BUYER-SUPPLIER RELATIONSHIPS AND ORGANIZATIONAL PERFORMANCE AMONG LARGE MANUFACTURING FIRMS IN NAIROBI, KENYA

BY

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D61/60105/2011

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) UNIVERSITY OF NAIROBI

2013

DECLARATION

I declare that this research project is my original work and has never been submitted to any other University for assessment or award of a degree.

Signature…………………………….. Date………………………………

Irene Ng'endo Kamau

This research project has been submitted with my authority as the university supervisor.

Signature……………………………………. Date ……………………………………………

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University of Nairobi, School of Business

DEDICATION

This project of dedicated to: my family members, for their support and encouragement throughout this project: my friends and colleagues, I appreciate them for their guidance and support: To God almighty, thank you.

ACKNOWLEDGEMENT

I wish to acknowledge my lectures at the university of Nairobi: and especially my supervisor, Mr. Michael. K. Chirchir for his effective guidance and support throughout the project. I acknowledge the support given to me by my close friends: Jane and Charity for their support and encouragement throughout that process. I also acknowledge all the organizations that co-operated with me during data collection. Thank you all and God Bless you.

ABSTRACT

This study was carried out to establish the effect of buyer – supplier relationships on organizational performance among large manufacturing firms in Kenya. The study had three objectives, to determine the extent to which large manufacturing firms in Kenya have adopted the concept of buyer-supplier relationships, to determine the challenges facing buyer-supplier relationships and to determine the effect of buyer –supplier relationships on organizational performance.

The research design involved a cross sectional survey of 56 large manufacturing companies in Nairobi, Kenya. Data was collected using a questionnaire that was administered through “drop and pick” method. Percentages and frequencies were used to analyze objective one and objective two whereas regression analysis was used to analyze the relationship between buyer – supplier relationships and organizational performance among large manufacturing firms in Kenya. The findings are presented in tables. It is clear that there is a significant relationship between buyer – supplier relationships and organizational performance represented by R^2 value of 0.723 which translates to 72.3% variance explained by the five independent variables of trust, communication, co-operation, commitment and mutual goals.

The study only focused on the large manufacturing companies in Nairobi. Therefore, the researcher recommends further research on other firms that are not located in Nairobi and are not in the manufacturing industry. The researcher has also recommended that all manufacturing companies and other organizations embrace buyer –supplier relationships so that they can reap the benefits. Manufacturing companies highly rely on their suppliers to supply their raw materials for use in their production. Therefore, having good relationships with the suppliers is a strategy for manufacturing companies to achieve competitive advantage.

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LIST OF ABREVIATIONS AND ACRONYMS

SCM: Supply Chain Management

BSR: Buyer - Supplier Relationships

GDP: Gross Domestic Product

KAM: Kenya Association of Manufactures

KIRDI: Directory of Manufacturing Industries

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Firms compete in head-to-head battles for market share and position with other organizations in their competitive sets. In such competitive environments, suppliers are often treated in an adversarial manner by buyers, as the relationship between buyers and suppliers are viewed as a win-lose situation. However, many forward-looking firms have found it more effective to work collaboratively with their suppliers to serve the ultimate customer. Terms such as *alliances*, *partnerships*, *collaborative relationships*, and *boundaryless organizations* have been used to describe these new buyer-supplier relationships (Crotts, Buhalis, & March, 2000).

Research in the SCM has identified a number of key success factors to improve overall performance of the supply chain, supply chain alliances are one of them. In the past decades, alliance activities have shown a tremendous growth. Alliances seem to have established themselves as cornerstones for the competitive strategy of many organizations *(http://www.ageconsearch.umn.edu., 2012).* Alliances can be considered as an intercrossed governance structure, arranged together to get the benefits of independent ownership and advantages of vertical integration (Dyer, 1996). An alliance or partnership is a business relationship between two different companies based on mutual trust, mutual information sharing, shared risks and rewards that results in a business performance greater than what would be achieved by the firms individually (Lambert et al., 1996).

Supply chain alliances consist of a number of relationships, but here we deal with only supplier alliance. Supplier alliances provide the buying firm many benefits, such as higher coordination, better resource utilization and faster reaction to market changes. Alliances with selective suppliers result in mutual advantages such as reducing overall cost enhance customer satisfaction, flexibility to cope with changes, productivity improvement and long-term competitive advantages in the marketplace (Zsidisin and Ellram, 2001). Relationships are the foundation on which an effective supply chain can be built. A closer and stronger relationship allows the channel members to achieve quality improvements, cost reductions and revenue growth as well as provide capability to deal with demand and supply uncertainties (Lee et al., 1997). In a supply chain, relationships are not only used for connecting the firm with a partner, but also used to connect the firm throughout the supply chain (Hsu et al., 2008). Supplier relationships are a part of supply chain relationships (Lemke et al., 2002). Minimum two parties are involved in a relationship, in order to produce mutual benefits (Walter et al., 2001).

Therefore maintaining a strong relationship between buyer and supplier becomes most important. In order to win and retain the business both buyer and supplier must work together as a team. Care should be taken while choosing the suppliers to make sure that they have required capabilities and resources to fulfill the needs. A successful relationship is one in which there is mutual sharing of risk and rewards, clear understanding of each other’s roles and responsibilities, high level of commitment and trust, long-term orientation, mutual information sharing, a sincere desire to win and responsiveness towards each other’s and end customer’s needs (Lemke et al., 2002).

From the buyer's perspective, the benefits of close relationship with suppliers at the operational level are given as improved quality of products or services, reduced cost and reduced lead-time or service completion time. At the strategic level, the benefits are obtained in the form of enhanced competitiveness, increased market share and innovation. The importance of supplier management has been recognized by academics and many studies have showed the advantages that can be gained by the supplier alliances (Spina and Zotteri, 2000). According to Terpend et al. (2008), the effects of many buyer, supplier and market characteristics, as well as product characteristics have yet to be explored and an understanding of nature of relationships in a supply chain is limited and need to be improved.

