EFFECT OF SUPPLIER RELATIONSHIP MANAGEMENT ON ORGANIZATIONAL PERFORMANCE: A CASE STUDY OF KENYA AIRWAYS LIMITED

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ABSTRACT

The main purpose of this study was to evaluate the impact of supplier relationship management on organizational performance. Effective supply chain management (SCM) has become a potentially valuable way of securing competitive advantage and improving organizational performance. This is because competition is no longer between organizations, but among supply chains. The study looked at two parameters; trust and commitment as elements of supplier relationships and the effect that these have on organizational performance. The research involved a cross-sectional study design that was carried out in Kenya Airways, where a sample of 82 respondents was selected from a target population of 272 KQ employees to answer research questions of interest. Stratified random sampling was used to come up with the sample size since the population in different departments at KQ was considered to be heterogeneous. The primary data for the study was collected using the questionnaires. The results of the study were presented using frequency tables. Quantitative data was analyzed using descriptive and regression statistics with the aid of Statistical Package for Social Sciences (SPSS 21.0). The study established that understanding and practicing of supply chain management with key focus on supplier relationships is an essential prerequisite for staying competitive in the global race and enhancing profitably in the market. The study also found out that there was a great opportunity for organizations to improve its performances through proper use of SRM strategies and therefore recommended that organizations should show more commitment in SRM by having systems to monitor, appraise and evaluate performance at a strategic level. This would undoubtedly improve chances of survival in the highly competitive market.

Key Words: supplier relationship management, organizational performance, Kenya Airways Limited

INTRODUCTION

The understanding and practicing of supply chain management has become an essential prerequisite for staying competitive in the global race and enhancing profitably, (Gold, Seuring, & Beske, 2010). Most organizations have begun to realize that it is not only enough to improve efficiencies within an organization but rather making the supply chain management competitive among others will greatly improve their chances of survival. This is because competition is no longer between organizations, but among supply chains. Intensified competition and globalization of markets over the last decade has contributed to challenges associated with ensuring that goods and services that meet customer requirements are provided in an efficient and effective way (Cooper, & Ellram, 1993).
According to Mentzer, DeWitt, Keeble & Zacharia (2012) supplier relationship management is defined as a comprehensive approach to managing an enterprise's interactions with the organizations that supply the goods and services it uses. The goal of Supplier Relationship Management (SRM) is to streamline and make more effective the processes between an enterprise and its suppliers just as customer relationship management (CRM) is intended to streamline and make more effective the processes between an enterprise and its customers. SRM includes both business practices and software and is part of the information flow component of supply chain management (SCM).

Many organizations are struggling to stay afloat and are faced with a myriad of challenges, key among them being increased competition in the market as well as operating in difficult economic conditions characterized by high inflation rates, high interest rates, and volatility in currency fluctuations (Porter, & Teisberg, 2006). Despite the fact that Kenya Airways is one of the leading airlines competition has risen to a very high level necessitating the need to develop ways of staying at the top by all means possible. The culmination of these forces has resulted in an external environment that is dynamic, unpredictable, demanding and often devastating to those organizations which are unprepared or unable to respond (Burnes, 2010). Because of these changes, organizations need to align their management practices with the changing environment and focus on their customers and products development as well as managing a culture of management commitment. If firms do not satisfy and retain their customers, then their performance financially, market dominance, customer service and improvement in sales are affected. Waweru (2008) contends that firms go into business to prosper and the level of prosperity or success is measured in terms of business performance.

**Overview of Buyer - Supplier Relationships**

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, 1999). Dimensions such as trust and commitment are shown to play 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 (Narayandas and Rangan, 2004).

Supply chain management has become widely recognized as an important contributor to strategic success, helping firms meet the challenges of an increasingly competitive and dynamic environment (Moorman, et al, 1992). These pressures have driven companies toward forming closer relationships with a smaller number of suppliers who have become increasingly involved in many aspects of strategy making and day-to-day operations (Cousins, 1999). Such relationships are highly interactive and require constant monitoring and inter-personal liaison.
between employees of both parties in order to be effective. The question of how firms manage these collaborative supplier relationships, through the use of performance measurement systems and the development of social networks is an important avenue of research. Traits such as coordination, collaboration, commitment, communication, trust, flexibility and dependence, are widely considered to be central to meaningful relationships (David, 2012).

