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# **Addis Ababa University**

## **School of Commerce**

**THE EFFECT OF FOREIGN PURCHASE ON MANUFACTURING PERFORMANCE OF  
ETHIOPIAN MANUFACTURING SECTOR: IN THE CASE OF SENSELET FOOD  
PROCESSING PLC**

**By**

**Haimanot Mersha**

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**SCHOOL OF COMMERCE**

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**February, 2019**

**Addis Ababa**

## **Statement of Certification**

This to certify that Haimanot Mersha has carried out her thesis work on the topic entitled “the effect of Foreign purchase on Manufacturing performance of Ethiopian Manufacturing sector: in the case of Senselet food processing Plc” under my guidance and supervision. Accordingly, I here assure that her work is appropriate and standard enough to be submitted for the award of Master of Arts in Logistics and Supply Chain Management.

Advisor:  
Fisseha Afework (ASS.PHD)

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## **Declaration**

I the undersigned, declare that this thesis entitled “The effect of foreign purchase on manufacturing performance of Ethiopian manufacturing sector: in case of Senselet food processing plc.” is my original work and has not been presented for a degree in any other University, and that all sources of materials used for the thesis have been duly acknowledged.

Declared by;

Name \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Date of Submission \_\_\_\_\_

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## List of Abbreviations

MBS	Mean of buyer-supplier
MCM	Mean of contract management
MSS	Mean of supplier selection
MMP	Mean of manufacturing performance
SFP	Senselet food processing

## **Abstract**

*The objective of this study was to identify the effect of foreign purchase on manufacturing performance. The research was based on private manufacturing sector. The research questions were presented in order to identify supplier selection of foreign purchase on manufacturing performance; the effect of contract management of foreign purchase on manufacturing performance and the effect of buyer-supplier relationship of foreign purchase on manufacturing performance. The study employed an explanatory research design. Out of the study population of 255 employees of the manufacturing sector, a sample size of 155 was taken, whose elements was selected using a probability sampling technique called stratified sampling on random sampling base. Questionnaires were used as the primary data collection instrument. The response rate was 92%, with 143 questionnaires properly filled out of the distributed 155 questionnaires. The research approach was quantitative research approach and data was analyzed using descriptive statistics, correlation and regression analysis and then presented in tables. The finding of study implies that supplier selection of foreign purchase insignificant effect on manufacturing performance, contract management of foreign purchase has positive and significant effect on manufacturing performance and buyer-supplier relationship of foreign purchase has positive and statistically significant effect on manufacturing performance. This study recommends, since the results shows that there is a positive correlation between the independent variable (supplier selection of foreign purchase, contract management of foreign purchase and buyer-supplier relationship of foreign purchase) and the dependent variable manufacturing performance, the manufacturing firm should take in to account the variables considered. In this study 82.9 % of the variance in dependent variable (manufacturing performance) is explained and predicted by independent variables (supplier selection, contract management and buyer-supplier relationship). So that other interested researcher could identify another predictor and study more.*

**Key Words: Foreign ,Purchase, Manufacturing, Performance**

## **CHAPTER ONE: INTRODUCTION**

This chapter deals with the background of the study covering the very reason why this study was undertaken, the problem statement, the research question, objective of the study and study Significance and limitation will also be addressed.

### **1.1. Background of the Study**

Global competition has forced companies to devise and go after foreign purchasing strategies that aim at reducing cost and optimizing quality (Gianluca, 2007). This has made foreign purchasing strategies to be of significance as a key competitive factor for companies seeking globalization. Foreign purchasing is a corporate strategy aimed at the worldwide use of resources and materials. Modi and Schoenher (2011) assert that foreign purchasing involves integrating and coordinating materials, common items, processes, designs, technologies, and suppliers across worldwide buying and operating locations. It involves the global consolidation of sourcing requirements at the global level across the organization and the use of globally dispersed sources. Foreign purchasing is therefore considered by many companies as an important measure to enhance competitive advantages particularly in today's globalized economy (Jin and Kang, 2013).

For manufacturing sector foreign sourcing become a strategic imperative in today's corporate wide standardization and benchmarking. In short, foreign purchasing is a 'strategic business philosophy' that coordinates the world's most cost-effective production competitive setting (Msimangira & Venkatraman, 2014). In reality, foreign purchasing is a centralized procurement strategy of a manufacturing company, wherein a central procurement department seeks the economies of scale through and operation inputs such as men, materials, machines, technology, suppliers, engineering and other required facilities. Sourcing can therefore be interpreted as a strategic decision of a company to build up close relationship with its suppliers as a means of improving competitive advantages. Therefore, under increasing pressures to reduce costs, companies have shifted, and continue to shift, sourcing from local suppliers to low cost country-based suppliers (Hultman, Hertz, Johnsen, & Johnsen, 2012).

Manufacturing performance refers to the extended activities in meeting end-customer requirements, including product availability, on-time delivery, and all the necessary inventory and capacity in the supply chain to deliver that performance in a responsive manner. One of the

specific drivers of foreign procurement is the product quality-based competition (Mwangi, 2013). To win in the new environment, manufacturing firm need continuous improvement. Manufacturing performance measures can be classified broadly into two categories: qualitative measures (such as customer satisfaction) and quantitative measures (such as product quality, order-to-delivery lead time, manufacturer response time, flexibility, resource utilization, delivery performance, etc.

Effective purchasing requires the utilization of sound business practices that maximize value to the organization through the acquisition of goods and services. This follows the old adage that the purchasing department's role is to deliver the right material or service in the right amount to the right place at the right time and at the right price.

Huge budget is allocated and being spent on foreign procurement in the manufacturing sector. This implies the logistics capability of the sector for the Goods mentioned above is depend on the international supply market. In order to maintain this capability sustainable to internal and external development of skilled labor, the foreign purchase practice must be efficient and effective. It needs an excellent foreign purchase procedure, systems and guidelines to fulfill the demand of goods and services of end user with right quality, right quantity, from right supplier at the right time.

Studies on foreign purchasing have apparently been more interested in questions regarding what to buy and from where, rather than what the effects are. There are rather few broader empirical studies measuring the actual outcome of Foreign purchasing, and even fewer that have been able to show a positive relationship to company performance. (Robin Von Haartman and Lars Bengesson,2015). There have been observable drawbacks in the foreign purchase practices the manufacturing sector of like; delay on delivery of the required items, due to several reasons to be investigated on this research. As this research was planned and the researcher tries to look for previous studies on this specific title and area of study few are found on Ethiopian case.It is under this background the researcher studies the effect of foreign purchase on manufacturing performance of Ethiopian Manufacturing sector: in the case of Senselet Food processing plc.

## **1.2. Statement of Problem**

Foreign purchasing emerged initially as a reactive strategy designed to secure the availability of materials and to reduce production costs (Birou and Fawcett, 1993). Today foreign purchasing strategies are increasingly targeted at gaining and maintaining competitive advantage (Monczka and Trent, 1991). In order to manufacture and deliver world-class products at low price and high-

quality firms must, regardless of their size, have access to world-class technological expertise and an ability for scanning the best suppliers throughout the world (Monczka and Trent, 1991). For many firms the main question is not whether to use or not use foreign purchasing, but how to use it optimally in order to achieve competitive advantage (Murray et al., 1995). Magara,Oloko and Nyang'au (2014) found out that a well-managed foreign purchase practices is beneficial to customers and firms because it is able to deliver high quality, flexibility, lower costs, improved delivery dependability and quick response time to customer orders.

Foreign purchasing is one of the greatest strategic challenges for purchasing and supply in corporations. Foreign purchasing is at the cornerstone of total cost of production in manufacturing industry and enables the optimal alignment, management and control of overall corporate objectives (Kharvi, 2010). Manufacturing organizations are inextricably dependent on foreign purchasing in order to obtain quality and low-cost raw materials to be used for production. Purchasing from domestic sources have proved to be expensive to local manufacturing firms hence the need to partake foreign material sourcing. However, when firms source from outside their country's borders, they are able to obtain up to 10% to 35% cost savings on production costs by undertaking foreign purchasing (Kharvi, 2010). The Ethiopian manufacturing sector is faced with many challenges which require that their managers rethink their strategies if they have to remain competitive. Sourcing from international sources have proved to be ineffective due to existence of delivery delays that have proved to be very detrimental to production levels. Reduced production has led to customer dissatisfaction and subsequent disloyalty hence reducing on potential firm gains as a result of unreliable production levels caused by inefficient supply chain.(Asefaw,2017)

Senselet Food processing (SFP) as manufacturing organization use different raw material to have quality product and use foreign purchasing as a means of obtaining thus raw material from different place in the world and spend most of the company purchasing budget on foreign purchase. According to the preliminary assessment by the researcher, the researcher found out that SFP is facing a problem in implementation of foreign purchase practices in the organization. Some of the indicator are difficulty in receiving the foreign purchased goods on time and on right quality, longer delivery lead time from what is agreed, wrong or partial delivery of what is ordered, wrong item description in the shipping documents and this cost the company to pay high duty and pay penalty for custom because of difference in what is actually purchased and

what is described in the documents and running out of stock and push the company to change the production plan and even to stop production due to supplier failure to deliver on time.

A number of studies have been conducted on foreign purchasing across the world. For instance, Rapheal Naftal(2014) examined the Effect of international purchasing in public sector. Stanczyk, Foerst, Busse and Blome (2017) explored foreign purchase decision-making processes: politics, intuition, and procedural rationality. Simon Fendo and Kingsford Rucha (2014) examined the effect of foreign purchasing practices on operational performance from a contingency perspective. Chunnan Jiang and Yue Tian(2017) studies Challenges and Problems of sourcing aboard. In Ethiopia, Asfaw (2017) examined Analysis of International Procurement practices and challenges. However, the identified studies failed to link Foreign purchase and manufacturing performance from the context of manufacturing firms. This study therefore sought to fill this gap by investigating the relationship between foreign purchase and manufacturing performance in the Manufacturing sector of Ethiopia in the case of Senselet Food processing plc.

### **1.3. Research Question**

The research proposed to answer the following research question: -

- What is the effect of Supplier selection of foreign purchase on manufacturing performance of SFP?
- What is the effect of contract management of Foreign purchase on Manufacturing performance of SFP?
- What is the effect of Buyer-Supplier relationship of foreign purchase on manufacturing performance of SFP?

