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Influence of Relationship Management Process on Performance of Financial Market Intermediaries in Kenya

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Abstract

The purpose of the study was to establish the influence of relationship management process on performance of financial market intermediaries in Kenya. The study reviewed existing literature related to the study variables. The study adopted a cross sectional approach, with study population being 218 employees in 109 financial market intermediary firms. The study used a census approach. The study employed primary data. Primary data was collected through questionnaire. A pilot study was conducted to measure the research instruments reliability and validity. Descriptive and inferential analysis was conducted to analyze the data while multiple and simple regression analysis were used to measure firms' performance as influenced by supply chain automation. The data was presented using tables, graphs and charts. The study findings revealed relationship management have positive and significant association with firm performance. Based on the findings the study concluded that relationship management processes influenced the performance of financial market intermediaries in Kenya. The study recommended that the financial intermediaries should fully automate their relationship management processes. This will lead to improvement of the firm's performance. For instance, in a supply-chain network, there are multiple players including first, second, and third-tier suppliers, contract manufacturers, original equipment manufacturers (OEMs), distributors, and retailers. These can however be broadly categorized as suppliers and customers. For successful supply chain operations and profitability, there is need for coordination between all these players in order to enhance efficiencies in forecasting demand, and hence conducting joint scheduling, and joint product development.

Keywords: *Relationship Management Process, Performance, Financial Market Intermediaries*

1.0 Introduction

According to Harland (2010), supply chain management is the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally". According to Becker (2000), supply-chain problems cost companies between 9 and 20 percent of their value over a six-month period. Despite this, attempts to automate solutions to majority of these problems are complicated by the need for the different players in a supply chain to maintain the integrity

and confidentiality of their information systems and operations. However, for companies to achieve their supply chain management objectives, they must fully integrate and automate all departments and partners, rather than certain areas. Towards this end, technology becomes an indispensable "enabler" for supply chain automation (Nash, 2010).

Like other commercial entities, financial intermediaries - institutions that facilitate the channeling of funds between lenders and borrowers indirectly (Pierre, 2011) - need to automate their supply chain processes in order to increase operating efficiencies, improve profitability, and enhance overall performance. Halachimi (2012) defines performance in stock brokerage firms as being the achievement of business, financial, effectiveness, and organizational objectives. Armstrong (2011) adds that such performance is indicated by market share, sales growth, and development of new products while financial performance is indicated by profit margin, total assets and equity multiplier. Indicators of effectiveness include quality of service, degree of social responsibility, positive work culture, and good image of the company and level of customer satisfaction.

Chavan (2009) argues that performance focuses not only on what people achieve, but also how they achieve it. Boatright (2012) adds that financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

According to Wangai and Ngugi (2014), the performance of a stock market of an economy is of interest to various parties including investors, capital markets, the stock exchange and government among others. Stock market performance is influenced by a number of factors, key among them being government activities, and the general performance of the economy. Other factors that affect the stock market's performance include, availability of other investments assets, change in composition of investors, and markets sentiments among other factors (Mendelson & Robbins, 2003).

In his study, Kenneth (2009) postulates that brokerage services industry is cyclical and performance is tied most closely to that of the stock market, which tends to lead economic performance. Christopher (2012) links the stock market cycle to economic cycle and argued that the relationship is far from perfect; with stock market downturns leading recessions by approximately nine months, and market upswings preceding expansions by about five months. Adjasi (2010) attributes the brokerage industry's cyclical nature to two factors. First, most of its business lines (commissions, trading, investment banking, etc.) have a tendency to move in tandem expanding during bull market runs and contracting during corrections. Second, employment numbers increase during bull markets and are significantly cut during bear markets, thus amplifying the effect of the next boom or bust on brokerage firms' bottom lines. This notwithstanding, argues Christopher (2009), the role of supply chain automation is to create a major source of competitive advantage for the enterprise to differentiate itself in the eyes of the customers from its competitors by operating at a lower cost and hence at a greater profit.

