# Supply Chain Management Practices and Performance of Flour Milling Companies in Nairobi County, Kenya

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Abstract: The study sought to establish the effect of supply chain management practices on performance of Flour Mills Companies in Nairobi County, Kenya. The specific objectives were assessing the effect of customer relationship management, information sharing and outsourcing on performance of Flour Mills Companies in Nairobi County, Kenya. The study used Resource-Based View Theory, Systems Theory and Diffusion of Innovation Theory. Descriptive research design was used in the study. The target population of the study comprised sixteen flour milling companies in Nairobi, Kenya. Purposive sampling design was be adopted in the study where the sample size was be forty-eight. The validity and reliability of research instruments were ascertained before the collection of data. The study findings were presented using tables and charts. The study had a response rate of 87%. The correlation test revealed that the supply chain management practices were positively correlated with performance of Flour Milling Companies in Nairobi, Kenya. The multiple regression analysis indicated that customer relationship management, information sharing and outsourcing had a significant positive effect on performance of Flour Milling Companies in Nairobi, Kenya. The study recommends that Flour firms should continually enhance their customer relationship management as this brings about customer loyalty and in turn increased firm performance. The study also recommends that management should enhance the information sharing system of the companies.

Keywords: Supply Chain Management, Customer Relationship Management, Information Sharing, Outsourcing, Performance, Flour Milling Companies

Date of Submission: 24-12-2019 Date of Acceptance: 07-01-2020

Date of Submission. 24-12-201)

Date of Submission. 24-12-201)

# I. Introduction

The international market has become more complex and competition is tighter, hence the need for companies to re-structure and re-establish their operations departments-in a bid to offer better goods and services to the users/consumers by effectively and efficiently managing supply chain practices (Stock & Boyer, 2009). Today, supply chain management is practiced in various industries (Ralston, 2013). The main reason for this is to ensure that products produced meet the needs of the consumers (Kazi, 2012). In a business environment that is highly competitive and ever changing, supply chain management has emerged a one of the most vital features of any business.

More than 85% of the Flour Mill Market in Sub-Saharan Africa is controlled by Nigeria Flour Mill industry whose large distribution network covers a majority of the nations in the region. In Kenya, the rate of flour consumption is high, due to its rapidly increasing population and the fact that most of the local's staple food are made from flour. Agriculture being Kenya's main source of economic income, makes the flour milling industry lustrous as the grains from the harvest has to be converted to flour (Mahulo, 2015). According to data from the US Department of Agriculture, Kenya's highest grain production belongs to corn, followed by wheat and rice, with corn being the most preferred grain product staple food.

One of the vital aspects of customer satisfaction in the Kenyan market is to meet customer's needs and expectations. Supply chain relationships play an important role in achieving the firm's goals (Kazi, 2012). Supply Chain Management (SCM) is the process of planning, implementing and controlling the operations of the supply chain with the purpose to satisfy customer requirements as efficiently as possible (Green, Zelbst, Meacham & Bhadhauria, 2012). The main aim of supply chain practices is to tackle complicated supply chains with the intention of combining all production and distribution activities that add value and getting rid of those which don't so as to deliver customer requirements (Lysons & Farrington, 2007). Supply chain practices include but not limited to customer relationship management, information sharing and outsourcing.

Customer Relationship Management (CRM) is a strategy used to manage firms' relations and interactions with potential and existing customers (Turkel, 2010). A CRM system ensures organizations stay in

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touch with the customers, improve profits and increases efficiency of processes. Information sharing relates to the exchange of data between various organizations, people and technologies (Chandran, 2011). This allows the monitoring of the progress of products and orders as they go through the various supply chain processes. It's relevant, accurate, reliable and timely (Mahulo, 2015). Outsourcing is a practice in business whereby a firm hires a party from outside to carry out services and create goods which would otherwise have been done by the company's staff (Mung'ala, 2014). Usually, companies resort to outsourcing in order to reduce costs (Lee, Lee & Schniederjans, 2011).

#### 1.2 Statement of the Problem

In order to deliver the best goods and services to the consumers while remaining competitive, businesses need to greatly improve the efficiency and effectiveness of the supply chain (Lee *et al.*, 2011). Flour millers are not immune to this. Several firms are operating below capacity and others closing down their subsidiary factories, for example, Mombasa maize millers and Kitui flour mills (The Cereal Millers Association, 2017). The main reason for this is the fact that competition isn't only between companies but also between and across supply chains (Turkel, 2010).