### **1.4. Objective of the Study**

#### **1.4.1. General Objective**

- The General objective of the study is to assess the Effect of Foreign purchasing on manufacturing performance of Ethiopian manufacturing sector: in case of SFP.

#### **1.4.2. Specific Objective**

- To examine the effect Supplier selection of foreign purchase on manufacturing performance of SFP.
- To find out the effect contract management of foreign purchase on Manufacturing performance of SFP.

- To examine the effect of Buyer-Supplier relationship of foreign purchase on Manufacturing performance of SFP.

### **1.5. Significance of the Study**

The finding of the Study will allow different manufacturing sector in Ethiopia and in stakeholder to know the effect of foreign purchase on manufacturing performance. The study can be of great importance to General Manger, Supply chain manager and Production managers in Senselet Food Processing and other similar Manufacturers in Ethiopia as the study findings can provide a guiding framework for the implementation of Foreign purchasing. The research can also be helpful to academicians and scholars who like to do similar study in another sector those who want to fill the gap that may be seen in this thesis.

### **1.6. Limitation of the Study**

The researcher was constrained by finance, time and difficulty to access data. The funds allocated to undertake the study do not match the real cost. Time allocated for the study was too short to collect data, analyses and write the report. Lastly, data access was difficult as it was not always easy to convince the company to give information due to fear that one may be spying their businesses.

### **1.7. Scope of the Study**

Though Foreign purchase includes market search, supplier selection, negotiation, Documentation, logistics management, need identification, Expediting, supply chain integration, the study focuses on Buyer- supplier relationship, contact management and supplier selection. Also, for its manageability the study is delimited to the effect of Foreign Purchase on manufacturing performance of Ethiopian manufacturing sector: in the case of SFP. It does not include any other manufacturing sector.

### **1.8. Definition of terms**

#### **1.8.1. Conceptual Definition**

**Supply chain:** Supply chain is that network of organization that are involved, through upstream and downstream linkage, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer or consumers. (David Blanchard,2007)

**Supply Chain Management:** - refers to a set of methods used to effectively coordinate suppliers, producers, depots, and stores, so that commodity is produced and distributed at the correct quantities, to the correct locations, and at the correct time, in order to reduce system costs while satisfying service level requirements. (Assey Mbang Janvier-James,2012)

**Purchasing:** - is the systematic process of deciding what, when and how much to buy; the act of purchasing the materials and the process to make sure that the right goods with right quantity and good quality could be received in time. (Burt and Pinkerton.,1996)

**Procurement:** - is the business management function that ensures identification, sourcing, access and management of the external resources that an organization needs or may need to fulfil its strategic objectives. (Andrew Kidd,2005)

**Foreign Purchasing:** - relates to a commercial purchase transaction between a buyer and a supplier located in a different country. This type of purchase is typically more complex than a domestic purchase. Organizations must contend with longer material pipelines, increased rules and regulations, currency fluctuations, customs requirements, and a host of other variables such as language and time differences (Trent, R. J., & Monczka, R. M. 2003)

**Global Purchasing:** - is a broader concept than international purchasing and is concerned with coordinating materials flow, processes, designs, technologies and suppliers across a company's global locations (Robin von Haartman and Lars Bengtsson, 2017)

### **1.8.2. Operational Definition**

**Supplier selection:** -is a process of selecting the right supplier in order to achieve company's objective.

**Buyer-supplier relationship:** - it is the relationship between supplier and buyer to ensure supplier performance and to achieve buyer satisfaction

**Contract Management:** is the management of contracts made with customers, vendors, partners or employees. Contract management includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions. It includes documenting and agreeing on any changes that may arise during its implementation or execution. It can be summarized as the process of systematically and efficiently managing contract creation, execution, and analysis for the purpose of maximizing financial and operational performance and minimizing risk.

## **1.9. Organization of the Study**

The study organized into five interrelated chapter and appendix and reference.

The first chapter will be the introduction part of the study which includes background of the study, Background of the company, statement of problem, objective of the study, research question, significance of the study, scope of the study, definition terms and limitation of the study

The second chapter is the literature review part that discusses about Foreign Purchase and related Issues.

The Third chapter is research Methodology, the fourth chapter contains the finding and data analysis part of the study where primary and secondary data collected from various source is analyzed and presented.

The fifth chapter focuses on the final result of the study finding, conclusion and recommendation

## **CHAPTER TWO**

### **Related Literature Review**

#### **2.1 Theoretical Literature Review**

##### **2.1.1. Defining Foreign Purchasing**

Purchasing refers to a process by which an enterprise or organization attempts to acquire materials or products in order to attain their goals. In the process of purchasing the ownership and possession of goods will be transferred from the seller to the buyer.

The activities of purchasing include enquiry, an order, tracking the order, supervising and accounting for an order, receiving goods, and making payment. International purchasing relates to a commercial purchase transaction between a buyer and a supplier located in a different country. This type of purchase is typically more complex than a domestic purchase. Organizations must contend with longer material pipelines, increased rules and regulations, currency fluctuations, customs requirements, and a host of other variables such as language and time differences (e.g., Trent & Monczka, 2003). Foreign purchasing refers to the utilization of global resources; searching for a bargain with the highest quality from all over the world. From the aspect of supply-chain management, Foreign purchasing requires companies to set up a global manufacturing chain in order to make a rational purchasing plan and acquire the high-quality goods with a rational price. Besides, it is an effective way to measure and supervise the efficiency of purchasing processes so that it minimizes the total cost of purchasing.

##### **2.1.2. Theories of Foreign Purchase**

###### **2.1.2.1. Network Theory**

Network Perspective argues that firms rely not only on their relationship with direct partners but with the extended network of relationships with supply chain firms. It argues that competitive advantage can only be achieved through efficiently and effectively orchestrated supply chains. Therefore, the focus of the Network Theory (NT) is to develop long-term, trust-based relationship between supply chain firms. Network theory provides a useful framework for analysis of a business situation, and it adds a new level of complexity to understanding the relationship perspective. Croom (2000). Network relations create information sharing that enables buyers and sellers to have access to

resources and knowledge beyond their abilities, leading to long-term relationships. This approach is a structure formed by the main dimensions (activities, resources and actors) that connect a set of relationships. Therefore, alongside information sharing, the network perspective will also be studied as it enables the analysis of export chain relationships. A business network is a set of relationships that are connected, showing firms' identity, process and functions that contribute to explaining a dyadic relationship Croom (2000).

Actors are an essential function within relationships that are required to form meaningful network structures, in which the network must have activities and the resources required to carry out those activities (Croom,2000). In the export business, actors connect with each other socially to bring various beneficial types of producers, retailers and consumers together within regional fruit and vegetable networks (Croom. 2000) and establish a network position. Activities and resources are two strategic relationship functions in a network. These functions are meaningful in the conceptualization of the marketing network, which is an important value in analyzing a business. However, actors control activities that are built by relationships with other parties in the network and are influenced by resources, which are exchanged to coordinate chain activities. Most of the previous studies state that relationship functions such as activities, resources and processes must be managed in a network in order to establish interactions for better benefits and long-term relationships. This is where networks are a set of relationships among constellations of actors (Croom.2000) and these relationships make connections with each other to provide the functions of benefits and exchange processes of their business and others for better performance.

#### **2.1.2.2 Transaction Cost Analysis Theory**

Transaction cost theory's basic premise is that the cost of doing transactions could be too high under certain conditions (Grover & Malhotra, 2003). Transaction cost theory is an economic approach and reflects different types of transaction costs (coordination contracting deals and information sharing. Thus, this economic perspective needs to take into account the economic rationality of supply chain relationships. This perspective provides explanations for transaction dimensions (asset specificity, uncertainty and frequency between firms and their relationships. Transaction cost theory explains how information advantage in a relationship is enjoyable and beneficial for firms and information sharing in business is a transaction cost. Transaction cost theory contributes to the study of supply chain relationships and networks, and the efficiency of economic activities.

In transaction cost theory, the unit of analysis is the transaction used to describe the economic activity and the governance structures in business relationships. Transaction cost theory explains that transaction costs include coordination, monitoring, contracting deals, opportunistic behavior risk and information sharing. Williamson (2008) defines a transaction as a basic unit of analysis in organizational structure rather than production, one where the main dimensions of transaction cost theory are asset specificity, uncertainty and frequency. The behavioral assumptions are bounded rationality and opportunism, which forces firms to make self-enforcing promises to behave responsibly in terms of increasing their profit. Bounded rationality is accepting the limits of the human ability to process information comprehensively. Transaction cost theory views bounded rationality as a problem under conditions of uncertainty, which make it difficult to fully specify the conditions surrounding an exchange, thereby causing an economic problem (Grover & Malhotra, 2003). Opportunism is defined as “self-interest seeking with guile” by a human actor in business relationships (Grover 2003).

When high asset specificity is required, such as the assets that are required to produce a complex item, TCA theory predicts that foreign sourcing (hierarchies) will be the preferred method to minimize transactions costs (Murray 2001). However, a stream of research has emerged that questions the reliance on TCA and its ability to predict the foreign purchasing exchange or structure that buyers will employ (Murray, 2001). One view contends that it is now time to extend foreign purchasing research by integrating different perspectives with variables drawn not only from TCA but also from inter-organizational relationships, organizational capabilities, and country-specific factors (Murray, 2001). The argument is made that reliance on either markets or hierarchies to facilitate exchange is an outdated way to view sourcing. Strategic alliance-based foreign sourcing, for example, is a viable option to achieve competitive advantage, even when major components require supplier-specific assets.

International business (IB) as a discipline has captured multiple insights and theoretical contributions from a wide array of other fields, ranging from strategic management, economics, entrepreneurship (Murray 2001). In the end, building a competitive advantage will involve understanding the needs of the market (customers), and devising a strategy to make use of the resources that are available (or can be obtained) to set the business apart from the competition. The strategy will need to take into account the target market, the business’ strengths and weaknesses, the business’ goals, the

product/service the business has developed, and the strategies of the competition (Karvo,2016), organization theory, and so forth.

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. Essentially a competitive advantage answers the question, “Why should the customer purchase from this operation rather than the competition?” In the end, building a competitive advantage will involve understanding the needs of the market (customers), and devising a strategy to make use of the resources that are available (or can be obtained) to set the business apart from the competition. The strategy will need to take into account the target market, the business’ strengths and weaknesses, the business’ goals, the product/service the business has developed, and the strategies of the competition.

