

ROLE OF SUPPLIER DEVELOPMENT ON ORGANIZATIONAL PERFORMANCE OF MANUFACTURING INDUSTRY IN KENYA; A CASE OF EASTAFRICA BREWERIES LIMITED

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ABSTRACT

The purpose of this study was to investigate the role of supplier development on organizational performance of manufacturing industry in Kenya. The specific objectives were to: establish the role of training suppliers, the role of rewards, the role of financial support and role of firm involvement on organizational performance of EABL: A descriptive case study design was used. Statistical analysis was carried out using SPSS. The study revealed that rewards, financial support and firm involvement have a great role in the performance of EABL thus this study recommends that EABL should work closely with the financial institutes to curb the challenge of finances, fund well the training programs that they administer to their suppliers, enhanced communication should be put into practice. Firms ought to evaluate and give feedback to their suppliers more often and on rewards firms should be more vigorous in rewarding and recognizing there supplier.

Key words supplier development, firm involvement, rewards, organisational performance.

INTRODUCTION

As more and more manufacturing firms have realized the importance of supplier performance in establishing and maintaining their competitive advantage, purchasing research has tended to focus on supplier development programs and explore how these initiatives impact on buyer and supplier performance (Humphreys, 2001) which eventually leads to organizational improvement.

Supplier development is the process of working collaboratively with suppliers to improve or expand their capabilities (Charles Dominick (2006).Supplier development contributes the companies in terms of “creation and maintenance of appropriate suppliers, quality, technicality, cost capability

and delivery with continues improvement” (Rajput and Bakar, 2012) It is a bilateral effort by both the buying and supplying organization to jointly improve the supplier’s performance or capabilities in one or more of the following areas: cost, quality, delivery, time to market, environmental responsibility, and managerial capability and financial viability (Krause & Handfield , 2011).

According to Lascelles and Dale (2008) there are reasons why supplier development has become a key element in maintaining or improving a company's competitiveness which in turn leads to organizational improvement. Firstly, technological and competitive pressures have resulted in a greater trend towards specialisation. Secondly, the nature of competition itself has changed. Feigenbaum, among others, postulates that effective international competition is a combination of competition in its traditional and visible form (product versus product) and an equally powerful, but less visible, form of competition involving companies' skill in implementing and managing a process of total quality management – of which suppliers are vital parts.

As an international company EABL recognises that achieving high standards and aspirations presents unique challenges in different countries. Therefore EABL understands that while there will be varying degrees of performance, they strive for continuous improvement with their suppliers and they consistently drive up standards together to achieve excellence. They also appreciate that the way they work to achieve the standards will evolve and they will consistently offer support to their suppliers in achieving minimum standards thus the supplier development program (Ireland ,2013)

1.2 Statement of the Problem

Facing up to the challenge of stiffer competition and having to supply the global markets, manufacturers have quickly learned the importance of improving productivity and quality (Erasmus, 2006) Suppliers play a very vital role in the production value chain. They indirectly determine the quality of the final product. There is therefore need for the manufacturing firms to put in place measures to develop and equip suppliers with prerequisite skills in order to ensure quality supplies and this is done through supplier development

EABL faces a major challenge in its production processes because of the increasing cost of barley and hops. There is a constant spike in the commodity prices of barley which is sorghum based (Ogunda 2013). This is reflected in the slow improvement in its profit margins which is seen in the EABL 2013 annual report.

Between April and July 2012, the price of barley increased by 26.06% . This exposes EABL to a significant rise in the price of the inputs used in producing beer (Euromonitor, 2012). According to Ireland ,(2013) Managing Director, East African Breweries Limited, on raw materials, EABL has a strategy which is supplier development that maximises the amount of raw materials from the beer that is sourced locally and the benefits of this, is reducing the exchange rate risk, reducing the exposure to imports, security of supply, lowering costs thus the success in the supplier development is not a foregone conclusion.

While many researchers in Kenya like Ochieng 2014 and Rotich,Abura&Kihara 2014 have researched on supplier development, there is limited research on the role of supplier development on organizational performance of manufacturing industry specifically in Kenya a factor that requires extensive research. Again many researchers like (Krause,2007) and Humphreys 2003 have dealt with supplier development and specifically on how it impacts on buyer- supplier performance thus little have been researched on its impact to organization performance.