The major issue of contention in this study is the continuous downward trend in terms of performance experienced in the Flour manufacturing industry since 2005 which have result to many companies wounding up and this could be attributed to poor strategic supply chain management which translates to high cost of production and in turn high price per unit of their products compared to that of their global competitor (Alu, 2011). The biggest challenge the industry faces is a low profit margin resulting from high cost burden.

To survive in a competitive global market and to accomplish long term competitive advantage and growth, organizations need to ensure good performance. Long-term competitiveness therefore depends on how well companies ensure long term performance by meeting customer preferences and needs in terms of cost, flexibility, service and quality by designing the supply chain, which will be more efficient and effective as compared to that of competitors' (Kalu, 2014). Supply chain management practices contribute at least 50% to the profitability and performance of any organization (Chandran, 2011). The performance of the Flour manufacturing sector in Nairobi has been affected by the use of inefficient supply chain management practices.

There exist few studies on supply chain management practices and performance. These studies include Mulama (2012), Khodakarani and Chan (2014), Mung'ala (2014), Njoku and Kalu (2015). The previous studies are however characterized by various research gaps, some of the studies were based on an analysis of various countries, some based on a single firm, while some were based on profitability. In addressing these gaps, the current study sought to examine the effect of supply chain management practices on performance of Flour Milling Companies in Nairobi County, Kenya. Performance of firms in this study was ascertained using the balanced score card model.

# 1.3 Objectives of Study

The objectives of the study were:

- i) To determine the effect of customer relationship management on Performance of Flour Milling Companies in Nairobi County, Kenya.
- ii) To assess the effect of information sharing on Performance of Flour Milling Companies in Nairobi County, Kenya.
- iii) To determine the effect of outsourcing on Performance of Flour Milling Companies in Nairobi County, Kenya.

# 1.5 Significance of the Study

The research is of importance to the management of Flour Milling companies, it provides them with more insight on supply chain management practices and how they affect performance. The study is of importance to policy makers geared towards improving efficiency and effectiveness of supply chain management practices and performance of Flour Mills in Nairobi, Kenya. Other researchers who have an interest in this study benefit as well because the research serves as a foundation upon which further research can be done.

#### II. Literature Review

# 2.1 Theoretical Review

Resource Based Theory was formulated by Edith Penrose (1959). The RBV of firm states that the unique bundle of resources that a firm owns can be used to explain the changes in the firm's performances and capabilities. These resources include the supply chain management capability. A firm can become more competitive if it can effectively manage its sourcing decisions. This implies the need to pick suppliers who have the ability to create value, implement policies and manage risk. In addition to that, suppliers have to not only

meet the customers' demands but also be conversant with the firm's goals. Resource based theory suggests that a firm's resources are the main determinants of its performance and this greatly contributes to service delivery. Resources involved are effective information and knowledge, assets, organizational processes and some factors that help the company and implement certain strategies to boost its image, efficiency, effectiveness and the quality of products. If use in the right way, these resources help improve the performance of organizations. System theory was propounded by Easton (1965). A system is either open or closed. An open system is whereby there is interaction with the environment-through information ad matter exchange with the external

environment. In other words, organizations like government ministries are open systems that interact regularly with external forces such as other government agencies, customers and suppliers. On the contrary, in a closed system there is no exchange of information and matter with the external environment (Hongwei, Huixin & Jianbo, 2009). The open system theory looks at the relationships between various people and departments in a company as well as the relationship between the organization and its external environment. In applying the concept open system theory, Kast and Rosenzweig (2011) indicate that an organization is a system built by an energetic input-output, where the energy coming from the output reactivates the system.

The Diffusion of Innovation Theory was first discussed by Gabriel Tarde in 1903, and later popularized by Everett Rogers (1957). The theory is often seen as a valuable change model that can bring about technological innovation. The importance of peer networking and communication within the adoption process is also stressed in the theory. Diffusion of innovation refers to the process which occurs as people adopt to new ideas, product or practice (Rogers, 2003). Rogers stressed on the fact that when there is something new that needs to be adopted, an initial few number of people are open to the idea, as the few people spread the information, more and more people become open to it leading to the development of a critical mass.

