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# THE INFLUENCE OF STRATEGIC SERVICE COMPETENCE CHAIN MANAGEMENT TO RELATIONSHIP MARKETING BASED PERFORMANCE

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#### **ABSTRACT**

Using the relational marketing perspective theory of the firm to establish a theoritical foundation, this study serves to fill a gap in the supply chain service management literature with respect to supply chain service management performance and sales performance antecedent such as strategic service competence, degree of suppliers' integration, the perceived status function of supply chain service management, and firm size as a moderated variable. The sample used for this study consist of 216 respondents from 23 different manufacturers which had a network of suppliers, and about 73.1% had corporate-wide decision-making responsibilities. Confirmatory factor analyses provided evidence of adequate model fit, convergent and discriminant validity for the underlying variables, and respective factors in the model. The conceptual model and the hypothesized are tested using Structural Equation Modeling. Support was found for the causal relationship between variables in the models that strategic service competence based on relationship marketing, degree supplier's integration and perceived status function of supply chain service management by simultan directly had positive contribution on supply chain service management performance; interestingly, strategic service competence through degree supplier's integration, perceived status function of supply chain service management and supply chain service management performance had indirectly positive contribution on sales performance, and firm size as moderated had no contribution on relation between strategic service competence based on relationship marketing and supply chain service management's performance. This research indicated that the degree suppliers' integration and its perceived status function of supply chain service management are necessary resources to strengthen strategic competitive advantage of the firms. Professionals in the supply chain service management are endeavoring to improve relationship suppliers and to integrate these service activities in the strategy will increase firm's performance.

**Keywords:** Degree of suppliers integration, perceived status function of supply chain service management, performance and firm size, relationship marketing, strategic service competence.

## INTRODUCTION

Constant change in business environment, characterized by the intensification of knowledge network innovation economy, requires new insights in the formulation of strategic management services to the business model based on the development of sustainable advantage (Davenport, Leibold and Voelpel, 2006), and Megatrends based of economy, globalization, internet, demography, convergence, consolidation, brand, and outsourcing (Moe, 2007). Economy Knowledge provides an excellent value and customer satisfaction is a crucial issue and it is important for companies to compete in the era of globalization, and no doubt that the quality of service and customer satisfaction become the basis of achievement of corporate performance (Deng, Kuo and Chen, 2008). According to Rosa, Isabel, Pilar and John (2009) Customer Relationship Management performance measures are reviewed holistically against the internal factors, namely the strategy (business orientation, business climate and competitive strategy), resources (financial, human resources and technology), products & services (synergy of products/companies and superiority), customers (existing and prospects); and external factors (competition and market), and strategic orientation services competency with the support of information technology affect customer perceptions of employee service performance (Wu, Liang, Tung and Chang, 2008).

Baran, Galka and Strunk (2008) states Customer Relationship Management makes the company different from competitors and is not easily replicable because Customer Relationship Management is the basis of corporate culture; care, reproduce, and retain customers through strategies and tactics of Customer Relationship Management is very important, and facilitate obtaining customers. Customer Relationship Management to increase productivity through the overall marketing and marketing functions to support the manager with a series of marketing strategy, sales strategy, and management techniques that do not allow the previous publication. Empirical research to find the conclusion there is a correlation relationship between customer satisfaction, loyalty, retain customers, profits, and company value.

Research Accenture, Stanford, and INSEAD by Giunipero and Hanfield (2004) found 89% of senior executives of leading companies looking competencies of services (services competence) in the field of supply chain management based Relationship Marketing is very important for the company, and 89% also agreed that investment the service capabilities of the supply chain (supply chain capability services) increased in the last three years. Although previous studies have shown a strong relationship between supply chain management and corporate performance, but the strategic competence supply chain management services as antecedent and moderating variables firm size is still missing. Understanding further strategic competence service will further assist supply chain management professionals in rationalizing the investment decisions inter-departmental functions such as supplier relationship development, and recruitment, assessment and selection of appropriate staff skills.

# THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Strategic Services Competency Supply Chain Management. According to Tseng, Teng and Chiang (2007) a successful company is a company that can provide superior value to consumers and

consumers can reduce total costs through the supply network attachment compared to competitors. Supply chain management services using a global network of multinational resources, and innovation-based relationship marketing, and lead performance improvement of brand image, reputation, sales and profits, innovation and relationship (Ganesan, George and Jap, 2009). According Batterley (2004) Relationship Marketing is not the same as Customer Relationship Management, Customer Relationship Management is more related to technology infrastructure, Relationship Marketing first appeared, and then make the implementation of Customer Relationship Management Relationship Marketing occurs.

Relationship Marketing as a marketing activity that is directed to establish, develop and Relationship Marketing is a strategic orientation in running a business that is more focused to maintain and enhance relationships with customers than with creating a new customer (Batterley 2004; Christopher, Payne and Ballantyne, 2002; Lovelock, Patterson and Walker, 2001; Zeithaml and Bitner, 2003). Zeithmal and Bitner (2003) states there are three factors key to successful implementation of Relationship Marketing, namely: the quality of core services is the main basis for long-term relationship satisfaction and loyalty, market segmentation and target selection carefully, and monitoring the sustainability of relationships that fostered.

Dowling (2002) to search the development of customer relationship management as follows: (1) The concept of Customer Relationship Management is triggered by developments in information technology and statistical algorithms, and (2) Literature on the rapidly growing Customer Relationship Management in the context of marketing B2B (Business-to-Business) IMP (Industrial Marketing and Purchasing) Group is very famous in the contribution to the discourse of the characteristics and influence to establish long term relationships based on trust with customers. In facing the challenge of capacity utilization, supply chain management professionals to change from large quantity orders into an order-based decision services group, with implementing Just-In-Time (Antonette, Giunipero and Sawchuck, 2002).

Giunipero and Pearcy (2002) explains that the competence dimension of strategic services requires the buyer of a world class service have strategic thinking, research-based supply chain services; structure of the service supplier relationships; technology planning services, and target cost suppliers.

Carr and Pearson (2002) stated the functions of strategic supply chain management services in a way: first, provide the value of effective cost management functions for the production. Second, provide valuable information on trends of supply chain services that enable companies to take better decisions in order to achieve company goals. Third, build close relationships with suppliers to improve efficiency and quality delivery of raw materials.

Perception Function Status of Supply Chain Management Services. Monczka, Trent and Handfield (2002) stated the design and management organization structure of the new supply chain services changed substantially influenced by perceptions of the status of supply chain service management functions, and provides some characteristics of supply chain management organization of new services.

**Degree of Integration of Suppliers**. The degree of supplier integration is a supplier of service management activities are very important and can be used as a combination of internal resources

enterprise buyers with the resources and capabilities of selected key suppliers through the process of business relationships between companies in order to achieve competitive advantage (Wagner, 2003).

**Performance Management Supply Chain Services**. Supply chain management services is the integration of business processes from end-user value (end-users) to the original suppliers that provides products, services, and information that add value for customers (Antonette, Giunipero and Sawchuck, 2002).

The literature of supply chain performance management services to develop, first, the traditional understanding emphasizes the tactical services from logistics service management in assessing the performance of services, (Hult, Ketchen and Nichols, 2000; Sharland, Eltantawy and Giunipero, 2003). Second, understand the research reflects the evolution of supply chain management function services are services to be tactical and strategic services emphasize strategic service objectives.

**Sales Performance**. Sales performance is a construct, in which many experts still have different viewpoints in defining the performance of sales (Mwita, 2003). According to Phu, Kaiser and Laisney (2000), firm size (firm size) with an indicator of sales (sales) is significantly and positively affect firm performance.

