

INFLUENCE OF STRATEGIC BUYER SUPPLIER ALLIANCE ON PROCUREMENT PERFORMANCE IN PRIVATE MANUFACTURING ORGANIZATIONS

A CASE OF GLAXO SMITHKLINE

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ABSTRACT

As firms increasingly emphasize cooperative relationships with critical suppliers, executives of buyer firms are using supplier evaluations to ensure that their performance objectives are met. Supplier evaluations, one type of supplier development program (SDP), are an attempt to meet current and future business needs by improving supplier performance and capabilities. The purpose of this study was to determine how suppliers perceive the buying firm's supplier evaluation communication process and its impact on suppliers' performance. Therefore, understanding strategic buyer supplier alliance will have an impact on procurement performance

The main objective of the study was to examine the influence of strategic buyer supplier alliance on procurement performance in a private sector organization. The specific objectives of the study were: to assess the effects of governance structure on the procurement performance of Glaxo Smithkline ; to find out how technology impacts on the procurement performance of Glaxo Smithkline ; to establish how top management support affects the procurement performance of Glaxo Smithkline and to establish the effect of awareness of procurement policy and legal framework on the procurement performance of Glaxo Smithkline .A case study design was used for this study and targeted 100 management staff of Glaxo Smithkline . They were stratified according to departments of interest for the purposes of the study, i.e. Administration,

Accounting, Audit, Finance and Procurement. Respondents were targeted, interviewed, and provided information and data on the subject. A sample size of 25 respondents of the targeted 100 staff participated in the study. Data was collected using questionnaires and administered through the drop and pick method. Analysis was done using a SPSS statistical package. Descriptive statistics were used to summarize data and results presented using frequency distribution and tables. The findings of the study revealed that strategic buyer supplier alliance influences procurement performance. The study indicated that governance structure was the main factor in the relationship between procurement performance and strategic buyer supplier alliance.

Keywords: *Strategic Buyer Supplier Alliance On Procurement Performance In Private Manufacturing Organizations.*

Introduction

The strategic alliance between buyers and suppliers therefore has become perhaps the most important aspect in the procurement performance. As a result, maintaining credible suppliers has become a priority for the buyer. The improvement of the relation and subsequent improved procurement performance are critical in Glaxo Smithkline . At the organization, it is crucial as it ensures efficient and timely delivery. The choice of Glaxo Smithkline is important as it has invested huge capital in the manufacturing process, hence buyer supplier alliance is critical to achieving its mission. Various studies in the field of procurement performance have been undertaken. These studies appreciate the strategic roles played by suppliers in organizations, as indicated in Vonderembse (1999) and Hsu (2006), who affirm that suppliers play a vital role in creating a competitive advantage and their actions have a significant impact on the performance of the organization.

Supplier-buyer relationships have today become the —backbones of economic activities in the modern world (Nagurney, 2010) and a focal point of organizational competitiveness, performance and long-term business success (Veludo et al. 2006). According to Gadde and Hakansson (2001) —the competitiveness and profit-generating capacity of the individual firm is highly dependent on its ability to handle the supply side. Similarly, Griffith and Myers (2005) position the management of supplier-buyer relationships —as a primary driver of both customer and shareholder value. This is particularly true due to the increased adoption of —globalization

and outsourcing strategies (Tang & Musa, 2011) leveraged by company specialization and focus —on their core competencies in order to withstand today's competitive market pressures (Blome & Schoenherr, 2011).

According to Burt et al. (2003), the three main buyer – supplier relationships are transactional, collaborative and alliances. Transactional relationships are the most common and the most basic type of buyer/supplier relationship. This relationship is referred to as an arm's-length relationship where neither party is concerned about the other parties well-being. There is very little trust involved in this relationship and it could be a one-time transaction between the buyer and supplier. There are rarely any big savings made in this kind of relationship and it usually takes very little time and effort by either party to go through with an agreement.