# 2.2 Empirical Review

The study by Murillo and Annabi (2012) indicated that companies that implement the latest CRM technologies are more competitive as they attract more customers and retain the ones they already have. The researchers identified the gap that future researchers need to conduct the studies investigating the patterns of CRM systems and how they are used in various countries and see how the differences in the business environment affect its application and support for customer knowledge creation and processes.

Kuo-Chung and Chin-Shan (2012) did a research on Customer Relationship Management and Firm Performance. The study empirically identifies customer relationship management (CRM) and examines its impacts on firm performance in the context of freight forwarder services. Looks at customer relationship management (CRM) and identifies its impact on form performance in regards to freight forwarder services. A structural modeling exercise was done to examine crucial CRM dimensions and how they influenced perceived financial performance using data from a survey of 144 freight forwarding firms in Taiwan. The results showed that CRM dimensions like customer response and profit interaction have significant effects on financial performance (growth rate and profit). However, the study was based on forwarding services in Taiwan.

A study conducted by Mulama (2012), sought to look at the logistics outsourcing practices and the performance of large manufacturing firms. The finding of the study demonstrates that the outsourcing practices being adopted by the firms resulted in increased productivity, organizational effectiveness, an increase in profits and improved product quality. At the same time, operating costs and lead time reduced immensely. All these factors contributed to an increased performance of the firms. Unlike this study which was based on manufacturing firms, the current study assessed performance of firms based on the balance score card model.

Murphy *et al.* (2013) also added knowledge on effects of organizational culture on performance by carrying out a study on firm culture and performance. The focus of the study was to make clear some firm culture aspects, give and understanding on it effect on performance, and to take an in-depth look at culture on theoretical grounds with a focus on its effects and limits. The study analyzed a data set of 2,657 individual cases that are empirically aggregated into 302 organizational unites. The study established that culture relates well to coordination, performance and cooperation. Hierarchical regression analysis shows intensity has an impact on coordination and cooperation and will not moderate culture's relations with those outcomes.

Elkordy (2014) conducted a study on the impact of CRM capability dimensions on organizational performance. The research provides four dimensions of CRM capability: customer orientation, CRM organization, CRM technology, and CRM processes. A cross sectional survey of large companies in Egypt was used to collect the data used to validate the model. The research hypotheses were tested using SEM. All CRM proposed dimensions showed significant link to performance. However, the study was centered on Uganda. The current study was centered on Kenya.

Khodakarani and Chan (2014) did a study exploring the importance of customer relationship management systems in management and performance of organizations. According to the researchers, customer knowledge is a critical asset and a valuable competitive advantage can be gained when companies gather, manage and share knowledge on customers. They stated that a company's ability to create knowledge depends

on their capability to convert knowledge from different sources. In order for a company to have successful customer knowledge, they ought to spend on their organization structures, processes and skills.

Mung'ala (2014), did a research on the impact of outsourcing decision on organizational performance in the manufacturing industry, paying close attention to Unga Group Limited. The study thus set out to establish the effect of outsourcing for employee competence on the company performance, identify how outsourcing for cost reduction influences performance and determine the effect of outsourcing on focus on core competencies on company performance of Unga Limited. Notably, the focus of the study was on a single company which is Unga Limited which constitute less than 10% of the total population, as such, the findings cannot be generalized for the entire population. The current study focused on the sixteen Flour milling companies in Nairobi, Kenya.

A study conducted by Njoku and Kalu (2015) which sought to examine the effect of Strategic Supply Chain Management on the Profitability of Flour Mills in the Sub-Saharan Africa (2005 – 2013). The study argues that for a company to be able to compete successfully, they ought to focus on supply chain management aspects that facilitate profitability. The study looked at the effect of strategic supply chain management on the profitability of Flour Mills in the Sub-Saharan Africa (2005-2013). The study findings indicated that customer relationship management and information sharing were related with performance of Flour Mills. The study was however based on an analysis of several countries, the current study was in the context of Kenya, thereby providing a country level results. Additionally, the study was however based on profitability unlike this study which was based on performance.