1.1 Research Problem

Despite several economic and cultural changes, the main goal of establishing a supply chain network has remained the same. These goals include; procurement of raw materials, transforming them into final products, and delivering them to the final customers at the specified time and place (Viswanadham, 2002). The effectiveness of these activities largely

depends on the automation of the entire supply chain system. Supply chain automation is considered as one of the most important functions in an organization, as it is a key contributor to overall profitability (Une & Sangle, 2014).

The financial market intermediaries in Kenya have been experiencing performance problems, this is despite automation of their supply chain systems in 2006 (Nairobi Stock Exchange, 2014). The collapse of stockbrokerage firms has resulted to market decline as whole, investors lose money and cut back on their consumption leading to low economic development. Recessions witness the loss of jobs, and again a decline in consumption (Wangai & Ngugi, 2014). The rate at which the financial intermediaries have been performing poorly and collapsing is alarming and it begs the question whether automation had something to do with it. Over the past few years, brokerage firms such as Nyaga and Thuo Stockbrokers either collapsed or went under receivership, taking with them about Ksh3 billions of investors' money (Daily Nation, Oct 28, 2009). Much of this poor performance has been blamed on the macro environment such as the cyclical nature of the financial markets industry, with performance tied most closely to that of the stock market. This, in turn, is related to economic performance and the relationship between the stock market and economic cycle. The imperfections in the macro-economy lead to stock market downturns consequently leading to poor performance of brokerage firms (Kenneth, 2009).

However, trading at the NSE involves stockbrokers and other intermediaries, who control the investor's orders running in the supply chain through the Automated Trading Systems (ATS), (Otuke, 2006). There have been complaints raised by investors' touching on certain intermediaries, with the money at various levels of the supply chain not adding up in the clearing accounts (Ngigi, 2011). Concerns of supply chain fraud have also been raised with some brokers living off their clients' investment with shares being traded without permission. Other market players will fail to pay promptly the proceeds as required by law under NSE regulations (Bonyop, 2009). This paper sought to establish the influence of relationship management process on performance of financial market intermediaries in Kenya.

2.0 Theoretical Framework

This paper was anchored on Psychological Contract Theory. The theory has its foundation in human resource management, specifically in employment. Chris Argris (1960) was the first to apply the psychological contract to the workplace. He believed that employees and their organization created psychological contracts that allowed the expression and gratification of each other's needs. According to Armstrong (2009) a psychological contract represents a set of unwritten expectations that exist between an employee and the employer. The expectations are implied and therefore concerned with the perceptions held by both parties to the employment relationship, the organization and individual (Quest, 2007). A contract represents a set of aspirations as a belief system revolving around actions expected of employees and reciprocal actions by employers in return. While reasonable amount of the psychological contract literature has focused on employee–employer relationships, it is fitting to extend evaluation of this theory to relationships in other areas (Kingshott & Pecotich, 2007).

The theory informs the study by providing an understanding of how modern integrated supply chain is characterized by long term relationship management in order to achieve organizational goals (Menon, 2012). The theory provides valid theoretical framework that build on mutual trust among the chain partners in long term relationship characterized by

interdependence which if well managed results in a win-win exchange situation for all the stakeholders.

Systems theory also informs the study and it is the study of systems in general with the aim of making clear the principles that can be applied to all types of systems at all nesting levels in all fields of research (Bertalanffy, 1956). He further argued that theory of systems is significant and relevant to this study since lean practices are components of lean systems employed to improve processes. Systems theory can be considered a specialization of systems thinking or basically in depth scrutiny of how systems are developed interconnected and work together.

2.1 Empirical Review

Viswanadham (2002) argued that in a supply-chain network, there are multiple players including first, second, and third-tier suppliers, contract manufacturers, original equipment manufacturers (OEMs), distributors, and retailers. These can however be broadly categorized as suppliers and customers. For successful supply chain operations and profitability, there is need for coordination between all these players in order to enhance efficiencies in forecasting demand, and hence conducting joint scheduling, and joint product development (Viswanadham, 2002).

