

Effect of Buyer-Supplier Relationship on Performance in Kibos Sugar Industry

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Odero Nancy Akinyi1, *Dr. Ofwa Joanes Otieno Wu'Adongo2 & Dr. John Mark Obura3

Department of Marketing and Management, School of Business and Economics, Maseno University1

Department of Accounting & Finance, School of Business and Economics, Jaramogi Oginga Odinga University of
Science & Technology, Kenya2

Department of Management Science, School of Business and Economics, Maseno University3

Abstract

Any organizational initiative, including supply chain management, should ultimately lead to enhanced organizational performance. Organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action. It is reported that sugar factories have remained uncompetitive with the cost of production being Ksh. 60,600 per ton. The specific objective of this study was to establish effect of buyer-supplier relationship on performance. The study employed correlation survey design. The target population of the study was 74 comprising staff of various departments in the factory and a sample of 62 was used in the study. Both stratified and purposive sampling techniques were applied. The primary data was collected using structured self-administered questionnaire. Reliability and validity tests were carried out at the company. Data was analysed using descriptive and inferential statistics. The findings indicated that there was significant positive relationship between buyer-supplier relationship and performance with correlation coefficient of 0.427($p < 0.05$). It is recommended that the management of Kibos Sugar Company to enhance buyer-supplier relationship. It is also hoped that Kibos Sugar factory's management critically check whether they have succeeded or failed in their supply chain management. Academically, this study is expected to contribute to knowledge expansion in the field of supply chain management.

Key words: Supply chain management, Kibos Sugar factory, Quality product, Market Share

Introduction

Background to the study

Supply chain management (SCM) is "a key strategic factor for increasing organizational effectiveness and for better realization of organizational goals such as enhanced competitiveness, better customer care and increased profitability" (Gunasekaran, Patel, & Tirtiroglu, 2001). SCM practices have been defined as a set of activities undertaken by an organization to promote effective management of its supply chain" (Li, Raghu-Nathan, Raghu-Nathan, & Rao, 2006). He proposed SCM practices as a multi-dimensional construct that includes both upstream and downstream sides of the supply chain.

In a supply chain, relationships are not only used for connecting the firm with a partner, but also used to connect the firm throughout the supply chain (Hsu, Kannan, Tan, & Leong, 2008). Supplier relationships are a part of supply chain relationships (Lemke, Goffin, & Szwejczewski, 2002). Minimum two parties are involved in a relationship, in order to produce mutual benefits (Walter, Ritter, & Gemunden, 2001). Supplier selection in particular is crucial in procurement management. The decision is one of the most fundamental and important decisions made by buyers and organizations. This is because supplier evaluation and selection can be applied to a variety of suppliers throughout a products' life cycle from initial raw materials acquisition to end-of-life service providers (Bail & Sarkis, 2009). Supplier selection is a stage during the process of procuring for products and services during which the organization(s) choose the preferred and most qualified supplier (s) from the group that has been evaluated and deemed to meet the requirements in the evaluation process, according to Gordon (Gordon, 2008).

Supplier selection from a global point of view encompasses the myriad activities used to evaluate the capabilities of potential suppliers and then to select them to configure a buyer's supply chain for long-term competitive advantage (Choi and Hartley, 1996; Vonderembse and Tracey 1999). Supplier selection is critical (Lao, Hong and Rao 2010) as firms become more and more dependent on their suppliers; the capabilities of those suppliers serve as key resources



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in the development of the buyer's own capabilities and performance. For example, Gonzalez and Quesada (2004) found that supplier selection was the most influential supply management process for achieving product quality. However, a firm's ability to create or enhance its own capability in a strategically important domain such as quality by leveraging supplier capabilities in quality may depend not only on its ability to select a capable supplier in the quality domain but also on its ability to successfully integrate the supplier into the firm's operations and network.

Problem Statement and Justification

According to Kenya's Sugar Directorate, locally produced sugar remains uncompetitive with the cost of production at about \$600 USD per ton and therefore higher than anywhere else in the Common Market for Eastern and Southern Africa (COMESA). Local sugar production is also limited by poor crop husbandry practices, low access to inputs, poor transport infrastructure, and delayed payments to farmers and supply chain sourcing strategies. Little is known concerning effect of Buyer-supplier relationship and performance of sugar industries. Moreover, it is reported that inefficiencies experienced at the grower level of the value chain have reduced the supply of cane to local millers. These difficulties have reduced the ability of millers to operate at optimal levels meaning that the Kenyan market is undersupplied by domestic millers. It is reported that high production costs for sugarcane processing in Kenya is due to: low quality of sugarcane, low recovery rates, low capacity utilization, rising maintenance and repair costs, inadequate research and extension services, high costs of investment, financial structures and the falling value of the Kenya shilling. There are limited local empirical researches related to effect of buyer-supplier relationship on performance sugar Industries.

Objective: To establish effect of buyer-supplier relationship on performance of Kibos Sugar Factory

Hypothesis

H₀₁: HO₁: Buyer-supplier relationship does not have significant effect on performance of Kibos Sugar Factory

Literature Review

Theoretical literature Review

The researcher reviewed the theories relevant to Buyer-supplier relationship and performance. Theories are analytical tools for understanding, explaining and making predictions about a given subject matter (Hawking, 1996). Two theories are discussed, namely; the goal setting theory that relates to the evaluation process and the expectancy theory relating to the procurement expected outcomes (performance).