### **2.1.2.3. Resource Base View/Model**

The central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. For example, Andrews (2005) proposal of an internal appraisal of strengths and weaknesses, led to the identification of distinctive competencies. The central proposition of the resource-based research is that firms are heterogeneous in terms of the strategic resources they own and control. It is generally suggested that this heterogeneity is an outcome of resource-market imperfections (Barley, 1998), resource immobility (Barely 1998). Capabilities, in contrast, refer to a firm's capacity to deploy and coordinate different resources, usually in combination, using organizational processes, to affect a desired end (Murray 2001).

These attributes may also apply to inter-organizational arrangements (Murray2001). The more dynamic aspects of the RBV consider a firm's core competence to be its ability to react quickly to situational changes and build further competencies (Murry 1995) or dynamic capabilities. Hence, a firm's competitiveness is associated with the configuration of resources and capabilities as the markets evolve. However, inter-organizational relationships may also facilitate and advance the learning processes of individual firms. As such, relationships are not only output-oriented but also learning oriented. Efficiency may not only be explained in terms of productivity or operational measures, but also in terms of the opportunity to access another firm's core competencies through cooperative arrangements as an alternative to building such competencies in-house (Kavoo,2016).

#### **2.1.2.4. System Theory**

Systems theory views the world in terms of collections of resources and processes that exist to meet super ordinate goals. A system may be constituted by material, people, information, and financial resources; configured into organizational or technical processes, intended to deliver goods and services that enable the system to achieve some desired level of performance (Kavoo,2016). The central concept system embodies the idea of a set of elements connected together, which form a whole, this showing properties which are properties of the whole, rather than properties of its component parts(Kavoo,2016) In SCM context System Theory (ST) brings together various components of a complex supply chain (that is the human, capital, information, materials and financial resources etc.) to form a subsystem which is then part of a larger system of supply chains or network. The theory argues that for a holistic perspective ST must be employed to understand the internal and external factors that shape an organization's supply chain performance. This system has a coordination function whose main task is to assure that the various manufacturing departments and or suppliers of a production system act in harmony, damping their oscillations so that common resources and support services are run smoothly (Kavoo,2016).

A simple systems analysis could be to look at the order fulfillment process, including the ordering of products, the picking of orders, and the shipment of goods to the customers, goods are received from suppliers and put into warehouses, customer orders are registered, products are picked and shipped, and invoices are sent. The supply chain systems are complex entities with multiple physical and virtual relationships, and multiple internal and external interfaces. High demands are put on both the quality of the products and services, and on the supply chain regularity and dependability. Whether the product is to be a part of a more complex product, or the final product is expected to be available when needed, and as promised. As supply chains become longer and parts of larger networks of demand and supply nodes and interacting logistics nodes and modes, they become more prone to the negative attributes of systems; indeterminacy, complexity, flexibility, sensitivity, reliability and vulnerability (Kavoo,2016).

## **2.2 Empirical literature Review**

### **2.2.1 Supplier selection of foreign purchase**

Supplier selection from foreign point of view encompasses the myriad activities used to evaluate the capabilities of potential suppliers and then to select them to configure a buyer's supply chain for long-term competitive advantage. Supplier selection is critical as firms become more and more dependent on their suppliers; the capabilities of those suppliers serve as key resources in the development of the buyer's own capabilities and performance. (Venn Bisieri Manyega,2015). Supplier selection is considered a key managerial decision in the supply chain literature. Selecting the best and right suppliers are the most crucial part of sourcing operations and the success or failure of sourcing activities. According to Harrison (2011) supplier selection assist firm in identifying, evaluating and contract with suppliers for strategic partnership. He argues that for firm to achieve its sourcing objectives they will need the right suppliers capable of delivery results to the company. Harrison (2011) considered supplier selection to be a long-term process, and argues that suppliers should be evaluated based on core competences and strategic needs.

According to Venn, supplier selection is the most influential supply management process for achieving product quality. However, a firm's ability to create or enhance its own capability in a strategically important domain such as quality by leveraging supplier capabilities in quality may depend not only on its ability to select a capable supplier in the quality domain but also on its ability to successfully integrate the supplier into the firm's operations and network. Successful supplier selection is a source for competitive advantage; they affect competitive and operational performance of positively if effectively selected. According to *Hokey min.,1993*, The selection of suppliers in foreign countries is not a process to be taken lightly owing to its significant and long-lasting impact on overseas sourcing. If the selection is wrong, it may result in mounting material costs, litigation, shoddy product quality, transport delays, production bottlenecks, countertrade obligations, and exchange rate fluctuations.

According to (*Paul D. Cousins, Benn Lawson and Brian Squire.,2008*) suppliers consistently deliver materials, components, or products to an organization on time and in good condition. They act to ensure the operational goals of the relationship are being achieved by focusing attention on key business processes of cost, quality and delivery. These measures tend to be more objective, focused on day-to-day operations, and are relatively easily assessed, finds a significant

and positive relationship between Supplier selection and manufacturing performance. Supplier selection is widely recognized as the most important responsibility of the purchasing function because the organization's suppliers can affect the price, quality, delivery reliability and availability of its products. Companies aim that proper supplier selection would help to reduce product and material costs while maintaining a high level of quality and after-sales services. (*Lee Jun Li.,2008*), An efficient supplier selection process needs to be in place for the successful supply chain management. supplier selection and involvement have inserted a positive impact on the supplier performance and buying firm's performance. Supplier selection is therefore one of the most important business processes performed by organizations today. This is because of its impact on firm performance and, more specifically, on final product attributes such as cost, design, manufacturability, and quality. (*Aseka Japheth Tom.,2010*)

### **2.2.2 Contract Management of foreign purchase**

A purchase contract is a legally binding agreement between a firm (the buyer) and a supplier to fulfill a set of agreed terms and conditions. Contract management of foreign purchase defined as those activities related to contract handling including invitation to and evaluation of bids; awarding and implementation of contracts; measurement, and payment calculation. This also entails monitoring contract associations, handling related issues, integrating essential contract modifications or changes. This is meant to ensure that all contract parties exceed or meet each other's expectations and interact with contractor to attain the objectives of the contract. As Uher and Davenport (2009) note, it also involves practical monitoring, management and review of terms of contract established through the process of purchasing, ensuring delivery is done appropriately. Contract management of foreign purchase s aim at ensuring that parties comply with the contractual terms and conditions, as well as documenting and accepting any necessary changes in the contract execution. Relationships with external organizations are managed through contracts. In general, companies provide services or products based on the results of direct contract negotiations with the client. One of the most important factors in preparing a proposal and estimating the cost and profit of a project is the type of contract expected. (*Joshua M. Mutua, Esther Waiganjo, and Isaac N. Oteyo.,2014*).

Contract management of foreign purchase is a process, it involves certain activities necessary to accomplish in order to realize its benefits. Foreign purchase contract management practices

include foreign supplier monitoring and acceptance management; managing the supplier relationship; contract administration; dispute resolution; and contract closure. Foreign supplier monitoring and acceptance management is about ensuring that the contractor is undertaking his duties and fulfilling his obligations in compliance with the contract. This also is helpful to the contracting authority in identifying any issues or problems in advance that could arise and offer timely solutions. Managing the contractor relationship enables the contracting authority to ensure that all its actions and decisions enhance the supplier relationship. On the other hand, contract administration involves maintaining an updated form of the contract; controlling and managing contract variations; paying the foreign supplier; managing assets; drafting reports; and terminating the contract. Dispute resolution entails management of all conflicts that may arise between the two parties. Lastly, contract closure happens when all contractual terms and obligations have been honored.

Contract management of foreign purchase practice is a vital aspect in any organization that intends to gain a competitive advantage and value for money. A firm's procurement process is incomplete without an effective and efficient contract management practice. Contract management improves an organization's operational performance as indicated by various measures, such as, quality, flexibility, speed, efficiency, and supplier relationship (Cho & Pucick, 2005).

Sanghera (2008) says that an organization can determine if it is engaging in effective contract management if it makes appropriate strategic decisions and drafts right contracts. A contract is the pillar in the exercise of its proper and effective management. Effective contract management is also characterized by a contract management team that has the necessary relevant qualifications, skills, knowledge and experiences for the job. It is also vital to clearly specify the roles and competencies involved in the contract management process. The officials charged with the responsibility should be selected based on objective criteria so as to ensure they have the required technical knowledge as well as skills, such as, negotiation skills, cooperation skills, and communication skills (Uher & Davenport, 2009).

A study conducted by (Cherotich Rotich Joyce.,2012) on Contract management practice and operational performance of in Kenya shows there is a positive link between contract management practices and operational performance. Another study by Abeeden Group 2006., shows Contract management is a systematic practice for creation, execution, compliance, and

analysis of business contracts in order to maximize operational performance, reduce costs, and minimize risks and have a positive correlation with firm's performance.

### **2.2.3 Buyer -Supplier relationship of foreign purchase**

Buyer-Supplier relationships have today become the —backbones of economic activities in the modern world and a focal point of organizational competitiveness, performance and long-term business success. The competitiveness and profit-generating capacity of the individual firm is highly dependent on its ability to handle the supply side, position the management of buyer-supplier relationships as a primary driver of both customer and shareholder value. (Dorothy Kemunto and. Karanja Ngugi,2014). According to David T. Wilson (2015) Buyers and sellers have relationships is nothing new. Relationships between buyers and sellers have existed since humans began trading goods and services.

Buyer supplier cooperation through teamwork, trust, unity, co-ordination and respect, also explained that collaborative relationships demand for trust and commitment for long term cooperation in addition to willingness to share risks. Commitment and trust been developed through effective communication. Trust, commitment and collaboration were becoming more popular in supply chain relationships because of their ability to reduce uncertainty. Thru logachantar Perumal (2009). Harrison (2011) argues that long-term relationship with the suppliers is the best to provide growth and relatively reduce risk associated with sourcing activities. He noted that relationship with supplier is important and best used as a general form of collaborative relationship between buyers and suppliers. Effective supplier buyer relationship helps increase business confident and enhance atmosphere of co-operation and mutual advantage.

According to Wambani.W. Amutabi (2017) there is a positive correlation between Buyer-supplier involvement on performance and quality improvement in many companies across various industries. Buyer-Supplier Relationship Management plays a critical role in an organization's performance because suppliers determine the price, quality, delivery, reliability and accessibility of its products and services.