Macharia (2016) did an explanatory survey research design was employed and data analyzed using the descriptive correlation and regression analysis. The findings of the study showed that the company needed to outsource as it had large number of unskilled labor which compromised on their competitive advantage. It also concluded that outsourcing was a major factor of cost reduction considered for performance. Outsourcing was seen as the only way the company could innovate and remain at a competitive advantage and improve its profits. The study however focused on a single firm (Unga Limited), the current study focused on the sixteen milling companies in Nairobi, Kenya. Thereby, enhancing reliability and validity of study findings.

# III. Research Methodology

# 3.1 Research Design

Research design is viewed as the map plan which is used in making inquiries with the sole aim of generating answers to various research questions (Mugenda & Mugenda, 2013). Descriptive research design was adopted in this study as it strives to look at the effect of supply chain management practices on Performance of Flour Mills Companies in Nairobi County, Kenya.

#### 3.2 Target Population

Cooper and Schindler (2009) opined that a population in a research means the total collection of objects of researcher's interest in a study which will be used for conclusions and recommendations. The target population comprised of the sixteen (16) large capacity Milling companies situated in Nairobi County, Kenya.

# 3.3 Empirical Model

The study used the multiple regression model for the process of analysis. The performance of the flour milling companies was expressed as a function of supply chain management practices (information sharing and outsourcing, customer relationship management).

 $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$ 

Where:

Y = Performance

X<sub>1</sub>= Customer Management Relationship

X<sub>2</sub>= Information sharing

 $X_3$ = Outsourcing

Bo= Constant

 $\alpha$  = Error term

# 3.4 Sampling Design and Sample size

Sampling refers the process of choosing a subgroup of a study population. The study utilized purposive sampling strategy which is used by a researcher to select respondents based on the judgment of the researcher. From the target population, the supply chain managers, the deputy managers and the assistant managers of each company were the respondents of the study. The sample size was therefore forty-eight (48) respondents in total, thus, implying three respondents from each firm. The inclusion of deputy managers and assistant managers is to address cases were the managers do not provide the necessarily information as require in the questionnaire.

# 3.5 Data Analysis and Presentation

Descriptive analysis and inferential analysis was done in the study. Descriptive statistics was used to provide summary of the basic features of the study variables while inferential statistics was used to draw conclusions on the study population based on the information derived from the study sample. This research's inferential analysis was done through a multiple regression model which was the basis of ascertaining the influence of supply chain management practices on performance of Flour Mills Companies in Nairobi, Kenya. The researcher picked a pilot group of respondents from the target population to test the validity of the research instrument including the structure, sequence of the questions and wording. The pilot allowed for pre-testing of the research instrument. This reliability estimate was measured using Cronbach Alpha coefficient ( $\alpha$ ). Nunnally and Bernstein (1994) suggest that instruments used in research ought to have a reliability score of 0.70 or more.

Table 3.1 Reliability test

| Variable                         | Cronbach's Alpha | No of Items | Comment  |
|----------------------------------|------------------|-------------|----------|
| Customer Relationship Management | 0.778            | 4           | Reliable |
| Information sharing              | 0.718            | 5           | Reliable |
| Outsourcing                      | 0.724            | 4           | Reliable |
| Peformance                       | 0.735            | 5           | Reliable |
| Overall Reliability coefficient  | 0.739            | 18          | Reliable |

The findings from the reliability test are contained in Table 3.2 above. The overall reliability coefficient is reported at 0.739. Similarly, the reliability coefficient for all the research variables had an alpha higher than 0.70 which indicates reliability. This is in line with the threshold by Polgar and Thomas (2009) which indicates that reliability coefficient above 0.70 implies that such variables are reliable.

# IV. Data Analysis

#### 4.1. Inferential Analysis

The study had a response rate of 87%. The study carried out inferential analysis for purposes of drawing inferences and conclusions. The study inferential analysis were based on multiple regression and correlation analysis.

# **4.2 Correlation Test**

The correlation test sought to establish the degree and nature of association between supply chain management practices (customer relationship management, information sharing and outsourcing) and performance of Flour Milling Companies in Nairobi, Kenya. The outcome of the correlation test is presented in Table 4.6.

