

## **Effects of Supplier Relationship Management on the Performance of Organizations in Selected Sugar Companies in Western Kenya**

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**Abstract:** *This study was aimed at filling these gaps on how supplier relations management could be used to enhance the performance of the sugar industry in Kenya. The study was guided by the following research objectives, to: determine the effect of the organization structure in the performance of an organization, determine the effect of value measurement on the performance of an organization, determine the effect of collaboration on the performance of organizations and finally determine the effects of technology in the performance of an organizations. The study adopted a survey and targeted the management and the procurement staff of the three selected sugar companies in western Kenya which are Mumias, West Kenya and Butali Sugar Companies. The study targeted the 25 departmental staff in the three companies' and inclusive of the three procurement managers who head the respective procurement departments in the companies. A total of 25 respondents were therefore targeted. The research employed a census study design. The sample size of the study comprised of 25 respondents. The questionnaires were issued to the procurement staff through their respective managers.*

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### **I. Introduction**

#### **1.1 Background of the Study**

Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals (Stanley, 2001). The short-term objectives of SRM are primarily to increase productivity and reduce inventory and cycle time, while long-term objectives are to increase market share and profits for all members of the supply chain. Any organizational initiative, including supply relations management, should ultimately lead to enhanced organizational performance (KiIpatrick, 2000). A number of prior studies have measured organizational performance using both financial and market criteria, including return on investment (ROI), market share, profit margin on sales, the growth of ROI, the growth of sales, the growth of market share, and overall competitive position (Harps, 2000).

In an increasing competitive marketplace, firms are seeking new methods of enhancing competitive advantage (Ihiga, 2004). Today, purchasing is becoming a strategic function and a key factor in competitive positioning. With consolidation of firms within industries, supplier relationships are becoming more critical in the future. Firms have realized that collaborative business relationships improve a firm's ability to respond to the new business environment by allowing them to focus on their core businesses and reduce costs in business processes (Johnson, 2009).

Supplier Relationship Management (SRM) plays an important role in the reduction of costs and the optimization of performance in industrial enterprises (Caeldries, 2008). Supplier Relationship Management is a comprehensive approach to managing an organization's interactions with the firms that supply the products and services it uses. SRM is understood as the sourcing policy-based design of strategic and operational procurement processes as well as the configuration of the supplier management (Kleinbaum, 2008).

#### **1.2 Problem Statement**

Contractual relationships have been hypothesized to have a significant effect on the performance of organizations but many firms that have engaged in contractual relationships with their suppliers have been found to still suffer from losses either owing to litigation costs or from failure of suppliers to meet conditions stipulated.

Firms engaged in vertical integration on the other hand despite benefiting from reduced lead times in the supply chain have been found not self sustaining owing to the concentration of the company's efforts in a number of areas that are not core areas of operations. The value of this relationship therefore has been questioned with gains from this relationship hardly being quantifiable

Consequently some firms have preferred partnerships where the buyers and the suppliers collaborate through good will but the benefits of these relationships have hardly been studied and consequently its benefits

have not been ascertained. It is therefore against this background that the study aims to assess the effects of the supplier relationship management on the performance of private sugar companies in western Kenya.

### **1.3 Research objectives**

#### **1.3.1 Overall Objectives**

To establish the effects of Supplier Relationship Management on the Performance of Organizations in Selected Sugar Companies in Western Kenya.

#### **1.3.2 Specific objectives**

The study was guided by the following specific objectives

- i. To determine the effect of organizational structure on the performance of private Sugar Companies in western Kenya
- ii. To determine the effect of value measurement on the performance of private Sugar Companies in western Kenya
- iii. To determine the effect of collaboration on the performance of private Sugar Companies in western Kenya
- iv. To determine the effect of technology on the performance of private Sugar Companies in western Kenya

### **1.4 Research questions**

The study was also guided by the following research questions

- i. Does the organizational structure affect the performance of private sugar companies in Western Kenya?
- ii. Does value measurement affect the performance of private Sugar Companies in Western Kenya?
- iii. Does collaboration affect the performance of private Sugar Companies in western Kenya?
- iv. Does technology affect the performance of private Sugar Companies in Western Kenya?

## **II. Introduction**

**2.1.** Previous studies in SRM have considered the measurement of competencies, strategy, capabilities and the effect of each on performance. Day (2004) used core capabilities as independent variable and performance as the dependent variable, using a baseline survey methodology. Stanley and Gregory (2001) used strategy implementation as the independent variable and performance as the dependent variable applying a triangulation methodology consisting of literature review, survey and case studies.