Wambani.W. Amutabi (2017), implies that Buyer- Supplier Relationship Management leads to manufacturing performance to a greater extent. The empirical study of Wambani W.Ambani, shows strong Buyer-suppliers relation have a positive correlation that improve the company's

manufacturing performance; there is shorter Leadtime towards service delivery as a result of good supplier-buyer relationship; increased efficiency due to information sharing between suppliers and the company; reduced operational cost due to suppliers' involvement in the company's decision making; real time delivery of supplies due to developed supplier capability; and in general Buyer-Supplier Relationship leads to better manufacturing performance.

Study by Khaled .Khalf . Alafi (2014) on the effect of purchasing strategy on performance shows that good relationship between buyers and suppliers had a positive significant impact on manufacturing performance; a good relationship between suppliers and buyers led to meeting customers' requirement and created a good competitive advantage to the firms; in turn with increased manufacturing performance. Supply chain relation values interactions are of trust, collaboration, mutuality and commitment plus a willingness to share risks and effective communication reduce uncertainty and establish quality, delivery, quality and timing improvements.

### **2.3 Differences between domestic purchasing and foreign purchasing**

Domestic Purchasing or local purchasing is defined when the buying firm and its suppliers are located in the same country. While foreign purchasing relates to a commercial purchase transaction between a buyer and a supplier located in a different country. This type of purchase is typically more complex than a domestic purchase. Organizations must contend with longer material pipelines, increased rules and regulations, currency fluctuations, customs requirements, and a host of other variables such as language and time differences (e.g., Trent & Monczka, 2003). From the aspect of supply-chain management, foreign purchasing requires companies to set up a global manufacturing chain in order to make a rational purchasing plan and acquire the high-quality goods with a rational price. Besides, it is an effective way to measure and supervise the efficiency of purchasing processes so that it minimizes the total cost of purchasing.

In contrast to domestic purchasing, the foreign purchasing mode has the following characteristics (Fan, 2007)

#### **❖ Increased purchasing scope**

Because the scope of purchasing activities extends to the foreign arena and they no longer just focus on the resources available in one country, they can acquire their resources from all over the

world. Therefore, it is more possible for the companies to obtain their ideal resources and products with a rational cost because of the greater abundance of potential vendors. (Fan, 2007)

❖ **Increased purchasing risk**

Because foreign purchasing always involves a series purchases, companies usually buy the materials or goods on a larger scale, which requires greater monetary transactions. Larger scale transactions are exposed to greater risks due to currency fluctuations. Moreover, the cross-border transaction results in complicated procedures and processes, which exposes the company to lots of additional existing potential risks. (Fan, 2007)

❖ **Decreased purchasing price**

Because all possible resources from the whole world can be considered, the business can “shop around” to obtain the high-quality goods with a rational price through the mode of comparative cost. (Fan,2007)

❖ **The need for a systematic criterion in supplier selection**

Because the suppliers under the foreign purchasing come from different parts of the world, they hold various models, standards, and cultures. Hence, it is very significant for businesses to develop systematic and standardized criteria and conditions in order to select a dependable supplier. (Fan,2007)

## **2.4 Drivers of Foreign Purchase**

There are many reasons for sourcing abroad that vary according to the specific commodity required. Though, the primarily rationale for using foreign supplier is that superior value is expected to be available from that source than from a Domestic supplier. Liviu Lupu (2008). Studies indicate that importing firms expect an improvement in four critical areas by foreign purchases: Cost reduction, Quality improvement, Increased exposure to worldwide technology and Delivery and reliability improvements.

Some buying companies prefer to purchase from suppliers located nearby, who has a similar culture, speak the same language, do business in the same legal system, has a shorter

communication, and no currency exchange problems. However, the world is globalizing and the trade is gradual internationalizing. It gives opportunity for internal companies to source from abroad in commercial purchasing. Nowadays, perhaps for many organizations, and not just the multi-national corporations, turn foreign sourcing into mainstream sourcing. Baily (1998) suggest that the fundamental principle between purchasing from a foreign source and purchasing from a domestic source is quite similar, like that the purchased product has the same value and much the same range of systems are used in this pursuit. Further, Baily (1998) illustrate some reasons for foreign purchasing.

- The purchasers may be compelled to go abroad for buying what they are required. Because these products are not produced in domestic industries.
- The buyer may prefer to purchase new type and new model products from a foreign source that these special features cannot be found in domestic industries.
- Though domestic market offers products of the type required, the capacity cannot meet customers' demands. Therefore, it is necessary to use foreign source.
- For some strategic reasons, buyer should have a second source in foreign country in order to improve supply security.

## **2.5 Challenges of foreign purchase**

It may be possible to buy equivalent goods more cheaply abroad, because of lower raw material costs, larger quantities, lower production cost, better productivity, lower labor costs, or the rate of exchange. The main problems associated with foreign sourcing are shown by Baily (1998).

**Communication problem:** Language difference, time differences between countries or trading terminology differences may essential to cause communication difficulties. Hence mutual understanding is most important. Because English is the standard language of international trade, it is better to use English or other shared language in communicating their business and even in editing the contract in order to avoid some misunderstanding happening. Baily(1998)

**Currency differences:** The extent of exchange rates fluctuate will cause some considerable problems. The risk and uncertainty related to change in relative values between the importers' and the exporters' currencies have to be pay attention and executed. In addition, Baily(1998)

claim that prices can be stated in a third currency, such as US dollar, which can be used as the denominated currency in international trading.

**Payment:** Baily(1998) explain that the international transfer of funds poses its own difficulties, and usually need the third-party bank to facilitate this process. Hence, “this service will cost money, a cost not applicable in domestic sourcing” Baily (1998). Sometimes using foreign sourcing will cause the delay, a little bit longer time used for international transfer and more expensive spending associated with international cheque payments than using domestic sourcing.

**Different legal systems:** Most purchasers will buy from overseas through their representative offices or agents in foreign countries. The reason is that these foreign representative offices are familiar with all kinds of legal systems in the local country. It is relatively easy to organize and perform such matters as shipment, insurance, clearance, payment etc.

**Transport:** According to Baily (1998), road, rail, air, water and pipeline are considered as basic modes of freight transport. More than one mode may be used in delivering goods in international transactions. Therefore, some problems, for example delay associated with transport arrangements and congestion at important ports lead to ships queuing, will appear in the international transactions and it will cost expensive to solve these related problems.

**Customs:** Baily (1998) claims that, purchasers must pay attention to avoid unnecessary expense. Reducing the length of time of goods in Customs is very important for the company will deal with an overseas purchasing. Delay costs will be added by every day.

## **2.6 The Effect of foreign purchasing on Manufacturing performance**

Only a limited amount of empirical studies has investigated the outcomes of foreign purchasing. Moreover, several (especially qualitative) studies remained vague on the (performance)outcomes of foreign purchasing. When implemented properly, foreign purchasing should bring what it aims for: higher-quality products, cheaper products, access to worldwide technology, etc.

Studies have been conducted on the relationship between foreign purchase and firm's performance, for example Scully and Fawcett (1994) who cite some perceived advantages foreign purchase and several challenges to successful foreign purchase. However, they base them conclusions on a measure of the (perceived) performance impact of foreign purchase that is

simply an average of a set of managerial responses to the statement that foreign sourcing has improved the firm's overall performance. Another studies by Esther Ann Bolery Andreas Moxnesz Karen Helene Ulltveit-Moe, shows there is strong positive relationship between foreign purchase and firms' performance. Foreign purchasing is an important, yet underdeveloped, part of international business activities. While the literature on foreign purchasing strategy and purchasing strategy has revealed a positive impact on foreign purchasing and firm performance (e.g., Carr & Smeltzer, 1999; Carrle & Pearson, 2002), Another empirical review by (Cavusgil & Zou, 1994; Morgan, 2004) shows foreign purchasing affect performance positively. Studies have indicated that companies that implement Foreign purchasing in their strategic plans achieve better company performance (Samli & Browning, 2003). In contrast, to other studies, Marayat al. (1995) report that the component of purchasing has a significantly larger impact on firm performance than its foreign component. Kotabe et al. (1998) conclude that foreign purchasing of supplementary services is negatively related to market performance. An Empirical review by (Pieter Pauwels.,2006) show that the increasing coordination and integration of purchasing across countries brings additional firm performance.

## 2.7. Manufacturing Performance

Manufacturing performance, also called manufacturing capabilities or **operational performance** in the literature, measures the extent to which firms actually performed as intended, which are key elements of manufacturing strategy. As a measure of performance, it emphasizes on or is concerned with the immediate outcome of factory operations, and hence is often used only for the purpose of factory performance appraisal rather than overall, market or business, performance. It has narrow scope as compared to the other measures of performance because it measures performance only from plant perspective Getnet Begashaw (2015)

Table 1: Manufacturing Performance

<b>Manufacturing Performance Dimension</b>	<b>Internal performance measures</b>	<b>External performance measures</b>
Quality	Rework cost, percentage of passed	Conformance to agree upon specification, product performance
Delivery	Production lead time, accuracy of inventory status, dependability of internal lead times	Delivery lead time, on-time deliveries, stock availability
Cost	Unit cost of manufacturing, inventory turnover, capacity utilization, yield	Product selling price, market price
Flexibility	Set up time/cost, length of fixed production schedule, amount of operating capacity,	Product range, number of products offered, ability to handle volume and product mix changes

*Source:* Getnet Begashaw(2015)

### **2.7.1 Cost Performance**

There are many indexes for improving manufacturing performance of an organization, one of the basic is reduction of its cost. The basic reason behind is to minimize the cost for the purpose of efficiency and effectiveness of strategies and policies. Proper cost management implies the optimal use of resources for the efficiency of organization in order to create value for customers. Due to this rationale the satisfaction of customer's and loyalty and long-lasting wealth for the organization will be created. Effective way of managing cost is the result of managing decisions. Cost is an absolute term and measures the amount of resources used to produce the product. Slack and Lewis (2002) stress that all producers, even those whose primary source of competitiveness is different from product selling price, will be interested in keeping their costs low. Every dollar removed from the operation's overall cost is a dollar added to the bottom line profits. Therefore, cost performance is the most important of the different operational performance dimensions (Slack and Lewis, 2002), although cost often is ranked least important in empirical studies. Important to note is that a reduction in the actual cost of manufacturing does not necessarily translate to an equally large decrease in the products selling price, *i.e.* there are managerial degrees of freedom in the distribution of cost reductions.

