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EFFECTS OF SUPPLIER RELATIONSHIP MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE IN SELECTED KTDA AFFILIATE TEA PROCESSING FIRMS IN KERICHO COUNTY, KENYA

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ABSTRACT

Supply chain management practice was extensively elaborated to recognize the strategic nature of coordination between sourcing partners and the key idea of the importance of Supplier relationship management practices to the purchasing function and the entire organization. Tea processing firms have faced challenges in their supply chain that have hindered organization from attaining financial performance. This has contributed to negative effects as holding of excessive inventories, unethical purchasing behaviour, inadequate organizational performance, long lead times, poor waste management, over-reliance and a proceeding of absence of receptiveness and crafty conduct. This study was guided by the following objectives: To establish the effect of Supplier relationship management practices on financial performance in KTDA Tea processing firms in Kericho County. This Research used the following theories Strategic Choice Theory, Resource Dependency Theory and Systems Theory. The research adopted a descriptive survey design. The estimated number of respondents was 700 across departments. The sample size involved 210 respondents involved with various activities in the supply chain. Data collection instrument used comprised of structured questionnaire for employees of the KTDA firms. Validation was done by Supply chain Practitioners' and research experts drawn from supply or procurement department. Pilot testing was carried out on fifty respondents who informed on the reliability of data collection instrument. Cronbach Alpha was used to ascertain the reliability of the instrument at 0.7 thresholds. The obtained data was analysed by use of descriptive and inferential statistics. The findings of the study showed that through supplier relationship management mutual relationship is very crucial as through the company are able to engage competitively, reduce costs, allow the mutual sharing of risks and flow of information, flexibility in change management and effective utilization of resources. The study concluded that supply chain management practices are significant on the financial performance of the tea processing firms in Kericho County, Kenya.

KEY WORDS; ***Supplier relationship management practices, financial performance, tea processing firms, Kenya tea development authority, Kricho count***

INTRODUCTION

Background of the Study

Supply chain network is a system of between associated organizations that participate in value creation of a product from crude materials stage, work-in-progress stock and to a completed product that are needed by designated end customer (Dawel, 2011). Supply Chain Management (SCM) is the coordination of the development of merchandise and enterprises and includes the taking care of and capacity of crude material, work in advance stock and of completed merchandise from the upward or descending inventory network.

Council of Logistics Management (CLM) (2000) defines SCM as the procedural, key coordination of the supply chain function across business functions for the needed long-term performance of an organization. SCM has been extensively elaborated to recognize the strategic nature of coordination between sourcing partners the key idea of the importance of SCM to the purchasing function and the entire organization. The explanation for SCM is to guarantee smooth data and material streams flawlessly over the inventory network as a powerful device for aggressiveness in the worldwide workplace.

SCM is the outline of the firm client relationship; arrange satisfaction and provider relationship procedures and stock administration. SCM practices have been defined as the set of activities undertaken in an organization to promote effective management of the supply chain (Mahulo, 2015). The research focused around three major supply chain practices that influence organizational performance; Supplier Relationship Management, Strategic Supplier Sourcing and lean stock control depicts inventory network practices to incorporate, purchaser provider organization, outsourcing, supplier sourcing. According to studies undertaken by Mukabi, Kibet and Musiega (2014), they identified supplier selection as a supply chain practice. On the other hand supplier selection criteria which include; price, quality, service, technology and Partnership.

Statement of the Problem

Tea processing firms have faced challenges in their supply chain that have hindered financial performance. This has led to challenges such as holding of excessive inventories, unethical purchasing behaviour, inadequate organizational performance, long lead times, poor waste management, over-reliance and proceeding of absence of receptiveness and crafty conduct (Rajendra et al.,2013). Though most of these companies have engaged large number of suppliers in their business they have failed to manage the relationship with the suppliers effectively and the consequences are delayed deliveries, poor quality products, pricing problems and stock outs which have increased cost to these organizations. Moreover, most of these companies on several occasions have encountered supplier boycotts where suppliers refuse to supply goods due to delayed payments. The consequences of long lead times are delayed production which affects financial performance. Lean supply chain practices at the companies are still inadequate. In most cases there is purchase of excess inventory which are later declared obsolete. Another area of lean supply chain is the company goods return management; there are complaints from end consumers regarding the quality of goods which in essence in some instances are not achievable.

