



Strategic supplier relationship on performance of devolved systems of government in Kenya

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ABSTRACT

The purpose of this study was to investigate the influence of strategic supplier relationship on the performance of the devolved system of government in Kenya, the study adopted a cross-sectional survey design using both quantitative and qualitative approaches. The target population for this study was all employees working in finance and procurement departments in 10 counties namely; Garissa, Kisii, Nyamira, Narok, Marsabit, Murang'a Bomet, Nairobi, Kiambu and Homa Bay. We study used stratified random sampling to pick 186 respondents from finance and procurement department. Data was collected by using questionnaires Descriptive and inferential statistics were used aided by Statistical Packages for Social Sciences version 24 to compute percentages of respondents' answers. Hypothesis testing was carried using multiple regression analysis and standard F tests. We found out that a positive and significant relationship between strategic supplier relationship and performance of devolved systems of government. We recommend that devolved systems of government should conduct jointly product development with suppliers and involve suppliers directly or indirectly in their strategic plans. Suppliers' involvement would support the company's development innovation and capabilities thus increasing the benefits perceived by the company's customers. Finally, we recommend that management should implement strategic supplier relationships practice within the frameworks of public procurement acts and regulations.

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Introduction

Strategic supplier relationship is a very crucial component for success of any given organization. This warrants an organization to work together with their strategic suppliers in order to create a competitive advantage through sharing information making joint decisions and sharing benefits thus greater profitability of satisfying customer needs than acting alone (Simatupang & sridharan, 2002). Nowadays, the company's relationships with suppliers have been differing from simple transaction exchanges that have been handled in adversarial approach to varied and articulated set of business relationships and handled in respect to the supplier-base, according to a long-term perspective (Tunisini & Sebastiani, 2015). Many supplier relationships are complex in terms of interactions as it involves knowledge and information exchanges, mutual adaptations and long-term investments, and these are handled according to a strategic approach (Cousins & Spekman, 2003).

Devolved systems of government require to practice strategic supplier relationship management especially when dealing with strategic suppliers (Jeans et al., 2018). Studies have been undertaken on importance of strategic supplier relationship on organizational performance for instance Tunisini and Sebastiani (2015) identified that strategic supplier relationships play a key role in supporting the company's competitive advantage and differentiation in the eye of the final customer. Also, strategic supplier relationship is paramount for success of the organization especially by firms sharing information with their supplier it resulted to increased profitability and level of customer satisfaction on the firm (Mumelo et al., 2017). supplier relationships play both a rationalization

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role, in which they support the company's efficiency and support minor sacrifices for its customers, and a developmental role, in which they support the company's development of innovation and capabilities and, thus, help the increase of the benefits perceived by the company's customers (Gadde *et al.*, 2010).

Devolved system of government have been experiencing major challenges in the execution of procurement practices. In Kenya, the central government spends about Kshs. 234 billion per year on procurement. However, on annual bases, the government losses close to Ksh. 121 billion about 17 per cent of the national budget due to inflated procurement quotations (KISM, 2015). Also, according to the damning audit report for financial year 2014/15 a huge chunk of the monies were paid to unscrupulous workers or fictitious firms and non-existence suppliers in the county governments. Likewise, Odhiambo and Kamau (2013) established that although developing countries have taken steps to reform their public procurement systems, the process is still shrouded by secrecy, inefficiency, corruption and undercutting which has resulted to a huge amounts of resources into wastage. This is because majority of the devolved systems of governments do not adhere to strategic supplier management practices and public procurement act and regulation. Equally, an organization that practice strategic supplier management would reduce supplier base and develop long term relationships with the best suppliers hence better performance (Boyne & Walker, 2010; Ellram& Zsidisin, 2003). It is hence against this background this study is going to determine the influence of strategic supplier relationship on the performance of devolved systems of government in Kenya.

The general objective of the study was to establish the influence of strategic supplier relationships practice on performance of devolved systems of government in Kenya.

