

EFFECT OF SUPPLIER RELATIONSHIP MANAGEMENT ON COMPETITIVE ADVANTAGE: A SURVEY OF SELECTED COMMERCIAL BANKS IN KENYA

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Abstract

The objective of the study was to examine the effect of supplier relationship management (SRM) on competitive advantage of commercial banks in Kenya. A survey research design was adopted to collect data from sample size of 78 employees drawn from 4 commercial banks using Random sampling was used in selecting the respondents. Data was collected by the use of questionnaires administered by the researcher. The collected data was analyzed using descriptive data analysis through computer based statistical package on social sciences and inferential statistics by use of regression model. This was done at 95% confidence level and 5% percent marginal error. Study results showed that quality improvement and lead time reduction has a positive and significant effect on competitive advantage. However, sufficient efforts were not directed towards the purchasing process and joint decisions regarding the supplied products. Based on this research and literature review, it is still perceived that all the factors are equivalently related to increased competitive advantage. Since the current research was limited to commercial banks operating in Kenya, there was a limited sample available from the population. It was recommended that a replication study to be done to augment the findings of the study.

Keywords: Competitive Advantage, Lead Time Reduction, Quality Improvement, Supplier, Relationship Management

INTRODUCTION

Supplier relationship management (SRM) is an important perspective in the banking industry. It ensures the supply of reliable and frequent deliveries in today's dynamic and competitive business environment. For such relationship to be effective and long-term, it has to be beneficial for all parties, the buyer and the supplier. Supply chain is defined as "The connected series of activities which is concerned with planning, co-coordinating and controlling material, parts and finished goods from suppliers to the customer" (Stevens, 1989). In today's competitive market, companies must focus scarce resources on the strategies most likely to yield success to their organization and supplier relationship management has become increasingly important in assuring this success. Outsourcing has become a common and profitable phenomenon and therefore, necessitates a more critical and comprehensive understanding of the buyer / supplier relationship (Berkowitz, 2004). Buyer supplier relationships are commonly evaluated as supply base reduction, communication and long-term relationship (Buvil & Haugland, 2005; Van Denlu & Verder Vaart, 2004).

This study was anchored on the resource-based view (RBV) theory. The RBV of the firm and the industrial marketing and purchasing approach supports relationship building unlike adversarial approach. The RBV defines resources as the tangible and intangible entities available that enable a firm to produce a market offering that has value for some market segment(s) (Hunt, 1997). This theory states that, one of the main reasons for a firm to form relationships with other firms is to gain access to the resources that the firm does not possess (Sousa, 2003). In addition, the survival and growth of organizations largely depend on the ability to secure critical resources from the external environment (Casciaro and Piskorski, 2005). These inter-firm (buyer-supplier) resources must have certain features which will enable firms to gain competitive advantage; they must be valuable, rare, inimitable and non-substitutable (VRIN) (Peteraf and Barney, 2003).

Buyer-supplier relationships in the supply chain are one of the most important elements of supply chain integration. Establishing and managing effective relationships at every link in the supply chain is becoming the prerequisite of business success (Hsiao, 2004). 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. 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”. However, Goffin *et al.* (2006) and Sheu *et al.* (2006) state that the understanding of nature of relationships in a supply chain is limited and need to be improved.

Statement of the Problem

Supplier Relationship Management has emerged as a major strategy for organizations remaining competitive in the ever dynamic business world and many organizations have adopted it with much success. According to Gakii 2010, organizations need to develop clear criteria on the choice of service providers. Bosire (2010) carried out a survey on impact of outsourcing on lead time and customer service and emphasized on efficient supplier relationship management for reduced lead times. This survey involved supermarkets in Kenya .The study found a positive correlation between outsourcing and lead time but cited mistakes in implementing the strategy. Lau and Hurly (1997 found a significant relationship between outsourcing, SRM and profitability. Yan Kelovil (2003) noted that that two thirds of companies Worldwide already outsource at least one none core business activities to a third party and that there is need for good and sound SRM. According to Lysons and Farriangton (2006), SRM among other problems reduces a companies’ control over how certain services as delivered which in turn raises the company’s liability.