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Different researchers have proposed different variables as being the fundamental variables that ensure good buyer-supplier relationships. Performance, a quality of any company, is achieved by valuable outcomes such as higher returns, level of competitiveness and brand presence. It can also be measured by the levels of operational efficiency and this can be analyzed by a variety of methods, such as the parametric (stochastic frontier analysis) and non-parametric (data envelopment analysis). The management of any company would like to identify and eliminate the underlying causes of inefficiencies, thus helping their firms to gain competitive advantage and attain sustainable competitive advantage, or at least, withstand the challenges from others (Yang, 2006). Overall organizational performance can be divided into three parts: financial performance, product performance, and operational performance (Inayatullah, 2012).

**STATEMENT OF THE PROBLEM**

The relationship between effective supplier relationship management and its impacts on organizational performance is an increasingly important area of interest in the academic and the business world today. Most of the established and successful companies focus strongly on the development of closer ties with other organizations in search of competitive advantage and improved market positioning. This has triggered the need to develop better relationships with suppliers to enhance supply chain performance. So far, little information is known or less available on promoting effective supplier relationship management between the seller and buyer together with its impacts on the performance in organizations, (Lambert, Cooper, & Pagh, 1998).

A close examination into previous studies on buyer supplier relationships and organizational performance confirms that there is little research work that has been carried out on the effect of supplier relationships to the performance of an organization. Previous research by Bart (2009), only investigated the buyer supplier relationship. Another study was conducted by Cousins, Lamming, Lawson & Squire, (2006) on performance measurement in strategic buyer-supplier relationships. The studies mentioned herein failed to link supplier relationship management and organizational performance. This study sought to bridge this gap by providing more knowledge on how supplier relationship management affects the performance of organizations with specific reference to Kenya Airways. The study particularly looked at four relationship traits; trust, communication, mutual goals and commitment. Due to the stiff competition and other companies re-inventing themselves, there is need to institute measures that will ensure that the companies maintain a competitive edge.
GENERAL OBJECTIVE

The general objective for this study was to determine the impact of supplier relationship management on organizational performance.

SPECIFIC OBJECTIVES

1. To analyze the effect of trust on organizational performance.
2. To evaluate the effect of mutual goals on organizational performance.

THEORETICAL FRAMEWORK

Theory of Constraints

The theory of constraints (TOC) is an overall management philosophy introduced by Eliyahu Goldratt in his 1984 book titled Goal, which is geared to help organizations continually achieve their goals. Goldratt adapted the concept to project management with his book Critical Chain, published in 1997. The theory of constraints (TOC) is a management paradigm that views any manageable system as being limited in achieving more of its goals by a very small number of constraints. There is always at least one constraint, and TOC uses a focusing process to identify the constraint and restructure the rest of the organization around it. TOC adopts the common idiom "a chain is no stronger than its weakest link." This means that processes, organizations, etc., are vulnerable because the weakest person or part can always damage or break them or at least adversely affect the outcome.

The underlying premise of the theory of constraints is that organizations can be measured and controlled by variations on three measures: throughput, operational expense, and inventory. Inventory is all the money that the system has invested in purchasing things which it intends to sell. Operational expense is all the money the system spends in order to turn inventory into throughput. Throughput is the rate at which the system generates money through sales. Before the goal itself can be reached, necessary conditions must first be met. These typically include safety, quality, legal obligations.