### **2.7.2 Quality performance**

Quality is a multifaceted term. According to Garvin (1987) quality can be viewed from up to eight different perspectives; performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality. Within manufacturing operations, the conformance dimension is most influential since it refers to the process' ability to produce products to their predefined specification reliably and consistently (Ward., 1996; Slack and Lewis, 2002). High levels of conformance quality must be attained before trying to improve any other of the performance dimensions. The logic being that scrap and rework is the outcome from poor conformance quality which in turn requires more buffers and the like. Higher total levels of inventory increase production lead times and thus negatively influence delivery performance. Internal measures of quality performance include percentage of products that pass final inspection, scrap rate among others. Customer satisfaction is often regarded as the prime measure of external quality performance.

### **2.7.3 Delivery performance**

The two main dimensions of delivery performance are delivery reliability and delivery speed (Ward, 1996). Delivery reliability is sometimes referred to as dependability or on-time delivery and concerns the ability to deliver according to a promised schedule or plan. This sub dimension of operational performance is often regarded a prerequisite. Delivery speed is concerned with the length of the delivery cycle. Ward (1996) argues that although the dimensions are separable, long run success requires that promises of speedy deliveries be kept with a high degree of reliability. There is a caveat with the delivery dimension, companies in different environments relate differently to both delivery speed and reliability. Delivery speed is, from a market perspective, the elapsed time from the receipt of a customer order to final delivery (Handfield and Pannesi, 1992). This definition is quite straightforward for companies operating in a make-to-order environment. However, for companies operating under a make-to-stock strategy this definition is rather strange since the actual customer order enters the system more or less on the shelf leading to a delivery.

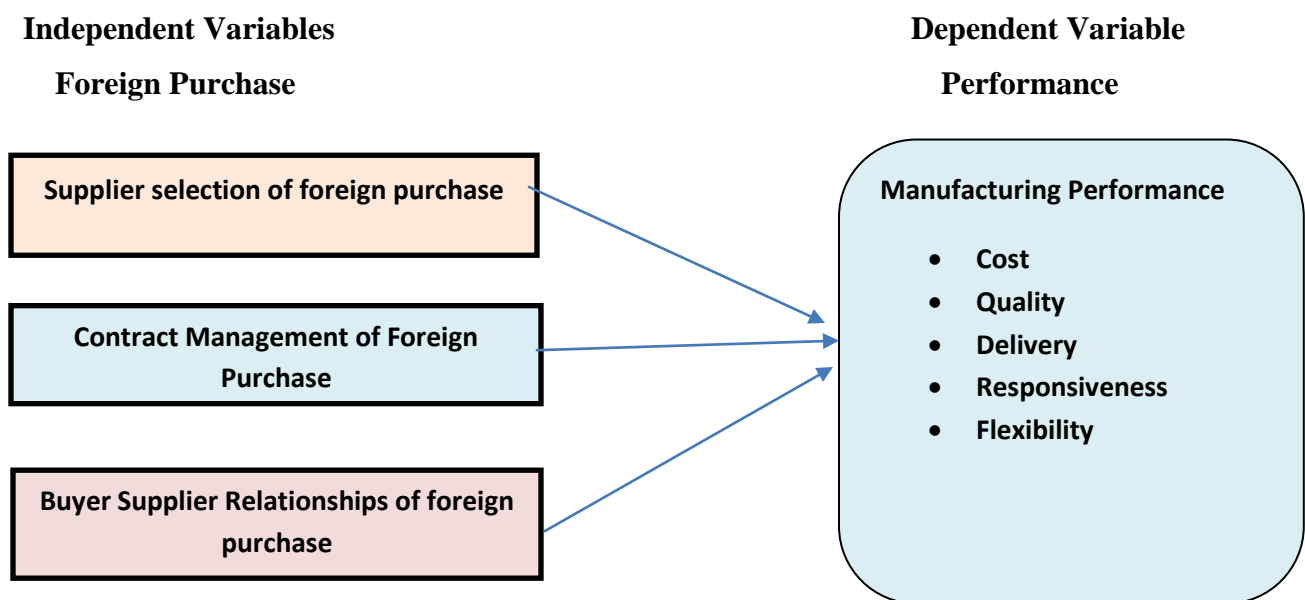
### **2.7.4. Flexibility Performance**

Flexibility is also regarded to be a multidimensional concept (Sethi and Sethi, 1990; Gerwin, 1993) define four dimensions of manufacturing flexibility; volume, variety, process and material handling flexibility. Further, they note that volume and variety are “mainly externally driven” towards meeting the needs of the market. Similarly, Suarez *et al.* (1996) and Slack (1987) proposes volume, mix, new-product, and delivery-time flexibility as those types that directly influence the competitive position of the company. Within existing manufacturing operations the most influential types are the ability to adjust manufacturing volume and the ability to change between products. A property that distinguishes flexibility from other dimensions of operational performance is that it is a measure of potential rather than actual performance. Also, the level of flexibility is not directly evaluated by the customer; it is more of an operational means to provide possibilities for more customised products and product deliveries (Slack, 1983). Flexibility can thus be referred to as an enabler, enabling the manufacturing system to offer shorter delivery lead times, wider product range *etc.* The externally visible properties of a highly flexible manufacturing system include a very broad product range, major opportunities to product customization and highly flexible delivery times (Slack, 1983).

## 2.8. Conceptual Framework

To illustrate the fundamental concepts of the effect of Foreign Purchase, there is need to understand the conceptual framework that integrates the independent and dependent variables. an independent variable is a property of a phenomenon which influences or affects others while a dependent variable is one which is influenced by the independent variables (Nyile Erastus Kiswili and Shale Noor Ismail ,(2016). The conceptual framework of the effect of Foreign Purchase is illustrated in the figure that follows.

Figure 1: Conceptual Framework



Source: Develop from Cherotich Rotich Joyce.,2012 and Khaled. Khalf . Alafi.,2014

## **2.9. Identified Literature Gap**

Most studies that have been conducted to determine the effect and relationship between foreign purchase and manufacturing performance used secondary data from already published journals and the researcher believes that the research conducted so far on these areas is very limited and is not fully articulated and described yet with the difference that each of them studied the topic according to the specific dimension of issue in order to analyze the data. But, this study depends on primary data which allows the researcher to get firsthand information on current business environmental activities and see the effect of foreign purchase on three dimensions. This research is therefore an attempt to fill the research gap on the effect of foreign purchase on manufacturing performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter presents the research methodology that was used in carrying out the research study by describing the research design, sampling, data collection approaches and instrument, Validity, Reliability and finally, approach to data analysis. Selection of research methods depends on the research objectives, nature of the subject and implementing facilities. The purpose of selection of research methodology is to identify an approach to find out the answer to the research questions more exactly and easily. The research methodology used in this study aims at to assess the Effect of Foreign purchase on manufacturing performance of Ethiopian manufacturing sector: in the case of SFP.

#### **3.2 Research Design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. (C.R.Kothari, 2004)

This study designs the causal research design. Causal research also called explanatory research is the investigation of cause and effect relationships in order to determine causality; to observe variation in the variable that is assumed to cause the change in the other variable and then measure the changes in the other variable using statistical methods.

#### **3.3. Research Approach**

In order to accomplish the main objective of the research, A quantitative research approach were used to provide an answer for the problem studied. According to C.R.Kothari, (2004) defined quantitative research as a formal, objective and systematic processes in which numerical data are utilized to obtain information. Quantitative research generates statistics through the use of large-scale survey research, using methods such as questionnaires or structured interviews.

### 3.4. Target Population and Sample Size

All items in any field of inquiry constitute a Universe or Population (Bhattacharjee, 2012), A population as all people or items (unit of analysis) with the characteristics that one wishes to study. A sample is a subset of your population by which you select to be participants in your study. (Bhattacharjee, 2012), defines a sample as a portion of the population that has attributes as the entire population.

A representative sample for questionnaire was selected from 255 employees of Senselet of food processing based on probability sampling techniques called stratified sampling on random sampling base. It was employed based on the strata of the departments and random table. The reason for using stratified sampling is that first, we can have more precise information inside the sub-population about the variables we studied. And second, we can raise precision of the estimate of the variables of the whole population.

This study applied Taro Yamane's (1973) simplified formula to determine the required sample size at 95% confidence level, and allowable error = 0.05% and number of employees are professional who are related with the lines of foreign purchase of the company are 255.

$$n = \frac{N}{1+N(e)^2}$$

Where 'n' is the sample size, N is the total number of employees in line with foreign purchase, and 'e' is the level of precision.

Substitute numbers in formula:

$$n = \frac{255}{1+255(0.05)^2}$$
$$n=155$$

After calculating the sample size by substituting the numbers into the Yamane formula, the numbers of sample are 155.

**Table 2. Sample size proportion in each department.**

No	Name of departments	No of employee's	Sample size proportion
1	Logistics and Distribution	27	$\frac{27*155}{255} = 16.51 \sim 17$
2	Ware house and Quality	12	$\frac{12*155}{255} = 7.29 \sim 7$
3	Production and Operation	171	$\frac{171*155}{255} = 103.94 \sim 104$
4	Supply Chain	45	$\frac{45*155}{255} = 27.35 \sim 27$
	<b>Total Population</b>	<b>255</b>	<b>155</b>

**Source: Own survey result, 2018**

According to the above formula given above, 155 employees became a representative sample for the study. This study considers permanent employees of the company which are selected using simple random sampling.

### **3.5 Data Collecting Source and Techniques**

The Data collection techniques that were used for this study are categorized into primary data collection techniques, where Primary data was collected through questionnaires from selected sample respondents, and secondary data collection techniques whereby, the data already recorded in the form of journal, articles, books, and other unpublished materials are collected and hence are compiled together to give essence to what the research is trying to find out.

Besides, for the sake of developing conceptual frame work the researcher used secondary data sources. These secondary data were obtained from published databases related to the study.

### **3.6 Data collection procedure**

To achieve the objectives of this research, the researcher collected both primary and secondary data. For the sake of collecting primary data's the researcher used questionnaire. Primary data provide by the respondents is the focus of this study. According to C.R.Kothari, (2004), the major advantages of questionnaires are that they can be administered to groups of people simultaneously; they are less costly and less time-consuming, Respondents, who are not easily approachable, can also be reached conveniently and large samples can be made use of and thus the results can be made more dependable and reliable than other measuring instruments. For this

study, the researcher uses semi structured questionnaire to collect data related to Foreign purchase and manufacturing performance.