1.1.1 Buyer-Supplier Relationships

Today, buyer- supplier relationships have become "strategic" and the process of relationship development is accelerated as firms strive to create relationships to achieve their goals. An important phenomenon related to buyer-seller relationships is that many buyers are developing single source suppliers because of the pressure to increase quality, reduce inventory, develop just-in-time systems, and decrease time to market. The ultimate goal in developing these capabilities is to reduce costs. These cost reductions can be obtained through one of two models. In an adversarial model, buyers pit suppliers against each to achieve lower costs. In a cooperative model, both parties achieve lower costs through working together to lower both buyer's and seller's operating costs. This reduction is accomplished through better inventory management and elimination of unnecessary tasks and procedures (Wilson, 1995)

Evidence from the literature on strategic supplier alliances, a particular manifestation of a long-term, collaborative relationship, suggests that buyers tend to prefer closer relationships when they wish to control the dependability of supply or influence supplier quality and delivery schedules (Ellram, 1995). Suppliers may be similarly motivated when they seek to secure long-term, reliable markets, or to influence customer quality.

Much of the recent literature on buyer-supplier relationships focuses either on the underlying attributes of relationships, or how relationships impact performance. Traits such as coordination, collaboration, commitment, communication, trust, flexibility, and dependence, are widely considered to be central to meaningful relationships. It should be noted that the implicit assumption is that the subject is a cooperative rather than a more hands off relationship. Similar traits can also be observed in the supplier alliance literature (Ellram, 1995; Vollman and Cordon, 1998; Whipple and Frankel, 2000). The underlying rationale behind these traits is that in their absence, interaction between buyers and suppliers to create mutually beneficial outcomes will be limited. Without signals and/or behaviors demonstrating a willingness to work together to increase rather than merely redistribute value within the supply chain, buyers and suppliers will be motivated to look out for their own interests. Willingness, however, to work together and to share risks allows benefits to be achieved not only in cost, quality, delivery, and productivity, but in product development, technology deployment, and problem solving (Fram, 1995; Hahn *et al.*, 1990).

1.1.2 Organizational Performance

Performance in organizations takes many forms depending on whom and what the measurement is meant for. Different stakeholders require different performance indicators to enable them make informed decisions (Manyuru, 2005). According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.)

Mahapatro, (2009) defines Organizational Performance as the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable.

Thompson et al, (2007), notes that using financial measures alone overlooks the fact that what enables a company to achieve or deliver better financial results from its operations is the achievement of strategic objectives that improve its competitiveness and market strength. Non financial measures include innovativeness (Goldsmith and Cluterbuck, 1984) and market standing (Saunders and Wong, 1985, Hooley and Lynch, 1985). Performance is therefore measured by both financial and non-financial measures.

Kalpan and Morton (1992) listed various methods to measure the overall organizational performance which are; accounting measures (profitability measures, growth measures, leverage, liquidity and cash flow measures), operational performance (market share, changes in intangible assets such as patents or human recources, customer satisfaction and stakeholder performance market based measures (return on shareholder performance), market based measures (return on shareholder, market value added, holding period returns, Jensens alpha and Tobins Q), survival measures (takes time horizons of five years and less) and economic value measures (residual income, economics value added and cash flow return on investment) Lee and Bose (2002) note that performance can be measured in numerous ways: sales, profit, productivity, revenue, dividends, growth, stock price, capital, cashflow, return on assets, return on capital, return on equity, return on investment, earnings per share as well as other financial ratios.

A number of studies have examined the linkages between relationships and performance. Johnston *et al.* (2004) demonstrates gains such as being: financial, lead time performance, improved responsiveness, customer loyalty, innovation, quality products, reduction in inventory and improvements in product/process design.

The literature on supplier alliances also provides empirical evidence of their benefits in terms of cycle time and new product development time, delivery performance, flexibility, product availability and customer satisfaction (Stank *et al.*, 2001). It also alludes to the potential of alliances with regard to reductions in transaction costs and improvements in access to technology and technology transfer (Heide and John, 1990).

1.1.4 Large Manufacturing Firms in Kenya

Manufacturing is an important sector in Kenya and it makes a substantial contribution to the country's economic development. It has the potential to generate foreign exchange earnings through exports and diversify the country's economy. This sector has grown over time both in terms of its contribution to the country's gross domestic product and employment. The average size of this sector for tropical Africa is 8 per cent. Despite the importance and size of this sector in Kenya, it is still very small when compared to that of the industrialized nations United Nations Industrial Development Organization ((UNIDO) 1987). Kenya's manufacturing sector is going through a major transition period largely due to the structural reform process, which the Kenya Government has been implementing since the mid-eighties with a view to improving the economic and social environment of the country (Awino, *et al* 2009).

The sector experienced the lowest real GDP growth rates in 2008 to 2009 as 1.7 percent in 2008 and improved to 2.6 percent in 2009 (East African Community Facts and Figures – 2010, March Issue, 2011). In the financial year 2010, the real GDP growth rate was 5.6 percent, revealing the improvement (East African Community Facts and Figures – 2011, October Issue, 2011). The lack of demand from the domestic market caused depreciation in Shilling and international demand was largely hit by global financial crises which caused the slower growth in the manufacturing sector. In terms of gross domestic product (GDP), the share of manufacturing sector maintained in the last 10 years from 2000-2001 as 10 percent to 2009-2010.On the other side, investment a “booster” of an economy, according to (East African Community Facts and Figures – 2011, October Issue, 2011) has shown a decreasing trend from 2008 to 2010.

Performance, a quality of any company, is achieved by valuable outcome such as higher returns. It can also be measured by the levels of 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). In the economically competitive world, good financial management is a key indicator of a corporation performance.

1.2 Statement of the Problem

“Buyer - supplier relationships” is an increasingly important area of interest in the academic and the business world. Companies focus strongly on the development of closer ties with other organizations in search of competitive advantage and improved market positioning. So far, little is known about the mechanisms determining the evolution of collaborative relationships, nor about the existence and interplay of buyer - supplier relationships at various levels within business relationships. (Bart *et al* 2009)

Kenya is the most industrially developed country in East Africa, but it has not yet produced results to match its potential. The manufacturing industry has to put in more effort to ensure that it performs better and contributes more to the country’s GDP. For the manufacturing companies, suppliers play a major role on the performance of that company. Therefore a study on the level at which this sector has embraced the concept of buyer – supplier relationships and how these relationships affect organizational performance is important.