The solution for supply chains is to create flow of supplies so as to ensure greater availability and to eliminate wastes such as surpluses which have a negative impact on organizational performance. The TOC distribution solution is effective when used to address a single link in the supply chain and more so across the entire system, even if that system comprises many different companies. Because a chain is as strong as the weakest link, TOC can be used to identify the weaknesses in a supply chain and therefore get the solutions for the same. Relationship management and particularly supplier relationship is a vital element in completing the supply chain. It is therefore important to ensure that relationships are managed well, such that there is no weak link within the supply chain as a result of poor relationships.
Commitment Trust Theory

The commitment-trust theory of relationship management says that two fundamental factors, trust and commitment, must exist for a relationship to be successful (Christopher, 2004). The theory was mentioned by Annekie Brink and Adele Berndt in their book “Relationship Marketing and Customer Relationship Management”. Relationship marketing involves forming bonds with suppliers by meeting their needs and honoring commitments. Handfield (2002) suggested that rather than chasing short-term profits, businesses following the principles of relationship marketing forge long-lasting bonds with their suppliers. As a result, suppliers trust these businesses, and the mutual loyalty helps both parties fulfill their needs. Heikkila (2002) defined trust as the confidence both parties in the relationship have that the other party won’t do something harmful or risky.

Businesses develop trust by standing behind their promises. Commitment involves a long-term desire to maintain a valued partnership. Williams (2006) concluded that desire causes the business to continually invest in developing and maintaining relationships with its customers. Through a series of relationship-building activities, the business shows its commitment to the suppliers. According to Martin (2003) the results of a relationship based on commitment and trust are cooperative behaviors that allow both parties to fulfill their needs. Buyers not only get the product or service they’re paying for, but they also feel valued.

CONCEPTUAL FRAMEWORK

Trust
- Credibility
- Benevolence
- Openness

Mutual Goals
- Common Interests
- Degree of Shared Goals

Organizational Performance
- Market Share
- Brand Presence
- Operational efficiency

EMPIRICAL LITERATURE

Trust, commitment, communication and mutual goals are noted to be vital elements that bring about effective supplier relationships. These elements have a positive impact on organizational performance. They not only enhance efficiency and reduction of costs through collaborative
engagements with suppliers but also strengthen the supplier’s involvement in the overall strategy of the organization (Wangeci, 2013)

Wangeci (2013) conducted a study on supplier relationship management and supply chain performance in the alcoholic beverage industry in Kenya. The specific objectives of the study was to establish the extent of SRM in alcoholic beverage industry; to determine the impact of SRM on supply chain performance in alcoholic beverage industry in Kenya and to determine the challenges faced in implementing SRM in alcoholic beverage industry in Kenya. The study adopted descriptive design to describe the impact of SRM on organizational performance. The target population and sample was from Procurement staff from alcoholic beverage industries. Regression analysis was used to determine the relationships between the variables. The study concluded that firms in the alcohol beverage industry are moving towards collaborative relationships with their suppliers to improve on their supply chain performance. That SRM largely depends upon four major aspects.

Mwirigi (2011) in his study sought to establish the role of supply chain relationships in the growth of small firms in Kenya. The target population of the study was small enterprises that are loan clients of FAULU Kenya. To understand the role played by supply chain relationships among respondent firms, the study examined various relationships. The research found out that supply chain relationships play a critical role in the growth of small enterprises. They contribute to the growth and profitability of these firms in many ways. Findings of this study indicated that a strong sustainable relationship between an enterprise and its customers on one hand, and its suppliers on the other hand have a bearing on the speed of growth in transactions and profitability. The study concluded that there is need for the process of creation of supply chain relationships to be approached in a more structured way to enhance its role in the growth of small enterprises.

**Trust and Organization Performance**

Trust is a willingness to rely on an exchange partner in which the firm has confidence (Moorman, Zaltman, and Deshpande, 1992). Ganesan’s (1994) definition of trust is an expectation about an exchange partner that results from the partner's expertise, reliability, and intentionality. Trust plays a significant role in shaping interaction and long-term relationship building (Andersen & Kumar, 2006). It loads significantly on two performance outcomes: customer performance (satisfaction and loyalty) and financial performance (profitability and financial returns). Trust is also seen as the extent to which a firm believes that its exchange partner is honest and/or benevolent or some variant thereof.