Collaborative relationships must be supported from the entire organization. A buyer must have the authority to negotiate with a supplier and come to an agreement that carries mutual trust and benefit. This is not possible if executives push only for cost savings or if the labor force is unwilling to give up some responsibility to the supplier. Benefits to collaborative relationships are: lower overall costs, higher quality products, less time to market due to open communication and improved technology and innovation. Supply disruptions are also less likely as the relationship is similar to friendship and suppliers and buyers look out for one another rather than opportunities to take advantage of one another. Drawbacks are the amount of time and effort involved. Buyers' time must be spent nurturing the relationship opposed to other value adding activities. There must also be time spent to begin the relationship and earn the trust of the supplier. Also there are higher switching costs if problems were to arise with the supplier. Lastly there is a sharing of —proprietary information, strategy, planning, and goals, [and] most firms do not feel comfortable exposing such elements to other firms, fearing a loss of control. (Benton et al., 2005). Collaborative relationships might not be desirable when a company has a certain amount of leverage over its suppliers, or if the suppliers have all the power then the buyer might not be willing to enter into a relationship.

The third type of buyer-supplier relationship is the alliance relationship. An alliance is formed for a systematic approach to enhance communication between the two firms. Unlike collaborative relationships, an alliance is built to have a trust where both firms can be on the same level and help each other out when there is a time of need or uncertainty. If there is no

motive to have trust or manage it then the alliance will most likely fail. Having an alliance can be very beneficial as there is asset specialization and human specialization as well. With human specialization, certain people in companies have experience working together and they have information that allows them to communicate with others effectively. Because of this, companies are less likely to have breakdowns between them that will result in errors (Burt et al., 2003).

Statement of the Problem

According to Bello, (2012) Glaxo Smithkline has paid US \$ 271 million in a suit filed by Medicaid. Glaxo Smithkline became the first of 21 drug companies investigated over a 3-year period to pay a US \$14 million fine for overcharging federal and 45 state Medicaid services for drugs. They did this by overstating the wholesale price on which the payments were based. This meant that Medicaid for the poor and destitute was paying more than Glaxo Smithkline wealthier commercial customers which was illegal. Government requires drug companies to match their lowest prices when Medicaid was paying. Once again the case was whistleblower initiated in 2001. Glaxo Smithkline was forced to recall one of its major cholesterol lowering drugs because of serious complications and deaths mostly from drug interactions. It lost US \$525 million in profits and shares slumped. .It seems that the Medicaid case in 2001 was only the tip of the iceberg. In April 2003 Glaxo Smithkline agreed to a criminal conviction and to pay US \$257 million for inflating prescription drug prices for Medicaid. This was the largest ever Medicaid fraud payment (Huberts, 2004). Could this be attributed due to lack of to strategic buyer supplier alliance?

Local studies which have been done on private procurement performance which includes, Akech (2005) An Assessment of Existing Policies and Legislation Concerning Private Procurement in Kenya, talks about the extent to which the application of the private procurement policy and legal framework by private entities is constrained by their knowledge of the various provisions of the PPDA and in some cases, their financial ability. According to Kamau (2007), a research on the causes of poor performance in procurement functions focusing on private entities in the manufacturing industry found out that inadequate skill and professionalism was a major factor affecting efficiency and effectiveness of procurement activities. However, there is limited research carried out on private procurement within the medical sector. This study therefore seeks

to bridge this knowledge gap by studying the influence of strategic buyer supplier alliance on procurement performance.

Objectives of the Study

General Objective

The study sought to establish the influence of strategic buyer supplier alliance on procurement performance in Private Manufacturing firms with a focus to Glaxo Smithkline.

Specific Objectives

The study was based on the following research objectives:

- i. To assess the effects of governance structures on procurement performance of private manufacturing organizations; a case of Glaxo Smithkline
- ii. To find out the effect of technology on the procurement performance of private manufacturing organizations; a case of Glaxo Smithkline.
- iii. To establish how Top management support relates to procurement performance of private manufacturing organizations; a case of Glaxo Smithkline
- iv. To establish the effect of procurement policy and legal framework on the procurement performance of private manufacturing organizations; a case of Glaxo Smithkline.

Literature Review

The Institutional Theory

The institutional theory is the traditional approach that is used to examine elements of private procurement (Blair, 2010). Kamau (2004) identifies three pillars of institutions as regulatory, normative and cultural cognitive. The regulatory pillar emphasizes the use of rules, laws and sanctions as enforcement mechanism, with expedience as basis for compliance.