Objective of the Study

To establish the effect of Supplier relationship management practices on financial performance in KTDA Tea processing firms in Kericho County,

LITERATURE REVIEW

Empirical Literature

Wachira (2013) descriptive study, Supplier Relationship Management (SRM) is concerned with the activities involved in planning strategically and managing the interactions with supply chain stakeholders in an organization that provides goods, services and information to a company in order to satisfy customer needs. The research indicates that win negotiations with key suppliers paves way for competitive advantage in supply chain performance which is essential for overall organization performance. SRM in broader terms focuses on closer, collaborative long term relationships with key suppliers in order to increase organizational supply chain performance. Wachira (2013) in his descriptive study elaborated that SRM aims to nurture and develop mutually beneficial relationships with strategic suppliers who are capable of delivering goods at greater deliver goods at higher levels of invention and with overall competitive advantage that could not be gained by operating independently or through a reactive, transactional purchasing pre-arrangement. The findings were SRM is strategic tool in improving relationships with suppliers, he also concludes that organizations have several challenges in implementing sustainable supply chains.

Hemaratne (2016) in his survey study, managers in most organizations are seeking ways of developing an integrated supply chain first with the partners more precisely the suppliers that are capable demonstrated a track record of on-time delivery, quality, continued support and flexibility. The modern business environment has almost become borderless thus there is evidence of cutting edge supply chain strategies which have proven to be effective in the management of the supply chain. His findings show that suppliers who are selected and managed contribute to good organizational performance and he concluded that supply chain practitioners should aim at building sustainability in the supply chain through trust, communication, information sharing and adoption of information technology. Consequently, today, organizations look at overall management of relationships in the supply chain as a means of increasing competitive advantage.

Supplier Relationship Management (SRM) refers to the systematic, evaluation of suppliers' assets and capabilities with respect to procurement goals, choosing the approaches on how to handle the activities assigned to select suppliers , planning and managing interactions with suppliers, in an efficient manner across the supply chain, to maximize the value realized that is needed for supply chain and organizational performance The focus of SRM is to maintain mutually beneficial buyer-supplier relationships with key suppliers who can deliver goods at superior stages of invention and the much needed gains on matters competitive advantage that may not be possible while operating independently through a transactional purchasing approach (Wachira, 2013).

According to CIPS (2012) the relationship spectrums with a select supplier can be competitive or collaborative. The traditional competitive relationship is short term and the buyer bargain to obtain the best price possible from the supplier without critical look on to total cost of ownership, for the required product or service. The buyer focuses on minimizing cost which in turn lowers supplier profit margins. The competitive approach negotiation leads to win-lose situation, where any profits for the buyer are at the expense of the supplier. Competitive relationships are associated with limited information sharing, win-lose negotiations, poor lead time management and poor organization performance.

The supply relationships involve interactions buyer and supplier purchasing and supply relationships measures the degree of closeness entered into a relationship for the purpose of mutual benefit. The level of relationships depends on trust between the supplier and the buyer. Buyer-supplier relationship range from adversarial , arm length , transactional relationship, closer tactical, single sourced , outsourcing relationship, strategic alliance relationship, partnership and Co-destiny relationships (Wachira, 2013 and CIPS 2012), managing purchasing and supply relationships)

In an adversarial relationship, gains by one partner are seen as being at the expense of the other. Both buyer and supplier compete to defeat the other. This may be appropriate for tactical profit items. Minimal amounts of trust, information exchange and flexibility exist in this kind of relationship (CIPS, 2012). In Collaborative relationships both the buyer and supplier seek win-win negotiations, there is trust, information sharing, cooperation and the aim is to arrive at mutual goals.

