



ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE

**THE EFFECT OF FOREIGN PURCHASING ON OPERATIONAL PERFORMANCE:
IN THE CASE OF HABESHA BREWERIES SC**

By
NATNAEL SISAY

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY SCHOOL OF
COMMERCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF MASTER OF ARTS DEGREE IN LOGISTICS AND SUPPLIES CHAIN
MANAGEMENT**

ADVISOR: FESSEHA AFEWORK (ASS. PROFESSOR)

June, 2020

Addis Ababa, Ethiopia

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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis on the title of “The effect of foreign purchasing on operational performance: in the case of Habesha breweries s.c.” is my own original work and which I even have not previously in its entirety or in part submitted at any university for a degree.

Name: Natnael Sisay

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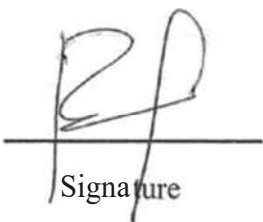
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LETTER OF CERTEFICATION

This is to Certify that the thesis prepared by Natnael Sisay on the topic entitled “**The effect of foreign purchasing on operational performance: in the case of Habesha Breweries sc**” submitted in partial fulfillment of the requirements for the degree of Degree of Master of Arts in Logistics and Supply Chain Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

The main objective of this research was to examine the effect of foreign purchasing on operational performance of Habesha breweries S.C. with respect to foreign purchasing dimensions of lead time of foreign purchasing, foreign exchange of foreign purchasing, and optimal inventory of foreign purchasing. as a research approach, quantitative research approaches were used in this study. As a research design the study employed causal research also called explanatory research. Stratified sampling on a random sampling base was used to select the appropriate samples of the study. In this study questionnaires were utilized as the primary data gathering tool. The data were analyzed utilizing descriptive statistics, regression analysis, and correlation, and then presented in tables. The finding of the study implies that all of the independent variables were found to have a positive and significant correlation with the dependent variable which is operational performance. The multiple linear regression analysis revealed that, all independent variables (lead time of foreign purchasing, foreign exchange of foreign purchasing, and optimal inventory of foreign purchasing) have a statistically significant relationship to predict operational performance. Under the model summary of ANOVA test result, the value of R and R² obtained was statistically significant. The study concludes that, all independent variables of foreign purchasing has a positive and significant effect on dependent variable operational performance. Accordingly, this study recommends, since the results show that there is a positive correlation between the independent variable (lead time of foreign purchasing, foreign exchange of foreign purchasing and optimal inventory of foreign purchasing) and the dependent variable operational performance, the manufacturing firm should take in to account the variables considered.

Key Words: Foreign purchasing, Lead time, Foreign exchange, Optimal inventory, Operational performance

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List of Abbreviations

Forex Foreign exchange

FX Foreign exchange

NBE National Bank Of Ethiopia

GTP Growth and Transformation Plan

SC Share company

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Purchasing is a means of obtaining materials or services of the correct quantity in the correct quality from the right source delivery them to the correct quantity place at the right price. This operational level includes placing purchase orders, expediting materials, monitoring the deliveries, and dealing with daily problems on the quality and quantity of the materials received, follow up on the payment to the suppliers and evaluate the suppliers' performance (Dawei, 2011).

When considering where to build the supply base purchasing can be domestic or foreign (international). Foreign purchasing aims to take advantage of global efficiencies like lower-cost skilled labor, cheaper raw materials, and other economic factors. In today's internationalized business, foreign purchasing has become necessary for firms' operational performance to remain successful in the competition by determining the minimum requirement and measuring the customer satisfaction gap (Javier, Lorenzo & Inked, 2010).

In recent years, intense competition and a need for globalization have forced multinational firms to reallocate their resources and services to make their operations more competitive (M. Kolb 2019). With today's rapid advances in technology and shortened product life cycle, it is not likely that many companies will have expertise in all the areas necessary to produce competitive goods and services (Rho and Lee, 2016). Likewise, domestic suppliers alone may not be able to meet all the competitive needs of a multinational firm to support its product and process technologies that are competitive in the global market place

According, to Economic Development in Africa Report, 2018, with diminishing, operational performance global purchasing has increased significantly in recent years on the business world including our continent Africa. Also, in Ethiopia, in many circumstances, there are drivers that encourage localized sourcing and manufacturing but also practically applying foreign purchasing mostly to offer the availability of world-class technology for the firm operation, Proximity/near to raw materials that may be unavailable domestically and, higher quality goods compared to domestic products from foreign purchasing (Economic Development in Africa Report, 2018).

1.2 Background of the organization

As of other manufacturing industry has found in our country Ethiopia, the study area with the name Habesha Breweries S.C is a share company established by more than 8,000 shareholders to be engaged in Breweries Industry, the brewery has found north-Shewa Ethiopia which is 130 km far from capital city Addis Abeba (Habesha Beer, 2020). The breweries have to produce alcoholic and non-alcoholic Beer products which require some ingredients for brewing: such are, properly prepared cereal grain, hops, pure water, brewer's yeast, and various chemicals including acids and cleaning chemicals to maintain and sterilize the brewing equipment even though the last plant pieces of types of machinery (Habesha Beer, 2020). The researcher really exalted to take the topic of the effect of foreign purchasing on operational performance in the case of HBSC as a reason this implies more than 70% of the listed raw material and chemicals sourcing from foreign purchasing (Habesha Beer, 2020). It is under this background the researcher studies the effect of foreign purchasing on operation performance in the case of Habesha breweries.

1.3 Statement of the problem

The operation business case for foreign purchasing is a superior price point or the availability of low-cost raw material inputs. The manufacturing process depends on raw materials, as well as supplies. Foreign purchasing of raw material is essential for manufacturing companies. As against, national purchasing, foreign purchasing are more dynamics, uncertain, and challenging (Jaideep, 2018).