Hypothesis tested on the study was as follows;

H₀: Strategic supplier relationships practice does not have a positive significance influence on performance devolve systems of government in Kenya.

Literature Review

Social Network Theory

A social network is a set of organizations interlinked by a series of relationships which can be graphically illustrated by a set of nodes and lines (Chabowski *et al.*, 2011). Social network theory has two key elements which include density of the completeness of the ties between the actors in a network and centrality that is the position of a company in a network and its ability to control the information flow (Sarkis *et al.*, 2009). Thus, organizations should make cross-enterprise decision-making approach in supply chain management. Devolved systems of governments should make use of social network theory as instruments of examining the structure of inter organizational relations (Butts, 2007).

In addition, social network theory can assist devolve system of government in Kenya to analyse and explore relationships between supply chain members at both levels, i.e upstream and downstream (Sarkis *et al.*, 2009). The social network theory can also be used to validate the necessity of supplier relationship practices in supply chains and further describe the need for undertaking proactive measures in procuring goods and services in counties (Lee, 2005; Sarkis *et al.*, 2009). Adoption of social networks will enable effective implementation of strategic procurement practices in which devolved systems of government will benefit from its central position to champion and monitor proactive initiatives (Vurro *et al.*, 2009) through both material/money flow alliances and sharing-of-information types of ties (Borgatti & Li, 2009). Therefore, devolve system of government in Kenya should focus on their supply chain configuration design through the use of advanced information sharing mechanisms that can increase supply chain density and, in turn, its ability to relate with suppliers (Neville & Menguc, 2006; Vurro *et al.*, 2009).

Strategic Supplier Relationships Practice

Supplier relationship is the act of two or more chain members working together to create a competitive advantage through sharing information making joint decisions and sharing benefits which result from greater profitability of satisfying customer needs than acting alone (Simatupang & sridharan, 2002). Supplier relationships play both a rationalization role, in which they support the company's efficiency and support minor sacrifices for its customers, and a developmental role, in which they support the company's development of innovation and capabilities and, thus, help the increase of the benefits perceived by the company's customers (Gadde *et al.*, 2010). As a result of the strategic importance of supplier relationships, the procurement function has become more and more crucial in the organization. This function performs more and more strategic activities by developing and controlling critical capabilities supporting and enhancing the company's competitive differential (Monczka *et al.*, 2005).

Various empirical studies have been conducted on strategic supplier relationship and performance of the organization. Some studies have often cited strategic supplier relationship positively influence organizational performance. Various studies have been done on this area for instance a study done in Jordan on impact of supplier relationship management on competitive performance of manufacturing firms, the results show that two practices of supplier relationship management, supplier partnership/development and supplier lead time reduction significantly and positively affect the competitive performance of the buying firms. (Abdallah *et al.*,2014)

Onyango et.al (2015) focused on the effect of strategic supplier relationship management on internal operational performance of manufacturing firms, focusing on business-supplier communication and business-supplier joint decision making. The findings established that there is a positive significant relationship between buyer- supplier joint decisions, supplier communication management and internal operational performance of manufacturing firms in Kenya. This suggest that firms with well managed supplier communication systems, execute buyer supplier joint decisions have enjoyed superior customer service levels and improvement in internal operational performance. Enhanced supplier relations improve supplier performance which result in high levels of internal operations performance. Likewise, effective communication system enhances information flow between the firm and its suppliers hence resulting in high level of operational performance. Therefore, it's crucial for organizations to improve on their communication channels, through a dedicated information system that facilitate real time communication especially with their strategic supplier and finally to enter into long term strategic relationship with their suppliers.