It’s in this reference above that the researcher investigated the role of supplier development on organizational performance in manufacturing industry in Kenya and with specific focus on East African Breweries.

1.3 Objectives of the study

1.3.1 General Objective

The general objective of this study was to investigate the role of supplier development on improving organizational performance of manufacturing industries. A case study of EABL

1.3.2 Specific Objective

1. To establish the role of training suppliers on organizational performance of East African Breweries Limited.
2. To determine the role of rewards on organizational performance of East African Breweries Limited.
3. To establish the role of financial support on organizational performance of East African Breweries Limited.
4. To establish the role of firm involvement on organizational performance of East African Breweries Limited.

1.4 Research questions

1. To what extent does the role of training suppliers improve organizational performance of East African Breweries Limited?
2. How does the role of rewards improve organizational performance of East African Breweries Limited?
3. To what extent does the role of financial support improve organizational performance of East African Breweries Limited?
4. How does the role of firm involvement improve organizational performance of East African Breweries Limited?

1.5 Significance of the study

The researcher hopes that the findings of this study will form the basis on which future researchers could be built and most importantly the Practices of manufacturers with respect to supplier development and supplier performance evaluation will help EABL to provide supplier development as value added services to their potential customers and finally The study will contribute to the body of knowledge in the field of manufacturing industry

LITERATURE REVIEW

This chapter gives an outline of related works and researches done on the aspect of supplier development on organizational performance, role of training suppliers on organizational performance, role of rewarding on organizational performance, provision of financial support on organizational support and direct involvement on organizational performance.

2.2 Theoretical Framework

This section dwells on past theories, models and studies that are related to the concept of supplier development and its influence specifically its role of procurement effectiveness. It is noteworthy that these theories may be on different disciplines such as strategic management and sociology (Ochieng, 2014) Supplier development is a highly strategic decision which may be explained by various strategic models and theories (Lysonet *al*, 2006). Some of the theories are:

2.2.1 Theory of Constraints

Vincent Ochieng (2014) theorised that the Theory of Constraints (TOC) is a philosophy of management and improvement originally developed by Eliyahu M. Goldratt and introduced in his book, *The Goal*. It is based on the fact that, like a chain with its weakest link, in any complex system at any point in time, there is most often only one aspect of that system that is limiting its ability to achieve more of its goal. For that system to attain any significant improvement, that constraint must be identified and the whole system must be managed with it in mind. In borrowing this concept, buyers seek to identify the constraints in the supply chain that emanates from poor buyer/supplier relationship and then work collectively to eliminate the constraint thus improving the functions and aspirations of each, more specifically, procurement functions for the buyer.

The TOC Thinking Processes, taken as a whole, provides an integrated problem-solving methodology that addresses not only the construction of solutions, but also the need for communication and collaboration that successful implementation of supply chain functions requires. They have been used to create powerful generic, "starting-point" solutions for various supply chain inefficiencies, including: Long supplier lead-times, Incoming quality problems, Late or unreliable raw material or purchased part deliveries, Raw material shortages, Poor quality.

In this connection then chances are good that an organizations constraint is in the supply chain that it rely on and the policies and practices associated with your relationships with suppliers. The challenge is to get from your suppliers what you need from them to be effective, whether it's better delivery performance, quality, or other aspect of what they supply to the organization. The Theory of Constraints is a proven method that can be used by existing personnel to increase throughput (sales), reliability, and quality while decreasing inventory, WIP, late deliveries, and overtime. Successful organizations also adopt the Theory of Constraints to help make tactical & strategic decisions for continuous improvement.

2.2.2 Transaction Cost Economics Theory

Transaction Cost theory might be one of the most important organization theories because of the studies that have been encouraged through it (Williamson 2007), and is one of the main perspectives in organizational studies (David and Han 2004). The vital commitment of Transaction cost economics to organization theory, resulted in a wide range of empirical contributions (Macher and Richman 2008), using transaction cost economics, for instance as a make or buy decision help, or verification of the right contract mode. Transaction Cost Economics (TCE) inspects how business partners who collaborate with each other shield one another from harmful subsidiary with differing relationships. It has been the most important new institutional theory which puts the accentuation on the decision on the sourcing predicament, if to outsource or not. The sourcing situation of a firm is likewise described as the make-or-buy decision of a firm (Christopher, 2009). The two primary drivers of Transaction Cost Economics are uncertainty caused by the external environment and costs, which consist of Coordination costs and Transaction costs (Fink 2006).