The elements of buyer-supplier relationship include trust & communication. A good relationship builds trust between the buyer and the supplier. An organization should be able to identify a trustworthy supplier who can be relied upon to supply goods and services to the organization on time, this agrees with the study done by (Wachira, 2013). Mutio (2015) on the other hand came up with trust, communication, commitment, cooperation and mutual goals as the buyer-supplier relationship variables. The cross sectional survey research design on buyer-supplier relationships found out that there remains a significant relationship between buyer-vendor relationships and organizational performance." Lack of mutual goals was found to be a major challenge.

Theoretical Literature

Resource Dependent Theory (RDT)

The theory can explain the linkage and mutual dependence in the supply chain. The theory explains why companies depend on each other for required resources such as raw materials, goods and services, and how companies can manage the relationships (Salanick and Pfeffer 1978). The close dependence needed in these inter-company relationships is essential to reduce resource reliability uncertainties among the companies. The supply chain partners interact together closely; they share resources and work dependently and thus the need to form strategic alliances and cooperation in the supply chain. The, RDT theory is of great significance to supply chain context. Thus, supply management is gaining strategic importance followed by a wide range of tasks that needs to be fulfilled by the purchasing department, Edward, C. (2008).

Resource dependence concerns more than the external organizations that provide, distribute, finance, and compete with a firm. Although executive decisions have more individual weight than non-executive decisions, in aggregate the latter have greater organizational impact. Managers throughout the organization understand their success is tied to customer demand. Managers' careers thrive when customer demand expands. Thus, customers are the ultimate resource on which companies depend. Although this seems obvious in terms of revenue, it is actually organizational incentives that make management see customers as a resource Cooper (2004).

Resource dependence theory effects on nonprofit sector have been studied and debated in recent times. Scholars have argued that Resource dependence theory is one of the main reasons nonprofit organizations have become more commercialized in recent times. With less government grants and resources being used for social services, contract competition between private and nonprofit sector has increased and led to nonprofit organizations using marketization techniques used mainly in the private sector to compete for resources to maintain their organizations livelihood. Scholars have argued that the marketization of the nonprofit sector will lead to a decrease of quality in services provided by nonprofit organizations.

Resource dependence theory has been under scrutiny in several review and meta-analytic studies Drees & Heugens (2013). Which all indicate and discuss the importance of this theory in explaining the actions of organizations, by forming interlocks, alliances, joint ventures, and mergers and acquisitions, in striving to overcome dependencies and improve an organizational autonomy and legitimacy. While resource dependence theory is one of many theories of organizational studies that characterize organizational behaviour, it is not a theory that explains an organization's performance per se.

The assumptions of the theory are; strategic partnership for shared benefits, creating atmosphere needed to depend on another partner to develop a sense of strength, trust in the relationship. In supply chain context, the business relationship should be used to create shared commitment and trust to eliminate adversarial mistreatment of one partner by another. Therefore, this theory will be greater value to this study.

Systems Theory

The System Theory argues that an event is seen as a whole and not a function of its sub systems. System comprises of sub systems whose interrelationship and inter dependence move towards equilibrium of a larger system. The focus is on the relationship among subsystems in order to better understand an entity's organization, functioning and results. It also views the organization as dependent on the environment it operates in which involves various parties which include customers, Government bodies agents, shareholders and other factors beyond the organization control. Systems theory incorporates various supply chain variables which then form a larger system of supply chain networks. It also helps to reveal the extent of dependence between constitutes of the system and a better understanding of the dynamics of the SC hence improve planning, execution and coordination of activities of manufacturing companies. Supply chain is seen to be a system composed of internal and external supply chain that forms a network as observed by Ludwig (1969) in his studies.

Goldstein (2006) explore the historical background of application of systems theory in supply chain management and specifically in the context of logistics. They argue that the neoclassical economic theories were dominant during period of 1950s-1970s. During this period, the focus was one total cost and trade-offs. However, since the 1970s systems theory has become the dominant theory for explaining the domain and functioning of organizational supply chain. The post 1970s era itself witnesses a shift of focus. While the balance of cost service as well as trade-offs were the centre of attention until 1985, the focus of the theory was shift around 1985 to describe efficiencies and the role of processes. This latter period continues to date.

