



INFLUENCE OF BUYER -SUPPLIER RELATIONSHIP ON PERFORMANCE OF FOREIGN BASED DEVELOPMENT AGENCIES IN KENYA

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Abstract

This study analyzed the influence of buyer-supplier relationship on firm performance. The research used the data obtained from 111 respondents sampled from 37 foreign-based developed agencies in Kenya. The respondents who took part in the study included senior managers, accountants and procurement officers. The data was collected using structured questionnaire and analyzed using SPSS version 26. According to the statistical coefficients, the influence of buyer supplier relationship on performance was significant at 5% significant level. The study concludes that buyer-supplier relationship has a positive influence on performance of two entities in a relationship. The study contributes to literature on buyer supplier relationships on firm performance in context of foreign based development agencies in Kenya.

Keywords: Buyer-supplier relationship, Firm performance, Foreign based development agencies

INTRODUCTION

McCarthy (2003) defines a relationship as a distinct connection between people, objects, concepts and entities. As employees of firms and the systems of the supply chain interact, a distinct connection is established. Authors such as Hiroki et al. (2016) and Jung-Seung et al. (2016) stress that buyers and suppliers exist in web of interconnection due to interdependencies for input and market for output. The question however, is whether the interactions benefit all the players in the relationship. In the context of business network theory as advanced by Håkansson and Snehota (1989) businesses in a network benefit from others and this contributes to their performance. Ghoshal and Bartlett (1990) point out firms belong to distinct networks from which they draw benefits and should therefore contribute to their success. In the case of firms in a buyer-supplier relationship, conceptualization of how the relationship impounds on the firm's performance appear far-fetched since each player participates to add value to its success. This study evaluated whether buyer-supplier relationship has any influence on firm performance in the context of foreign based development agencies in Kenya.

LITERATURE REVIEW

In the context of business network theory, stronger relationships contribute to performance of the parties involved McCarthy (2003). According to Butt, Ahmad and Shah (2020), robust buyer supplier relationships can contribute to performance through flexibility, quality, cost, execution speed and retention of pertinent knowledge that has distinct strategic advantage. Amoako-Gyampah *et al.* (2019) add that investments into the relationship enhance competitive advantage for the firm. However, this is possible if firms invest into the relationship. The argument here is that non-participating players in a supply chain could weaken if not destroy value gained from other players. Makkonen, Nordberg-Davies and Olkkonen (2018) indicate that value co-creation in the relationship adds to performance of all players. On the contrary, value co-destruction and no-creation weaken overall firm performance in a buyer-supplier relationship. While discussing that opportunism drives most buyer-supplier relationships, Wölfel and Grosse-Ruyken (2020) assert that most opportunistic partner benefits from the relationship and that no one benefits when their bilateral opportunism is at parity. At this level, no firm performance can be created. Jääskeläinen (2021) adds that relational benefits of buyer-supplier relationship can add to firm's performance where there is openness in information sharing and non-opportunistic competitions are present.

METHODOLOGY

The current study followed a descriptive research design, seeking to describe relationships between variables – buyer-supplier relationship and firm performance. The aim of the study was to determine the influence of buyer -supplier relationship on performance by analysing the foreign based development agencies in Kenya. The data was obtained from officers in management, accounting and procurement units in 37 surveyed firms. The Cronbach's Alpha Test of reliability was used to test the reliability of the constructs describing the variables of the study. The values of Cronbach's alpha ranges from 0 to 1 with values equal to 0.7 and above indicating that the questionnaire is reliable. A total of 111 respondents participated in the study. Constructs to measure buyer-supplier relationship and firm performance were measured at 5-point Likert-Scale. Buyer supplier relationship was measured through constructs of trust, dependency, commitment, cooperation and communication. The data was analysing using SPSS 26. Regression outputs were obtained, interpreted and discussed.

ANALYSIS AND RESULTS

Table 1: Regression Analysis for Summary of Statistics and Coefficients

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.781 ^a	.610	.535	.30341		
a. Predictors: (Constant), Buyer Supplier Communication, Buyer Supplier Cooperation, Buyer Supplier Trust, Buyer Supplier Dependence, Buyer Supplier Commitment						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.577	2.021		.781	.442
	Buyer Supplier Trust	.793	.311	.325	2.545	.017
	Buyer Supplier Dependency	-.930	.369	-.335	-2.521	.018
	Buyer Supplier Commitment	.442	.383	.198	1.155	.259
	Buyer Supplier Cooperation	-.331	.321	-.141	-1.031	.312
	Buyer Supplier Communication	.454	.173	.449	2.624	.014
a. Dependent Variable: Supply Chain Performance						

The results show that the correlation coefficient (R) is 0.781 and the coefficient of determination (R-Square) is 0.605. The results indicate that there is moderately strong relationship between the measures of buyer-supplier relationship and firm performance. The better the relationship as indicated by the variables of trust, dependence, commitment, cooperation and communication has an overall positive moderately strong influence on firm performance.

The coefficients for the specific variables however show that supplier trust, commitment and communication have a positive influence on firm performance while both the dependence and cooperation have a negative causation. However, trust, commitment and communication are statistically significant at 0.05 significant level. The results suggest that commitment and communication should be nurtured because these have positive and significant effect on firm performance but dependence and cooperation should be avoided. That is possibly because dependence on a few firms could disadvantage an organization when the partner fails to perform due to a host of inhibitors.