### **3.7 Data Analysis**

The data of this study were analyzed using computer through package software (SPSS: Statistical Package for Social Sciences. v22). Some statistical methods were employed:

- In this research data were analyzed using computer through software package called SPSS (Statistical Package for Social Sciences), version 22. The following are some statistical methods the researcher was employee while conducting this research.
- The demographic background information of the respondents were analyzed and presented using descriptive statistics in the form of frequency and percentage.
- To assess the practice of Foreign Purchase, measures of central tendency such as mean and standard deviation were used.
- Correlation Analysis and simple linear regression were used to determine the relationship between Foreign Purchase and Manufacturing performance from 3 dimension.
- The scoring of questionnaire were analyzed by using five-point Likert scale.

### **3.8. Model specification**

To determine the relationship between the three dependent variables and their respective independent dimensional variables, the study has employed the classical linear regression model. The general formula adopted for this study is

$$MP = \alpha + \beta_1 (SS) + \beta_2 (CM) + \beta_3 (BS) + e$$

Where the variables are defined as:

MP- Manufacturing Performance

SS- Supplier Selection of Foreign Purchase

CM – Contract Management of Foreign purchase

BS- Buyer Supplier Relationship of Foreign purchase

e - error term

### 3.9. Reliability and Validity Test

#### 3.9.1. Reliability

According to Golafshani (2003) reliability is defined as the extent to which results of a study are consistent over time and there is an accurate representation of the total population under study. Toke, (2012) said that the aim of reliability analysis is to find the extent to which a measurement procedure produced the same result if the process is repeated over and over again under the same conditions. The Chronbach Alpha statistics the most pressing techniques used in the literature to assess the scale's reliability and stability. Chronbach Alpha should be over 0.70 to produce a reliable scale and any scale with Chronbach Alpha less than this standard should be eliminated. Sharma B., (2016)

Reliability Statistics: Dependent variable

Cronbach's Alpha	N of Items
.849	5

Reliability Statistic: Independent variables

Cronbach's Alpha	N of Items
.789	18

#### 3.9.2 Validity

As per Mugenda (1999) for a research tool to be valid it needs to have three components, the first one is construct validity which deals with the consistency of the questions with the responses intended by the researcher. Structuring the questionnaire as per the specific objectives will assure this component of validity. Content validity is the second component which means the ability of an instrument to gather the data required for the analytical techniques suggested. Using close ended question will assure avoidance of irrelevant answer. To ensure internal validity of the questionnaire, the researcher gave the draft questionnaire to the department managers for review and recommendations which are to be made portion of the final questionnaire. Internal validity is assured by rearranging the questions according to the comments to be given by the respondents in order to keep the flow of questions.

### **3.10 Ethical Consideration**

Ethical issues are so sensitive that everyone undertaking a research should be careful and aware about. The researcher addressed ethical considerations of confidentiality and privacy. The respondents participated in response of questionnaire were expressed their full consent to participate in this study and also, they were not required to write their name on questionnaire, they were notified to kept their response confidential and used for only academic purpose. The response that the participants gave were analyzed without any change by the researcher. In addition, the reference works of other researchers and authors are cited appropriately.

## **CHAPTER FOUR**

### **RESULTS, INTERPRETATION AND DISCUSSION**

#### **4.1 Introduction**

Under this chapter the analysis and interpretation were carried out based on the data collected through questionnaire from four departments (i.e. Distribution and Logistics, ware house and Quality, production and operation and Supply chain). Based on the methodologies, research design and tools of the proposal, the data was analyzed. The data was meant to collect from 155 respondents. However, only 143 of them returned the questionnaires. Therefore, 143 were effectively used for analysis that shows a response rate around 92 percent. Data analysis, discussion and interpretation of the results are presented in the following subheadings: presentation of demographic data and frequency of respondents, analysis of mean, analysis of correlation and analysis of simple linear regression.

#### **4.2 Demographic data presentation and analysis**

Observing the demographic trend or characteristics of our sample population before starting the data analysis is useful to make the analysis more meaningful for the reader. This part of the questionnaire requested limited amount of information related to personal and demographic status of respondents.

The purpose of demographic analysis in this research is to describe the characteristics of the sample such as proportion of male and female in the sample, department of respondents, academic qualification of respondents and experience of respondents. Accordingly, these variables are summarized and described in tables shown below.

**Table 3.** Demographic profile of respondents

<b>Variable</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender of respondents:</b>		
Male	89	62.2
Female	54	37.8
Total	143	100
<b>Department:</b>		
Distribution & Logistics	17	11.9
Ware house and quality	7	4.9
Production and operation	92	64.3
Supply Chain	27	18.9
Total	143	100
<b>Diploma</b>		
Diploma	117	81.8
First Degree	24	16.8
Master's degree	2	1.4
Total	143	100
<b>Experience of respondents:</b>		
< 1 year	17	11.9
1-5 years	57	31.9
6-10 years	64	52.8
>10years	5	3.5
Total	143	100

Source: Own survey result, 2018

As the above table shows that the gender distribution of respondents in SFP covers 62.20 percent of male and 37.8 percent of female, respectively. This implies that the gender distribution SFP is dominated by male employees.

The respondents were also asked to indicate the departments they had assigned while they are in SFP and the result implied that, the department of Distribution and logistics counts 11.90 percent and ware house and quality covers 4.90 percent, respectively. And also, the department of production and operation counts 64.30 and Supply chain counts 18.90 percent. Accordingly, the dep't of production and Operations accommodate large number of employees.

Concomitantly, the results of respondents associated with their educational background show that, 81.80 percent of the respondents have Diploma, 16.8 percent are first degree holders and 1.4 percent have Master's Degree. This indicates that all the total population have diploma and above which paves them a way to adopt a better foreign purchase practices in the company by providing relevant and accurate information needed for the study.

Ultimately, the output in Table 2. shows that, 11.9 percent of the respondents indicated that they have work experience of < 1 year, 31.90 percent of the respondents indicated that they had work experience of 1 to 5 years while 52.8 percent of the respondents said that they have a work experience of 6-10 years. Besides, 3.50 percent of the respondents have a work experience of > 10 years. The results indicate > 55 percent of the total population have a work experience more than 6 years so that they can understand the effect of foreign purchase on their manufacturing performance so the researcher believe that most of them understand and provide information what the questionnaire required to complete. The respondents experience helped them aware of the modern application and implication of foreign purchase procedures at the company level and therefore they gave the correct and accurate information the researcher needed for the study.

### **4.3 Descriptive Analysis**

The mean or average is a measure of central tendency that offers a general picture of the data without unnecessarily covering one with each of the observations in the data set. The mean of respondents in each dimensions of foreign purchase suggest that the average amount that each dimension has positive or negative response of respondents. In this case, the mean of each item together with their respective dimension overall mean/average mean was calculated in order to conclude the overall foreign purchase practices in SFP. The mean statistical values of the items

were based on the 5 point Likert scale and were illustrated through the following assumptions: if the mean (M) score is below 3 it implies that the respondents“ disagree with the statement, if the mean score is equal to 3 it indicates that the respondents“ prefer to stay Neutral, and finally if the mean score is above 3 it implies that the respondents” agree with the statement. Accordingly, the mean scores have been computed for all the three foreign purchase dimensions that includes supplier selection of foreign purchase, contract management of foreign purchase and buyer supplier relationship of foreign purchase and also the dependent variable manufacturing performance by equally weighting the mean scores of all the items under each dimension. The average means result of each foreign purchase dimension together with their respective variables was separately presented, analyzed and interpreted as follows.

#### 4.3.1 Supplier Selection of foreign purchase

**Table 4.** Mean value of supplier selection of foreign purchase

<b>Items</b>	<b>Mean</b>	<b>Std. Deviation</b>
The company consider foreign supplier selection as the most important part of purchasing function	3.65	1.25
The company use proper foreign supplier selection process to achieve sourcing objective of the company	4.15	0.901
The company have control over supplier selection team	2.63	1.422
The company change the selection criteria over time depending on the situation	2.38	1.112
The company involve foreign suppliers on the new product development in order to get information about the foreign supplier	3.98	1.859
<b>Average mean value</b>	<b>3.4</b>	

**N=143**

Table 4 findings shows that, the respondents agree to a great extent that The company consider foreign supplier selection as the most important part of purchasing function with (M=3.65); that The company use proper foreign supplier selection process to achieve sourcing objective of the company(M=4.15) and the company Involves suppliers on the new product development in order to get information about the foreign supplier (M=3.98). on the other side the respondents agree to less extent that the company have control over supplier selection team (M=2.63) and that with regard to the company change the selection criteria over time depending

on the situation scored (M=2.38) respectively. This result indicated that supplier selection of foreign purchase needs deep consideration in order to enhance manufacturing performance of a firm, as literature indicate that supplier selection is a crucial purchasing activity for many firms as it could improve on the firm's performance and core competencies (Hsu, Kannan, Leong and Tan, 2006).

#### 4.3.2 Contract Management of foreign purchase

Table 5. Mean value of contract management of foreign purchase

Items	Mean	Std. Deviation
contract management team in your organization have the necessary relevant qualification, skill, knowledge and experience in the area	3.66	1.016
The Foreign Supplier undertakes his duties and fulfills his obligations in compliance with the contract	3.08	.58
The organization can identify any issues or problems in advance that could arise and offer timely solutions	3.26	.694
The organization controls and manages contract Variations	3.99	.996
Uses appropriate procedures to resolve possible differences with foreign supplier	2.10	1.026
There is timely management of possible problems in the contract	3.75	.717
The company believes that good contract management will benefit both foreign supplier and the company itself	3.80	.5232
<b>Average mean value</b>	<b>3.37</b>	

**N=143**

As per the study findings, most of the respondents agreed to a great extent that the organization controls and manages contract variations (M=3.99) and the company believes that good contract management will benefit both foreign supplier and the company itself with mean value of (M=3.80). On the other hand, most of the respondents agreed to a moderate extent that there is timely management of possible problems in the contract (M=3.75), and the contract management team in your organization have the necessary relevant qualification, skill, knowledge and experience in the area (M=3.66), The organization can identify any issues or problems in advance that could

arise and offer timely solutions (M=.3.26) and the foreign supplier undertakes his duties and fulfills his obligations in compliance with the contract (M=3.08) and the respondent disagree that the organization uses appropriate procedures to resolve possible differences with the foreign supplier (M=2.10). The finding depicts contract management of foreign purchase in SFP reflected poor in using appropriate procedure to resolve possible difference.