According to Mumelo et al. (2017) on influence of supplier relationship on performance of small scale enterprises in Bungoma town, Kenya. The findings revealed that sharing of information sharing between the organizations and suppliers is paramount for success of a firm, and for this to be successful the firms should integrate their systems with the supplier's systems. Another study by Gatobu and Moronge (2018) revealed that strategic alliances between a firm and their suppliers not only allows the organization to focus on their core business but also free up management time and also the firm is able to enjoy high quality service that result from the fact that the supplier is an expert in his area hence overall cost reduction of the firm. To maximize profitability and to stay competitive in the global markets an organization must understand and execute supply chain management, focusing on supplier relationship. Proper use of supplier relationship management strategies with high level of trust, commitment, shared goals and open communication with suppliers will result in a enjoying successful supplier relationship hence improved organizational performance (Kosgei &Gitau, 2016).

Tangus et al.(2015) on effect of supplier relationship management practices on performance of manufacturing firms in Kisumu county, Kenya established that supplier relationship management practices specifically supplier development, supplier segmentation and information sharing once practiced by a firm lead to improved performance. Therefore, it's of paramount importance that organizations develop supplier development programs such as supplier training, financial and technical assistance of suppliers and strategically manage their supply base and ensure open information sharing with their strategic suppliers by so doing the organizations will minimize on the overall cost of the organization and enjoy high level of customer satisfaction. Further, Kiarie (2017) on influence of supplier relationship management practices on operational performance of large manufacturing organizations in Kenya, established that SRM practices have a significant effect on operational performance of manufacturing firms in the sense that how an organization performs depends entirely on how suppliers are managed, for instance majority of manufacturing firms in Kenya have adopted documented guidelines on how they manage their suppliers, therefore impacting on how suppliers are selected, evaluated and even developed. Trust and commitment between the organization and its suppliers is important for a successful relationship, hence a good relationship with suppliers have significantly reduced transactional cost that may result from delayed shipment, delivery of substandard goods or lack of flexibility from a supplier.

Performance of devolved systems

Sound public procurement policies and practices are essential elements of good governance (KIPPRA, 2006; World Bank, 2002). An ideal procurement system should always focus on effectiveness, where procuring entities should meet the commercial, regulatory and socio-economic goals of government in a manner that is appropriate to the procurement requirement. Wittig (1999) indicates that any improvements in the public procurement system can have a direct and beneficial effect on the overall economic situation of a country.

A Purchasing Magazine survey of consultants revealed a number of objectives that firms pursue when employing procurement strategy. They included driving the lowest possible purchase price, identifying sources of high-quality products/services, simplifying the purchasing and supply management processes, and reducing transaction costs. In addition, a leading consulting firm reported that companies use strategies to reduce transaction costs, purchase price, purchase order processing cycle times, and to speed up the time-to-market cycles (www.aberdeen.com 2003). Thus, this study will adopt lowest purchase price, high quality products/services, simplified procurement processes, procurement order processing cycle times and reduction transaction costs to measure performance of counties.

Research and Methodology

The study adopted cross-sectional survey design using both quantitative and qualitative approaches. The target population for this study were all employees working in finance and procurement departments in 10 counties namely; Garissa, Kisii, Nyamira, Narok, Marsabit, Murang'a, Bomet, Nairobi, Kiambu and Homa Bay .the study used stratified random sampling to pick 186 respondents from finance and procurement department. Data was collected by using questionnaires Descriptive and inferential statistics was used aided by Statistical Packages for Social Sciences version 24 to compute percentages of respondents' answers. Quantitative data was collected and analyzed by calculating response rate with descriptive statistics such as mean, median, standard deviation and proportions using Statistical Package for Social Sciences (SPSS) version 24 and Microsoft Excel. Inferential data analysis was carried out by the use of factor analysis and correlation analysis to determine the strength and the direction of the relationship between the

dependent variable and the independent variables. Further, the influence of moderating was tested. Regression models was fitted and hypothesis testing was carried using multiple regression analysis and standard F tests to enable all variables to be compared with each other simultaneously rather than individual.

Empirical Findings

Response rate

A total of 160 self-administered questionnaires were filled out of 186 yielding a response rate of 86% . This response rate was good and representative and confirms to Mugenda (2008) stipulation that a response rate of 50% is adequate for analysis; a rate of 60% is good and a response rate of 70% and over is excellent. This good response rate was attributed to the data collection procedure, where the researcher personally administered questionnaires to the respondents who filled them. The researcher collected the filled questionnaires later. This response rate demonstrated willingness to respond to study.