It is a challenging task to align the enterprise to meet the needs of the customer—available twenty four hours a day, seven days a week via telephone, e-mail, and the Internet—and to keep accurate records of customer interactions and resolve issues quickly with care (Viswanadham, 2002). As the range of products and services expand and customer demands increase, support systems and tools become the integrating factor in business operations (Georgakopoulos, Hornick & Sheth, 1995). The ability of an employee or self-service option to serve the customer well depends on the speed and latency of the infrastructure moving the data to the person who needs it, the data profiling tools to understand a customer's preferences rapidly, well-constructed Web interfaces, and the ability to manage it all as if the company is aligned around delivering on each customer's needs (Viswanadham, 2002).

Helper (1991) noted that with multiple customer segments and multiple products and services, it is increasingly difficult to deliver the expertise required to keep the many promises a business makes every day needs. To do this and concurrently maintain competitive cost is challenging. The solution to this problem is intelligent and proactive software than can manage various interactions and follow up work items in a manner that aligns business goals and delivers on promises made, over and over again—which leads to attracting new customers and keeping them (Viswanadham, 2002). Attaining this requires specialized customer relations management (CRM) systems. Majority of CRM solution frameworks include: multimedia 24 × 7 customer interactions, intelligent work and customer contact routing, data mining decision making, and tracking tools that link into legacy systems. This new solutions framework creates new operational efficiencies through the alignment of front office and back office processes in direct support of the promises to customers and the business goals for growth, relationships, and efficiency (Georgakopoulos, Hornick & Sheth, 1995).

Helper (1991) further noted that suppliers, on the other hand, are crucial business partners and important sources of inputs that go into the process of meeting customer needs (Helper, 1991). Automating supplier relations involves use of Partner-relationship management (PRM) systems, which use the Internet to provide integrated solutions to the challenges of vendor/partner communication (Viswanadham, 2002). An effective PRM system organizes

leads, profiles, and documents in a central repository that can be updated and viewed in real time over the Internet. PRM systems, like extranet systems, enable the user to view information according to their specific characteristics—each user only sees information appropriate for their permission level and interests.

For example, they provide resellers with instant, on-demand access to information and tools. Since resellers have self-service processes for answering their questions and doing their everyday work, the need for costly face-to-face meetings and direct mailings falls dramatically. A good PRM system allows companies to track usage and activity, giving vendors tighter control over communication (Viswanadham, 2002).

Helper (1991) noted that relationships between the actors in the network are perhaps the most important element of the exchange considered. Manufacturing Supply Chain Networks (SCN) are made out of the interconnection of various agents to deliver the right product at the right time to the customer while optimizing the cost and profit needs (Helper, 1991). Agents are manufacturing companies and service providers such as raw material vendors, factories, distributers, warehouses, and retailers. Traditionally, each agent worked and optimized its business process independently. Nowadays, as the market grows larger, coordinating activities among agents is important in order to increase the profit and customer satisfaction at the same time (Viswanadham, 2002). Each agent of the supply chain has a collection of activities or tasks which lead to the completion of a certain duty of the agent. The combination of the individual tasks related to each agent will form the whole supply chain. Each of these tasks can be expressed as a collection of states and events represented by an automaton.

Henry (2006) observed that some of the relationship systems include customer relationship management (CRM) and it focuses on managing the firm's customer base. This helps companies to keep customers satisfied and continue to buy products/services from them. Companies are able to see which customers buy what and keep track of their customers preferences through a database (Viswanadham, 2002). Along with CRM, is supplier relationship management (SRM).

SRM is the "systematic management of supplier relationships to optimize the value delivered through the relationship over a life cycle", as defined by Accenture in the Principles of Supply Chain Management (Wisner, Tan & Leong, 2014).CRM and SRM are both incorporated into the ERP system to fully integrate the supply chain operations by using the internet in most cases. The hypothesis formulated for this study was that relationship management process has no significant effect on performance of financial market intermediaries in Kenya.