Although the published research has pointed to the crucial role of SRM and assistance of suppliers for achieving superior performance, the practices that encompass such relationship still need more clarification. Shin *et al.* (2000) indicated that there is a need for empirical studies concerning buyer-supplier relationships as most of the existing studies are theoretical and conceptual with obvious lack of empirical evidence. In addition to that, the existing literature provides some contradicting results concerning the effect of SRM on competitive performance of commercial banks in Kenya. Therefore, this research seeks to examine the effect of SRM on the competitive advantage of commercial banks in Kenya and other future researchable areas. Thus, the study hypothesized that:

H₀₁: Supplier quality improvement does not significantly affect competitive advantage of commercial banks in Kenya.

H₀₂: Supplier lead time reduction does not significantly affect competitive advantage of commercial banks in Kenya.

THEORETICAL FRAMEWORK

Resource dependence theory takes the view that a business relationship is a social exchange of critical resources with mutual dependency among the exchange partners. Thus, the survival and growth of organizations largely depend on the ability to secure critical resources from the external environment (Emerson 1962; Pfeffer & Salancik 1978; Casciaro & Piskorski 2005). But a relationship between organizations is not free. Transaction cost analysis (TCA) suggests that every transaction has a cost. These costs are incurred for adaptation, performance evaluation and safeguarding, and are associated with uncertainty, opportunism, and transaction specific assets (TSAs) invested in the relationship (Williamson, 1996; Rindfleisch & Heide 1997). Transaction specific assets refer to the assets specialized to service the particular needs of the exchange parties (Williamson 1996). Firms invest in TSAs in order to create additional value from an exchange above what standard product and service offerings can do (Ghosh and John, 1999). Examples of TSAs include the development of idiosyncratic knowledge, the provision of dedicated human resources and training, and capital investment in specialized equipment and facility improvement (Williamson, 1996) Although resource dependence theory and transaction cost analysis depart from different points of view sociology and new institutional economics, respectively, they have something in common. While resource dependence theory focuses on ex ante mutual dependence between exchange partners due to critical resources, transaction cost analysis assumes that 2 parties are initially independent but develop bilateral dependence ex post due to relationship-specific assets invested over the course of the relationship (Heide 1994; Casciaro & Piskorski 2005). Despite these different views, however, both theories recognize the existence of interdependency between exchange partners and importance of securing valued resources from environmental and behavioral uncertainty (Heide, 1994).

EMPIRICAL REVIEW

According to De Toni and Nassimbeni (2000), elimination of inspections of incoming materials can be only achieved by considerably improving the quality of suppliers. Improving supplier quality includes activities such as certifying suppliers on quality and providing technical assistance to them. Supplier quality improvement would result in improved quality and productivity, enhanced design of the parts, and reduced costs (Lee & Ansari, 1985). In addition, incentives such as long range relationship and contracts as well as commitment are expected to encourage suppliers to improve quality of their products as suppliers account for almost 30% of quality related problems (Lyons et al., 1990; De Toni & Nassimbeni, 2000; Burton, 1988).

Burton (1988) indicated that suppliers account for approximately 80% of lead-time problems. In lean production environment, JIT purchasing requires the supplier firms to deliver

frequent supplies in small lots. This would require perfect synchronization between the supplier and the buyer, which can be achieved by integrating their production planning and control systems (De Toni & Nassimbeni, 2000). Heikkila 2002, pointed out that reducing lead time is an essential approach to creating responsive supply chain and avoiding uncertainty. Hernandez (1993) pointed to the crucial role of reducing lead time on the ability of the supplier to become lean and responsive. He further indicated that supplier lead time reduction minimizes the potential problem of shifting inventories to the supplier firm and eliminates quality problems associated with holding buffer inventories.