### **2.2 Organizational Structure**

While there is no one correct model for deploying SRM at an organizational level, there are sets of structural elements that are relevant in most contexts: A formal SRM team or office at the corporate level; the purpose of such a group is to facilitate and coordinate SRM activities across functions and business units. SRM is inherently cross-functional, and requires a good combination of commercial, technical and interpersonal skills. A formal Relationship Manager or Supplier Account Manager role; such individuals often sit within the business unit that interacts most frequently with that supplier, or may be filled by a category manager in the procurement function. These roles can be full-time, dedicated positions, although relationship management responsibilities may be part of broader roles depending on the complexity and importance of the supplier relationship. SRM managers understand their suppliers' business and strategic goals, and are able to see issues from the supplier's point of view while balancing their own organization's requirements and priorities.

An executive sponsor; and for complex, strategic supplier relationships, then a cross-functional steering committee will do. These individuals form a clear link between SRM strategies and overall business strategies, serve to determine the relative prioritization among a company's varying goals as they impact suppliers, and act as a dispute resolution body.

The SRM office and supply chain function are typically responsible for defining the SRM governance model, which includes a clear and jointly agreed governance framework in place for some top-tier strategic suppliers. Effective governance should comprise of a face-off model connecting personnel in different departments such as procurement, logistics, engineering quality and operations with their supplier counterparts, regular operational and strategic planning and review meetings and well-defined escalation procedures to ensure speedy resolution of conflicts at the appropriate organizational levels.

### **2.3 Value Measurement**

"You cannot improve what you can't measure" measures include quality, cost, delivery and flexibility and are used to evaluate how well a supplier is doing. Information provided by the supplier performance will be used to improve the entire supply chain. Thus the goal of any good performance evaluation system is to provide metrics that are understandable, easy to measure and focused real value added results for both the buyer and supplier. (Tan Leong, 2009)

By evaluating supplier performance organizations hope to identify suppliers with exceptional performance or developmental needs, improve supplier communication, reduce risk and manage the partnership based on analysis of reported data (Tan Leong, 2009)

SRM delivers a competitive advantage by harnessing talent and ideas from key supply partners and translates this into product and service offerings for end customers. One tool for monitoring performance and identifying areas for improvement is the joint, two-way performance scorecard. A balanced scorecard includes a mixture of quantitative and qualitative measures, including how key participants perceive the quality of the relationship. These KPIs are shared between customer and supplier and reviewed jointly, reflecting the fact that the relationship is two-way and collaborative, and that strong performance on both sides is required for it to be successful. Advanced organizations conduct 360 degree scorecards, where strategic suppliers are also surveyed for feedback on their performance, the results of which are built into the scorecard.

A practice of leading organizations is to track specific SRM savings generated at an individual supplier level, and also at an aggregated SRM program level, through the existing procurement benefit measurement systems. Part of the challenge in measuring the financial impact of SRM is that there are many ways SRM can contribute to financial performance. These include cost savings (e.g., most favored customer pricing, joint efforts to improve design, manufacturing, and service delivery for greater efficiency); incremental revenue opportunities (e.g., gaining early or exclusive access to innovative supplier technology; joint efforts to develop innovative products, features, packaging, etc. avoiding stock-outs through joint demand forecasting); and improved management of risk.

## **2.4 Collaboration**

In practice, SRM expands the scope of interaction with key suppliers beyond traditional buy-sell transactions to encompass other joint activities which are predicated on a shift in perspective and a change in how relationships are managed, which may or may not entail significant investment. Such activities include, Joint research and development, more disciplined, systematic, and often expanded, information sharing and finally joint demand forecasting and process re-engineering.

The strategic focused outcomes model (SFOM) categorizes collaboration into three. These are Market collaboration which includes activities such as shared merchandising, co-branding, joint selling and distribution channel management. Operational collaboration which includes shared operational planning information, developing and sharing of forecasts, link order management system and joint capacity management system. Strategic collaboration which includes aligning customer requirements, sharing basic technologies, shared production engineering, developing joint market entry strategies and develop joint capital expenditures. (Tan Leong, 2009)

## **2.5 Technology**

SRM encompasses a broad suite of capabilities that facilitate collaboration, sourcing, transaction execution and performance monitoring between an organization and its trading partners. SRM leverages the latest technology capabilities to integrate and enhance supplier oriented processes along the supply chain such as design-to- source, source-to-contract and procure-to-pay. SRM involves stream lining the processes and communication between buyer and supplier and using software application to enable these processes to be managed more efficiently and effectively (Tan Leong, 2009).