Sanghera (2008) that effective foreign purchase contract management is determined by use of highly skilled and experienced professionals; effective evaluation procedures; clear description of processes and contract management plans; precise definition of roles; well management of contractor's performance; win-win situation for both parties; strategic decisions and right contracts; taking preventive actions and provision for changes (flexibility) and affects firms performance positively.

### **4.3.3 Buyer-supplier relationship of foreign purchase**

The other critical dimension of foreign purchase is Buyer supplier relationship. The table below depicts that respondents strongly agree that Feels your supplier is a business partner in this relation with mean value (M=3.78),The company care for supplier as your customer(M=3.19),the respondents also strongly agree that know the strong points and weak points of your supplier(M=3.70) and There is teamwork and commitment in the relation between your organization and supplier with mean value(M=4.11).The respondent disagree that sharing classified information with mean value (M=2.97) and considering the supplier honest with mean and standard deviation scored of (M=2.55). This finding shows Buyer supplier relation needs improvement in the area of share classified information and in considering the supplier is honest. Good relationship between buyers and suppliers had a positive significant impact on manufacturing performance; a good relationship between suppliers and buyers led to meeting customers' requirement and created a good competitive advantage to the firms; in turn positively affects manufacturing performance. (Khaled. Khalf . Alafi.,2014)

Table 6. Mean value of Buyer supplier relationship of foreign purchase

Items	Mean	Std.Deviation
Feels your supplier is a business partner in this relationship	3.78	.599
Supplier ready to share classified information	2.97	.306
The company care for suppliers as your customers	3.19	.505
Perceives that your supplier is completely honest	2.55	.594
Know the strong points and weak points of your supplier	3.70	1.544
There is teamwork and commitment in the relation between your organization and supplier	4.11	.640
Average Mean value	3.38	

N=143

#### 4.3.4 Manufacturing Performance

As per table 6 from the dimensions of manufacturing performance we can conclude that the majority of the respondents agreed that the company has been able to meet its cost reduction goals, the overall ability of the organization to respond to the needs of its target markets, the company ability to meet its quality improvement goals, the company ability to meet its deliverability goal and the company ability to meet its customization responsiveness.

Table 7. Mean value of manufacturing performance

Items	Mean	Std.Deviation
The company has been able to meet its cost reduction goals	<b>3.87</b>	<b>.821</b>
The overall ability of the organization to respond to the needs of its target markets	<b>3.82</b>	<b>.709</b>
The company is able to meets its quality improvement goal	<b>4.02</b>	<b>.688</b>
The company delivers customer order on time	<b>3.79</b>	<b>0.596</b>
The company has been able to meet its customization responsiveness goals.	<b>3.98</b>	<b>.681</b>
Average Mean value	3.896	

N=143

Many studies have investigated the relationship between foreign purchase and manufacturing performance, and it is generally accepted that the former enhances the latter. For example, Carter and Narasimhan (1994) research that foreign purchasing plays a prominent role in manufacturing performance which interfaced in quality improvement and followed by innovation in new product development. These components are part of manufacturing capabilities which plays an important role on manufacturing performance. Furthermore, in later study by Das and Narasimhan (2000) also revealed that foreign purchasing creates significant impact on manufacturing quality, delivery and cost beside research and development on new product introduction and unique customization.

All calculated mean scores of foreign purchase and manufacturing performance dimensions that have discussed above indicated better practice as all the mean scores of each foreign purchase dimension is above 3.00.

#### **4.4 Correlation Analysis**

Under research investigation any one needs to know how one variable is related to another which comes with the concept of correlation. Correlation is the relationship between two variables.

Hence, in this study Bivariate Pearson Coefficient ( $r$ ) was used to examine the relationship between the variables by using a two-tailed test of statistical significance at the level of 95% significance,  $P < 0.01$ . Interpretation of correlation coefficient ( $r$ ) size is as follows: if the correlation coefficient falls between 0.1 to 0.20, it is slight correlation or small; if it is between 0.20 to 0.40 is low correlation or weak relationship, if it lies between 0.40 to 0.70 moderate; if it falls along 0.70 to 0.90 high correlation or substantial relationship and if it is within 0.90 to 1.00 it is very high correlation or very strong correlation between variables (Burns, 2008).

**Table 8: Correlations of Independent Variable with Dependent variable**

		Mss	Mcm	Mbs	MMP
Mss	Pearson Correlation	1	.529**	.627**	.632**
	Sig. (2-tailed)		.000	.000	.000
	N	143	143	143	143
Mcm	Pearson Correlation	.529**	1	.670**	.800**
	Sig. (2-tailed)	.000		.000	.000
	N	143	143	143	143
Mbs	Pearson Correlation	.627**	.670**	1	.855**
	Sig. (2-tailed)	.000	.000		.000
	N	143	143	143	143
MMP	Pearson Correlation	.632**	.800**	.855**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	143	143	143	143

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

Table 8 shows the correlation coefficient of all the three-independent variable of foreign purchase are highly and positively correlated with dependent variable. In this study buyer supplier relationship of foreign purchase is highly and positively correlated with manufacturing performance ( $r=0.855$ ,  $p<1$ ), contract management of foreign purchase is positively and highly correlated with manufacturing performance( $r=0.800$ ,  $p<1$ ) and supplier selection of foreign purchase is positively and moderately correlated with manufacturing performance ( $r= 0.632$ ,  $p<1$ ). In general, the finding depicts that all are important determinants of foreign purchase and significant to show the effect of foreign purchase on manufacturing performance.

## 4.5 Regression Analysis

Regression analysis is a set of techniques that can enable us to assess the ability of an independent variable(s) to predict the dependent variable(s). As part of the analysis, Regression Analysis was done. All results are shown below:

A Pearson correlation matrix indicates the direction, strength, and significance of the bivariate relationships of all the variables in the study. The significance of the table is to diagnose collinearity problem for multi collinearity cases. This can pick up on problems with multi collinearity that may not be evident in the correlation matrix. Tolerance and VIF are tools measure collinearity statistics, Tolerance level: is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculating using the formula  $1-R^2$  for each variable. With its cuts, off less than 0.10 for point and VIF (1.709,1.883 and 2.236) for both measurements there is no value less than 0.10 in tolerance level and there is no point greater than 10 points in VIF value. These results enable the researcher to say the correlation of each independent values are consistent with the multi collinearity assumption.

**Table 9. Multi collinearity coefficients**

Model	Collinearity Statistics	
	Tolerance	VIF
Supplier Selection	.585	1.709
Contract management	.531	1.883
Buyer-supplier relationship	.447	2.236
dependent Variable: Manufacturing performance		

Source: Own survey Result, 2018

**Table 10. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.911	.829	.826	.23180

a.Predictors: (Constant), Supplier Selection, Contract management and Buyer-supplier relationship.

b.Dependent Variable: Manufacturing Performance

Source: Own survey result, 2018

The model summary displays the R value was +0.911 showing a positive direction of R is the correlation between the observed and predicted values of the dependent variable. The sign of R indicates the direction of the relationship (positive or negative). R square indicates the strength, larger R square values indicating stronger relationships. Thus, the R value at 0.911 shows a stronger relationship between observed and predicted values in a positive direction. The coefficient of determination  $R^2$  value was 0.829. This shows that 82.9 % of the variance in dependent variable (manufacturing performance) was explained and predicted by independent variables (supplier selection of foreign purchase, contract management of foreign purchase and buyer-supplier relationship of foreign purchase). This leaves 17.10% unexplained.

**Table 11. A NOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.2983	3	12.099	225.181	.000 <sup>b</sup>
	Residual	7.469	139	.054		
	Total	43.766	142			

a. Dependent Variable: Manufacturing performance

b. Predictors: (Constant), Supplier Selection, Contract management and Buyer-supplier relationship.

Source: Own survey result, 2018

In the ANOVA sub table, we have the F value of 225.18 which is significant with  $p < 1$ . This informs us that the three independent variables taken together as a set are significantly related to the dependent variable.

**Table 12.** Beta coefficient and significance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.158	.200		5.791	.000
	Mss	.108	.057	.087	1.897	.060
	Mcm	.586	.071	.395	8.221	.000
	Mbs	.816	.080	.536	10.225	.000

a. Dependent Variable: Manufacturing performance

Source: Own survey result, 2018

In table 12 the constant value represents the value of the manufacturing performance when all predictors equal zero. The second column in the table displays the respective unstandardized coefficients (B) of the regression equation. Using these coefficients the regression equation for manufacturing performance and its three predictors is written as follows.

$$MP=1.158+0.39CM+0.54BS+e$$

Where MP: is the predicted score for manufacturing performance

The standardize beta value shows the number of standard deviations that the outcome will change as a result of one standard deviation change in predictor. The standard deviation units are directly comparable; therefore, they provide a better insight in to the importance of a predictor in the model. The large the value of beta coefficient in an independent variable means the more important determinant the variable is in predicting the dependent variable. The standardize beta value for buyer supplier relationship of foreign purchase dimension is 0.536. This implies that, this variable has relatively strong degree of importance for analyzing the effect of foreign purchase on manufacturing performance, followed by contract management of foreign purchase and supplier selection of foreign purchase whose beta value equals 0.395 and 0.087, respectively. When you look at the above table, variables with higher beta values have higher level of significance so that they can contribute a lot in explaining the dependent variable. Also, variables with a lower beta coefficient have a lesser level of significance and cannot contribute a lot in explaining the dependent variable.

In table 12 the t-test values are used to determine whether the predictor is significant. The p values in the last column of the table indicate the probability of obtaining the computed t-value. The finding shows that Supplier selection of foreign purchase is not significant predictor of manufacturing performance. The table depicts Contract management of foreign purchase and Buyer supplier relationship of foreign purchase is significant predictor of manufacturing performance.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter provides the summary of major findings, conclusions and recommendation of the study.

#### 5.1 Summary of the findings

Across the research process, the researcher investigated the effect of foreign purchase on manufacturing performance of Ethiopian manufacturing sector: in the case of SFP, exemplified the relationship that exists between the manufacturing performance and foreign purchase dimensions, analyzed the dimensions of foreign purchase with the intent of knowing the strength of the relationship of the dimensions in this particular case. So as to achieve the stated objectives, quantitative approach. correlation and regression analysis were used based on the data collected from the employees of the company.

