



**INFLUENCE OF SUPPLY CHAIN RISK MITIGATION ON PERFORMANCE OF KENYA BEVERAGE INDUSTRY: A
CASE OF ALMASI BEVERAGES LIMITED, ELDORET**

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ABSTRACT

The purpose of this study was to assess how best the influence of supply chain risk mitigation can be harnessed to enhance procurement performance in terms of efficiency and timely delivery in beverage industry, a case of Almasi Beverage Limited, Eldoret. The study adopted the influence of supply chain risk mitigation on procurement performance as a specific objective under investigation. Resource Dependence Theory was underpinned as relevant theory to the study. The study adopted a descriptive research design. The target population of the study was employees of Almasi beverage limited Eldoret. The study employed census since all respondents were involved in the study. The study used structured questionnaires as main tool for primary data collection. Data was processed through editing, coding and tabulation. Analysis was performed with the aid of Statistical Package for Social Sciences (SPSS Version 22.0) as a tool and data presented through tables. Descriptively data was analyzed by use of descriptive statistics that included frequencies, percentages and means while inferential statistics regression was employed to test the relationship between dependent and independent variables. The study findings was of significance to the management of Almasi Beverage Limited and Government policy implementation since it provided recommendations on how they can effectively maintain and improve on sustainability of procurement performance function.

Key Words: Risk mitigation, Supply Chain and Performance

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INTRODUCTION

The beverage industries remain central to many countries' desires in manufacturing, production, trade and employment. These industries are more significant in developing countries where they offer diverse opportunities for employment even to unskilled labor (Brenton & Hoppe, 2007). Moreover, it is further argued that the industry adjusts easily to variations in market conditions due to among other factors; low costs for investment; not very capital intensive, and ability to use labor that is low on skills (Nordas, 2004). The beverage industry like many other manufacturing industries is also turning more towards supply chain management with a view to retaining competitive advantage through increased procurement performance. It is imperative to note that viability and sustainability of an organization no doubt requires understanding of the complexities involved in procurement and hence as aptly observed by Kattel and Lember (2010) would benefit significantly from reform efforts that focus on accountability, fairness, transparency, and economic efficiency. The desire to remain competitive in view of the changing market factors is such that most organizations are often under pressure to reduce operational costs through risk mitigation by way of identifying the possible risks and the appropriate measures to be taken. Procurement as a major component of the supply chain is therefore crucial to an organizations' ability to achieve the fundamental role of supply chain management (Sollish & Semanik, 2012).

Interest on improvement of supply chains to remain safeguarded from unexpected occurrences remains a global phenomenon. Several scholars have sought to examine how supply chain disruptions hinder the performance of organizations. Supply disruptions can be defined as any unforeseen events that disturb the normal flow of goods and materials in a supply chain. These disruptions occurred in the USA during terrorism attack and had major negative consequences for the management of operations. Wirthlin (2009) modelled USA defense acquisition system as interdependent where he concluded that

cost schedule, quality, transparency and flexibility behaviours forms part of risk management practices. For example, they can result in production disruptions and hampered productivity and capacity utilization. In the longer term supply disruptions can negatively affect the shareholder price and a company's long-term financial performance. For a purchasing organization, a supply disruption can also mean inability to meet demand and satisfy customers (Ellis et al., 2010).

Supply disruptions can come from a wide variety of sources, including physical damage at production facilities, natural disasters, strikes and labour disputes, capacity issues, inventory problems, incorrect forecasts and delays (Chopra & Sodhi, 2004).

Risk management should form an integral part of good purchasing and supply practice (CIPS: Risk Management in Purchasing and Supply Management). It is essential to address the 'right' risks and use the 'right' strategies. Thus, organizations should understand the sources and drivers of risk before devising risk mitigation strategies which may require adding capacity, increasing inventories, having redundant suppliers, increasing responsiveness, increasing flexibility, aggregating or pooling demand, increasing capability, or having more customer accounts (Chopra & Sodhi, 2004).

Geraldo et al (2015) conducted a study on the effects of risk management on logistical performance and transaction costs. The methodology consists of an empirical study conducted over nine months in the logistics department of a large Brazilian supermarket retailer and a survey of 125 representatives of 90 manufacturers. The results show risk mitigation contributes to an improvement in logistical performance related to urgent deliveries and deliveries that occur during periods of high demand. A study conducted by (Mugarura, 2010) on buyer-supplier collaboration, adaptation, trust, commitment, risk management and supplier relationship continuity of selected manufacturing

firms in Kampala. A quantitative cross-sectional survey was conducted using a sample of 260 manufacturing firms from a population of 877. Data collection was conducted using self-administered questionnaires to get data from the respondents. Overall, 257 usable questionnaires representing 98.85% respondent rate was attained. Factor, Correlation and regression analyses were used in data analysis. The results indicated a significant positive relationship between risk mitigation and relationship continuity.