Firm Size. Berkovitz and Mitchell (2007) say how big the organization is usually associated with organizational capital, and organizational capital includes financial capital, regular and predictable behavior in organizations (organizational routines) and external networks owned determine the vitality of the organization (long-term survival advantages). Research Macher and Boerner (2006) demonstrate the use of technology experience and economies of scale improve development performance, while economic skopa degrade performance. Macher and Boemer (2006) found no evidence of a complementary relationship between learning experiences and skopa economy. Rajan and Zingales (2001) classifies the theory of firm size into three (technological, organizational and institutional), they have different implications for the relationship between firm size and profitability (performance) through the so-called optional firm size and / or barriers to firm growth (performance). Based on theory and previous research, the hypothesis of this research is:

- H1: Strategic service competence of supply chain management affects the performance of supply chain management services.
- H2: Strategic service competence of supply chain management affects the degree of supplier integration.
- H3: Strategic service competence of supply chain management affects the perception of the status of supply chain service management function
- H4: The perception of the status of supply chain service management function affects the degree of supplier integration.
- H5: Degree of integration of suppliers affects the performance of supply chain management services.
- H6: The performance of supply chain management service affects sale performance.
- H7: Firm size moderation affects the Strategic service competence of supply chain management with the performance of supply chain management service.

## **METHODS**

The population in this study were large companies and was in Indonesia, which is engaged in the manufacturing industry, which according to Central Bureau of Statistics (BPS) totaled 20,324 in 2003 (BPS, 2005). Sample selection method used is a non-random (non-randomly sampling method), ie convenience sampling. The number of respondents who answered correctly and can be processed amounted to 216 respondents (manufacturing industry). Samples were obtained randomly (random), by distributing questionnaires to the leadership of a company that lists the names and addresses contained in STDI (Standard Trade & Industry Directory of Indonesia, 2007). In this study the procedures used Structural Equation Modeling (SEM) in the development and testing of models and data processing research. Operationalization of each of these variables is needed in statistical analysis and their sources are presented in Table 1 as follows:

Table 1: Variables and Operational Indicators

No.	Variable	Indicators	Source	
1	Strategic Service Competence (KS)	<ul> <li>Analytical</li> <li>Understanding of general business conditions</li> <li>Management of supply chain-based services</li> <li>Skills project management services</li> <li>Planning</li> <li>The idea of strategic services</li> <li>Structure of supplier relationships</li> </ul>	Anderson and Katz (1998); and Monczka, Trent and Handfield, (2002); Giunipero and Pearcy (2000); Eltantawy (2005); Rudyanto (2006)	
2	Supplier Integration Degree (IS)	<ul> <li>Strategic cost management</li> <li>Sharing data with our suppliers forecasting</li> <li>Involved in obtaining potential suppliers</li> <li>Using a reward-risk sharing with suppliers</li> <li>demand-pull system</li> </ul>	McGinnis and Vallopra (1999); Eltantawy (2005); Rudyanto (2006)	
3	Status perception of Supply Chain Management Services (PS)	<ul> <li>Perception of the status of supply chain service management functions within the organization</li> <li>The view of top management in supply chain management training services</li> <li>When business activity declines, budget management training supply chain services to be down.</li> </ul>	Goebel, Marshall and Locander (2003); Eltantawy (2005)  Giunipero and Flint (2001); Eltantawy (2005) Cravins, Ingram, LaFargo and Young (1993); Eltantawy (2005); Rudyanto (2006)	
4	Service Performance of Chain Management Service (KM)	<ul> <li>For top management that supplies chain management services act as a source of corporate excellence.</li> <li>supply chain management services is very important to improve corporate profits.</li> <li>supply chain management services is essential to increase profits for our customers.</li> <li>supply chain management services is to increase profit as the supplier</li> </ul>	Cravins, Ingram, LaForge and Young (1993); Eltantawy (2005); Rudyanto (2006)	
5	Sale Performance (KP)	- Total Sale	Phu, Kaiser and Laisney (2000)	
6	Firm Size (FS)	- Number or Employee	Harhoff et. al., (1998) Almus and Nerlinger (1999)	

Validity and Reliability Test. Table 2 states the standard factor loading value greater than or equal to 0.50 indicates a good validity value of a variable measure of latent variables. Reliability is

expressed both latent variables, if the value of the construct reliability was  $\geq 0.70$ , and the variance extracted was  $\geq 0.50$  (Hair et al., 2010). Confirmatory factor analysis showed the test results match well with the structural model indicators as follows: NFI = 0.97, NNFI = 0.99, CFI = 0.99, RFI = 0.96, RMSEA = 0.047, standardized RMR = 0.060, Chi Square (df 146) = 215.70, and GFI = 0.89.