Systems theory, which views organizations as living organisms, acknowledges the complexity of these relationships. System theory challenges the static view of organizations and following an open system view, suggests that organizations –at individual, group and organizational level are affected by the time factors. This theory promotes the dynamic view of organizations. System theory is currently one of the dominant theories in supply chain management studies. This theory applies in this study for simplifying the complex organizational structures and identifying the organizational stakeholders. However, in this theory the functional paradigm view is dominant, which may limit its application in the process view of organizational management philosophy."

RESEARCH METHODOLOGY

Research design

For the purpose of this study to be achieved, which aimed to assess supply chain management practices and the effect on the financial performance, the research adopted a descriptive research design. A research design is the plan for fulfilling research objectives as well as finding answers to research questions (Adams et al., 2007).

Target Population

A study population refers to a collection of individuals, entities or items for which illustrations are taken for measurement (Kombo and Tromp 2006). Kothari (2004) defined the target population as the comprehensive of all subjects that fit in to chosen sets of specifications to which the study generalizes the findings. The population meant for carrying out this study was drawn from different departments from Tea factories under KTDA. The respondents were drawn from key departments from various factories. The

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actual number of respondents was 700 across departments.

Data Collection Procedures

The study data was collected using questionnaires which were self-administered to 210 respondents. Questionnaires were used since the study was concerned with opinions and views of the respondents. The questionnaire was administered through the drop and pick later method while some questionnaires were personally administered to the respondents.

Supplier Relationship Management on Financial Performance

The first objective of the study sought to establish the effect of Supplier relationship management practices on financial performance in KTDA Tea processing firms. The respondents were to indicated their level of agreement to the statements posed by the researcher in the questionnaire on a likert scale of; Strong Disagree (SD), Disagree (D), Neutral (N), Agree (A) and Strongly Agree (SA). The ratings were 1, 2,3,4,5 respectively. The findings are shown in table 4.5

Table 1 Supplier Relationship Management on Financial Performance

Level of Effect	S D	D	N	A	SA	Mean	Std dev
Company allows for mutual relationships between vendor and buyer	4 (2%)	-	16 (7.9%)	91 (45%)	91 (45%)	4.31	0.783
Supplier Relationship management enables competitiveness advantages	-	7 (3.5%)	13 (6.4%)	147 (72.8%)	35 (17.3%)	4.04	0.614
Supplier Relationship management assist in cost reduction	-	2 (1%)	32 (15.8%)	67 (33.2%)	101 (50%)	4.32	0.774
Effective supplier relationship management allows mutual sharing of risks	-	2 (1%)	26 (12.9%)	71 (35.1%)	103 (51%)	4.36	0.742
Supplier relationship management facilitates information sharing	-	14 (6.9%)	32 (15.8%)	60 (29.7%)	96 (47.5%)	4.18	0.940
Supplier relationship management allows flexibility in change management	7 (3.5%)	12 (5.9%)	-	121 (59.9%)	62 (30.7%)	4.08	0.924
Supplier relationship management enables effective resource utilization	-	-	27 (13.4%)	101 (50%)	74 (1%)	4.23	0.669

Source: Research data 2019

The findings from table 4.5 indicate that 4(2%) respondents strongly disagreed that company allows for mutual relationships between vendor and buyer, 16(7.9%) respondents were neutral, 91(45%) respondents agreed and 91(45%) respondents strongly agreed. Majority of the respondents agreed that their respective companies allow for mutual relationships between vendor and buyer, therefore a mean of 4.31 with a variation of 0.783 which was high. Mutual relationships when are fulfilled is directly responsible and how to motivate the parties involved to improve performance.

On whether supplier relationship management enables competitiveness advantages, 7(3.5%) respondents disagreed, 13(6.4%) respondents were neutral, 147(72.8%) respondents agreed and 35(17.3%) respondents strongly agreed. Majority of the respondents agreed that supplier relationship management gives companies the competitiveness advantage hence a mean of 4.04 with a standard deviation of 0.614 was posted. The findings supported Roekel, et al., (2002) who found that supply chain management better share of large investments and risks among partners in the chain.