(Gichuru & Iravo 2015) conducted a study on risk mitigation supply chain practices in the performance of DelMonte Kenya Ltd. The study adopted a descriptive case study design. The target population for the study was 243 staff members. Stratified random sampling technique was used to select 73 participants from the sampling list. The researchers used questionnaire to collect information from respondents. The collected data was analyzed using quantitative and qualitative techniques. The study found out that risk mitigation has positive influence in the performance company. Companies should share resources with key suppliers in order to leverage capabilities. Risk mitigation is the driving force behind effective supply chain management and, as such, may be considered the ultimate core capability. However, the potential performance benefits have made risk management a popular supply chain practice, surveys shows its complex structure has left Kenyan companies struggling with implementing and conducting.

Statement of the problem

The procurement strategy has successfully been employed in diverse organizations for purposes of attaining a competitive advantage. It is posited that when well implemented, the procurement strategy has potential to bring transparency and accountability in the acquisition of services, goods and works. On the basis of this background, it is clear that having satisfactorily worked in other industries, the noted factors possess the potential to unravel the challenges the beverage industry in

Kenya is facing with a view to turning its fortunes and move it back into a profitable entity.

The present day business environment is getting more challenging and therefore companies have to increase their business operations to stay competitive. As a result managers need to embrace all those practices that will improve their performance one of the most important factors for improving business operations is implementation of effective and efficient procurement information technology. Adequate organized and executed supply chain information systems management will make possible companies to decrease their inventories, have better customer services and diminishing of costs as their inventory turns(Chong & Ooi (2008). Moenga (2011) study focused on procurement and supply chain practices and performance of small scale tea sector in Kenya and found that the challenges affecting the sector were procurement and supply chain visibility, increasing customer demands, risk management, globalization and cost containment. Gitau (2011) focused on procurement and supply chain malpractices in the Kenya public sector and found out that supply chain is affected by one or more of its components. Despite the numerous studies on supply chain management, the aspect of information technology influencing procurement performance in relation to beverage industry, specifically in Eldoret had been largely neglected therefore this study was intended to bridge the knowledge gap.

Objectives of the Study

To examine the influence of risk mitigation on procurement performance in Almasi beverage limited, Eldoret.

Hypotheses

H₀: Risk mitigation does not have a significant influence on procurement performance in Almasi beverage limited, Eldoret.

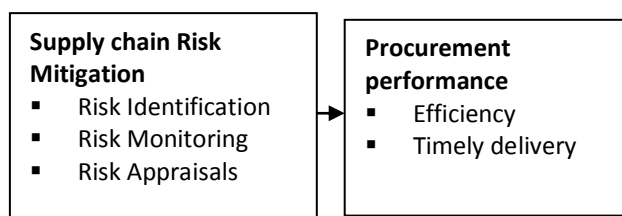
LITERATURE REVIEW

Moral Hazard theory

This theory is mostly used in the economics environment. The theory portends that one party takes risks because other parties on the other side take the responsibilities of the outcome of the disruptions. This is appropriately noted when individual changes detriment of the corresponding party participating in an active role in economic or financial transactions (Krugman, 2009). This theory explains that hazards occurrence is due to contribution of asymmetry where the party taking risk transactions know more about the transactions than the other party taking payments for problems arising from the transactions (Krugman, 2009). He asserts that risk mitigation as situation where one party comes up with the decision about how to settle the risks as the other party will cater for the costs related to the risks.

This theory was perceived to be relevant to the study as the organization had insufficient information about the principle and the insured person serves as agent. It applies to manufacturing organizations where the firms which doesn't have insurance cover for employees working on machines it creates additional incentive for risk and accident caused

Conceptual framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2019)

Supply chain Risk Mitigation

Risk mitigation plays a significant role on procurement performance. Through risk identification, risk monitoring and risk appraisal procurement performance is enhanced through efficiency, effectiveness and timely delivery. Every

organization can benefit from a standardized, systematic approach to risk mitigation in operations. Every opportunity and every decision involves some. One of the main functions of supply management is to ensure smooth and uninterrupted flows of goods and materials. Today, organizations operate in increasingly complex and uncertain environments with high risks of supply disruptions making supply management an increasingly complex task. The environmental pressures and risks require companies to constantly and consequently analyze and reduce these risks (Ellis et al., 2010).

Supply disruptions can be defined as any unforeseen events that disturb the normal flow of goods and materials in a supply chain. These disruptions can have major negative consequences for the management of operations. For example, they can result in production disruptions and hampered productivity and capacity utilization. In the longer term supply disruptions can negatively affect the shareholder price and a company's long-term financial performance. For a purchasing organization, a supply disruption can also mean inability to meet demand and satisfy customers (Ellis et al., 2010). Supply disruptions can come from a wide variety of sources, including physical damage at production facilities, natural disasters, strikes and labour disputes, capacity issues, inventory problems, incorrect forecasts and delays (Chopra & Sodhi, 2004). Understanding supply risks can enable purchasing organizations to take effective action in response to those risks (Zsidisin et al., 2000).