3.0 Research Methodology

The study applied a cross-sectional approach where the target population was 218 financial market intermediary firms. The study used primary data that was collected using the self-administered questionnaire. Both qualitative and quantitative research approach were used. Descriptive and inferential statistics were used to analyze the data. Descriptive statistics include mean and standard deviation while inferential statistics entailed simple linear regression.

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4.0 Results and Discussion

4.1 Descriptive Statistics Analysis

Descriptive statistics such as frequency, percentage, mean and standard deviation were jointly used to summarize the responses as presented in Table 1.

Table 1: Relationship Management

Statement	Strongly disagree	Disagree	Moderately agree	Agree	Strongly agree	Mean	Std. Dev
We have order matching systems that allow for faster ordering for our firm	0.00%	0.00%	4.70%	84.70%	10.60%	4.06	0.39
Our ordering systems help reduce the lead time	0.00%	2.40%	23.50%	61.20%	12.90%	3.85	0.66
We can communicate to stakeholders and change contract terms flexibly	1.80%	1.20%	33.50%	45.30%	18.20%	3.77	0.82
Our B2B systems have contributed to our performance	0.00%	1.20%	38.20%	52.90%	7.60%	3.67	0.63
Our supply chain relationships enhance supply chain visibility	2.40%	0.00%	10.60%	81.80%	5.30%	3.88	0.6
Our business partners apply win-win concepts	7.10%	1.20%	10.60%	67.60%	11.80%	3.71	1.05
Average						**3.82**	**0.69**

Majority of 96% (84.70+10.60) of the respondents agreed that they have order matching systems that allow for faster ordering for our firm while 4.7% moderately agreed. The mean of the responses was 4.06 which indicates that majority of the respondents agreed to the statement. The responses were however varied as indicated by a standard deviation of 0.39. 74% agreed with the statement that our ordering systems help reduce the lead time, 24% moderately agreed while 2.4% disagreed. The mean of the responses was 3.85 which indicates that majority of the respondents agreed to the statement. The responses were however varied as indicated by a standard deviation of 0.66.

Further, the results revealed that majority of the respondents who were 63% agreed that we can communicate to stakeholders and change contract terms flexibly, 34% moderately agreed while 3% disagreed. The mean of the responses was 3.77 which indicates that majority of the respondents agreed to the statement. The responses were however varied as indicated by a standard deviation of 0.82.

In addition, 61% of the respondents agreed that the B2B systems have contributed to performance, 38% moderately agreed while 1.2% disagreed. The mean of the responses was 3.67 which indicates that majority of the respondents agreed to the statement. The responses were however varied as indicated by a standard deviation of 0.63. Further, 87% of the respondents agreed that the supply chain relationships enhance supply chain visibility, 10.6% moderately agreed while 2.4% disagreed. The mean of the responses was 3.88 which indicates that majority of the respondents agreed to the statement. The responses were however varied as indicated by a standard deviation of 0.60.

Lastly, 79.4% of the respondents agreed that the business partners apply win-win concepts, 12.6% moderately agreed while 8% disagreed. The mean of the responses was 3.71 which indicates that majority of the respondents agreed to the statement. The responses were however varied as indicated by a standard deviation of 1.05. The overall mean of the responses was 3.82 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 0.69 indicates that the responses were varied. The results herein imply that relationship management influences the performance of financial market intermediaries.

Descriptive results indicated that the overall mean of the responses was 3.82 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 0.69 indicates that the responses were varied to a small extent. The results herein imply that relationship management influences the performance of financial market intermediaries.

These findings concur with those of Viswanadham (2002) who noted that in a supply-chain network, there are multiple players including first, second, and third-tier suppliers, contract manufacturers, original equipment manufacturers (OEMs), distributors, and retailers. These can however be broadly categorized as suppliers and customers. For successful supply chain operations and profitability, there is need for coordination between all these players in order to enhance efficiencies in forecasting demand, and hence conducting joint scheduling, and joint product development. The respondents were asked to state whether relationship management influences firm's performance and results presented in figure 1.