Table 2: The Calculation of Construct Reliability and Variance Extracted

Indicators	Sum of Std. Loading	Sum of Measurement Errors	Sum of Squares Std. Loading	Construct Reliability Value ≥ 0,70	Variance Extracted Value ≥ 0,50
KS1	0,87	0,24	0,7569		
KS2	0.81	0,35	0,6561		
KS3	0,83	0,31	0,6889		
KS4	0,77	0,41	0,5929		
KS5	0,74	0,46	0,5476	0.001502	0.571922
KS6	0,71	0,49	0,5041	0,901502	0,571832
KS7	0,51	0,74	0,2601		
$(\sum Std. \ Loading)^2$	5,24	_	-		
$\sum e_{i}$	-	3,00	-		
$\sum Std$ . Loading <sup>2</sup>	-	-	4,0066		
IS1	0,59	0,66	0,3481		
IS2	0,80	0,35	0,6400		
IS3	0,76	0,42	0,5776		
IS4	0,64	0,59	0,4096	0.902444	
IS5	0,54	0,71	0,2916	0,802444	0,543661
$(\sum Std. \ Loading)^2$	3,33	-	-		
$\sum e_i$	-	2,73	-		
$\sum Std$ . Loading <sup>2</sup>	-	-	2,2669		
PS1	0,81	0,34	0,6561		
PS2	0,78	0,39	0,6084		
$(\sum Std. Loading)^2$	1,59	-	-	0,775943	0,633993
$\sum e_i$	-	0,73	-	•	
$\sum Std$ . Loading <sup>2</sup>	-	-	1,2645		
KM1	0,73	0,46	0,5329		
KM2	0,76	0,43	0,5776		
KM3	0,72	0,48	0,5184		
KM4	0,61	0,63	0,3721	0,799043	0,500125
$(\sum Std. Loading)^2$	2,82	-	-	•	•
$\sum e_i$	-	2,00	-		
$\sum_{i=1}^{J} Std. Loading^2$	-	-	2,001		

Structural Model and Hypothesis Testing, Direct Effect, Indirect Effect and the Influence of Total Direct Impact. Table 4 shows the five latent variables of the six latent variables supported the hypothesis proposed. Strategic Services Competency Supply Chain Management has positive and significant impact on Supply Chain Performance Management Service with t-value 3.12 and the standardized coefficient 0.32, so the sample data support the hypothesis of truth 1. Strategic Services Competency Supply Chain Management has positive and significant impact on Supplier Integration Degrees variables with t-value 2.24 and the standardized coefficient 0.25, meaning that the sample data support the truth of hypothesis 2.

Strategic Services Competency Supply Chain Management has positive and significant impact on perceptions Status Functions Supply Chain Management Services with t-value 6.74 and the standardized coefficient 0.58, which means the sample data support the truth of hypothesis 3.

Perception Status Functions Supply Chain Management has positive and significant impact on Supplier Integration Degrees with t-value 5.92 and the standardized coefficient 0.67, meaning that the sample data support the hypothesis 4.

The degree of integration of suppliers has positive and significant impact on Supply Chain Performance Management Service with t-value 4.97 and the standardized coefficient 0.66, which means the sample data support the hypothesis of truth 5. Performance Management Supply Chain Services has positive and significant impact on Sales Performance with t-value 7.55 and the standardized coefficient 0.51, meaning that the sample data support the hypothesis 6.

Moderating variable Firm Size does not affect and not significant to the relationship of Strategic Services Competency Supply Chain Management on Supply Chain Performance Management Services, because the t-value 0.77 (<1.96) and standardized coefficient 0.04, meaning that the sample data do not support the hypothesis 7 (Table 4).