SRM software varies by vendors in capabilities offered. Five key tenets of SRM systems include Automation, Integration, Visibility, Collaboration and optimization. Automation of transactional processes between an organization and its suppliers, integration that provides a view of the supply chain that spans multiple departments, processes and software applications for internal use and external partners. Visibility; of the information flow and processes flow within and between organizations. Views are customized by the role and aggregated via a single portal. Collaboration; through information sharing and suppliers' ability to input information directly into an organizations' supply chain information system. Optimizing processes of making decisions through enhanced analyzing tools, i.e. warehousing and analytical processing. (Wisner Tan Leong, 2009).

## **2.6 Conceptual Framework**

The conceptual framework illustrated the independent and the dependent variables of the study.

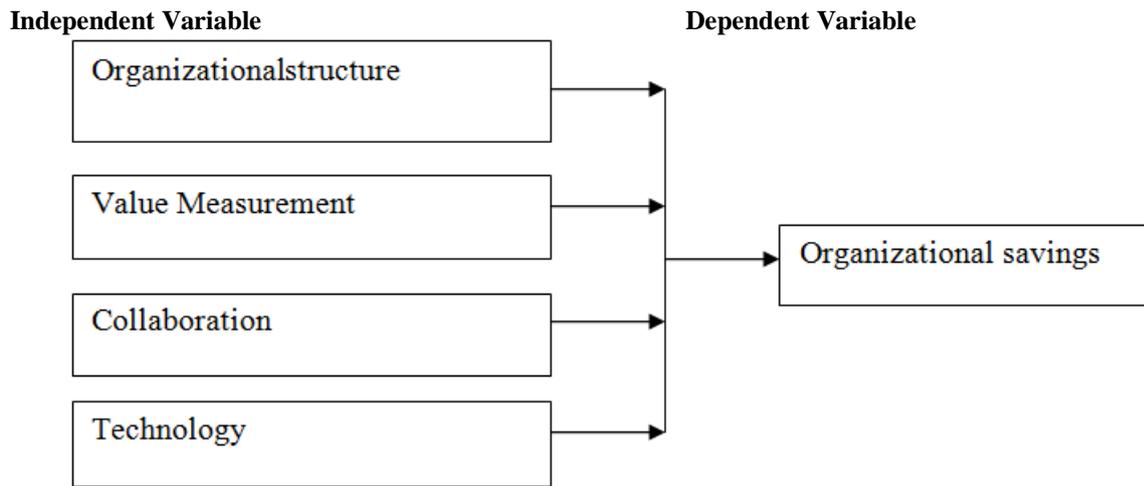


Figure 2.1 Supplier Relationship Management conceptual frameworks

The conceptual framework therefore clearly illustrates that an organization performance will be heavily dependent on the form of supplier relationship management model that the organization opts to adopt.

2.7 Research Gaps

The first aim of the paper is to develop a framework for measuring the relationship between integration and performance that incorporates different aspects of integration and explicitly takes into account the influence of business conditions. The second aim of the paper is to empirically investigate the above relationship by conducting a survey among suppliers. Based upon the previous part, we developed a questionnaire that used to a large extent items and questions derived from earlier work.

III. Research Methodology

3.1 Research Design

The study adopted a survey study research which excels at bringing to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. (Patton, 2006)

3.2 Target Population

Table 3.1 Target Population

Company	Mumias	Butali	West Kenya	Total
Procurement Managers	1	1	1	3
Procurement Staff	14	4	4	22
Total	15	5	5	25

Source: Survey Data (2015)

IV. Data Presentation And Interpretation

4.1. Background Information of the Respondents

Tables 4.1 Gender of the Respondents

Gender	Percentage
Male	72.0
Female	28.0
Total	100

Source: field data, (2015).

4.2 Age of the Respondents

Table 4.2 Ages of Respondents

Year	Percent
26-30	8.0
31-35	28.0
36-40	24.0
41-45	8.0

46-50	32.0
<b>Total</b>	<b>100</b>

Source: field data, (2015).

#### 4.3 Experience of the Respondents

**Table 4.3 Respondents Duration of Working for the Company**

Years	Percent
2-5 years	12.0
5-10 years	32.0
10-15 years	20.0
Above 15 year	36.0
<b>Total</b>	<b>100</b>

Source: Field data, (2015).

#### 4.4 Level of Education

**Table 4.4 Respondents' Level of Education**

Level of Education	Percent
H-School + Professional certificate (e.g. KIM, CIPS, College)	4.0
H-School + Professional Diploma (e.g. KIM, CIPS, College)	16.0
H-School + Professional Diploma/Professional certificate/Diploma (e.g. KIM, CIPS, College, other )	20.0
H-School + Specific Degree (e.g. Purchase, supply chain etc)	52.0
H-School + Any Degree + Professional cert/Diploma	4.0
H-School + Degree + Professional certificate + Masters (any)	4.0
<b>Total</b>	<b>100</b>

Source: Field data, (2015).