2.2.3 Resource Dependence Theory

Resource Dependence Theory (RDT) promoted by Pfeffer and Salancik (1978), is the study of how the external resources of organizations affects the performance of the organization. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. Nevertheless, a theory of the consequences of this importance was not formalized until the 1970s, with the publication of *The External Control of Organizations: A Resource Dependence Perspective* (Pfeffer and Salancik 1978). Resource Dependence Theory has

implications in the procurement effectiveness of the buying firms especially in tapping into the relationship with suppliers as their important and dependable partners. Thus this theory props up the notion of supplier development RDT proposes that actors lacking in essential resources will seek to establish relationships with (i.e., be dependent upon) others in order to obtain needed resources. Just like buyer will depend on suppliers for external resources and sellers on buyers for precious markets. Also, organizations attempt to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on them. Within this perspective, organizations are viewed as coalitions alerting their structure and patterns of behaviour to acquire and maintain needed external resources. Acquiring the external resources needed by an organization comes by decreasing the organization's dependence on others and/or by increasing other's dependency on it, that is, modifying an organization's power with other organizations.

2.3 Conceptual Framework

Conceptual frameworks, according to educational researcher Smyth (2004), are structured from a set of broad ideas and theories that help a researcher to properly identify the problem they are looking at, frame their questions and find suitable literature. Most academic research uses a conceptual framework at the outset because it helps the researcher to clarify his research question and aim. The independent variables are supplier training, rewards, financial support and firm involvement while the dependent variable is organization performance.

