlef, 2004; Kaulio, 1998; Lengnick-Hall, 1996). As firms recognized the importance of customer and supplier involvement to their new product development (NPD) and new service development (NSD), the resource and co-producer role of customer and supplier involvement in the area of competitive advantage has increased in importance as well (Chang et al., 2006; Nambisan, 2002). In the service economy era, customer and supplier involvement were seen as strategic resources for reaching high quality levels, cost leadership, fast and reliable delivery, sufficient flexibility and satisfactory service. Companies including Chaparral Steel, Dell, and GE have already achieved an improved competitive position through better management of their customer and supplier

involvement (Carr & Pearson, 2002; Prahalad & Ramaswamy, 2000; Chase & Garvin, 1989). As for Chinese companies, interest in customer and supplier involvement also increased dramatically on account of gaining and retaining sustainable competitive advantage in the evolving local and global marketplace.

Although several studies have examined the effects of customer and supplier involvement on NPD and NSD, our understanding of how customer and supplier involvement impact on competitive advantage is still very limited. This study focuses on the resource-based view (RBV) and knowledge-based view (KBV) in an effort to place the relationships between customer and supplier involvement and competitive advantage in a theoretical context. RBV emphasizes the strategic importance of a firm's resources and capabilities (Carr & Pearson, 2002). Hart (1995) presents a framework to show that procurement, technology, design, production, distribution and service are capabilities of the firm. Further, Hart (1995) refers to Porter (1980) model of competitive advantage. In Porter (1980) model, customers and suppliers are seen as two of the driving forces of competitiveness in a firm. Thus, the model by Hart (1995) indicates that customers and suppliers can be important resources of the firm. Proposed by Grant (1996;1997), KBV suggests that firms exist as institutions for producing goods and services because they can create conditions under which individual can integrate their specialized knowledge and skills. However, the knowledge required by the products and services supplied is not entirely available from within the firm. Several studies suggest that firm should integrate and utilize the complementary knowledge and skills that customers and

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suppliers possessed to enhance their competitive advantage (Carr & Pearson, 2002; Chang et al., 2006). Although both RBV and KBV indicate that customer and supplier involvement could influence competitive advantage, there are few empirical evidences supporting this view. Our study tries to fill this gap by explicitly testing the effects of customer involvement and supplier involvement on different dimensions of competitive advantage.

Over the recent years, there is a growing tendency for scholars to investigate these effects in China, whose dynamic competitive environment and countless guanxi networks provide fertile ground for this research topic. With about 10% GDP growth per year for more than two decades, China has become the third largest economy in year 2008 (just after the U.S. and Japan). In addition, manufacturing accounts for more than one-third of the total GDP and contributes 94.54% of the export sales for China (Sun, 2009). Most Fortune 500 companies have built their manufacturing bases in China (Jiang, Baker & Frazier, 2009). China's manufacturing industries are evolving rapidly (the second largest manufacturing country in 2006) and play an important role in global businesses (Sun, 2009). However, Chinese firms also have to face many challenges at the same time, such as shortage of skillful labors, in low-end of industrial chain and low product added value. Moreover, China's new labor law, the appreciation of the RMB, and the global financial storm also bring great pressure to bear on Chinese manufacturing firms. Up to May 2009, 40% of the SMEs have gone bankruptcy in the financial crisis in China (Wang, 2009). In view of such serious situation, acquiring new competitive advantage is more important than any time before for Chinese manufacturing firms.

Besides, guanxi has been pervasive for centuries in every aspect of Chinese organizational activities. Modern Chinese society still operates within the realm of business guanxi networks (Tsang, 1998). Due to the existence of guanxi in China's culture, relationships between manufacturer and its customers and suppliers is becoming a matter of concern. Therefore, investigating the effects of customer involvement and supplier involvement on competitive advantage is much more favorable using data collected in China.

There are two research questions addressed in this study. First, what is the impact of customer involvement on competitive advantage? Second, what is the impact of supplier involvement on competitive advantage? The answer to these questions will contribute to both theory and practice. Five sections of this paper follow. In the next section, we review the literature on customer involvement, supplier involvement, and competitive advantage. Based on the literature review, research hypotheses are proposed. In Section 3,

data collection and questionnaire development are described. The research analyses and results, which include respondent profiles, measurement development and research hypotheses testing results are presented in Section 4. Section 5 discusses the research results and managerial implications. Finally, Section 6 presents the overall conclusions, limitations, and ideas for further research.

## 2. Theoretical background and research hypotheses

In this section, we review the literature related to customer involvement, supplier involvement, and competitive advantage. Based on the literature review, we develop the conceptual framework shown in Fig. 1 and propose the research hypotheses.

### 2.1. Customer involvement

Customers are seen as a new source of competitive advantage (Pralhad & Ramaswamy, 2000). Among technology researchers and innovation management practitioners involving customers in new service and product development earlier has become somewhat of a leap of faith in considerable literature (Kaulio, 1998; Nambisan, 2002; Lundkvist & Yakhlef, 2004). Kaulio (1998) argues that involving customer in NPD process is a source for generating new ideas. Nambisan (2002) addresses that customers can be involved not only in generating ideas for new products but also in co-creating them with firms, in testing finished products, providing product support, and continuous improvement. Lundkvist and Yakhlef (2004) also examine the impacts of customer involvement on NSD. More recently, Edvardsson, Gustafsson, Kristensson, Magnusson and Matthing (2006) argue that customer involvement in service development gives companies the potential to be more professional and successful in fulfilling customers' expectations, latent needs and service value.

There has been considerable discussion about how best to define and measure the construct customer involvement (Zaichkowsky, 1985). While most of the prior research investigates the impact of customer involvement on NPD and NSD, Lundkvist and Yakhlef (2004) suggest that customer involvement may tighten the feedback loop between the cycles of consumption and production. Thus, the customer involvement scale includes six items assessing the extent to which the firm incorporated the customer into product development and continuous improvement programs (Kaulio, 1998; Claycomb, Droge & Germain, 1999; Nambisan, 2002; Lin & Germain, 2004; Luteberget, 2005; Gummesson, 2007).

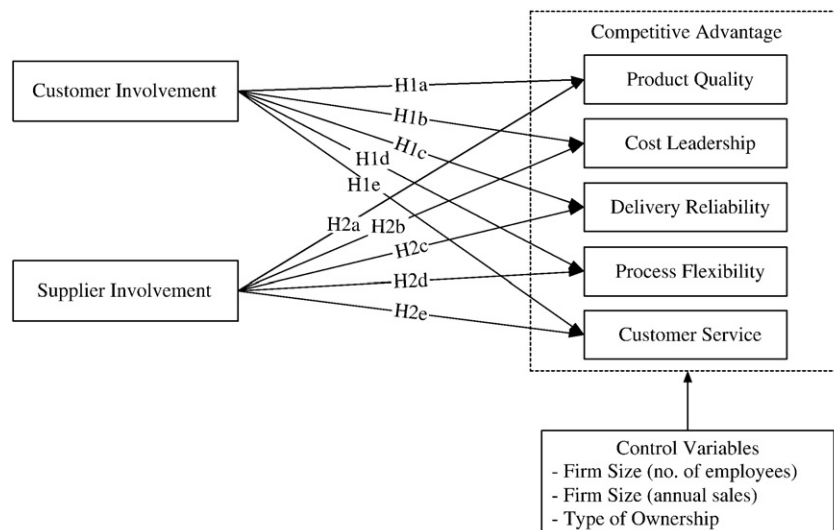


Fig. 1. Proposed model.

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