Larson and Kulchitsky (2000) empirically found that lead time performance was affected by information quality and close relationships between the buying firm and the supplier firm. De Toni and Nassimbeni (1999) pointed to the importance of the logistic link between the buyer and supplier, particularly under JIT system, where suppliers have to completely respond to the requirements of the buyer in terms of quality and quantity. They argued that such link would be enhanced by small lot size and coordinated schedules between the two parties.

The concept of SRM has been expounded both in the literature as well as from the empirical studies done on the subject area. It has been found out that SRM has become a common practice among organizations worldwide and this is due to the various benefits that accrue to a firm as a result of it. Although the published research has pointed to the crucial role of SRM and assistance of suppliers for achieving superior performance, the practices that encompass such relationship still need more clarification. Shin et al. (2000) indicated that there is a need for empirical studies concerning buyer-supplier relationships as most of the existing studies are theoretical and conceptual with obvious lack of empirical evidence. Additionally, there is no existing literature concerning the influence of the effects of SRM on competitive performance of commercial banks in Kenya.

RESEARCH METHOD

The study adopted a descriptive approach in trying to focus on commercial banks operating in Kenya. The population of the study in this research was 780 employees from 44 commercial banks operating in Kenya. The researcher used simple random sampling to select 10% of the respondents to constitute a sample. The questionnaire was the main instrument of data collection used. The reliability coefficient was calculated and a score of 0.5 was considered high enough for the instrument to be used in the study (Patton, 2002). Likert type questions required Cronbach's Coefficient Alpha was calculated for each item. A reliability coefficient of 0.7 for Competitive Advantage, 0.722 for Lead Time Reduction and 0.799 for Quality Improvement above was achieved.

The analysis was conducted using descriptive techniques such as Mean, Mode, range and variance. Descriptive statistics allowed for examination of relationships between variables. Subsequently, inferential statistics where a regression model was used to establish the association between study variables at 95% confidence level and 5% marginal error.

RESULTS AND DISCUSSION

Supplier Quality Improvement

Quality improvement is an important factor that needs to be considered if competitive advantage is to be achieved. As such, the researcher found it necessary to establish if there was any effect of Supplier quality improvement on competitive advantage. From the findings, a clear majority of the respondents strongly agreed that their major suppliers are genuinely concerned that there is quality improvement (mean = 4.46). In a similar vein, of the respondents affirmed that they trust their major suppliers to give them the best quality products in the market (mean = 4.58). This is because the parties can understand each other better and assist each other in improving the supply chain process. Furthermore, of the respondents agreed that they consults with their suppliers on how to improve the quality of products (mean = 4.01). As well, of the respondents agreed that they trust the quality of products that their major suppliers provide to them (mean = 3.82). Also, of the respondents agreed that they trust their major suppliers keep their best interests in mind in order to improve the quality of products (mean = 4.03). In general, results on quality improvement summed up to a mean of 4.1795 and standard deviation 0.85194. In light of the above findings, quality improvement enables partners to cooperate more intensely and establish successful partnerships which leads to enhanced competitive advantage.

Table 1: Quality Improvement

| | | SD | D | N | A | SA | Mean | Std. Deviation |
|---|---|-----|-----|------|------|------|--------------|----------------|
| Our major suppliers are genuinely concerned that quality improvement | f | 3 | 0 | 8 | 14 | 53 | 4.46 | 0.96 |
| | % | 3.8 | 0 | 10.3 | 17.9 | 67.9 | | |
| We trust our major suppliers to give us the best quality products in the market | f | 3 | 4 | 0 | 9 | 62 | 4.58 | 1.01 |
| | % | 3.8 | 5.1 | 0 | 11.5 | 79.5 | | |
| We consults with our suppliers on how to improve the quality of our products | f | 7 | | 7 | 35 | 29 | 4.01 | 1.13 |
| | % | 9 | | 9 | 44.9 | 37.2 | | |
| We trust the quality of products that our major suppliers provides to us | f | 3 | 7 | 17 | 25 | 26 | 3.82 | 1.11 |
| | % | 3.8 | 9 | 21.8 | 32.1 | 33.3 | | |
| We do our best interests in mind to improve the quality of our products | f | 3 | | 15 | 34 | 26 | 4.03 | 0.94 |
| | % | 3.8 | | 19.2 | 43.6 | 33.3 | | |
| Quality improvement | | | | | | | 4.1795 | 0.85194 |
| <i>Crobranch Alpha</i> | | | | | | | 0.823 | |