Table 3: Fitness Test of Structural Model

No.	Indicator	Standard Indicator	Note
1.	$X^2 = 294,09 < 304$	$0 \le X^2 \le 2df$	good
	$X^2/df = 1,9348$	$0 \le X^2/df \le 2$	good
2.	RMSEA = 0,066	.05 < RMSEA < .08	good
	p value for test of close fit (RMSEA < .05)	$.10 \le p \le 1.00$	
3.	Model ECVI = 1,91 Saturated ECVI = 1,95 Independende ECVI = 30,66	ECVI is smaller compared with comparison model	good
4.	Model AIC = 410,09 is closer to Saturated AIC = 410,09 compared with Independence AIC = 6679,07	AIC is smaller than comparision model	good
5.	NFI = 0.96	$.95 \le p \le 1.00$	good
	NNFI = 0.97	$.97 \le p \le 1.00$	
6.	NNFI = 0.987	$.97 \le p \le 1.00$	Good
7.	IFI = 0.98	$.97 \le p \le 1.00$	good
	RFI = 0,94	$.90 \le p \le 1.00$	C
8.	Standardized RMR = $0,064$	> 0,05	Good
9.	GFI = 0.86	$.90 \le p \le 1.00$	Marginal
	AGFI = 0.81	$.80 \le p \le 0.90$	
	Conclusion: Fitness of all models is good		

Table 4: Result of Hypothesis Testing

Hypothesis	Path	Standardized Solution	t-value	Conclusion
1	Strategic Competency → Management Performance	0.32	3.12	Accept Hypothesis 1
2	Strategic Competency $\rightarrow$ Supplier Integration Degree	0.25	2.24	Accept Hypothesis 2
3	Strategic Competency → Perception of Function Status	0.58	6.74	Accept Hypothesis 3
4	Perception of Function Status → Supplier Integration Degree	0.67	5.92	Accept Hypothesis 4
5	Supplier Integration Degree $\rightarrow$ Management Performance	0.66	4.97	Accept Hypothesis 5
6	Management Performance $\rightarrow$ Sales Performance	0.51	7.55	Accept Hypothesis 6
7	Firm Size → Management Performance	0.04	0.77	Reject Hypothesis 7

Indirect Effect and Total Effect. The test results showed evidence of structural construct a good fit statistics: Chi Square = 294.09, p = 0.00000, df = 1.9348, Goodness of Fit Index (GFI) = .86, Comparative Fit Index (CFI) = 0.98; Incremental Fit Index (IFI) = 0.99, RMSEA = 0.066; Standard Root Mean Square Residual = 0.32. No modifications to the structural model of this research, the model shows the suitability model.

Table 5: Direct Effect, Indirect Effect and Total Effect

No.	Path	Intervening	Direct effect	Indirect effect	Total effect
1.a.	$KS \rightarrow KM$	-	0.32	-	0.74
1.b.	$KS \rightarrow KM$	IS	-	0.17	-
1.c.	$KS \rightarrow KM$	PS, IS	-	0.25	-
2.a.	$KS \rightarrow IS$	-	0.25	-	0.64
2.b.	$KS \rightarrow IS$	PS	-	0.39	-
3	$KS \rightarrow PS$		0.58	-	0.58
4.a.	$KS \rightarrow KP$	KM	-	0.17	0.38
4.b.	$KS \rightarrow KP$	IS, KM	-	0.08	-
4.c.	$KS \rightarrow KP$	PS, IS, KM	-	0.13	-
5	$IS \rightarrow KP$	KM	-	0.34	0.34
6	$IS \rightarrow KM$	-	0.66	-	0.66
7	$PS \rightarrow KP$	IS,KM	-	0.22	0.22
8	$PS \rightarrow KM$	IS	-	0.44	0.44
9	$PS \rightarrow IS$	-	0.67	-	0.67
10	$FS \rightarrow KP$	KM	-	0.02	0.02
11	$KS*FS \rightarrow KM$	-	0.04	-	0.04
12	$KM \rightarrow IS$	-	-	0.51	0.51

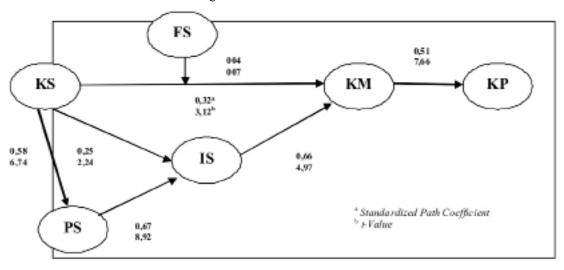


Figure 1: Research Result Model

## RESULT AND DISCUSSION

Hypothesis 1 stated competence of the service supply chain management strategy has positive and significant impact on the performance of supply chain management services. In this study testing the hypothesis a t-value produce standardized coefficient 3.12 and 0.32. This means the higher the strategic competence supply chain management, the higher the performance of supply chain management.