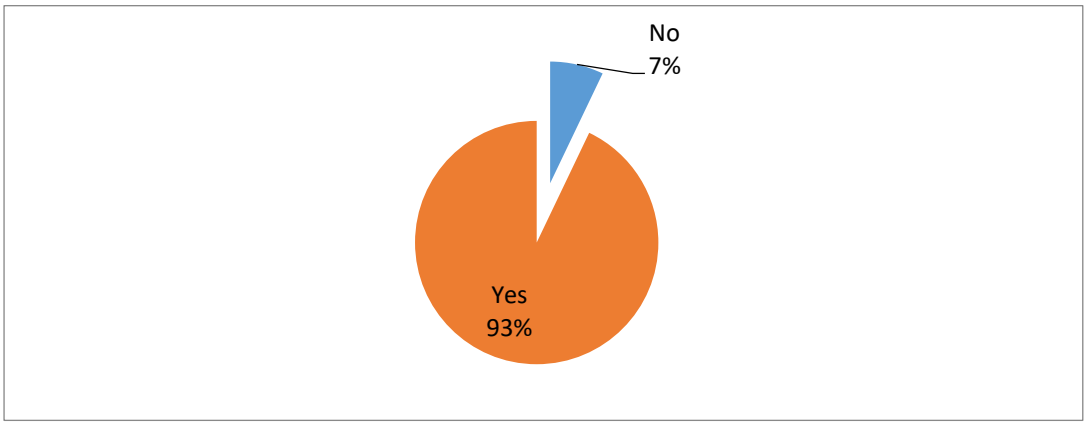

Figure 1: Influence of Relationship Management on Performance

Results in figure 1 reveal that 93% of the respondents indicated yes while 7% indicated no. This implies that relationship management plays a significant role in enhancing performance. Therefore, a firm with an effective relationship management system is expected to performance better. Further, the respondents who said yes gave various reasons for their agreement. Majority of the respondents noted that the adoption of relationship management systems has led to a good concept between managers and clients. Further, there is now good relationship between the partners/clients and the management at large.

The respondents were further asked to indicate whether automation improves or deters managing relationships and results are shown in figure 2.

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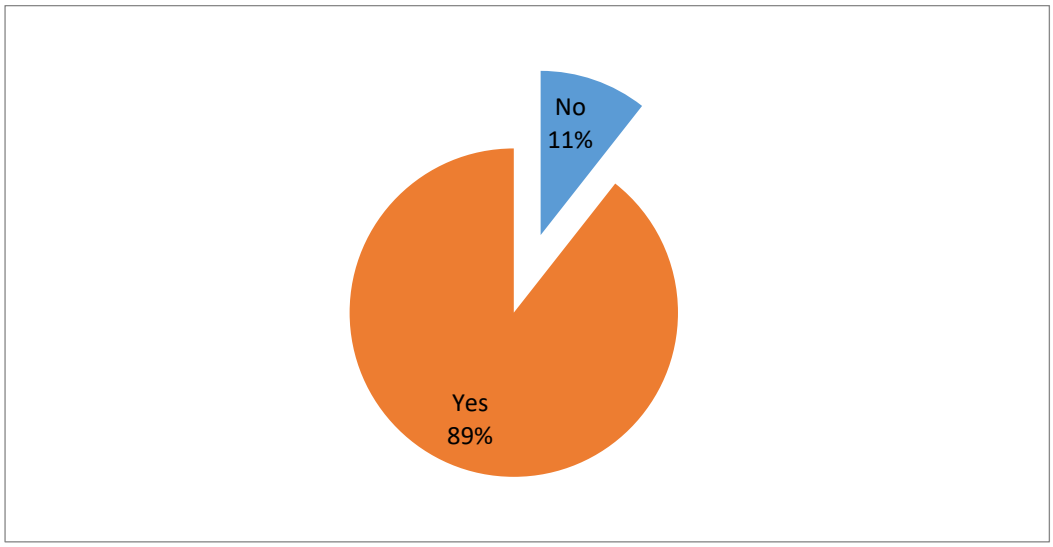

Figure 2: Automation influence on Relationship management

Results in figure 2 reveal that 89% of the respondents indicated yes while 11% of the respondents indicated no. This implies that automation has a great impact on managing relationships. This implies that firms should ensure they atomize their relationship management systems. Further, majority of the respondents who agreed noted that automation of relationship management systems has enhanced trust and that data is secure.