A close examination into studies on buyer supplier relationships and organizational performance confirms that there is research that has been carried out in this field. For example (Bart and Akkermans, 2009) carried out a study on collaboration in buyer supplier relationships. The study concluded that, that there are five relationship variables (commitment, conflict, economic & non economic satisfaction, and trust) that are important in developing and maintaining good buyer supplier relationships. However, the research did not look at the effect of these collaborations on organizational performance.

Another study conducted by (Cousins et al 2008) on Performance measurement in strategic buyer-supplier relationships. The study established that supplier performance measures alone are not sufficient to generate superior performance outcomes. Instead, the influence of performance measures on relationship outcomes is influenced by the extent of a firm's buyer-supplier socialization mechanisms. Thus the main conclusion is that Monitoring supplier performance is not of itself sufficient, rather, it is the process of socializing the buyer and supplier that is critical to the success of the relationship. This study focused on the performance of suppliers and not the performance of the organization.

Plane and Green, 2011 also conducted a study on Buyer-supplier collaboration and the aim of Facilities Management procurement. The study established that there emerged a general consensus that a more relational procurement process has a positive influence on the relationship established and also that the perceived benefits of relational approaches included clarity of service requirements, value delivery, and cultural alignment. This study however did not show how buyer – supplier relationships affect organizational performance.

A study done by Mukhwana, 2010 discussed on supply chain management practices on performance. The study found that indeed supply chain management practices have an effect on the organizational performance. However this study was general in referring to supply chain management and not specific areas in supply chain management that affects organizational performance.

Oyiela, 2011 researched on competitive strategies and performance of commercial banks in Kenya. The study found that commercial banks following a differentiation strategy realized statistically significant superior performance as compared to those pursued focus strategy and cost leadership strategy. The researcher focused only on competitive strategies but did not look in to those specific competitive strategies that affect organizational performance.

To the best knowledge of the researcher, no study has been carried out on the effect of buyer –supplier relationships and the impact of these relationships on organizational performance. This study therefore seeks to bridge this gap by investigating how buyer-supplier relationships affect the performance of organizations. The study seeks to answer the following questions: what is the extent of adoption of buyer – supplier relationships by the manufacturing firms in Kenya? What are the challenges that face the implementation of buyer supplier relationships? And what is the effect of buyer- supplier relationships on organizational performance?

1.3 Objective of the Study

This study seeks to achieve three objectives:

i. To establish the extent to which large manufacturing firms in Kenya have adopted buyer – supplier relationships.
ii. To establish the challenges facing large manufacturing firms in implementation of buyer supplier relationships
iii. To determine effect of buyer- supplier relationships on organizational performance among large manufacturing firms in Kenya.

1.4 Value of the Study

The study will help the manufacturing firms in Kenya to establish the effect of buyer – supplier relationships on their organizational performance.

Other non-manufacturing institutions will also benefit from the findings of this study since it will shed more light on the effect of buyer – supplier relationships on organizational performance

The findings of this study will be used as a reference point by other researchers for further research on the same field.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the literature review conducted by the researcher. It includes a review of the various studies that have been conducted by other researchers on buyer-supplier relationships. Among the areas reviewed include: buyer supplier relationship models; buyer - supplier relationship variables; organizational performance. The chapter also provides the research gaps identified and a conceptual framework to show the relationship between the dependent and independent variables.

2.2 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 et al., 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 (Monczka et al., 2000). 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)

2.3 A Review of Key Relationship Models

Several authors have carried out studies related to buyer seller relationships and have come up with different results related to this topic. The following are some of these studies and they give an overview of different relationship models that have been developed relating to buyer seller relationships.

2.3.1 Anderson and Narus (1990)

Anderson and Narus (1990) were among the first to test the relationships between both distributors and manufacturers engaged in a working partnership. They defined a working partnership "as the extent to which there is mutual recognition and understanding that the success of each firm depends in part on the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer marketplace" (Anderson and Narus 1990, p.42). Using social theory as their foundation and interviews with managers, constructs and a model were developed and tested that was meant to apply to both the supplier and the buyer.

Although their proposed model needed re-specification, comparison level of alternatives, relative dependence, and communication were found to be important in explaining working partnerships between manufacturers and distributors. The constructs of trust, cooperation and satisfaction, which had previously been 'understudied', were given substantial support for inclusion in models of channel working relationships. An important implication of their study was the need for understanding, for marketing practice, partner's requirements and expectations as these would be measured against outcomes (i.e. firm performance).

2.3.2 Mohr and Spekman (1994)

An important distinction made by Mohr and Spekman (1994) in their definition of partnerships was the need of partners to 'strive for mutual benefit'. Results of their study found that trust, commitment, and communication, among other variables were important in predicting the success of partnerships. In partnerships that had higher degrees of these variables, there was a corresponding higher likelihood of success (either satisfaction or sales). Satisfaction was an outcome variable that was based on the partners' perception of how well expectations were met by the partnership. A limiting factor in the research to this point had been the lack of research that differentiated successful rom unsuccessful partnerships. Indeed, partnership success may be measured along two outcome dimensions: endurance or achievement of mutual goals. The outcome that will have greatest managerial appeal is that which can be related to firm performance.

2.3.3 Wilson (1995)

Wilson (1995) proposed that buyer-seller relationships advance through various phases of development. In each phase, he proposed that different relationship variables would have varying levels of importance. Trust, satisfaction, power and comparison level of alternatives were proposed to be important during partner selection and defining purpose of the relationship. Commitment was important to the relationship when the goal was to create value and maintain the relationship. Other constructs were also proposed to have varying degrees of importance throughout the relationship life cycle. The researcher recommended more research in understanding and conceptualizing how buyer and sellers work together to add value to their partnership. He recommended further work in order to conceptualize how a set of buyer and seller relationships becomes a powerful competitive network.

2.4 Theoretical Framework and Constructs

Different researchers have proposed with different variables as being the fundamental variables that ensure good buyer – supplier relationships. The following are the commonly discussed variables that result to successful buyer –seller relationships.