According to Scott (2004), institutions are composed of cultural-cognitive and regulative elements that, together with associated activities and resources give meaning to life. The author

explains the three pillars of institutions as regulatory, normative and cultural cognitive. The regulatory pillar emphasizes the use of rules, laws and sanctions as enforcement mechanism, with expedience as basis for compliance. The normative pillar refers to norms (how things should be done) and values (the preferred or desirable), social obligation being the basis of compliance. The cultural-cognitive pillar rests on shared understanding (common beliefs, symbols, shared understanding). In Kenya, private procurement is guided by the PPDA Act 2005, regulations and guidelines which are from time to time issued by the Private Procurement Oversight Authority only and which must be complied with to the latter by all the private entities and providers. The principal agent theory as advocated by Donahue, (1989) explains that procurement managers in private sector play a relationship role. But his findings are based on the buyer/supplier relationship and the need of the buyer, as the principal, to minimize the risks posed by the agent. The author argued that procurement managers including all civil servants concerned with private procurement must play the agent role. Therefore procurement managers take on the role of agent for elected representatives. The principal-agency theory holds that sabotage is likely to occur when there is some disagreement between policy makers and the bureaucracy. The democratic perspective focuses on responsiveness to citizens and their representatives (Strom 2000; Lupia 2003).

Socio-Economic Theory of Compliance

Lyons (1986) propounded the socio-economic theory of compliance by integrating economic theory with theories from psychology and sociology to account for moral obligation and social influence as determinants of individuals' decisions on compliance. Lisa (2010) also adds that psychological perspectives provide a basis for the success or failure of organizational compliance. According to Lyons (1986), the legitimacy theory postulates that the organization is responsible to disclose its practices to the stakeholders, especially to the private and justify its existence within the boundaries of society. This theory, which focuses on the relationship and interaction between an organization and the society, provides a sufficient and superior lens for understanding government procurement system (Hui et al., 2011).

Principal-Agent theory

The principal-agent theory is an agency model developed by economists that deals with situations in which the principal is in position to induce the agent, to perform some task in the principal's interest, but not necessarily the agent's (Health & Norman, 2004). Donahue, (1989) explains that procurement managers including all civil servants concerned with private procurement must play the agent role of appointed representatives. As cited by Krawiec (2003), compliance may represent a principal-agent problem (Langevoort, 2002). Festinger (1957) proposed the theory of cognitive dissonance. This theory led to a number of derivations about opinion change following forced compliance. From this theory, it is inferred that that when someone is forced comply, dissonance is created between their cognition (I did not want to do this) and their behaviour (I did it).

Theory of Cognitive Dissonance

Leon Festinger formulated the original theory of cognitive dissonance in the mid-1950s, and the first formal and complete presentation of the theory appeared in 1957. Festinger (1957) theorized that, when an individual holds two or more elements of knowledge that are relevant to each other but inconsistent with one another, a state of discomfort is created. He called this unpleasant state "dissonance."

Empirical Review

Mohr and Nevin (1990) proposed that the dimensions of communication would function together in a specific combination based on channel conditions. They coined the phrase "collaborative communication strategy," which was more likely to occur in relational structures, supportive climates and symmetrical power. As in Mohr et al. (1996), collaborative communication is defined in this research as a communication effort that emphasizes indirect influence strategy, formality and feedback in unison.

Carr and Pearson (1999) found that formal communication of supplier evaluations positively influenced BSR. Similarly, Davey and Sheehan (2002) found that communication formality had a positive influence on cooperation, one dimension of BSR. Mohr and Sohi (1995) found that formality negatively influenced distortion and withholding of information. All three studies

addressed formality and aspects of the relationship from the buying firm's perspective. It is anticipated that formality will positively influence the buyer-supplier relationship from the supplier's perspective.

There are several gaps in the communication literature. First, the influence of the various types of communication strategies on the supplier's performance is unknown. Several studies from the buying firm's perspective assessed the indirect influence strategy or formality on the buying firm's performance (D'Amours et al, 1999; Krause et al., 2000; (Barton & Beynon, 1997). From the supplier's perspective, to our knowledge only one study has focused on the impact of indirect influence strategy on one performance measure, JIT shipment performance (Saad et al., 2002). Moreover, there are no studies that have investigated the supplier's perspective of the buying firm's communication on supplier's performance.