Hypothesis 2 states the competence of the service supply chain management strategy has positive and significant impact on the degree of integration of suppliers. In this research, testing hypothesis 2 to produce t-value 2.24 and the standardized coefficient 0.25. This means that the stronger the strategic competencies possessed the stronger the (positive) degree of integration of suppliers.

Hypothesis 3 states the competence of the service supply chain management strategy has positive and significant impact on perceptions of the status of supply chain service management functions. In this research testing hypothesis 3 produces t-value 6.74 and the standardized coefficient 0.58. This means that the stronger the strategic competence has, the stronger the (positive) perception of the status of supply chain service management function.

Hypothesis 4 states the perception of the status of supply chain service management function has positive and significant impact on the degree of integration of suppliers. In this research, hypothesis testing 4 to produce t-value 6.92 and the standardized coefficient 0.67. This means that the stronger the perception of the status of supply chain service management function has, the stronger the degree of integration of suppliers.

Hypothesis 5 states that the degree of supplier integration has positive and significant impact on the performance of supply chain management services. In this research hypothesis 5 t-value produce standardized coefficient 4.97 and 0.66. This means that the degree of integration of suppliers who owned, the stronger the (positive) perception of the performance of supply chain management services. Hypothesis 6 states that the performance of supply chain management services has positive

and significant impact on sales performance. In this research hypothesis 6 the more performance management of supply chain services that are owned, the more or the positive sales performance.

Hypothesis 7 states moderating variables that proxy firm size by number of employees has no effect and no significant effect on the relationship of strategic competence supply chain management services and performance management of supply chain services. In this research hypothesis 7 produces t-value is only 0.77 (less than 1.96) and standardized coefficient value of 0.04 (less than 0.05). This means that the large number of employees has no effect on the relationship of strategic competence supply chain management services with the performance of supply chain management services.

#### **CONCLUSION**

In summary the findings of the overall study testing the following:

- a. Service competency-based supply chain management strategic relationship marketing has a positive influence on the performance of supply chain management services.
- b. Service competency-based supply chain management strategic relationship marketing has a positive influence on the degree of supplier integration.
- c. Competence strategic supply chain management services have a positive influence on perceptions of the status of supply chain service management function.
- d. Perception of the status of supply chain service management function has a positive influence on the degree of supplier integration.
- e. The degree of supplier integration has positive and significant impact on the performance of supply chain management services.
- f. Performance management of supply chain services has positive and significant impact on sales performance.
- g. Moderation variables that proxy firm size by number of employees has no effect and no significant effect on the relationship of strategic competence supply chain management services and performance management of supply chain services.

Some managerial implications are derived based on research results:

- The supply chain management professionals need to consider the ability of service competencybased supply chain management strategic relationship marketing that can be used as a means to improve company performance.
- 2) The results of this research can be a reference for supply chain management professionals to enhance competency-based strategic service relationship marketing.
- 3) Competence strategic supply chain management services, the degree of integration of suppliers and the perception of the status of supply chain service management function based relationship marketing is the company's resources.

Suggestions for further research:

- a. Research on the perception of the status of the relationship of supply chain service management function based on relationship marketing and supply chain performance management services need to be tested in future research.
- b. Future research can be expanded in supply chain management professional staff in relations with suppliers that focus on indications of service competition, the ability of responsiveness (responsiveness) and flexibility of service delivery products and services, as well as professional front line staff.
- c. The addition of variable competence indicators of strategic service supply chain management, supply chain performance management services, the degree of supplier integration, and perception of the status of supply chain service management functions should be developed.

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