2.4.1 Trust

Trust is a willingness to rely on an exchange partner in which the firm has confidence (Moorman, Zaltman, and Deshpande, 1992). Trust is an expectation about an exchange partner that results from the partner's expertise, reliability, and intentionality (Ganesan, 1994). Trust plays a significant role in shaping interaction and long-term relationship building (Andersen & Kumar, 2006). Trust as ―the extent to which a firm believes that its exchange partner is honest and/or benevolent‖ or some variant thereof. Moorman et al.'s (1992) definition reflects two components of trust: credibility and benevolence. Credibility reflects the customer's belief that the supplier has sufficient expertise to perform the job effectively and reliably, while benevolence reflects the extent of the customer's belief that the supplier's intentions and motives are beneficial to the customer even when new conditions arise about which a commitment has not been made (Ganesan, 1994). An interesting perspective on trust is that long- term relationships may not require trust; rather the relationship may be based on the necessity of having a supplier or distributor (Kumar, 2005). Although trust can be important at all stages of the relationship, the measurement of trust can only occur after a partner has been in a relationship long enough to evaluate this dimension. Similar to performance satisfaction, trust becomes of greater and measurable importance in the last two stages of relationship development.

2.4.2 Communication

Communication processes underlie most aspects of organizational behavior and are critical to organizational success (Mohr and Nevin, 1990). The relationship literature identifies three aspects of communication behavior that are important to successful relationships: communication quality, extent of information sharing between partners and participation in planning and goal setting. Communication quality includes the accuracy, timeliness, adequacy, and credibility of information exchanged Participation refers to the extent to which partners engage jointly in planning and goal setting. When one partner's actions influence the ability of the other to effectively compete, the need for participation in specifying roles, responsibilities, and expectations increases. Input to decisions and goal formulation are important aspects of participation that help partnerships succeed (MacNeil, 1981)

2.4.3 Commitment

Commitment is the most common dependent variable used in buyer-seller relationship studies (Moorman, Zaltman and Deshpande 1992) Hardwick and Ford (1986) point out that commitment assumes that the relationship will bring future value or benefits to the partners. There is little doubt that commitment is a critical variable in measuring the future of a relationship. Commitment to the relationship is defined as an enduring desire to maintain a valued relationship. Relationship value corresponds to the belief that relationship commitment exists only when the relationship is considered important. Enduring desire to maintain the relationship reflects a committed partner who wants the relationship to endure indefinitely and is willing to work at maintaining it (Morgan and Hunt, 1994)

2.4.4 Cooperation

Cooperation has been defined as, “similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time” (Anderson and Narus, 1990). Morgan and Hunt (1994) seem to accept the above definition of cooperation but continue to expand the definition by emphasizing the proactive aspect of cooperation vs. being coerced to take interdependent actions. The interaction of cooperation and commitment results in cooperative behavior allowing the partnership to work ensuring that both parties receive the benefits of the relationship.

2.4.5 Mutual Goals

Wilson (1995) defined the concept of mutual goals as the degree to which partners share goals that can only be accomplished through joint action and the maintenance of the relationship. These mutual goals provide a strong reason for relationship continuance. Wilson, Soni and O'Keeffe (1994) suggest that mutual goals influence performance satisfaction which, in turn, influences the level of commitment to the relationship. Shared- values is a similar but broader concept. Morgan and Hunt (1994, p. 25) define shared values as, "the extent to which partners have beliefs in common about what behaviors, goals and policies are important, unimportant, appropriate or inappropriate, and right or wrong." Although the wider concept of shared values has some appeal it seems too broad to be effectively operationalized. Norms are the rules by which values are operationalized. Most likely, mutual goals encourage both mutuality of interest and stewardship behavior that will lead to achieving the mutual goals. Perhaps it is easier to measure the degree to which the partners share the same goals than it is to measures values and norms.

2.3 Organizational performance

Inayatullah *et al*, (2012) overall organizational performance can be divided in to three parts: financial performance, product performance, and operational performance. Financial performance of organization includes: market share, return on investment, profit margin, inventory turnover rate, and productivity. Product performance includes:

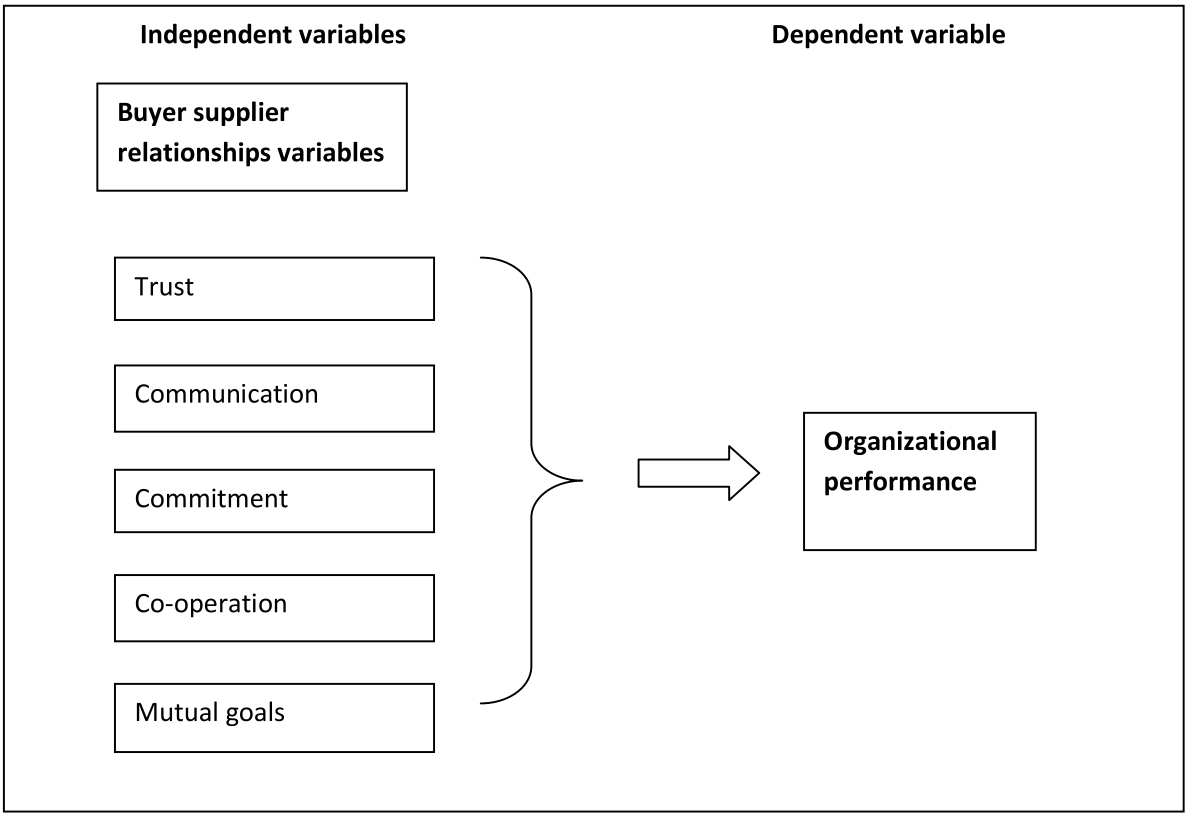
functionality, service, operating expenses, comfort, and ease of use. Higher product performance enhances the customer and employee satisfaction. Operational performance includes: product/service quality, lead time/service completion time, product development time, utilization of resources, responsiveness to customer demand, and operational cost.