From the demographic characteristics of respondents", the lion share is taken by (62.2%) was male and the remaining (37.8%) were female respondents. Besides, the large number of respondents who participated in the study survey was from the department of production and operation covering more than half of the total participants which is 64.30%. In relation to their qualification level, the respondents had a minimum of diploma in which we can infer that it is stacked with educated employees. Finally, when the researcher came to the work experience of the respondents, they had adequate exposure to the work area and had a potential of bringing change to the firm which reasonably increase the validity (as a whole the quality) of this research.

The analysis result depicts that the mean score values of dimensions of foreign purchase such as supplier selection of foreign purchase, contract management of foreign purchase and buyer-supplier relationship of foreign purchase were above the average mean value.

The result of correlation analysis depicts that supplier selection of foreign purchase has positively and strongly correlated with manufacturing performance at ( $r=0.632$ ,  $p<0.1$ ). The result agreed with the finding of (Tracey and Tan 2001), According to the study supplier selection of foreign purchase has a major impact on manufacturing and business performance of a firm.

The finding also shows that contact management of foreign purchase has also positively and strongly correlated with manufacturing performance at ( $r=0.800$ ,  $p=0.1$ ). This finding agreed

with (Aberdeen.,2006) which emphasis that effective foreign purchasing contract management is a systematic practice for creation, execution and analysis of purchasing contact and maximizes manufacturing performance of a firm.

Buyer-supplier relationship of foreign purchase is another dimension, it is positively and strongly related with manufacturing performance at ( $r=0.855$ ,  $p<0.1$ ), The result agreed (Janda and Seshadri,2001) Good relationship with supplier add to firm's financial performance, the relationship between buyer and supplier builds up effective communication on information sharing and trust which lead to improved manufacturing performance.

Finally, the value of regression analysis shows that supplier selection of foreign purchase is not significant predictor of manufacturing performance. Contract management of foreign purchase and buyer-supplier relationship of foreign purchase have statistically significant effect on the manufacturing performance of the company. The study finding shows that 82.9% of variance in dependent variable (manufacturing performance) is explained by the independent variable.

The results of regression analysis depict also that buyer-supplier relation of foreign purchase has strong degree of analyzing manufacturing performance followed by contract management of foreign purchase and supplier selection of foreign purchase.

## **5.2 Conclusions**

Under this study three research questions were developed and addressed in this research.

The first research objective of the study was to examine the effect of supplier selection of foreign purchase on manufacturing performance of SFP, from the finding the researcher can conclude that supplier selection of foreign purchase has insignificant effect on manufacturing performance of SFP.

The second research objective of the study was to find out the effect of contract management of foreign purchase on manufacturing performance of SFP and from the finding the researcher conclude that contract management of foreign purchase has a positive and significant effect on manufacturing performance of SFP.

The Third research objective of the study was to examine the effect of foreign purchase on manufacturing performance of SFP and from the finding the researcher conclude that buyer-supplier relationship of foreign purchase has a positive and significant effect on manufacturing performance of SFP.

Based on the indication of variables in regression analysis, it can be possible to conclude that the two foreign purchase dimension Buyer supplier relationship and Contract Management has significant effect on manufacturing performance. In contrast the regression analysis show Supplier selection is not significant predictor of manufacturing performance.

### 5.3 Recommendation

By relying on the study findings, the researcher suggests the following points as credible recommendations to the problem.

- The study recommends that in order to improve supplier selection of foreign purchase which positively influence manufacturing performance of the organization, the researcher recommends the manufacturing firm to assess and gather feedbacks about the foreign supplier from other customer, it is also good for the manufacturing firm to involve the foreign supplier in developing new products, in addition to that the researcher recommends the manufacturing firm to arrange companies proper foreign supplier selection process and to consider different factors that can help the company to achieve its competitive advantage and strategic need because without effective foreign supplier selection it is very difficult to achieve manufacturing performance.
- The study also recommends that the manufacturing firms should ensure that foreign purchase contract management is properly managed, the firm must work out to have skilled and experienced manpower in the area of foreign purchase contract management by giving trainings and coaching its employees , plus the firm must identify any issues or problems in advance that could arise and offer timely solutions because contract management avoid dispute and solve misunderstanding between the supplier and buying company. The study also recommends timely management of possible problems in the foreign purchase contract.
- Lastly the study recommends that manufacturing firms must have good buyer supplier relationship when practicing foreign purchase since the study find out that buyer supplier relationship positively affects manufacturing performance. Therefore, the firm should have to working closely to build strong and good relationship between the buying company and supplier company to have smooth and long-term purchasing relationship.

## **5.4 Further Research for the study**

The subsequent areas of further studies are recommended:

- A study that will assess the challenges affecting foreign purchase in the food products manufacturing industry so that it will expose the effect that need to be addressed for improved performance.
- The researcher recommends that researchers need to undertake a comparative analysis on the effect of foreign purchase on operational/manufacturing performance with other similar businesses that are found in the country.
- Future researches should also conduct a study that will assess the barriers of foreign purchase implementation in food manufacturing industry. This study will be important in that it will help the firm to identify areas within the market that require to be polished in order to increase the performance.
- The study is limited to manufacturing firms and hence the model might not work in other sectors of the economy. So future researches might focus on replicating this model in the service and other sector of the economy.

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Appendix 1  
**Research Questionnaire**

**Department of Logistics and Supply Chain Management**  
**Addis Ababa University School of Commerce**  
**Research-Questionnaire on The Effect of Foreign Purchase on**  
**Manufacturing Performance of Ethiopia Manufacturing sector: The**  
**case of Senselet Food Processing PLC**

**Dear Respondent**

This questionnaire is designed to assist the researcher to make an objective assessment on the Effect of Foreign Purchase on Manufacturing Performance of Ethiopia Manufacturing Sector: In case of Senselet Food Processing plc. The exercise is basically academic and your answers will be treated with the utmost confidentiality they deserve. The researcher is postgraduate student of Logistics and Supply Chain Management in Addis Ababa University School of Commerce.

Your maximum co-operation is highly anticipated. Please tick (√) the response applicable to you.

**Instructions**

You are requested to fill out your personal information in the spaces below. Please tick only one response.

**SECTION A: DEMOGRAPHIC CHARACTERISTICS**

**1. Gender**

a) Male                       b) Female

**2. Department:**

a) Logistics and Distribution                       c) Production and operation   
b) Warehouse Operations                       d) Supply Chain and Purchasing

**3. Qualification:**

1) Diploma     2) First Degree     3) Master's degree

4) PhD

**4. Experience**

a) Less than 1-year                       b) 1-5-year                       c) 6-10 year

d) More than 10 years

**SECTION B: The Effect of Foreign Purchase on Manufacturing performance of Ethiopian Manufacturing Sector: in case of SFP**

Part I: Please Tick the appropriate number to indicate the extent to which you agree or disagree with each statement. The item scales are five-point Likert type scales with 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

	<b>Supplier Selection of foreign Purchase</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1.</b>	The firm consider foreign supplier selection as the most important part of purchasing function					
<b>2.</b>	The company use proper foreign supplier selection process to achieve sourcing objective of the company					
<b>3.</b>	The company have control over supplier selection team					
<b>4.</b>	The company change the selection criteria over time depending on the situation					
<b>5</b>	The company involve foreign suppliers on the new product development in order to get information about the foreign supplier					
	<b>Buyer-Supplier Relationship of foreign purchase</b>					
<b>1.</b>	Feels your supplier is a business partner in this relationship					
<b>2.</b>	Supplier ready to share classified information					
<b>3.</b>	The company care for suppliers as your customers					
<b>4.</b>	Perceives that your supplier is completely honest					
<b>5.</b>	Know the strong points and weak points of your supplier					
<b>6.</b>	There is teamwork and commitment in the relation between your organization and supplier					
	<b>Contract Management of Foreign purchase</b>					
<b>1.</b>	contract management team in your organization have the necessary relevant qualification, skill, knowledge					

	and experience in the area					
<b>2.</b>	The foreign Supplier undertakes his duties and fulfills his obligations in compliance with the contract					
<b>3.</b>	The organization can identify any issues or problems in advance that could arise and offer timely solutions					
<b>4.</b>	The organization controls and manages contract Variations					
<b>5.</b>	Uses appropriate procedures to resolve possible differences with the foreign supplier					
<b>6.</b>	There is timely management of possible problems in the contract					
<b>7.</b>	The company believes that good contract management will benefit both foreign supplier and the company itself					

**Part II:** Please indicate by ticking the extent to which your organization has experienced the manufacturing outcomes as a result of implementing Foreign purchase in your organization. The item scales are five-point Likert type scales with 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 agree, 5 = strongly agree

	<b>Manufacturing Performance</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1.</b>	The company has been able to meet its cost reduction goals					
<b>2.</b>	The overall ability of the firm to respond to the needs of its target markets					
<b>3.</b>	The company is able to meets its quality improvement goal					
<b>4.</b>	The company delivers customer order on time					
<b>5.</b>	The company has been able to meet its customization responsiveness goals.					

**Thank you for your time and participation!!**

## Appendix 2

### Correlations

		Mss	Mcm	Mbs	MMP
Mss	Pearson Correlation	1	.529**	.627**	.632**
	Sig. (2-tailed)		.000	.000	.000
	N	143	143	143	143
Mcm	Pearson Correlation	.529**	1	.670**	.800**
	Sig. (2-tailed)	.000		.000	.000
	N	143	143	143	143
Mbs	Pearson Correlation	.627**	.670**	1	.855**
	Sig. (2-tailed)	.000	.000		.000
	N	143	143	143	143
MMP	Pearson Correlation	.632**	.800**	.855**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	143	143	143	143

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

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.911 <sup>a</sup>	.829	.826	.23180

a. Predictors: (Constant), Mbs, Mss, Mcm

### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.298	3	12.099	225.181	.000 <sup>b</sup>
	Residual	7.469	139	.054		
	Total	43.766	142			

a. Dependent Variable: MMP

b. Predictors: (Constant), Mbs, Mss, Mcm

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.158	.200		-5.791	.000		
	Mss	.108	.057	.087	1.897	.060	.585	1.709
	Mcm	.586	.071	.395	8.221	.000	.531	1.883
	Mbs	.816	.080	.536	10.225	.000	.447	2.236

a. Dependent Variable: MMP