4.2 Cross Tabulation

When relationship management processes was cross tabulated against financial performance, the results in table 2 revealed that relationship management and financial performance are significantly associated (chi=81.356, p value=0.000). This implies that the influence of relationship management on the performance of financial intermediaries is statistically significant.

Table 2: Cross Tabulation (Chi Square)

		Categorical Relationship			
		Poor Relationship	Good Relationship	Total	Chi (p value)
Categorical Performance	Low performance	2	7	9	
	High Performance	2	159	161	
Total		4	166	170	**81.356(0.000)**

4.3 Correlation Analysis

Results in table 3 indicate the correlation analysis between relationship management processes and performance of financial market intermediaries.

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Table 3: Correlation Matrix

		Performance	Relationship Management
Performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Relationship Management	Pearson Correlation	.616**	1.000
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

The correlation results revealed that there was a positive and a significant association between relationship management and performance of financial intermediaries (r=0.616, p=0.000). This implies that both relationship management and performance of the financial intermediaries change in the same direction. Further, the correlation coefficient (r=0.616) reveals a strong association between relationship management and performance of financial intermediaries.

4.4 Relationship Management Constructs and Performance of Financial Market Intermediaries

Results in table 4 present the regression model used in explaining the relationship between relationship management constructs and performance of financial market intermediaries.

Table 4: Regression Results

	Model 1 Order marching systems (X_1)	**Model 2** B2B systems (X_2)	**Model 3** Supply chain relationships (X_3)
(Constant)	1.170	2.858	2.757
β1	0.771	0.392	0.397
R^2	0.304	0.210	0.192
F-statistics	73.496	44.534	39.989
P-value	**0.000**	**0.000**	**0.000**

Model 1: $Y= \beta_0+ \beta_1 X_1 + e$

Firm Performance $=1.170+0.771X_1$

Model 2: $Y= \beta_0+ \beta_2 X_2 + e$

Firm Performance $=2.858+0.392X_2$

Model 3: $Y= \beta_0+ \beta_3 X_3 + e$

Firm Performance $=2.757+0.397X_3$

The regression results in table 4 indicate that Order marching systems(X_1) explained 30% of variations in performance of Financial Market Intermediaries in Kenya. Additionally, results showed that B2B systems (X_2) explained 21% of the variations in performance of Financial Market Intermediaries in Kenya.

Lastly, results indicated that Supply chain relationships (X_3) explained 19% of the variations in performance of Financial Market Intermediaries in Kenya. The findings are supported by a coefficient of determination (R^2) of 30%, 21% and 19% respectively.

Further, results indicate that the three models are statistically significant as supported by a p value of 0.000. This implies that Order marching systems(X_1), B2B systems (X_2) and Supply chain relationships (X_3) are good predictors of performance. The results were supported by F statistics of 73.496 (X_1), 44.534 (X_2) and 39.989 (X_3).

Lastly, results indicate a positive and significant relationship between Order marching systems(X_1) and performance of Financial Market Intermediaries in Kenya as supported by a p value of 0.000 and a beta coefficient of (0.771). Further, results reveal a positive and significant relationship between B2B systems (X_2) and performance of Financial Market Intermediaries in Kenya as supported by a p value of 0.000 and a beta coefficient of (0.392). Finally, results show a positive and significant relationship between Supply chain relationships (X_3) and performance of Financial Market Intermediaries in Kenya as supported by a p value of 0.000 and a beta coefficient of (0.397).