2(1%) respondents disagreed that supplier relationship management assist in cost reduction, 32(15.8%) respondents were neutral, 67(33.2%) respondents agreed and 101(50%) respondents strongly agreed. Majority of the respondents agreed that supplier relationship management assist in cost reduction (mean of 4.32) and the variation in cost reduction was high (standard deviation of 0.774). These findings are in line with the findings of Habib (2011) who found out that supply chain management objectives may include adding value, reducing cost, or reducing response time in various parties involved in the manufacturing supply chain.

In assessing whether effective supplier relationship management allows mutual sharing of risks, 2(1%) respondents disagreed, 26(12.9%) respondents were neutral, 71(35.1%) respondents agreed and 103(51%) respondents strongly agreed. Majority of the respondents agreed that mutual sharing of risk is facilitated by effective supplier relationship management (mean 0f 4.32) and the deviation was high on the mutual sharing of risk (standard deviation of 0.742).These findings coincided with Roekel, et al. (2002) who demonstrated that supplier relationship management gives parties involved responsibilities on the risks involved.

In respondents 14(6.9%) disagreed that supplier relationship management facilitates information sharing, 32(15.8%) respondents were neutral, 60(29.7%) respondents agreed and 96(47.5%) respondents strongly agreed. Majority of the respondents agreed that supplier relationship management facilitates information sharing (mean of 4.18) and the deviation was quite high on the sharing of information (standard deviation of 0.940). These findings are consistent with empirical findings of Li et.al (2005), Tan et al (2002).

The study sought to know whether supplier relationship management allows flexibility in change management, 7(3.5%) respondents strongly disagreed, 12(5.9%) respondents agreed and 62(30.7%) respondents strongly agreed. Majority of the respondents agreed that supplier relationship management allows flexibility in change management (mean of 4.08) and the variation was quite high on the flexibility in change management (standard deviation of 0.924). These findings were consisted with Alam & Faridi, (2011) who viewed supplier relationship management in light of flexible management changes.

About 27(13.4%) respondents were neutral on the fact that supplier relationship management enables effective resource utilization, 101(50%) respondents agreed and 74(1%) respondents strongly agreed. Most of the respondents agreed that that supplier relationship management enables effective resource utilization (mean of 4.23) the variation was relatively high on the utilization of resources effectively (standard deviation of 0.669).

This study found out that companies build mutual relationship and that through the relation build they are able to engage competitively, reduce costs, allow the mutual sharing of risks, also there is free flow of information, through SRM there is flexibility in change management and effective utilization of resources.

Regression Analysis

The regression analysis of the study sought to bring out how financial performance which is the dependent variable is affected by the independent variable supplier relationship management practices.

Table 4.2 Analysis of Coefficient of Determination Using SPSS Version

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.375ᵃ	.125	.214	.512	.225	19.206	3	198	.000

a. Predictors: (Constant), supplier relationship management practice
b. Dependent Variable: financial performance

Source: Research Data 2019

Table 4.10 shows that coefficient of determination (R-square) of 0.125, indicate that supply relationship management practices explained 12.5% in financial performance in the selected KTDA affiliate tea processing firms in Kericho County. Kenya, the remaining 87.5% can be explained by other factors such as government regulation and taxation policies, packaging of the tea, taste and preference of customers, marketing of the final product among other aspects that directly affects financial performance.

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Table 3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.035	.350		5.807	.000
1	Supplier Relationship Management practices	.378	.063	.402	6.037	.000

a. Dependent Variable: financial performance
Source: Research Data 2019

Therefore,
$y = 2.035 + 0.378x_1 + e$
When all the other variables are kept constant, a unit change in supplier relationship management practices produce an increase of 0.378 units in financial performance of the tea processing firms in Kericho County, Kenya,

CONCLUSION

The study sought to determine the effects of supply chain management practices on financial performance in selected KTDA affiliate tea processing firms in Kericho County, Kenya. The study concluded that mutual relationship is very crucial as through the company are able to engage competitively, reduce costs, allow the mutual sharing of risks and flow of information, flexibility in change management and effective utilization of resources.

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