**Table 4.1 Correlation Results** 

|                          |   |             | Customer<br>relationship | Information |             |
|--------------------------|---|-------------|--------------------------|-------------|-------------|
|                          |   | Performance | management               | sharing     | Outsourcing |
| Performance              | Pearson<br>Correlation<br>Sig. (2-tailed) | 1           |                          |             |             |
| Customer<br>relationship | Pearson<br>Correlation                    | .639*       | 1                        |             |             |
| management               | Sig. (2-tailed)                           | .000        |                          |             |             |
| Information sharing      | Pearson<br>Correlation                    | .529*       | .017                     | 1           |             |
| 8                        | Sig. (2-tailed)                           | .000        | .913                     |             |             |
| Outsourcing              | Pearson<br>Correlation                    | .482*       | .051                     | 008         | 1           |
|                          | Sig. (2-tailed)                           | .000        | .682                     | .960        |             |

<sup>\*.</sup> Correlation is significant at the 0.05 level (2-tailed).

Source: Survey Data, 2019

Table 4.6 contains the outcome of the correlation analysis. The correlation output indicates that all the supply chain management practices namely customer relationship management, information sharing and outsourcing had a positive and significant correlation with the performance of Flour Milling Companies in Nairobi, Kenya.

# 4.3 Model Summary

The model summary of the study is presented in Table 4.7

**Table 4.2 Model Summary** 

|       |       |          |            |               | Change Statistics |        |     |     |        |
|-------|-------|----------|------------|---------------|-------------------|--------|-----|-----|--------|
|       |       |          | Adjusted R | Std. Error of | R Square          | F      |     |     | Sig. F |
| Model | R     | R Square | Square     | the Estimate  | Change            | Change | df1 | df2 | Change |
| 1     | .744ª | .553     | .518       | .23915        | .553              | 15.689 | 3   | 38  | .000   |

a. Predictors: (Constant), Outsourcing, Customer relationship management, Information sharing

Source: Survey Data, 2019

The statistics in Table 4.7 comprise of the model summary of the study. The statistics reveal that show that R-square had a value of 0.553 and adjusted R-square 0.553 for the model. This therefore implies that the independent variables of the study namely customer relationship management, information sharing and outsourcing are responsible for 55.3 variations in the performance of Flour Milling Companies in Nairobi, Kenya.

# 4.4 Analysis of Variance (ANOVA)

The study undertook the Analysis of Variance and the outcome contained below in Table 4.8.

Table 4.3 ANOVA

| Model        | Sum of Squares | df | Mean Square | F      | Sig.              |
|--------------|----------------|----|-------------|--------|-------------------|
| 1 Regression | 2.692          | 3  | .897        | 15.689 | .000 <sup>b</sup> |
| Residual     | 2.173          | 38 | .057        |        |                   |
| Total        | 4.865          | 41 |             |        |                   |

a. Dependent Variable: Performance

Source: Survey Data, 2019

Table 4.8 provides the outcome on ANOVA. The results indicate that the model was significant with a p-value of 0.000, thus indicating that the model was adequate for estimation.

#### 4.5 Multiple Regression Analysis

The study undertook multiple regression analysis for purposes of establishing the extent to which supply chain management practices affect the performance of Flour Milling Companies in Nairobi, Kenya.

**Table 4.4 Regression Results** 

|      |                                  | <b>Unstandardized Coefficients</b> |            | Standardized<br>Coefficients |       |      | 95.0% Confidence<br>Interval for B |                |
|------|----------------------------------|------------------------------------|------------|------------------------------|-------|------|------------------------------------|----------------|
| M    | odel                             | В                                  | Std. Error | Beta                         | T     | Sig. | Lower<br>Bound                     | Upper<br>Bound |
| 1    | (Constant)                       | 1.915                              | .582       |                              | 3.289 | .002 | .736                               | 3.093          |
|      | Customer relationship management | .490                               | .141       | .504                         | 3.466 | .001 | .204                               | .775           |
|      | Information sharing              | .828                               | .245       | .324                         | 3.375 | .001 | .336                               | 1.321          |
|      | Outsourcing                      | 1.611                              | .261       | .592                         | 6.173 | .000 | 1.087                              | 2.134          |
| a. : | Dependent Variable: Perfo        | rmance                             |            |                              |       |      |                                    |                |

Source: Survey Data, 2019

The regression model that was estimated through the results of regression analysis is presented below.