Based on the beta coefficients, it is possible to rank the constructs as to which best explains the performance of Financial Market Intermediaries in Kenya. The findings indicate the coefficients of the three constructs as follows; Order marching systems (β1=0.771), B2B systems (β1=0.392), and Supply chain relationships (β1=0.397). The results herein imply that (X_1) best explains performance, followed by (X_3) and then (X_2).

4.5 Joint Relationship Management Constructs and Performance of Financial Market Intermediaries

The results presented in table 5 present the fitness of model used of the regression model in explaining the study phenomena.

Table 5: Model of Fitness

Indicator	Coefficient
R	0.672
R Square	**0.451**
Adjusted R Square	0.442
Std. Error of the Estimate	0.40482

The findings revealed that jointly, relationship management constructs explained 45% of the performance of financial market intermediaries in Kenya. This is supported by coefficient of determination also known as the R square of 45%. This means that relationship management explains 45% of the total variations in performance of financial market intermediaries in Kenya. Table 6 provides the results on the analysis of the variance (ANOVA).

Table 6: Analysis of Variance

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	22.389	3	7.463	45.541	0.000
Residual	27.204	166	0.164		
Total	49.593	169			

The results indicate that the overall model was statistically significant as supported by a p value of 0.000. The results were also supported by an F statistic of 45.541 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. This implies that relationship management is a good predictor of firm performance. Table 7 presents regression of coefficient results.

Table 7: Regression of Coefficients

	B	Std. Error	t	Sig.
(Constant)	0.385	0.350	1.100	0.273
Relationship Management Processes	0.333	0.067	4.908	**0.000**

The specific model;

$Y= \beta_0+ \beta_1 X+e$

Firm Performance = 0.385+0.333 Relationship Management Processes

The findings show that there is a positive and significant relationship between relationship management and performance of financial market intermediaries in Kenya as supported by a p value of 0.000 and a beta coefficient of (0.333). This implies that an improvement in relationship management by 1 unit results to an improvement in performance of financial market intermediaries by 0.333 units.

The hypothesis was tested by using the ordinary least square regression. The acceptance/rejection criteria were that, if the p value is less than the conventional p value (0.05), the H_0 is rejected but if it more than 0.05, the H_0 fails to be rejected, the null hypothesis was that relationship management has no significant effect on the performance of financial market intermediaries in Kenya. Results in Table 7 show that the p value was less than the conventional p value (p=0.05). This indicated that the null hypothesis was rejected hence relationship management had a significant relationship with performance of financial market intermediaries. Further, rejection of the null hypothesis implies that the influence of relationship management processes on performance of financial market intermediaries is statistically significant. In other words, the role of relationship management processes in determining the performance of financial market intermediaries cannot be ignored.

These results imply that relationship management processes play a significant role in the performance of financial market intermediaries in Kenya. These findings agree with those of Viswanadham (2002) who noted that in a supply-chain network, there are multiple players including first, second, and third-tier suppliers, contract manufacturers, original equipment manufacturers (OEMs), distributors, and retailers. These can however be broadly categorized as suppliers and customers. For successful supply chain operations and profitability, there is

need for coordination between all these players in order to enhance efficiencies in forecasting demand, and hence conducting joint scheduling, and joint product development.

5.0 Conclusion

Based on the findings the study concluded that relationship management processes influenced the performance of financial market intermediaries in Kenya. This can be explained by the regression results which showed that the influence was positive and also showed the magnitude by which relationship management processes influenced the performance of financial market intermediaries. The regression results showed that relationship management processes influenced the performance of financial market intermediaries.

6.0 Recommendations

The study recommended that the financial intermediaries should fully automate their relationship management processes. This will lead to improvement of the firm's performance. For instance, in a supply-chain network, there are multiple players including first, second, and third-tier suppliers, contract manufacturers, original equipment manufacturers (OEMs), distributors, and retailers. These can however be broadly categorized as suppliers and customers. For successful supply chain operations and profitability, there is need for coordination between all these players in order to enhance efficiencies in forecasting demand, and hence conducting joint scheduling, and joint product development.

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