The popularity of supply chain partnerships has exploded over the past few years with an increasing interest in the role of trust in facilitating the relationship. There has been a noticeable increase in the last quarter of the twentieth century of the importance of trust in partnerships and alliances in management literature (Sahay, 2003). Krause and Handfield (2007) discussed three main types of trust; Competence trust: where supplier believes that the buying firm is able to
perform what promised to perform. Contractual trust: a belief that the buying firm will continue its contracts. And Goodwill trust: a belief that the buying firm will avoid taking unfair advantage, and will always act on mutual benefit basis. Moreover,

Trust building should not be the concern of the buying firm only. Saleemi (2002) in his research on relationship management and organization performance concluded that trust is also essential and advantageous to the supplier firm, which has to make efforts to establish, extend, and retain the buying firm trust, especially when such trust can lead to more benefits for the supplier. It also concluded that although trust building is a costly, difficult, and time consuming procedure, it leads to strong, successful, and long-term buyer-seller relationships.

Tangus (2015) studied the Effect of Supplier Relationship Management Practices on performance on Manufacturing Firms in Kisumu County, Kenya. Her study found out that trust is a critical factor fostering commitment among supply chain partners. She further discovered that the presence of trust improves measurably the chance of successful supply chain performance. A lack of trust among supply chain partners often results in inefficient and ineffective performance as the transaction costs (verification, inspections and certifications of their trading partners) mount. Although the literature often mentioned a relationship between trust and commitment, there was a lack of empirical testing of such relationship in the supply context. The study attempted to fill the gap between the theoretical argument and empirical testing. Results using a comprehensive survey of supply chain practitioners indicated that a firm's trust in its supply chain partner is highly associated with both sides' specific asset investments (positively) and behavioral uncertainty (negatively).

**RESEARCH METHODOLOGY**

The research involved a cross sectional study design that was carried out at Kenya Airways. In this type of research study, either the entire population or a subset of the population (sample) is selected, and from these individuals, data are collected to help answer research questions of interest. The target population in this study was 272 employees obtained from supply chain department, marketing which is a user department and finance department which completes the supply chain. At KQ however supply chain is part of finance department. User department was approached due to the fact that they are the ones who initiate requests and have constant communication with the suppliers through procurement department.

Stratified random sampling method was applied to come up with the sample size, since the population in different departments is considered heterogeneous, implying that a simple random sample would be unrepresentative. According to Kothari (2003), 30% can be used when the population of the study is not large. Using the above technique, the sample population was taken as 30% of the target population.
This research mainly relied on primary data which was collected using a structured questionnaire and through interviews. The responses to the questionnaire were designed on a 5-point scales of measurement of strongly agree, agree, neither agree nor disagree, disagree and strongly disagree. The questionnaire is divided into six sections. Section A captures demographic information, Section B Trust, Section C Mutual Goals, Section D Communication Section E Commitment & section F Organizational Performance. In this study a total of 8 employees was used for the pilot study, since the sample population is 82. Randomly selected employees were picked and questionnaires administered to them. The pilot data was analyzed and results used to modify and improve the questionnaire before rolling out the instrument to the entire sample population. Cronhbach Alpha was used to test the validity of the data collection instrument. Statistical package for social science (SPSS) was used to draw inferences from the coded data. This also includes descriptive and inferential statistics. The descriptive statistics include frequency distribution tables, histograms, pie charts and percentages. The inferential statistics included the Pearsons’ correlation and regression analysis.

**Model Framework**

In this model, our dependent variable $Y_i$ was organizational performance and our independent variables was trust, communication, commitment, cooperation and mutual goals which will form our $\chi_1, \chi_2, \chi_3, \chi_4, \chi_5$. Precisely, multiple regression analysis will helps us to predict the value of $Y$. By using multiple regression models, dependent variable was be modeled against the given independent (explanatory) variables.

$$Y_i = \beta_0 + \beta_1X_{i1} + \beta_2X_{i2} + \ldots + \beta_pX_{ip} + \epsilon_i$$

Where: $\beta_0, \beta_1, \ldots, \beta_p$ are the model co-efficients

- $\beta_0$ Represent the intercept
- $\chi_1$ represents Trust
- $\chi_2$ Represent Commitment
- $\epsilon$ Represent the error term