DISCUSSION

The findings from analysis show that firm performance relies on the overall health condition of the buyer-supplier relationship. The study agrees with the results of Amoako-Gyampah *et al.* (2019) who stress on importance of investments into the relationship to enhance competitive advantage for the firm and that of Makkonen, Nordberg-Davies and Olkkonen (2018) who argue that value co-creation in the relationship adds to performance of all players. Investment in factors such as trust, communication and communication can enhance effectiveness and efficiency of the buyer-supplier relationship critical for firm performance. That is supported by the views of Divanbeigi *et al.* (2015) who pointed out that integration of the supply chain frameworks is important for eased communication and interaction between members of the supply chain. Findings by Gualandris and Kalchschmidt (2016) indicated that integrated supply chain framework improve competencies needed for efficient flow of information. This is necessary to avoid delays, while enhancing detection and predictability on the part of the buyer and the supplier that are essential for firm performance. Studies by Hiroki *et al.* (2016) also showed that tools such as ERP's help in integrating the involved firms as well as improve the information processing for the benefit of the members. Further, integration can also help in production planning, inventory management, financial planning and operation management.

CONCLUSION

In conclusion, the findings in this study show that buyer-supplier relationship has a positive influence on firm performance. A well-integrated supply chain framework enhances trust commitment and communication critical for firm performance. Stronger relationships among the buyers and suppliers can result into higher performance for firms in the supply chain framework. The study results concur with the findings of Craig et al. (2016) who argued that integration of supply chain refers to the alignment and coordination of supply chain process through technological and physical platforms. In well integrated platforms, it is possible for firms to execute their desired qualities for goods, services and processes. In addition, integration helps the firm performance by bringing the two entities closer. This assertion is consistent with the findings of Divanbeigi et al (2016) who argued that supply chain processes help in shortening the lead times and in realization of flexible systems that results into the overall cost reduction. Wölfel and Grosse-Ruyken (2020) argue that, devoid of competitive opportunism, participants can benefit from the buyer-supplier relationship. However, Jääskeläinen (2021) stress the need for openness in information sharing and non-opportunistic competitions. The study recommends that the firms should focus on building reliable supply chain management processes between buyers and suppliers.

RECOMMENDATIONS

- (1) Overall, this study concludes that buyer supplier relationship is positively related with firm performance in the context of foreign based development agencies in Kenya. Firms should endeavour to build strong ties with their buyers or suppliers to help them to have better order lead times which can improve their performance as a result of being in a reliable supply chain.

- (2) This study concludes that buyer supplier trust has a positive influence on firm performance of in the context of foreign based development agencies in Kenya. The study recommends that foreign based development agencies' management should be purposive in building trust with their buyers-suppliers to enhance their performance. Trust, if principally built through supplier centric measures of performance like reliability in delivery and conformity of product quality can substantially influence a firm's performance.

- (3) The current study reached a conclusion that buyer-supplier dependence does not significantly influence performance of foreign based development agencies in Kenya. Nonetheless, as much as the influence is not significant, the study observes that the relationship is negative. That indicates that dependence on a few specific buyers-suppliers destroys

performance. Consistent with this conclusion, the recommendation for the study is that organizations should aim to diversify the number of suppliers and of course buyers for higher results. Dependence is associated with a buyer's or supplier's weakness or lack of knowledge of alternative suppliers/buyers and/or perceived switching costs involved in replacing the supplier/buyer and it are not a positive thing for supplier/buyer.

(4) In addition, the study concluded that buyer-supplier commitment has a positive influence on performance and it is statistically significant. To the management, the study recommends that managers should aim to identify, develop and uphold supply chain networks with committed buyers-suppliers for better results. The study concludes that creation, management and maintenance of a collaborative arrangement between committed buyers/suppliers who are partners in a supply chain is an essential ingredient that could help to attain long-term relationship and better performance.

(5) Based on the results, the study concluded that buyer-supplier cooperation has an insignificant negative influence on firm performance in the context of foreign based development agencies in Kenya. Therefore, the study recommends that firms should be careful of the associations they create with potential partners in their supply-chain networks. The negative influence is possibly because some cooperative arrangements tend to encourage dependence on single supplier/buyers. The choice of the partner in the supply chain is critical as this enables the firm to choose partners who can be committed to their success and because some members within a supply chain framework can take advantage and oppress smaller ones and some would even end up becoming competitors rather than supporters, more so when they discover the lucrative nature of the member's business model.

(6) Regarding communication, the study recommends that firms should aim to achieve multiple, reliable communication channels for optimal results. That is important because the current study concluded that communication plays the greatest role in influencing performance. Good and reliable communication channels increases supply chain performance. Although it is important for every firm to have its preferred communication methods and frameworks, being flexible and having multiple means through which others can use to reach a firm has couple of advantages as it provides for the variety and hence makes it possible for more buyers/suppliers to make their purchase or order requests.

SCOPE FOR FURTHER STUDIES

For further research, the study recommends that a study on the relationship between buyer-supplier relationship and firm performance focusing on the effect of asymmetry of each of the constructs such as trust, dependence, commitment, cooperation and communication. That would help to determine the influence of the asymmetry (difference in level of strength) when two entities are working together. It can help to resolve the controversial view that equal (symmetry) levels of trust, dependence, commitment, cooperation and commitment would significantly enhance supply chain performance.

Further study can be focused on the study variables in a different context. For instance, other industries with larger populations for analysis would perhaps yield results with some implications in relation to the theories. Also, the study would seek to determine the influence of technology adoption as mediator variable to test the role of technology in enhancing buyer-supplier relations and supply chain performance.

LIMITATIONS TO THE STUDY

The study had limited financial resources and time bound requirements. Some respondents out of fear or intimidation by their management sought authorization to participate and took long to complete the questionnaire. Being international bodies, some of the foreign based agencies reached could not easily be accessed. However, close follow ups and explanation through telephone and by e-mails about the purpose of the study made it possible for a reasonable number of completed questionnaires to be obtained.

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