MacPherson *et al* (2004) Most organizations view their performance in terms of "effectiveness" in achieving their mission, purpose or goals. Most NGOs, for example, would tend to link the larger notion of organizational performance to the results of their particular programs to improve the lives of a target group (e.g. the poor). At the same time, a majority of organizations also see their performance in terms of their "efficiency" in deploying resources. This relate to the optimal use of resources to obtain the results desired. In order for an organization to remain viable over time, it must be both “financially viable” and "relevant" to its stakeholders and their changing needs. In the OA framework, these four aspects of performance are the key dimensions to organizational performance. In a study carried out by (MacPherson, 2004) she highlighted the three factors as being the factors that affect organizational performance; External Environment, Internal Motivation and Capacity Performance

2.7 Research Gap

The literature review confirms that allot has been gone on buyer supplier relationships. But little has been done on the effect of these buyer-supplier relationships on organizational performance. It’s therefore important to carry out a research on the effect of buyer-supplier relationships on organizational performance.

2.8 Conceptual Framework



Source ;(Author, 2013)

Hypotheses

1. Trust in buyer – supplier relationships results in better organizational performance
2. Communication in buyer – supplier relationships results in better organizational performance.
3. Commitment in buyer – supplier relationships results in better organizational performance

4. Co-operation in buyer – supplier relationships results in better organizational performance
5. Having mutual goals in buyer – supplier relationships results in better organizational performance

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was applied in conducting the study. It discusses the research design, target population, sampling design and sample size, data collection procedures and instruments, determination of reliability and validity as well as data analysis techniques.

3.2 Research Design

The study involved a descriptive research design of cross sectional type. Tanur (1982) asserts that a survey is a means of collecting information about a large group of elements referred to as a population. A survey has three characteristics: to produce quantitative descriptions of some aspects of the study population in which case it is concerned either with relationships between variables, or with projecting findings descriptively to a predefined population; data collection is done by asking people structured and predefined questions and data is collected from a fraction of the target population (Pinsonneault and Kraemer, 1992).

3.3 Population and Sampling

The population of interest in this study consisted of large manufacturing companies that are members of KAM (Kenya association of manufactures) in Nairobi. The main reason for this choice is that these firms are likely to exhibit an elaborate SCM philosophy and make use of supplier - buyer relationships. According to the KAM website, there are

700 registered members, 80% of them being in Nairobi. The population of this study was 560 firms. According to KIRDI Directory of Manufacturing Industries (1997), large firms are those with 200 employees and above. This study adapted this definition. At least 10 percent sample of the population is considered generally acceptable method of selecting samples in such a study (Stanley and Gregory 2001) the sample size was 56 large manufacturing entities that are located within Nairobi (See Appendix II). One respondent was picked from each of the 56 firms to participate in the study.

3.4 Data Collection

The primary data was gathered from Procurement Managers and Financial Managers of 56 large manufacturing firms in Nairobi. The Procurement Managers and Financial Managers or their equivalents were considered appropriate since they understood better the effect of buyer - supplier relationships on the performance of their organization. The data was collected by use of a structured questionnaire that was administered by "drop and pick" method. The questionnaire was in the form of Likert scale where respondents were required to indicate their views on a scale of 1 to 5. The questionnaire contained 5 sections: Section A contained data on the company profile; section B had data measuring the extent to which large manufacturing firms in Kenya have embraced buyer – supplier relationships; section C contained data on the challenges facing large manufacturing firms in the implementation of buyer - supplier relationships. Section D contained data on the effect of buyer - supplier relationships on organizations performance among large manufacturing firms in Kenya.

3.5 Data Analysis

The data collected was sorted and coded then entered into the Statistical Packages for Social Sciences (SPSS).

Section A, B and C

Descriptive statistics was used to in the above three sections. The findings were presented in tables.

Section D

Frequencies were used to show the effect of buyer – supplier relationships on organizational performance. The findings were presented in tables. The following model was used to show the effect of buyer –seller relationships on organizational performance $\mathbf{S=a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + e.}$ Where: S= organizational performance; a= the S intercept when x is zero; b_1, b_2, b_3, b_4 and b_5, are regression coefficients of the following variables respectively; x_1 =Trust; x_2 = Communication; x_3 = Commitment; x_4 =Co-operation x_5 = Mutual goals

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This study was carried out to establish the effect of buyer supplier relationships on organizational performance among large manufacturing firms in Kenya. Data was collected from supply chain managers, assistant supply chain managers, supply chain officers, finance managers and operation managers. The findings are presented next.

4.2 Response Rate

A total of 56 questionnaires were distributed to large manufacturing firms in Nairobi. Out of the 56 questionnaires, 42 were returned to the researcher. This represents a response rate of 75%. This percentage was considered sufficient for this study. The 25% who never returned the questionnaires cited busy schedules as the main reason for lacking time to fill them.

4.3 General Information

The first part of the questionnaire contained general information regarding the organization and the respondent. The areas sited in this part were: duration the company has been in operation, the position of the respondent in the organization, the duration the respondent has worked in that position and the gender of the respondent.

Table 4.1: Duration of Operation

The table below shows the frequencies and percentages regarding information on the duration which the respondent firms have been in operation.

	Frequency	Percent
Less than 10 Years	10	23.8
10 or more Years	32	76.2
Total	42	100.0

The researcher sought to establish the duration the respective manufacturing companies had been in operation. The findings as illustrated in Table 4.1 above show that 76.2% of the large manufacturing firms in Kenya have been in operation for more than 10 years. This is an indication that the companies have experienced buyer - supplier relationships during this period.