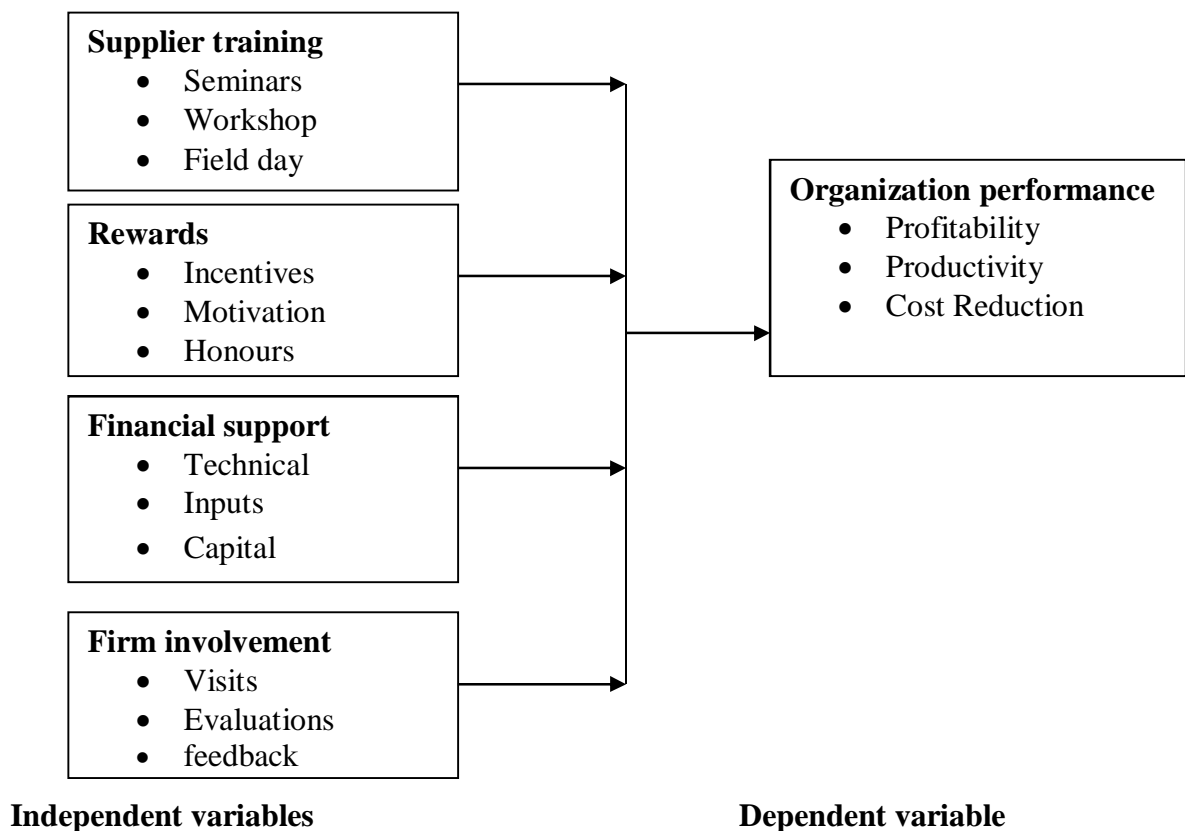


Figure 2.1: Conceptual framework

RESEARCH METHODOLOGY

The study will adopt a descriptive case study design to justify the relationship between the independent and dependent variables. Kothari (2008) defined a case study as a method used to narrow down a very broad field of research into one easily researchable topic. The design will help the researcher to obtain information concerning the current status of the problem under study and describe it with respect to the dependent and independent variables. The selection of individual observation is intended to yield some knowledge about a population of concern especially to the purpose of statistical inference. The target population was the manufacturing industry in Kenya. The stratified sampling method is appropriate as all existing subgroups represented and preferred to be easy applied for large population. Out of target population of 150 a sample size of 50 respondents were selected from 4 categories: Senior managers, Middle managers, junior managers, and procurement officer. The sampling technique used in this study was stratified random technique. The researcher used open and closed questionnaire as research instrument for this study. The data collected was analysed using descriptive statistics in form of tables. Quantitative data was analysed using the statistical package for social sciences (SPSS). Pearson's correlations coefficients were run to examine the relationship among the study variables which are set out in the objectives of the study.

Summary of findings

The study deduced that indeed supplier development plays a vital role in organisation performance where most respondents agreed that most of the elements of the supplier development strongly influenced the performance of the organisation more so financial support, direct firm involvement and rewards but supplier training not so much but it's also an important element.

Again 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 thus supporting the statement above that supplier development plays a vital role in organisation performance

The study deduced that has indeed the organisation has a training program that trains the suppliers as most people agreed on that and suppliers do attend those trainings offered by the organisation. However on the issue of funding most respondents didn't agree that the trainings are well funded by the organization and this is something that is very crucial. All in all the study found out that supplier training has no significant relationship with organisation performance.

The study also revealed that rewards indeed are important element of supplier development as most respondents agreed that it acts as a motivation tool to suppliers. The study also found that the organisation indeed gives suppliers those incentives if they perform well example promise of future business deal and that the organisation recognize supplier progress in the form of awards. Also the study found a very important aspect that indeed there exist a strong significant relationship between organizational performance and Rewards

In relation to financial support the study deduced that again financial support is an important element in supplier development because it really supports the suppliers gain a lot and producing good quality products. the study also found out that the organization Provide the supplier with equipment or tools for process improvement, it also provides technical support (personnel) to help out key supplier to improve their operations and the organization Provide the supplier with capital for new investments at their facilities which are in line with improving the supplier development program and that will eventually help both firms to benefit equally. Dyer [19] noted that financially support could make suppliers more willing to make customized items for customers, allow both parties to communicate more efficiently and hence result in shortened product development cycles

and reduced procurement costs. Finally the study established that there exist a strong significant relationship between organizational performance and financial support.

The study established that organization are directly involved with the suppliers and that the organization conducts site visits to the suppliers premises to assess their facilities also suppliers are selected carefully and evaluated regularly and once the suppliers are evaluated they are given feedback as soon as possible. This is a very important aspects when it comes to supplier development and it actually leads to organization performance which as the study deduced leads to improved profitability and so on and so forth. The study deduced an important factor that there exist a strong significant relationship between organizational performance and Firm Involvement.

Conclusions

The study concludes that indeed supplier development is crucial in improving the supplier performance and the organisation performance. The study established a significant positive relationship between three elements of supplier development namely financial support, rewards and firm involvement and organisation performance; therefore firms in manufacturing industry ought to engage more in activities that help improve the operations of their suppliers.

The study also established a significant negative relationship between supplier training activities and organisation performance hence, thus organisation performance

Also in conclusion this study suggests financial support is very important and that manufacturing firms should be able to provide financial support to their suppliers. However there are challenges of finances as deduced from the study but all the firms need to do is work hand in hand with the financial institutes. This study also concludes that direct involvement in supplier activities should be considered paramount also offering rewards to the suppliers is very key as it surely acts as a motivation tool and if suppliers are motivated they perform well and they also end up to be loyal to their customers. Also offering training is also important since when suppliers are trained they tend to perform well.