Descriptive statistics

The study sought to establish the influence of strategic supplier relationships practice on performance of devolve systems of government in Kenya. Likert scale Statement questions were set for which the responses are presented in the table 1.

Table 1: Results of Strategic Supplier Relationships practice

Opinion Statements	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Deviation
Sharing of qualitative information and competencies	0.0	6.3	6.3	62.5	25.0	4.06	0.750
Joint product development and design	3.8	9.4	16.9	53.8	16.3	3.69	0.978
Direct involvement of a company	2.5	15.0	18.1	36.9	27.5	3.72	1.100
We develop capabilities of supply	5.0	6.9	13.1	46.3	28.8	3.87	1.065
We stress the sustainability when outsourcing	0.0	6.3	17.5	51.9	24.4	3.94	0.818
We rely on suppliers to increase performance	4.4	12.5	18.1	36.3	28.8	3.73	1.138
composite score						3.84	0.975

From the study results, it was established that majority of respondents with a mean rate of 4.06 strongly agreed that their devolved systems of governments share qualitative information and competencies with their strategic suppliers in order to strengthen relationships. This result agree with other studies like the study of Monczka *et al.*, (2005) who established that the procurement function has become more and more crucial in the organization and therefore performs more and more strategic activities by developing and controlling critical capabilities supporting and enhancing the company's competitive differential. Thus devolved systems of governments share crucial information such as knowledge, mutual adaptations and long-term investments. Also, information sharing can provide devolved systems of governments with a competitive advantage through sharing information making joint decisions and sharing benefits which result from greater profitability of satisfying customer needs than acting alone (Simatupang & sridharan, 2002).

Likewise from the results, it was noted that devolved systems of governments in Kenya they do conduct joint product development and design with their suppliers, they involve suppliers directly on issues touching suppliers, develop capabilities of suppliers through capacity development, they outsource suppliers who adhere to sustainable practices and engage suppliers who can increase their performances. All these opinion statements were rated by the respondents with a mean of more than 3.69. These findings concurred by findings of other scholars reviewed in the literature that supplier relationships play a key role in supporting the company's competitive advantage and differentiation in the eye of the final customer (Tunisini & Sebastiani, 2015). Also, supplier relationships play both a rationalization role, in which they support the company's efficiency and support minor sacrifices for its customers, and a developmental role, in which they support the company's development of innovation and capabilities and, thus, help the increase of the benefits perceived by the company's customers (Gadde *et al.*, 2010).

Integrating demand and supply chain processes helps companies to create and deliver superior customer value thanks to the shared generation, dissemination, interpretation and application of real-time customer demand as well as ongoing supply capacity constraints (Esper *et al.*, 2010). However, from the study some respondents indicated their devolved systems of governments do not conduct jointly product development with a 30.1 %, 35% of devolved system of governments do involve suppliers directly in their strategic plans and 35% do not rely on suppliers only to increase their performance of devolved systems of governments.

Further the study established that majority at a mean of 3.72 that the county governments directly involve their suppliers and customers in planning and forecasting in order to enhance the performance of the counties, this finding are in agreement with other scholars who identified that customer involvement has positive impact on product quality, delivery reliability, process flexibility, and customer service; and supplier involvement leads to decreased cost (Zhang, et.al 2010). Moreover the study identified that majority

at a mean of 3.87 agreed to the fact that the county governments develop capabilities of their suppliers in order to enhance the performance of the devolved systems of government, this findings are in line with other scholars who identified that supplier development plays a vital role in organisation performance in the sense that elements of the supplier development strongly influence the performance of the organisation more so financial support, direct firm involvement and rewards also supplier development results to increased profitability. Helps reduce product cost, helps to improve product quality and it helps in producing products faster than before due to improved supplier quality. (Wachiuri *et.al.*, 2015)