Supplier Lead Time Reduction

Due to the fact that Supplier lead time reduction is a critical component of enhanced competitive advantage, the researcher sought to establish information regarding lead time reduction. As evidenced in table 2 of the respondents strongly agreed that closely reexamining the earliest stages of supply chain management reduces the lead time (mean = 4.42). Further, of the respondents strongly agreed that investment costs for the acquisition of new resources are included as the costs of change (mean = 4.14). Moreover, of the respondents strongly agreed that lead time is reduced by reducing inventories (mean = 4.14). Besides, of the respondents agreed that reduced lead time makes it possible for them to avoid unforeseen challenges (mean = 3.49). Also, of the respondents agreed that exchange of information on lead time takes place frequently, and/or in a timely manner (mean = 3.85). Generally, lead time reduction summed up to a mean of 4.01, standard deviation 0.86, Skewness -1.7 and kurtosis 3.88. From the aforementioned findings, it is evident that there is reduced lead time and timely information sharing between the firms and suppliers which enhances competitive advantage

Table 2: Lead Time Reduction

| | | SD | D | N | A | SA | Mean | Std. Deviation |
|---|---|-----|------|------|------|------|------|----------------|
| We reduce lead times by closely reexamining the earliest stages of supply chain management | f | 3 | 0 | 7 | 19 | 49 | 4.42 | 0.95 |
| | % | 3.8 | 0 | 9 | 24.4 | 62.8 | | |
| Investment costs for the acquisition of new resources are included as the costs of change | f | 3 | 4 | 14 | 15 | 42 | 4.14 | 1.13 |
| | % | 3.8 | 5.1 | 17.9 | 19.2 | 53.8 | | |
| We reduce lead times by reducing inventories | f | 3 | 17 | 21 | 37 | 78 | 4.14 | 1.02 |
| | % | 3.8 | 21.8 | 26.9 | 47.4 | 100 | | |
| We reduce lead times Unforeseen challenges | f | 3 | 12 | 17 | 36 | 10 | 3.49 | 1.03 |
| | % | 3.8 | 15.4 | 21.8 | 46.2 | 12.8 | | |
| Exchange of information on lead time reductions takes place frequently, and/or in a timely manner | f | 3 | 8 | 9 | 36 | 22 | 3.85 | 1.07 |
| | % | 3.8 | 10.3 | 11.5 | 46.2 | 28.2 | | |
| Lead Time Reduction | | | | | | | 4.01 | 0.86 |

Competitive Advantage

This section focused on competitive advantage among the banks. With supplier-buyer relationship, there is improved competitive pricing (mean = 4.49), increased sales (mean = 4.56), improved customer satisfaction (mean = 4.58), improved product packaging (mean = 4.35), improved inventory management (mean = 4.31), increased product safety (mean = 4.17) and improved dependability and accuracy of deliveries (mean = 3.96). Also, there is reduced risk of

non-supply (mean = 3.72) and reduced lead time (mean = 3.5). From the foregoing, it is evident that there is improved competitive pricing mainly through development of high levels of commitment hence achieving sustainable competitive advantage. Also, there is reduced lead time and reduced risk of non-supply as a result of the maintained relationship between the firm and suppliers. The suppliers are credible and they fulfill promises made to firms. Furthermore, there is improved dependability and accuracy of deliveries, improved inventory management, improved customer satisfaction and increased sales.