Concept Buyer supplier relationship

Management of buyer-supplier relationships is central to the success of supply chain management in firms (Harland, 1996). In particular, strategic relationships with critical suppliers must be understood in order to maximize the value creation in the supply chain. Studies have shown that successful management of these relationships contributes to firm performance (Tan *et. al.*, 1999). Dimensions such as trust and commitment are shown to an important role in high-value strategic relationships; where specific investments are high and contractual governance alone is not adequate. In such relationships, it is important that both parties perceive that they are gaining value from the relationship if it is to continue and the relationship is to be considered a success (Ellram, 1995).

Evidence from the literature on strategic supplier alliances, a particular manifestation of a long-term, collaborative relationship, suggests that buyers tend to prefer closer relationships when they wish to control the dependability of supply or influence supplier quality and delivery schedules (Ellram, 1995). Suppliers may be similarly motivated when they seek to secure long-term, reliable markets, or to influence customer quality. Much of the recent literature on buyer-supplier relationships focuses either on the underlying attributes of relationships, or how relationships impact performance. Traits such as coordination, collaboration, commitment, communication, trust, flexibility, and dependence, are widely considered to be central to meaningful relationships. It should be noted that the implicit assumption is that the subject is a cooperative rather than a more hands-off relationship. Similar traits can also be observed in the supplier alliance literature (Ellram, 1995). The underlying rationale behind these traits is that in their absence, interaction between buyers and suppliers to create mutually beneficial outcomes



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will be limited. Without signals and/or behaviors demonstrating a willingness to work together to increase rather than merely redistribute value within the supply chain, buyers and suppliers will be motivated to look out for their own interests. Willingness, however, to work together and to share risks allows benefits to be achieved not only in cost, quality, delivery, and productivity, but in product development, technology deployment, and problem solving (Fram, 1995)

Empirical literature

Suhong, Bhanu, Ragu-Nathan, and Subba, (2014) conducted a study on the impact of supply chain management practices on competitive advantage and organizational performance. The study found out that higher levels of SCM practice can lead to enhanced competitive advantage and improved organizational performance. This study was conducted outside Kenya and it did not focus on supply chain sourcing strategies, while Kamau (2013), who carried out research to establish the effect of buyer – supplier relationships on organizational performance among large manufacturing firms in Kenya, found out that was a significant relationship between buyer – supplier relationships and organizational performance represented by R² value of 0.723 which translates to 72.3% variance explained by the five independent variables of trust, communication, co-operation, commitment and mutual goals.

Karanja and Juma (2014) conducted study to determine the effect of strategic Material Sourcing on operational performance of manufacturing firms, a case of East African Breweries Limited in Nairobi, Kenya. The study findings showed that strategic material sourcing entails developing sourcing strategy and that it involved improving and re-evaluating the purchasing activities at EABL. The above studies portray contextual gap because they were not done in the sugar industry which is filled by the current study.

Research Methodology

Research design

This study employed a correlational survey research design. Survey are generally concerned with explorations, descriptions and explanations of opinions, attitudes, preferences and perceptions of groups of people of interest, and portrays events as they are perceived to be or as they will be (Cohen, 1988).

Target population and sample size

The target population of the study is 74 units comprising of 5 departments namely procurement, human resource, marketing, transport, and accounts and finance. Distribution of target population is as follows 25 procurements, 5 human resource, 8 marketing, 24 transports, and 12 accounts and finance. The sample size of the study is 62 that is determined using the formula of Yamane (1967) as adopted by Nyangara (2013).

$$n = \frac{N}{1+Ne^2} = \frac{74}{1+74(0.05)^2} = 62$$

Where n is the sample size, N is the target population, e is the level of precision. Stratified random sampling techniques is used to group the target population into categories of strata, and then a sample was collected from each stratum using both purposive and convenient sampling techniques. (Mugenda and Mugenda, 2004)

Reliability and Validity of Research Instruments

To test reliability of the research instruments, the instruments were administered to the same group of individuals on two separate occasions. The results were compared by correlating the sets of scores and calculating reliability coefficient. To ensure content validity, questionnaire was subjected to thorough examination by independent persons and late calculate the content validity index (CVI)

Data collection and Data Analysis

A structured questionnaire was developed to collect primary data. Sections contain questions relating to constructs of buyer-supplier relationship. Quantitative data will be analyzed using descriptive and simple inferential statistics especially multivariate regression analysis which is instrumental in indicating whether the independent variables; Buyer supplier relationship significantly predict the dependent variable performance.



Statistical model Specification

In this study simple linear regression model has one dependent variable for performance and independent variable Buyer-seller relationship. The regression model is given by the following equation:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where

Y = Performance (cost reduction)

β_0 = Constant

X1 = Buyer-seller relationship

Findings and Discussion

Findings

The findings reveal that is significant moderate positive relationship between buyer-supplier relationship and performance with correlation coefficient of 0.427(p<0.05). Kamau (2013), carried out to establish the effect of buyer – supplier relationships on organizational performance among large manufacturing firms in Kenya. The findings showed that there was a significant relationship between buyer – supplier relationships and organizational performance represented by R2 value of 0.723 which translates to 72.3% variance explained by other factors while this study has shown a moderate positive association between independent variable and Dependent variable.

Conclusion

The study established that the most favored buyer-supplier relationship attribute is the existence of closer relationships between the company and suppliers/customers. This was supported by 82.5% of the respondents who agreed that there existed closer relationships between the company and suppliers/customers.

Recommendation

In the light of the findings, the study recommends the following policy actions by the management of Kibos Sugar Company, to enhance and/or increase buyer-supplier relationship. This is so because buyer-supplier relationship contributes cost reduction, productivity, and increase in sales volume.

Suggestions for Further Research

Recommendation for Further Research: This study used cross-sectional data however there is need to conduct a longitudinal study to provide a more conclusive evidence to the relationship between supply chain sourcing strategies and performance of other sugar companies.

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