Procurement Performance

Procurement performance is the dependent variable whose evaluation or measurement is measured in terms of efficiency, effectiveness, quality of goods procured and timely delivery. Procurement performance is considered to be the result of procurement effectiveness and procurement efficiency. Procurement performance provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, identifies areas of strengths and

weaknesses and decides on future initiatives with the goal of how to initiate performance improvements. This means that purchasing performance is not an end in itself but a means to effective and efficient control and monitoring of the purchasing function (Van Weele, 2006). Performance means the completion of tasks within given level of accuracy, cost and time. According to Richard et al., (2009) performance at procurement level includes achievement of end results (procurement goals).

The need for effective factors of procurement function in any manufacturing organization is to ensure that the organization achieves good quality output, improved customer care, increased profitability and enhance participation in corporate social responsibility (Johnson, 2008). This can be achieved by ensuring that raw materials are delivered on time to the factory while finished are distributed in an effective way. Proper management of suppliers therefore helps to meet customer

demands promptly and hence subsequently leading to increased revenue to the organization. According to Lawson (2008) effective performance is achieved when the entire supply chain is effectively managed. The whole process should focus on cost measurement, quality improvement, timeliness in deliveries, and measurement of supplier performance and assessment of extent of customer satisfaction.

METHODOLOGY

The study adopted a descriptive design since the study intended to gather quantitative data that described the nature and characteristics of the factor influencing procurement performance of Almasi beverage industry Eldoret. According to Severna (2003), descriptive survey research design is the type of design used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation.

FINDINGS AND DISCUSSION

Table 1: Correlation Matrix

		Organizational Performance
Cost control	Pearson Correlation	.527**
	Sig. (2-tailed)	.000
	N	110
Quality	Pearson Correlation	.719**
	Sig. (2-tailed)	.000
	N	110
Risk mitigation	Pearson Correlation	.711**
	Sig. (2-tailed)	.000
	N	110
Employee competence	Pearson Correlation	.713**
	Sig. (2-tailed)	.000
	N	110

As shown on Table 1 above, the p-value for risk mitigation was found to be 0.000 which was less than the significant level of 0.05, ($p < 0.05$). The result indicated that Pearson Correlation coefficient

(r-value) of 0.711, which represented a strong, positive relationship between risk mitigation and procurement performance.

Table 2: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	29.741	2.638		11.273	.000
Cost control	.506	.127	.697	3.985	.000
Quality	.350	.147	.282	2.387	.019
Risk mitigation	.360	.156	.353	2.308	.023
Employee competence	1.024	.179	.733	5.720	.000

Hypothesis Testing

H₀: Risk mitigation does not have a significant effect procurement performance in Almasi Beverage Limited in Eldoret From Table 2 above, risk mitigation ($\beta = 0.360$) was found to be positively related procurement performance. From t-test analysis, the t -value was found to be 2.308 and the p -value 0.023. Statistically, this null hypothesis was rejected because $p < 0.05$. Thus, the study accepted the alternative hypothesis and it concluded that Risk mitigation affect procurement performance in Almasi Beverage Limited in Eldoret.

CONCLUSION

Risk mitigation was noted to have a key influence on performance in that an improvement in it would lead to rise in firm performance. This is because it is through risk management that enables a company to appropriately undertake effective identification and evaluation of risks, company uses risk appraisals, firm communicates risk evaluation results openly to all the department and employees concerned and measure to evaluate the success of risk management strategies in the supply chain, and implementation of appropriate strategies through a coordinated approach among supply chain members with the objective of reducing losses, for supply chain outcomes that in turn lead to close matching of actual cost savings and profitability with those desired. The well-established policies for risk mitigation from top management to lower level workforce determines both the effectiveness and efficiency of firm performance which need to be encouraged by all. The findings of the study indicated that majority of respondents 52.7 % and

minority of 28, 2% agreed and strongly agreed respectively. This gave to a total of 80.90% respondents with the view that the above stated practices affect risk mitigation and as a result the performance of procurement function is also triggered.

RECOMMENDATIONS

Based on the findings it was found out that risk mitigation the firm should work towards the end in order to improve procurement performance by undertaking effective identification and evaluation of risks, company continuously uses risk appraisals, firm should communicate risk evaluation results openly to all the department and employees concerned and measure to evaluate the success of risk management strategies in the supply chain, and implementation of appropriate strategies through a coordinated approach among supply chain members with the objective of reducing losses. This will lead to increased efficiency and procurement function performance.

Areas for further Research

This study was confined to the beverage-manufacturing firms and focused on supply chain product quality as a driver affecting procurement performance. This limited the study from exploring other factors that still could affect procurement performance. The study, therefore, proposes further studies to be carried out to help in establishing other factors that affect implementation of procurement performance. These factors could include corporate social responsibility, political interference and the level of procurement regulations enforcement. Secondly

studies should also be carried out in public sector organizations since they are also key players in government ministries supply chain management activities.

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