Table 3: Competitive Advantage

| | | SD | D | N | A | SA | Mean | Std. Deviation |
|---|---|-----|------|------|------|------|--------------|----------------|
| | F | 3 | 0 | 0 | 28 | 47 | 4.49 | 0.85 |
| Improved Competitive pricing | % | 3.8 | 0 | 0 | 35.9 | 60.3 | | |
| Improved dependability & accuracy of deliveries | f | 3 | 8 | 0 | 45 | 22 | 3.96 | 1.03 |
| | % | 3.8 | 10.3 | 0 | 57.7 | 28.2 | | |
| Increased product safety | f | 0 | 8 | 10 | 21 | 39 | 4.17 | 1.01 |
| | % | 0 | 10.3 | 12.8 | 26.9 | 50 | | |
| Improved product packaging | f | 0 | 0 | 7 | 30 | 41 | 4.35 | 0.88 |
| | % | 0 | 0 | 9 | 38.5 | 52.6 | | |
| Improved inventory management | f | 0 | 6 | 0 | 36 | 36 | 4.31 | 0.83 |
| | % | 0 | 7.7 | 0 | 46.2 | 46.2 | | |
| Increased sales | f | 0 | 3 | 0 | 22 | 53 | 4.56 | 0.85 |
| | % | 0 | 3.8 | 0 | 28.2 | 67.9 | | |
| Improved customer satisfaction | f | 0 | 3 | 0 | 21 | 54 | 4.58 | 0.85 |
| | % | 0 | 3.8 | 0 | 26.9 | 69.2 | | |
| Competitive advantage | | | | | | | 4.18 | 0.66 |
| Crobanch Alpha | | | | | | | 0.755 | |

Correlation Results

Pearson Correlations results in table 4 showed that quality improvement was positively and significantly correlated to competitive advantage ($r=0.753$, $p<0.01$). Lead time reduction was the second component that was positively related with competitive advantage ($r= 0.760$, $p<0.01$). Findings provided enough evidence to suggest that there was linear relationship between quality improvement, lead time reductions with competitive advantage.

Table 4: Correlation Results

| | competitive advantage | quality improvement | lead time reductions |
|-----------------------|-----------------------|---------------------|----------------------|
| competitive advantage | 1 | | |
| quality improvement | .753** | 1 | |
| lead time reductions | .760** | .714** | 1 |

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

Testing Hypothesis

Table 6 illustrates the model summary of multiple regression models, the results showed that the three predictors (quality improvement, lead time reduction and cooperation) explained 74.1 percent variation of competitive advantage. This showed that considering the three study independent variables, there is a probability of predicting competitive advantage by 74.1% (R squared =0.741). Durbin–Watson statistic(1.319) is substantially less than 2, there is evidence of positive serial correlation, although positive serial correlation does not affect the consistency of the estimated regression coefficients, it does affect the ability to conduct valid statistical tests, as such it can be concluded that the significant statistics are valid.

Table 5: Multiple Regression Model

| R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|----------|-------------------|----------------------------|---------------|
| .861a | 0.741 | 0.727 | 0.36066 | 1.319 |

a) Predictors: (Constant), quality improvement, lead time reductions, Collaboration

b) Dependent Variable: competitive advantage

Hypothesis 1 suggested that quality improvement does not significantly affect competitive advantage. Results in table 4.9 indicated that quality improvement had beta coefficient of (β) = 0.235, $\rho=0.003>0.05$, hence hypothesis 1 does not hold. The study therefore concluded that for each unit increase in quality improvement, there is up to 0.235 units' increase in competitive advantage. Consistently, Lee & Ansari, (1985) point out that supplier quality improvement results in improved quality and productivity, enhanced design of the parts, and reduced costs which are indicative of enhanced competitive advantage. Similarly, De Toni and Nassimbeni (2000) reports that quality improvement is the key driver of long-term relationship and suppliers need to develop high quality improvement so as to achieve sustainable competitive advantage. From the foregoing, it is clear that quality improvement contributes to enhanced