Table 4.2: Position of the Respondent

The table below shows frequencies and percentages of the various positions held by the respondents that took part in the study.

	Frequency	Percent
Supply Chain Manager	16	38.1
Assistant Supply Chain Manger	6	14.3
Supply Chain Officer	7	16.7
Finance Manager	4	9.5

Manger	5	11.9
Human resource Manager	2	4.8
Operations manager	2	4.8
Total	42	100.0

Table 4.3: Duration Served

The table below shows the data on the period in which the respondents have served in these positions.

	Frequency	**Percent**
Less than 5 Years	18	42.9
5 to 10 Years	9	21.4
11 to 15 Years	6	14.3
Above 15 Years	9	21.4
Total	42	100.0

The respondents were asked to indicate the positions they held in the respective companies and the duration they had served in those positions. They were provided with options to choose from. The findings in Table 4.2 confirm that 38% of the respondents who participated in the study are supply chain managers while 14% were assistant supply chain managers. This confirms that they are well conversant with buyer – supplier relationships and their effect on organizational performance. It was also evident as shown in table 4.3 that 42.9% of the respondents have served in their respective positions for less than five years. The supply chain concept is relatively new in Kenya and this probably explains the reason why most of the respondents had served as supply chain managers for such a short duration of time.

Table 4.4: Gender of the Respondents

	Percent
Male	66.7
Female	33.3
Total	100.0

It was also evident from the findings of the study that most of the supply chain managers who participated in the study are males as represented by 66.7% of the respondents as illustrated in the table 4.4. This is a clear indication that most manufacturing companies in Kenya have more male supply chain managers than females.

4.4 Extent to which Manufacturing Firms in Kenya have Embraced Buyer –Supplier Relationships

The study sought to establish the extent to which large manufacturing firms in Kenya have embraced buyer - supplier relationships. A number of questions were fronted to the respondents who gave their responses on a scale of 1-5 where 1 represents to a very large extent and 5 very small extent. Table 4.5 shows the mean and standard deviation of factors that were used by the researcher to show the extent to which large manufacturing firms in Nairobi had embraced buyer – supplier relationships. A mean of 1-3, shows that the factor in question has been adopted by the responding organizations to a large extent. A mean of 4-5, shows the factor in question has been adopted by the responding organizations to a small extent.

Table 4.5 Extent to which Manufacturing Firms in Kenya have Embraced Buyer – Supplier Relationships

The Extent to which organizations have adopted Buyer- Supplier Relationships	Mean	Standard Deviation
Existence of mutual goals between company and suppliers	3.33	1.692
Communication between company and suppliers	1.93	0.997
Trust between company and suppliers	1.71	1.043
Maintenance of long term relationships	1.69	0.841
Commitment between company and suppliers	1.57	0.630
Mutual information sharing between company and suppliers	1.57	0.801
Responsiveness to each other's needs	1.52	0.594
Understanding of each other's roles and responsibilities	1.40	0.497

Table 4.5 shows that the following factors had been adopted by many large manufacturing organizations to a large extent: Communication between company and suppliers, Trust between company and suppliers, Maintenance of long term relationships, Commitment between company and suppliers, Mutual information sharing between company and suppliers, Responsiveness to each other's needs and Understanding of each other's roles and responsibilities. All of the above factors had a mean of between 1 and 3. Meaning that, many large manufacturing organizations have adapted to these factors to a

large extent. However, the study showed a mean of 3.33 on Existence of mutual goals between company and suppliers. This showed that for many of the companies sampled, existence of mutual goals between the company and their suppliers was to a small extent. Table 4.5 therefore shows that most large manufacturing firms in Kenya had embraced the concept of buyer - supplier relationships as they had incorporated most buyer-supplier variables in their operations.

4.5 Challenges facing buyer supplier relationships

The challenges facing buyer - supplier relationships were analyzed in this section. Statements were outlined in the questionnaire and the respondent was required to agree or disagree with the statements. The statements were in relation to the issues that are likely to pose a challenge in buyer – supplier relationships. The following table illustrates the mean and standard deviations of the results.

Table 4.6 Challenges facing buyer supplier relationships

Challenges Facing Buyer-Supplier Relationships	**Mean**	**Standard Deviation**
Lack of Mutual Goals	2.93	1.20
Lack of Co-operation	1.55	0.59
Lack of commitment	1.26	0.45
Poor Performance	1.24	0.43
Lack of trust	1.19	0.40
Lack of Communication	1.17	0.34

A scale was used the show the extent to which the respondent thought the statement affect buyer-supplier relationships was true. 1=strongly Agree 2= Agree 3= Undecided 4=Disagree 5=Strongly Disagree. Therefore a mean of 1-2 shows an agreement that the statement in question, affects buyer - supplier relationships. A mean of 3, shows that the respondent is undecided. A mean of 4 -5 Shows that the respondent doesn't agree that the factor in question affects buyer- Supplier relationships. Our research shows that the majority of our respondents agreed that the following factors affect buyer - supplier relationships; Lack of Co-operation, Lack of commitment, Poor Performance, Lack of trust and Lack of Communication. This is because their mean scores were between 1- 2. This therefore means that the above factors pose a challenge in buyer - supplier relationships. The research showed that Lack of Mutual Goals did not feature as a challenge to most respondents as its mean was at 2.9.

4.5 Relationship between Buyer - Supplier Relationships and Organizational Performance

The study also sought to determine the relationship that exists between buyer – supplier relationships and organizational performance among large manufacturing firms in Kenya. The researcher conducted a regression analysis to assist explain this relationship. The study adopted the following linear regression model to depict the expected relationship between the variables: $S=a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + e$. Where: S= Organizational performance which was measured using the responses on the effect of various buyer – supplier relationship variables. ; a= the S intercept that is the value of Y when x is zero; $b_{1,}$ $b_{2,}$ $b_{3,}$ and $b_{4,}$ are regression coefficients of the following variables respectively; x_1 = Trust; x_2 = Communication: x_3 = Commitment; x_4 = Co-operation x_5 =

Mutual Goals. All the five independent variables were also measured using the responses on each of the variables obtained from the respondents. The results are illustrated and explained next.