#### 4.5 Descriptive Analysis of the Specific Information

##### 4.5.1 Effect Organization Structure on the Performance of an organization

**Table 4.5 Reliability Results for Organization Structure**

Reliability Statistics	
Cronbach's Alpha	N of Items
.870	10

The reliability results indicated a Cronbach's Alpha value of 0.87 which was considered reliable enough.

**Table 4.6 Responses on Organization Structure on Performance**

Statement	SA	A	U	D	SD	M
A formal SRM office exists						4.48
	64	28	4	0	4	89.6%
The SRM office coordinates departments in the company						4.40
	56	36	4	0	4	88.0%
The company has a cross functional steering committee						4.28
	40	56	0	0	4	85.6%
There exists a defined escalation procedure						4.32
	44	52	0	0	4	86.4%
A conflict resolution mechanism is clear						4.28
	52	40	0	0	8	85.6%
The company has a joint governance framework						4.50
	48	44	0	0	4	90.0%
The organizational structure is highly mechanized						4.16
	40	48	4	4	4	83.2%
The procurement structures nearly similar to that of suppliers						4.12
	28	64	4	0	1	82.4%
The general structure of the organization is flat						3.76
	32	40	12	4	12	75.2%
The current organizational structure enhances SRM						4.36
	48	48	0	0	4	87.2%

Source: Field data, (2015).

##### 4.5.2 Effect of Value Measurement on Performance of Company

**Table 4.7 Reliability results for Value Measurement**

Reliability Statistics	
Cronbach's Alpha	N of Items
.455	10

The reliability results indicated a Cronbach's Alpha value of 0.455 which was not considered reliable. Factor analysis therefore had to be employed to achieve reliable results in this case.

**Table 4.8 Results on Factor Analysis for Value Measurement**

Rotated Component Matrix <sup>a</sup>		
Component	Factor Value	Decision
The suppliers are appraised on the basis of efficiency and meeting delivery schedules	0.961	Retain
The company regularly performs supplier rationalization on its suppliers	0.949	Retain
Supplier rationalization is done on the basis of suppliers' core competencies	0.933	Retain
Supplier rationalization is done on the basis of suppliers' capabilities	0.749	Retain
The company appraises its suppliers regularly	0.581	Retain
Supplier rationalization is done on the basis of technology leadership	0.965	Retain
The company monitors the progress of suppliers towards strategic goals	0.946	Retain
Supplier rationalization is done on the basis of suppliers' capabilities	0.945	Retain
The suppliers are appraised on the basis of price and quality of suppliers	-0.916	Expunge
The company continuously monitors the health of the relationships with suppliers	0.891	Expunge
Extraction Method: Principal Component Analysis.		
Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 5 iterations.		

The reliability results indicated the need to eliminate responses relating to the “suppliers are appraised on the basis of efficiency and meeting delivery schedules” and “The company continuously monitors the health of the relationships with suppliers” in the questionnaire. This done the study recomputed the reliability results as in Table 4.9 and presented them in Table 4.10

**Table 4.9 Reliability results for Value Measurement after Factor Analysis**

Reliability Statistics	
Cronbach's Alpha	N of Items
.928	8

The reliability results indicated a Cronbach's Alpha value of 0.928 which was considered reliable enough after factor analysis.

**Table 4.10 Responses on Value Measurement Effect on Performance**

Statement	SA	A	U	D	SD	M
The company appraises its suppliers regularly						4.52
	56	40	4	0	0	90.4%
The suppliers are appraised on the basis of price and quality of suppliers						4.92
	4	60	24	4	8	98.4%
the suppliers are appraised on the basis of efficiency and meeting delivery schedules						4.24
	52	36	4	0	8	84.8%
The company regularly performs supplier rationalization on its suppliers						4.32
	56	36	0	0	8	86.4%
Supplier rationalization is done on the basis of suppliers' core competencies						4.32
	64	24	0	4	8	86.4%
Supplier rationalization is done on the basis of suppliers' capabilities						4.16
	64	16	4	4	12	83.2%
Supplier rationalization is done on the basis of technology leadership						4.52
	72	24	0	0	4	90.4%
The company monitors the progress of suppliers towards strategic goals						4.60
	64	32	0	0	4	83.2%
The company continuously monitors the health of the relationships with suppliers						4.52
	64	32	0	4	0	90.4%

Source: Field data, (2015).