 $Y = 1.915 + 0.490X_1 + 0.828X_2 + 1.611X_3 + \varepsilon$ 

#### 4.6 Interpretations of Findings

# 4.6.1 Customer Relationship Management

The first specific research objective was to assess the effect of customer relationship management of performance of Flour Milling Companies in Nairobi, Kenya. The findings indicate that customer relationship management has a significant positive effect on performance of Flour Milling Companies in Nairobi, Kenya as indicated by a p-value of 0.001 and a coefficient of 0.490. This is therefore an indication that customer relationship management improves performance of Flour Milling Companies. As such the better the customer relationship management the more improved the performance of Flour Milling Companies is.

The study findings on the effect of customer relationship management concur with previous studies. The findings are in agreement with those of Kuo-Chung and Chin-Shan (2012) for freight forwarding firms in Taiwan and Elkordy (2014) for organizational performance in Uganda who also established that customer

b. Predictors: (Constant), Outsourcing, Customer relationship management, Information sharing

relationship management significantly predicts performance. The findings are further supported by those of Khodakarani and Chan (2014); Njoku and Kalu (2015) who also established that customer relationship management improves the performance of firms.

#### 4.6.2 Information Sharing

The second specific objective of the study was to examine the effect of information sharing on performance of Flour Milling Companies in Nairobi County, Kenya. The results from the regression analysis reveal that information sharing has a significant effect on the performance of Flour Milling Companies in Nairobi County, Kenya. this is supported by a p-value of 0.001 and a coefficient of 0.828. The implication of this is the more information is shared within the companies, the more enhanced the performance of these companies.

The study findings concur with those of Murphy et al. (2013) and Njoku and Kalu (2015) who indicated that information sharing is key in influencing the performance of firms. This can be attributed to the notion that the more information being shared in the firms with employees the more sense of belongings and in turn higher performance. Therefore, this notion concurs with the findings of the study that information sharing significantly predicts the performance of Flour Milling Companies in Nairobi, Kenya.

# 4.6.3 Outsourcing

The third specific objective of the study was to evaluate the effect of outsourcing on performance of Flour Milling Companies in Nairobi County, Kenya. The outcome from the regression analysis indicated a p-value of 0.000 and a coefficient of 1.611 which implies significance. The study therefore established that outsourcing has a significant effect on performance of Flour Milling Companies in Nairobi County, Kenya. The more companies outsourcing the more they take some burden from the operations off their shoulders and thus, improving performance in return.

The study results are in agreement with those of Mulama (2012), sought to look at the logistics outsourcing practices and the performance of large manufacturing firms. The study indicated that outsourcing significantly increases performance. Similarly, Mung'ala (2014) and Macharia (2016) who focused on Unga company reported that outsourcing significantly increases the performance of firms. This can be attributed to the notion that outsourcing is a major factor of cost reduction considered for performance. Outsourcing allows firms to bring about innovation and thus remaining competitive and having competitive advantage, thereby leading to enhanced performance.

# V. Conclusion and Recommendations

The conclusion and recommendations are based on the specific research objectives and findings. The study established that customer relationship management significantly affects the performance of Flour Milling Companies in Nairobi County, Kenya. The study therefore concluded that customer relationship management is one of the key ingredients of improved performance of Flour Milling Companies in Nairobi County, Kenya. The study therefore recommends that Flour firms should continually enhance their customer relationship management as this brings about customer loyalty and in turn increased firm performance.

The study concluded that that information sharing is significantly linked to the performance of Flour Milling Companies in Nairobi County, Kenya. the conclusion of the study is that the more the sharing of information within companies, the better or improved the performance of Flour Milling Companies in Nairobi County, Kenya will be. The recommendation of the study is that management should enhance the information sharing system of the companies. A well informed employee has some sense of belonging within the company and therefore works towards the improvement and sustenance of performance in return.

The study further concluded that among the supply chain management practices considered in the study, outsourcing has the most significant effect on performance of Flour Milling Companies in Nairobi County, Kenya. The study recommends that Flour Milling companies should focus on their key capabilities and outsource other operations and services which they are not fully equip for. This in turn will allow them focus on their core competencies thereby enhancing the performance of Flour Milling Companies.

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DOI: 10.9790/487X-2201017178 www.iosrjournals.org 78 | Page