4.6 T TEST FOR COEFFICIENTS

Table 4.7: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
	B	Std. Error	Beta			Zero-order	Partial	Part
(Constant)	-.403	.215		-1.877	.069			
Mutual goals in buyer supplier relationships and organizational performance	.047	.043	.102	1.074	.290	.326	.176	.094
Commitment in buyer supplier relationships and organizational performance	.126	.157	.094	.800	.429	.447	.132	.070
Trust in buyer supplier relationships and organizational performance	.587	.135	.516	4.339	.000	.487	.586	.381
Co-operation in buyer- supplier relationships and organizational performance	.152	.051	.298	3.002	.005	.534	.447	.264
Communication in buyer-supplier relationships and organizational performance	.552	.114	.485	4.847	.000	.487	.628	.426

Where: x_1 = Trust; x_2 = Communication: x_3 = Commitment; x_4 = Co-operation x_5 = Mutual Goals. Using a significance level of 5%, any variable having a significant value greater than 5% is not statistically significant. These are: x_3 (Commitment) and x_5(Mutual Goals). From the data above x_1 (Trust), x_2 Communication, x_4 (Co-operation) are statistically significant being at 0%, 0% and 5% respectively.

This means that trust, communication and co-operation in buyer –supplier relationships are suitable predictors of Y. This means that for every unit increase in measure of trust, the measure of organizational performance increases by 0.587 units, for every unit increase in measure of communication, the measure of organizational performance increases by 0.552 units and for every unit increase in measure of co-operation, the measure of organizational performance increases by 0.152 units

4.7 COEFFICIENT OF DETERMINATION,R^2

Table 4.8: Model Summary

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.850[a]	.723	.684	.284	.723	18.747	5	36	.000

Table 4.8 indicates that there is an R^2 value of 72.3%. This value indicates that the five independent variables explain 72.3% of the variance in organizational performance of large manufacturing firms. These independent variables are the benefits that accrue as a result of good buyer - supplier relationships. It is clear that they contribute to a large

extent to the level of performance that is achieved in the performance of large manufacturing firms in Kenya. It therefore suffices to conclude that buyer – supplier relationships are essential in enhancing organizational performance given that the unexplained variance is only 27.7%

4.8 F TEST FOR THE FULL MODEL

Table 4.9: ANOVA TABLE

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.586	5	1.517	18.747	.000[a]
	Residual	2.914	36	.081		
	Total	10.500	41			

For 5% level of significance, the numerator df=5 and denominator df=36, critical F value is 2.482, table 4.9 shows computed F value as 18.747. Hence, the regression model is overally statistically significant, meaning that it is a suitable prediction model for explaining how buyer – supplier relationships affect organizational performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study was carried out to establish the effect of buyer – supplier relationships on organizational performance among large manufacturing firms in Kenya. The study had three objectives, to determine the extent to which large manufacturing firms in Kenya have adopted the concept of buyer - supplier relationships, to determine the challenges facing buyer - supplier relationships and to determine the effect of buyer – supplier relationships on organizational performance. This chapter presents the summary of findings for the three objectives mentioned above, the conclusions, recommendations made based on findings and the suggestions on areas that need to be researched as far as this concept is concerned.

5.2 Summary of Findings

The study established that most large manufacturing firms that operate in Kenya have been in existence for more than ten years. The study confirmed that most manufacturing companies in Kenya had embraced the concept of buyer - supplier relationships as they had incorporated most buyer- supplier variables in their operations.

The research also looked into the challenges facing buyer - supplier relationships among large manufacturing firms in Kenya. The research confirmed that lack of communication, lack of commitment, lack of trust, lack of co-operation and poor performance were some of the challenges that were facing buyer - supplier relationships. The respondents did not find lack of mutual goals being a factor that would affect buyer – supplier relationships. This is an indication, that for buyer- supplier relationships to be successful, companies have to ensure good communication, trust needs to be developed, there is need for co-operation, both parties need to be committed and suppliers need to perform their duties well.

It was also clear from the study that the five independent buyer – supplier relationship variables of trust, communication, co-operation, mutual goals and commitment improves organizational performance; However, trust, communication, co-operation explain the highest variance since they have a sig. value that is less than 5%. This study confirms an earlier study carried out by Renee et al (1997) that buyer - supplier relationships actually affect firm performance.

5.3 Conclusions

The study concludes that most large manufacturing companies in Kenya have been embracing buyer - supplier relationships for more ten years. Buyer- supplier relationships have assisted the large manufacturing companies to enhance the performance of their organizations. This is supported by the results from a regression analysis conducted that indicated that there is a strong relationship between Buyer - supplier relationships and organizational performance.

5.4 Recommendations

The study has confirmed that buyer – supplier relationships are very significant in enhancing the performance of organizations. All manufacturing companies and other organizations should be advised to embrace the concept so that they can be able to reap the benefits of developing buyer – supplier relationships.

By maintaining good relationships with their suppliers, Manufacturing companies ensure that they perform well; they also help the suppliers themselves to perform well and also achieve their goals.

5.5 Limitations of the Study

The findings of this study and application therefore are limited to large manufacturing companies in Kenya. They may not be applicable directly to other organizations operating outside the Kenyan manufacturing industry. It is therefore important to note that they can only be used for comparative purposes and not any direct application in another industry or country.

The research only focused on the large manufacturing firms in Nairobi. It did not feature the large manufacturing firms in other parts of the country. This was because of limited time and resources.

It was such an uphill task for the researcher to convince the respondents to participate in the study. Manufacturing companies are very busy organizations were by getting a respondent was challenging. Most of the respondents agreed to participate on condition that the information will not be divulged to any other party other than for academic purposes only.

5.6 Suggestions for Further Research

The researcher recommends further research on the same topic but in other organizations other than manufacturing companies, both within the country and outside the country. This will help to establish whether the same effects will be found when the research is done on different organizations other than manufacturing organizations. This will assist in providing concrete facts upon which reliable conclusions can be made.

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Appendices

Appendix I: Research Questionnaire

Research Questionnaire

This questionnaire has been designed for the sole purpose of collecting data on the effect of buyer – supplier relationships on organizational performance for the large manufacturing firms in Kenya. The data collected will be treated with a very high degree of confidentiality and it is meant for academic purpose only.

You are kindly asked to fill out this questionnaire by putting an “X” in front of the applicable answer or in the applicable cell.

(Optional)

Name………………………………………………………………..