Hypothesis 2 stated that lead time reduction does not significantly affect competitive advantage. However, hypothesis 2 does not hold basing on findings in table 4.9 that lead time reductions beta coefficient (β) = 0.258, $\rho = 0.01 >0.05$. Hence the hypothesis statement is rejected. This suggests for each unit increase in lead time reductions, there is up to 0.258 increases in competitive advantage. Particularly, lead time reduction is key in enhancing competitive advantage. Consistently, Heikkila (2002) notes that reducing lead time is an essential approach to creating responsive supply chain and avoiding uncertainty. In the same note, Hernandez (1993) states that reducing lead time minimizes the potential problem of shifting inventories to the supplier firm and eliminates quality problems leading to improved

competitive advantage. Generally, reduced lead time is a source of competitive advantage and perfect synchronization between the supplier and the buyer.

Table 6: Test of Hypothesis

| | Unstandardized Coefficients | | Standardized Coefficients | | | Collinearity Statistics | |
|----------------------|-----------------------------|------------|---------------------------|-------|-------|-------------------------|-------|
| | B | Std. Error | Beta | T | Sig. | Tolerance | VIF |
| (Constant) | 0.818 | 0.242 | | 3.38 | 0.001 | | |
| quality improvement | 0.175 | 0.056 | 0.235 | 3.107 | 0.003 | 0.618 | 1.617 |
| lead time reductions | 0.206 | 0.078 | 0.258 | 2.646 | 0.01 | 0.374 | 2.671 |

a Dependent Variable: Competitive advantage

CONCLUSION AND RECOMMENDATIONS

The study results also showed that quality improvement positively and significantly affects competitive advantage. In this context, genuine concern by major suppliers about the quality of products has resulted to improved competitive advantage. Additionally, efforts have been made by major suppliers to ensure that best quality products are in the market. This has further been enhanced by mutual understanding of the parties and concerted efforts in improving the quality of products. Consequently, the high levels of quality improvement enhance sustainable competitive advantage hence improving the purchasing performance.

Further, reduced lead time has a positive and significant effect on competitive advantage. Thus, exchange of information on reduced lead time provides suppliers with relevant information that helps to avoid unforeseen challenges. Also, whenever inventory is reduced, there is a reduction in lead time. It can therefore be concluded that reduced lead time plays a critical role in enhancing competitive advantage.

As well, collaboration was shown to have a positive and significant effect on competitive advantage. Firms were noted to have joint development work with suppliers though sufficient efforts were not directed towards the purchasing process and joint decisions regarding the supplied materials/products. Further, it was not fully established whether suppliers are responsible for the results of the industrialization and/or manufacturing process of the supplied part. As a result, cooperation has not been fully attained in the firms.

In light of the research findings, supplier quality improvement, supplier collaboration and supplier reduced lead time have shown positive and significant effect on competitive advantage, as a result, it is recommended that since quality improvement has a positive influence on competitive advantage, it is therefore important for suppliers to enhance the quality of products

and have a genuine concern for quality improvement. To make this happen, commercial banks need to certify suppliers on quality and offer technical assistance to them. More importantly, mutual understanding between both parties will go a long way in improving the supply chain process and ensuring that suppliers keep their best interests in mind in order to improve the quality of products.

The study has further established that supplier lead time performance is affected by both information quality and close relationships between the buying firm and the supplier firm. Therefore, the exchange of information on lead time needs to take place frequently and on a timely manner. Also, there is need to reduce lead time so as to avoid unforeseen challenges. Moreover, integrating supplier production planning and control systems is also utmost necessary.

Based on this research and literature review, it is still perceived that all the factors are equivalently related to increased competitive advantage. Since the current research was limited to commercial banks operating in Kenya, there was a limited sample available from the population. A larger sample and a more specific instrument might be desirable and might validate the uncertainty among the respondents in regards to the effect of cooperation on competitive advantage

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