And finally with globalization of the market and competition between firms, the issue of having capable suppliers becomes an important factor to be successful in business. Therefore for a firm is to remain globally competitive it needs to invest heavily in suppliers through the supplier development program to help improve on the quality of products or services, reduce on product costs and more so to increase profits and also to sustain customers.

Recommendations

In reference to the findings and conclusion the study recommends that the East African Breweries should work hand in hand with the financial institutes to curb the challenge of finances because providing funds to the supplier is not easy but when money is available it becomes much easier. Also the study recommends that the organisation should fund well the training programs that they administer to their suppliers this will indeed to better performance.

In addition, enhanced communication, another proven success factor, should be put into practice in the supplier development program not just use Email and Telephone even face to face communication are important. In firm involvement firms ought to evaluate and give feedback to their suppliers more often. This gives the suppliers an opportunity to know their weaknesses and shortfalls as well as adjust their operations to meet the needs of the manufacturing firms. On rewards I would recommend that firms should be more vigorous in rewarding and recognizing there supplier as it's a motivation tool

Finally the study has clearly shown that supplier development plays a crucial and vital role on the organisation performance and it leads to very good benefits thus they study recommends that the

manufacturing firms should work closely with their suppliers. Have long term relationships with them so that they can end up having also collaborative relationship which in turns not only leads to a win-win situation but to also a win more-win more situations.

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Tables**Table 1.0 Response Rate**

Response rate	Frequency	Percentage
Response	40	80%
Non response	10	20%
Total	50	100%

Table 1.1: Supplier Training

Supplier Training	Strongly agree	Agree	Disagree	Strongly disagree
1)The company provides training to its suppliers	0(0%)	22(55%)	13(33%)	5(12%)
2)Our suppliers participate in training offered by our company	0(0%)	22(55%)	12(30%)	15(15%)
3) The training program is well funded	1(3%)	11(27%)	23(58%)	5(12%)

Table 1.2: Rewards

Rewards	Strongly agree	Agree	Disagree	Strongly disagree
1)Rewards acts as motivation tool to supplier	3(8%)	19(48%)	16(40%)	2(4%)
2)Supplier are given incentives if they perform well example of future business deal	5(13%)	18(44%)	9(23%)	8(20%)
3)Recognize supplier progress in the form of awards	1(3%)	26(64%)	10(25%)	3(8%)

Table 1.3: Financial Support

Financial Support	Strongly agree	Agree	Disagree	Strongly disagree
1) The organization Provide the supplier with equipment or tools for process.	1(3%)	21(52%)	11(27%)	7(18%)
2) The organization provides technical support (personnel) to help our key supplier to improve their operations	1(3%)	26(64%)	10(25%)	3(8%)
3) The organization provides the supplier with capital for new investments at the facilities.	1(3%)	21(52%)	11(27%)	7(18%)

Table 1.4: Firm Involvement

Firm Involvement	Strongly agree	Agree	Disagree	Strongly disagree
1) The organization conducts site visits to the suppliers premises to assess their facilities	6(15%)	20(50% A)	10(25%)	4(10%)
2) Suppliers are selected carefully and evaluated regularly	5(13%)	19(47%)	13(32%)	3(8%)
3) Once suppliers are evaluated they are given feedback as soon as possible	7(18%)	18(44%)	10(25%)	5(13%)

Table 1.5: Organization Performance

Organization performance	Strongly agree	Agree	Disagree	Strongly disagree
1) Supplier development results to increased profitability	3(8%)	24(60%)	7(17%)	6(15%)
2) The supplier development effort has helped to reduce our product cost	6(15%)	21(53%)	7(17%)	6(15%)
3) The supplier development effort has helped to improve our product quality	7(18%)	23(57%)	7(18%)	3(7%)
4) Our products can be produced faster than before due to improved supplier quality	7(18%)	27(67%)	4(10%)	2(5%)

Table 1.6: Pearson Correlation Coefficient Analysis

	Organization performance	Supplier training	Financial Support	Rewards	Firm involvement
Organization performance	1				
Supplier training	0.292	1			
Financial Support	0.601**	0.529**	1		
Rewards	0.679**	0.280	0.541**	1	
Firm involvement	0.792**	0.293	0.645**	0.527**	1