Company………………………………………………………………

Section A: General Information

1. Duration company has been in operation ☐ Less than 10 years ☐ 10 or More years
2. What is your position in this organization
   a) Supply chain manager ☐
   b) Assistant supply chain manager ☐
   c) Supply chain officer ☐
   d) Finance manager ☐
   e) Other (specify)………………………………………….

3. How long have you been in this position

    a) Less than 5 years ☐

    b) 5 to 10 years ☐

    c) 11 to 15 years ☐

    d) Above 15 years ☐

4. Gender

    a) Male ☐

    b) Female ☐

Section B: Extent to which Large Manufacturing Firms in Kenya have embraced Buyer – Supplier Relationships

Please indicate the extent to which you agree with the following statements on the extent to which manufacturing firms in Kenya have embraced buyer – supplier relationships

The scale below will be applicable:

1= to a very large extent 2= Large extent 3= moderate extent 4= small extent 5=very small extent.

No	**Statement**	**1**	**2**	**3**	**4**	**5**
1	There exists mutual goals between our company and our suppliers					
2	There exists clear understanding of each other's roles and responsibilities between our company and our suppliers					
3	There is a high level of commitment between our company and that of our suppliers					
4	We maintain long-term relationships between our company and our suppliers					

5	There is a high level of trust between our company and that of our suppliers.					
6	There is mutual information sharing between our company and our suppliers					
7	There is responsiveness towards each other's and needs between our company and our suppliers					
8	There is good communication between our company and that of our suppliers					

Anyother? Please state
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
………………………………………….

Section C: Challenges facing Buyer - Supplier Relationships

Please indicate the extent to which you concur with the following statements concerning Challenges facing buyer supplier relationships.

Use the scale of: 1= strongly agree 2= Agree 3= Undecided 4= Disagree 5= Strongly disagree

No	**Statement**	**1**	**2**	**3**	**4**	**5**
1	Lack of communication leads to poor buyer - supplier relationships					
2	Lack of commitment causes failure of buyer- supplier relationships					
3	Lack of trust between buyers and suppliers leads to failure of buyer – supplier relationships					
4	Lack of mutual goals between the supplier and the buyer leads to					

	failure of buyer supplier relationships					
5	Lack of co-operation between buyers and suppliers leads to failure of buyer- supplier relationships					
6	Poor performance of suppliers leads to poor buyer supplier relationships					

Any other? Please indicate.

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

Section D: Relationship between Buyer – Supplier Relationships and Organizational Performance

Please indicate the extent to which you concur with the following statements concerning the listed variables and buyer – seller relationships. The scale below will be applicable:

1= to a very large extent 2= Large extent 3= moderate extent 4= small extent 5=very small extent.

No	Statement	1	2	3	4	5
1	Having Mutual goals in buyer – supplier relationships results in better organizational performance for our organization.					
2	Commitment in buyer – supplier relationships results in better organizational performance for our organization.					

3	Trust in buyer – supplier relationships results in better organizational performance for our organization.					
4	Co-operation in buyer – supplier relationships results in better organizational performance for our organization.					
5	Communication in buyer – supplier relationships results in better organizational performance for our organization.					
6	In general, buyer-supplier relationships have helped improve performance in our organization					

Any other? Please indicate.

……………………………………………………………………………………………

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……………………………………………………………………………………………

…………………………………………………………………………………………

Thank you for participating

Appendix II: Large manufacturing firms in Nairobi, Kenya

LARGE MANUFACTURING FIRMS IN NAIROBI, KENYA	
1.	WIGGLESWORTH EXPORTERS LTD
2.	UNIVERSAL CORPORATION LTD
3.	EAST AFRICAN BREWERIES LIMITED
4.	GENERAL INDUSTRIES LTD
5.	POLYPIPES LTD
6.	UNILEVER KENYA LIMITED
7.	UNGA GROUP LTD.
8.	STATPACK INDUSTRIES LIMITED
9.	SAMEER GROUP
10.	STAINLESS STEEL PRODUCTS LTD
11.	STEEL STRUCTURES LIMITED
12.	TOP TANK
13.	SUDI CHEMICAL INDUSTRIES LIMITED
14.	RHINO SPECIAL PRODUCTS LTD
15.	KAPA OIL REFINERIES LIMITED
16.	JET CHEMICALS (KENYA) LTD
17.	MAKIGA ENGINEERING SERVICE LIMITED

18.	PZ CUSSONS EAST AFRICA LTD
19.	POLYTHENE INDUSTRIES LTD
20.	ORBIT CHEMICAL INDUSTRIES LTD
21.	PETMIX FEED
22.	ESLON LTD
23.	STEELROLLING INDUSTRIES
24.	HYDRAULIC HOSE & PIPE MANUFACTURERS LTD
25.	EQUATORIAL TEA LTD
26.	EXCEL CHEMICAL LTD.
27.	FARMERS CHOICE LTD
28.	FAIRDEAL UPVC, ALUMINIUM AND GLASS LTD
29.	FLEXOWORLD LTD
30.	FOAM MATTRESS LTD
31.	GAHIR ENGINEERING WORKS LTD
32.	DOSHI GROUP OF COMPANIES
33.	BIDCO OIL REFINERIES LIMITED
34.	BRITISH AMERICAN TOBACCO KENYA LTD
35.	BOBMIL INDUSTRIES LIMITED
36.	C. DORMANS LTD
37.	CHLORIDE EXIDE KENYA LIMITED

38.	BOSKY INDUSTRIES LTD
39.	BLOWPLAST LIMITED
40.	BLUE RING PRODUCTS LTD
41.	CHANDARIA INDUSTRIES LIMITED
42.	BOGANI INDUSTRIES LTD
43.	CHEMPLUS HOLDINGS LTD
44.	COLGATE-PALMOLIVE(EAST AFRICA) LTD
45.	COSMOS LIMITED
46.	UNGA FARM CARE (EA) LTD
47.	ALPHA DAIRY PRODUCTS LTD
48.	ADHESIVE SOLUTIONS AFRICA LTD
49.	APEX STEEL LTD
50.	AGNI ENTERPRISES LTD
51.	ASHUT QUALITY PRODUCTS
52.	ALI GLAZIERS LTD
53.	KENBRO INDUSTRIES
54.	KIM-FAY E.A LIMITED
55.	WELRODS LIMITED
56.	THE KENSTA GROUP

Source: Kenya association of manufacturers (2013)