**RESEARCH FINDINGS AND DISCUSSION**

**Demographic Information**

The background information of the respondents was considered necessary because the ability of the respondents to give satisfactory information on the study variables may be affected by their background. This part of the questionnaire contained general information regarding the organization and the respondent. The areas sited in this part were: gender, age, level of
education, position in the organization. Majority 49% of the respondents had degree as their highest level of education, 28% had post graduate degree. On the respondents’ current position in employment, nearly half of the respondents worked as unionisable staff (45%); and an almost similar number (37%) worked as Lower level managers, while the remaining 13% were higher level manager. The heads and director were a slight 3.7%. On the period of time the respondents have been working in the organization, 49% had been working for KQ for a period of 5-9 years, 20% for a period of over 10 years and 31% for 0-4 years.

**Trust and Organizational Performance**

The researcher used arithmetical mean when evaluating and analyzing the answers from the study. For any arithmetic mean above 3.0, it was considered that there was a connection between the answers, and if the mean was 4.0 it was proposed that the connection was strong. From the table above, the study revealed that based on a scale of 1-strongly agree to 5-strongly disagree, the overall weighted mean from trust in supplier relationship management was 3.76. Based on the above scale, the respondents were agreeable to the fact that trust in supplier relationship management positively influenced Kenya Airways’ organizational performance. This finding agree with those of Beach (2012) highlighted that trust as key to any successful SRM.

**Mutual Goals and Organizational Performance**

From the research results, the study revealed that based on a scale of 1-strongly agree to 5-strongly disagree, the overall weighted mean from mutual goals in supplier relationship management was 3.73. Based on the above scale, the respondents were agreeable to the fact that mutual goals in supplier relationship management positively influenced Kenya Airways’ organizational performance. This finding concurs with the findings of Chege (2015) who highlighted the aspect of having mutual goals as a critical component in having successful supplier relationships and hence improved organization performance.

**Organizational Performance at Kenya Airways**

The organizational performance at KQ was measured within a scale of five ranging from strongly agree to strongly disagree. The researcher sought to know if the employees felt that the organizational performance of KQ was good. The mean of 3.93 and a moderately low standard deviation of 0.776 strongly supported showed that the respondents agreed that Kenya Airways has a big market share in the aviation industry. The mean of 3.85 and a moderately low standard deviation of 0.713 strongly support the statement Kenya Airways is regarded as a major competitor by other airline operators. With a strong mean of 3.65 and a standard deviation of 0.618, most of the respondents agreed that Kenya Airways is regarded as a centre of operational efficiency. With a respondent’s mean of 3.2 the respondents agreed that KQ’s organizational performance is commendable.
REGRESSION ANALYSIS

The study sought to establish the relationship between the independent variables and dependent variable. The following tables attempted to give the relationship in regression model as follows:

\[ Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \epsilon; \beta_0 = (\alpha) \text{ constant or intercept.} \]

Table 1: Coefficient of Variables

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.230</td>
<td>0.530</td>
<td>5.710</td>
</tr>
<tr>
<td>Having Mutual goals in buyer – supplier relationships results in better Organizational performance for our organization</td>
<td>0.040</td>
<td>0.148</td>
<td>0.137</td>
</tr>
<tr>
<td>Trust in buyer – supplier relationships results in better organizational Performance for our organization</td>
<td>0.143</td>
<td>0.136</td>
<td>0.479</td>
</tr>
</tbody>
</table>

Dependent Variable: Organizational performance

Multiple regression analysis was conducted so as to determine the relationship between organizational performance and the four variables. From SPSS model generated from the table above, the regression equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon \) becomes:

\[ Y = 1.230 + 0.040x_2 + 0.143x_3 + \epsilon \]

| Y = Organizational Performance | X_2 = Mutual Goals | X_3 = Trust | \( \epsilon = \text{error term} \) |