To date, there have not been any studies to determine whether the supplier evaluation communication strategy has an effect, either directly or indirectly, on the supplier's performance. Although several studies have stated that they expect a direct effect (Krause et al., 2000), the relationship has not been empirically tested. Third, if there is an indirect effect, the literature suggests that the buyer-supplier relationship (BSR) may be a mediator (Johnston & Lewin, 1996). In a Swedish PhD thesis completed during the early 1990s, it was concluded that effective private procurement is "a method which can give results for suitable subjects under certain circumstances" (Duperouzel, 1991). The thesis consists of a number of case studies from the private sector in Sweden where objectives, organization, control instruments, interaction/networks and user involvement are analytic entities. The actual quality and technological improvement of the products that resulted from the procurement processes are also dealt with.

Data Analysis/Findings

Regression analysis

Regression Model Summary

Model	R	R Square
1	.859	.902

Predictors: (Constant), X1, X2, X3, X4

The study further used one way Analysis of Variance (ANOVA) in order to test the significance of the overall regression model. Green and Salkind (2003) posits that one way Analysis of Variance helps in determining the significant relationship between the research variables. Table 4.13 hence shows the regression and residual (or error) sums of squares. The variance of the residuals (or errors) is the value of the mean square which is 2.280. The predictors X1, X2, X3 and X4 represent the independent variables notably; (X₁) Governance Structure, (X₂) Technology, (X₃) Top management support and (X₄) Procurement policy and legal framework as the major factors influencing Glaxo Smithkline procurement performance.

Table 4.14 presents the results of ANOVA test which reveal that all the independent variables notably; (X₁) Governance Structure, (X₂) Technology, (X₃) Top management support and (X₄) Procurement policy and legal framework have a significance influence on Glaxo Smithkline procurement performance. Since the P value is actual 0.00 which is less than 5% level of significance. Table 4.14 also indicates that the high value of F (84.353) with significant level of 0.00 is large enough to conclude that all the independent variables significantly influence bank performance.

Table 4.14 Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	P-Value.
1	Regression	8.332	2	3.280	83.433	.000
	Residual	2.000	57	.027		

Total	10.332	59
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a. Predictors: (Constant), X1, X2, X3, X4

b. Dependent Variable: Y

Table 4.15 presents the results of the test of beta coefficients which indicates that the significant relationship between independent variables notably; (X₁) Governance Structure, (X₂) Technology, (X₃) Top management support and (X₄) Procurement policy and legal framework and dependent variables Y=Glaxo Smithkline Procurement Performance. As presented in table 4.15, (X₁) Governance Structure coefficient of 0.799 was found to be positive at significant level of 0.004 and this indicates that Governance Structure has a positive influence on procurement performance. , (X₂) Technology coefficient of 0.655 was found to be positive at significant level of 0.002 and this indicates that technology has a positive influence on Glaxo Smithkline Procurement performance. , (X₃) Top management support coefficient of 0.701 was found to be positive at significant level of 0.003 and this indicates that Top management support has a positive influence on Glaxo Smithkline Procurement performance(X₄) Procurement policy and legal framework coefficient of 0.811 was found to be positive at significant level of 0.001 and this indicates that Procurement policy and legal framework has a positive influence on Glaxo Smithkline Procurement performance. This clearly demonstrates that all the independent variables significantly influenced Glaxo Smithkline Procurement performance but the relative importance of each independent variable was different. However, since the significance values were less than 0.005, all the coefficients were significant and thus the regression equation was;

$$Y = 217 + 898X_1 + 544X_2 + 644X_3 + 787X_4 + X_5 + e$$

Table 4.15 Coefficients

	B- Coefficients	Std. Error	Sig F
(Constant)	0.221	.211	.005
X1	0.799	.184	.004
X4	0.655	.184	.002
X3	0.701	.170	.003
X2	0.811	.168	.001

Dependent Variable Y

These findings echoed findings by Eyaa and Oluka (2011) who found out that procurement performance of pharmaceuticals in many developing nations is greatly influenced by the level of Governance Structure, Technology, Top management support and Procurement policy and legal framework. The study therefore concluded that through improvement of Governance Structure, Technology, Top management support and Procurement policy and legal framework procurement performance would be increased.

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