Moreover the study revealed that majority of respondents at a mean of 3.94 agreed to the fact that the devolved systems of government stress sustainability when outsourcing activities from suppliers, the study further revealed that majority at a mean of 3.73 was in agreement that the devolved systems of government do outsource the non-core functions in order to concentrate on core business hence increasing the performance of devolved systems of government. The findings thus are in agreement with other researchers in the sense that that outsourcing has effects on productivity, costs and quality of goods and services produced thus subsequently affecting the performance of organization also process specific outsourcing is positively related to organization performance hence companies can take advantage of that to increase profitability, productivity and time by ensuring they outsource the best to get the best results so as to improve organization performance (Opiyo, 2017).

Test of Hypothesis

The researcher conducted regression analysis so as to establish the influence of strategic supplier relationship on performance of devolved systems of government in Kenya. The hypothesis tested was:

H₀: Strategic supplier relationships practice does not have a positive significance influence on performance devolve systems of government in Kenya.

The standardized regression coefficient for strategic supplier relationships was 0.684. This indicated that a unit increase in the strategic supplier relationships would result in 68.4% increase in the performance devolve systems of government in Kenya. The result is shown in table below. therefore, strategic supplier relationship has a positive influence on performance of devolved systems of government.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.684 ^a	.468	.465	.48141

a. Predictors: (Constant), Strategic Supplier Relationships

Further test on ANOVA shows that the significance of the F-statistic (F=138.980, p<0.05), as indicated in table below. This implies that there is a positive significant relationship between strategic supplier relationship and performance of devolved systems of government. Therefore, strategic supplier relationship improves performance of devolved systems of government in Kenya, therefore supply chain managers should ensure that they collaborate and develop their suppliers especially those who supply strategic items in order to enhance their organizational performance. The finding of this study concurred with the study of Tunisini & Sebastiani (2015) who identified that supplier relationships play a key role in supporting the company’s competitive advantage and differentiation in the eye of the final customer.

Table 3: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.210	1	32.210	138.980	.000 ^b
	Residual	36.618	158	.232		
	Total	68.828	159			

a. Dependent Variable: performance of Counties

b. Predictors: (Constant), Strategic Supplier Relationships

Further test on The t-statistic for the regression coefficient for strategic supplier relationships was significant at 5% level of significance (T=11.789, p<0.05) implying rejection of null hypothesis. On the basis of these statistics , the study concludes that there is significant positive relationship between strategic supplier relationships and performance of devolved systems of government in Kenya.

Table 4: Coefficients^a of Strategic Supplier Relationships

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.810	.122		31.159	.000
	Strategic Supplier Relationships	.657	.056	.684	11.789	.000

a. Dependent Variable: performance of devolved systems of government

Conclusions

Basing on strategic supplier relationship practice objective, it can be concluded that many devolved systems of government in Kenya share qualitative information and competencies with their strategic suppliers in order to strengthen relationships. The study also concluded that devolved systems of governments in Kenya conduct joint product development and design with their suppliers, develop capabilities of suppliers through capacity development and outsource suppliers who adhere to sustainable practices. However, the study revealed that some small number devolved systems of governments do not conduct jointly product development with their suppliers and do not involve suppliers directly in their strategic plans. Further the study concludes that strategic supplier relationships practice has moderate positive correlation with devolved systems of governments in Kenya. Thus strategic supplier relationships increase the performance of devolved systems of government in Kenya.

The study recommends that devolved systems of government should conduct jointly product development with suppliers and involve suppliers directly or indirectly in their strategic plans. Suppliers' involvement would support the company's development innovation and capabilities thus increasing of the benefits perceived by the company's customers. Also, the study recommends that devolved systems of government in Kenya should share qualitative information and competencies with their strategic suppliers in order to strengthen relationships. Further the study recommends that management should implement strategic supplier relationships practice within the frameworks of public procurement acts and regulations. This is because it was established from the study that public procurement acts and regulations has moderate positive correlation with the performance devolved systems of governments in Kenya.

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