From the findings of the regression analysis if all factors (trust, mutual goals, communication and commitment) were held constant, organizational performance of the firm was at 1.230. An increase in mutual goals would lead to an increase in the organizational performance by 0.04. An increase in trust led to an increase in organizational performance by 0.143. All the variables were significant as the P-values were less than 0.05 an indication that all the factors were statistically significant.
Table 2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted Square</th>
<th>R</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.753</td>
<td>.573</td>
<td>.532</td>
<td>.111</td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Organizational Performance

Table 2 shows a model summary of regression analysis between four independent variables trust, mutual goals, communication and commitment and dependent variable organizational performance. The value of R was 0.753; the value of R square was 0.573 and the value of adjusted R square was 0.532. From the findings, 57.3% of influences on organizational performance were attributed to the four independent variables in the study. Positivity and significance of all values of R shows that the model summary is significant and therefore gives a logical support to the study model.

SUMMARY OF FINDINGS

The first objective of the study was to establish the impact of trust on organization performance. The study indicated that Kenya Airways did employ trust in managing their supplier relationships practices in its operations and this had a positive impact on organization performance. This was brought out by a high mean score from the respondents responses. The study found out that trust is key element to any successful supplier relationship management. Good relationships are built on trust between the organization and the supplier.

The second objective of the study was to evaluate how mutual goals impact organizational performance. The high mean in the results indicated that Kenya Airways felt that mutual goals in supplier relationships was important and had a positive impact on organization performance. The aspect of having mutual goals was seen to be critical component in having successful supplier relationships and therefore organizations should enhance mutuality of interests with the parties they deal with.

The third objective of the study was to assess the effect of communication on organization performance. The high arithmetic mean indicated that Kenya Airways felt that communication in supplier relationships was important and had a positive impact on organization performance. The sharing of information with supply partners was discovered to be critical to the success of the supply chain. The quality and frequency of information shared are important elements to consider when relating with suppliers.

Finally the study sought to establish the relationship between supplier relationship management and organizational performance. The finding was a strong linking positive relationship between the two variables. The respondent’s strong mean on supplier relationship in general clearly acknowledged the fact that organizational performance depended on good supplier relationship management. All the findings showed some significant relationships among the variables and...
cases of T-TESTS, the findings showed that strategic supplier relationship management by Kenya Airways influences the organizations performance as a whole. The regression model also linked the supplier relationship management and the company’s performance and the relationship of the variable can be used to predict organizations overall performance.

CONCLUSIONS

From the summary findings above, it can be concluded that, supplier relationship management practices and the organizational performance of Kenya Airways Company are positively related. The positive relationship between supplier relationship management and organizational performance should be acknowledged based on the results shown in the summary of the findings above. Kenya Airways should therefore emphasize its strong points (variables with mean of more than 3) while working on improving its weak areas (variables with mean of less than 3). It can therefore be concluded that organizations at large have a lot to benefit by practicing strategic supplier relationship management.

The findings of the study showed that there is a great opportunity for Kenya Airways to improve its performance through proper use of SRM strategies as described by the respondents on the contribution of SRM to its overall performance. Although SRM practices may not be the only contributing factors to organizational performance, it is imperative that organizations review existing SRM systems in order to identify the weak points and fasten them accordingly to positively influence its performance.

The study further concludes that organizational performance is the outcome of all of the organization’s operations and strategies. The four constructs of supplier relationship management; trust, mutual goals, communication and commitment have been brought out as critical components in having successful supplier relationships. The review has indicated that if supplier relationships are managed well, there is bound to be a positive impact on organizational performance that will enable an organization to stay afloat in this competitive environment.

RECOMMENDATIONS

In light of the above conclusions, below are the recommendations suggested; Kenya Airways and other organizations at large should show more commitment in SRM by having systems to monitor and appraise and evaluate performance at a strategic level. It should also ensure open loop communication with regular feedback to easily diagnose pain points and address them before becoming fully blown out. Trust should also be embedded in all interactions, being guided by integrity policies and openness in dealings. The study further recommended that supply chain managers should use the results of the study to improve on organizational performance by employing strategic SRM. Policies that support SRM should also be put in place as this had been confirmed by research findings to improve organization performance.
REFERENCES