#### 4.5.3 Effect of Collaboration on Performance of Company

**Table 4.11 Reliability results for Value Measurement after Factor Analysis**

Reliability Statistics	
Cronbach's Alpha	N of Items
.865	10

The reliability results indicated a Cronbach's Alpha value of 0.865 which was considered reliable enough after factor analysis.

**Table 4.12 Responses Opinion on the effect of Collaboration and Joint Activities on performance of company**

Statement	SA	A	U	D	SD	M
The company regularly organizes for supplier summits						3.92
	24	56	8	12	0	78.4%
There are regular executive-executive meetings between the company and the suppliers						3.80
	16	60	12	12	0	76.0%
There are regular business plan meetings and operational business reviews						3.68
	20	40	28	12	0	73.6%
There is a joint research and development with suppliers						3.88
	28	40	24	8	0	77.6%
The company has established processes that encourage information sharing and transparency with suppliers						4.04
	40	40	8	8	4	80.8%
There is a joint demand forecasting with suppliers						4.24
	36	48	4	8	4	84.8%
The company is committed to building trust with suppliers						4.12
	52	36	0	8	4	82.4%
The company regularly organizes events to reward best performing suppliers						4.44
	44	32	20	0	4	88.8%
The company has officials policies for suppliers development						4.44
	44	56	0	0	0	88.8%
Some suppliers provide training for company staff						4.44
	48	48	4	0	0	88.8%

Source: Field data, (2015).

#### 4.5.4 Effect of Technology and Systems on Performance of Company

**Table 4.13 Reliability results for Value Measurement after Factor Analysis**

Reliability Statistics	
Cronbach's Alpha	N of Items
.939	10

The reliability results indicated a Cronbach's Alpha value of 0.939 which was considered reliable enough after factor analysis.

**Table 4.14 Responses Opinion on the effect of Technology and Systems on performance of the company**

Statement	SA	A	U	D	SD	M
The technology has an existing SRM enabling technology						4.52
	56	40	4	0	0	90.4%
The current technology can be upgraded to support SRM						4.52
	52	48	0	0	0	90.4%
The company has well trained personnel to handle the SRM enabling technology						4.64
	64	36	0	0	0	92.8%
The control of operations in the company has increased						4.64
	68	28	4	0	0	92.8%
Flexibility and efficiency of operations has increased						4.70
	72	28	0	0	0	94.0%
Order cycle time has considerably been increased by the technology						4.60
	60	40	0	0	0	92.0%
Competitiveness' of the company has been increased owing to technology						4.72
	72	28	0	0	0	94.4%
System integration within departments has been achieved with technology						4.64
	64	36	0	0	0	92.8%
System integration with suppliers has been achieved						4.60
	60	40	0	0	0	92.8%
Technology has helped the company towards the realization of its strategic vision						4.72
	72	28	0	0	0	94.4%

Source: Field data, (2015).

## V. Conclusion

**Organizational structure:** The Companies emphasizes on the need to have a sound organizational structure to enhance its performance.

**Value measurement:** Creates value for money for both suppliers and buyers. Provides a firm ground for decision making.

**Collaboration:** Generates a common objective and focus for the buyer and the supplier, common understanding and common goals.

**Technology:** Fast tracks the company towards the realization of its strategic vision leading to efficient company performance.

## **VI. Recommendations**

- i. That the company adopts a more flat organizational structure that will reduce the level of bureaucracies at the organization. Elimination of this long tails vests more powers to certain management centers who are required to make prompt decisions through a consultative process to ensure that there are very few delays in the decision making process.
- ii. The study also recommends that the organization adopts supplier optimization policies where the company will be able to pick suppliers based on their capabilities and not just based on the price and the quality of service or product. These procurement policies will ensure that delays resulting from the procurement process are corrected and the organization is able to positively influence its performance through the procurement department and not lose money through the same department.
- iii. The study also recommends that this organization and similar organizations adopt regular business plan meetings and operational business reviews. This are meant to foster business relationships and enhance collaborations and joint activities. Collaborative efforts or supplier relationships produce best results when both parties support each other to ensure that each party gets their value. There are less delays and the provision of services is more direct and straight forward. The study consequently encouraged organizations invest more of supplier relationships so that they could positively influence organizational performance to the level that met company expectations.
- iv. Finally the study recommends that the company adopts more robust procurement systems. Technology enables a company be efficient when it comes to integration of activities including procurement activities. The system used should be able to serve both the supplier and the company. The company is likely to increase its competitiveness when there is technology is employed to increase efficiency of its departments especially the core departments such as procurement.

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