In Ethiopia, a manufacturing company like Habesha breweries, Foreign purchasing of raw material shares 70% of the total foreign purchase. Though, foreign purchasing has a host of complexities that must be effectively managed. The difficulties incorporate supply disturbance, trade wars, cyber threats, territorial warfare, cultural difficulty, traceability issues, terrorism, robbery at sea, bullwhip effect, troublesome technologies, and extensive lead times (Millington, 2019). However, several factors need to be taken into account for this matter. If the goods have to travel halfway around the globe then not only will the transport costs be high but the impact of Foreign exchange and lead times delivery to the optimal inventory of foreign purchasing may be unacceptably long.

Habesha Breweries S.C classified its foreign purchasing lead time based on shipment types called Air shipment and Sea shipment (unimodal). As showed in the below figure 1.1, the

organization set a lead time in day based on the two shipment types, Air shipment and sea shipment. The company's lead time KPI for foreign purchasing of raw material was the same in the year 2017 and 2018, which was 76 days for Sea shipment whereas air shipment 30 days. In 2019, Air shipment KPI set 59 days, Sea shipment with uni-modal 90 days.

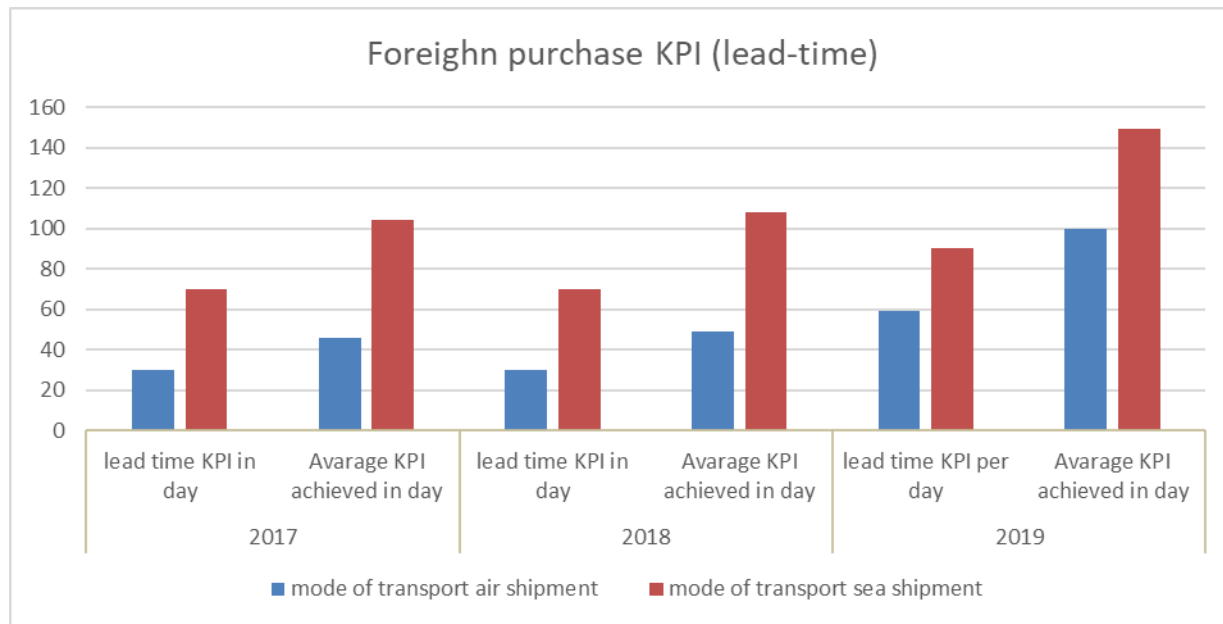


Figure 1.1: Researcher's own analysis of foreign purchase KPI achieved for raw materials based on the KPI set by the organization

The above figure 1.1 shows that, in 2017 from its target of timely delivery, the company achieved actual average lead time 45.6 days which is 52% of its KPI for Air shipment and achieved 104.3 days which is only 49% of the lead time target for the sea shipment. In 2018, KPI of air shipment lead time was achieved by 56% and 54% performance by sea shipment. In 2019 lead time KPI was achieved 69% for Air and 66% for sea. The figure indicates that difficulty in receiving the foreign purchased raw materials on time with longer delivery lead time from what is agreed and set by the organization. In return, this affects its operational performance.

Besides, the country's Foreign exchange shortage has a lead time effect and similarly impacts its optimal inventory. Foreign exchange shortage is a problem in Ethiopia and for investors lack of hard currency is stifling to the private sector (The International Monetary Fund report, 2019). According to The International Monetary Fund report, 2019, foreign exchange reserves maintained by the government of Ethiopia remain at low-levels, a longstanding challenge for those seeking to source from abroad. As of mid-2018, foreign exchange reserves were

approximately \$3.4 billion, sufficient to cover less than two months of imports (The International Monetary Fund report, 2019).

As a result of the critical shortage of foreign currency, NBE regulations require commercial banks to allocate foreign currency to importers supported by GTP II priorities (export.gov, 2020). Consistent with this regulation, applications for foreign currency for essential imports should be registered and will be served based on a first come first served basis thereafter within three levels of priority (export.gov, 2020). Habesha breweries S.C belongs to the second priority item “b” level states that refer to import of input for manufacturing (raw materials and chemicals). In Habesha brewery foreign-exchange (FX) scarcity is the main impediment for foreign purchasing of the organization which FX delays beyond 90 days on average. The shortage of foreign exchange with having week hard currency reserve of the organization, the operation will face running out of stock and push the company to change the production plan and even to stop production.

This was examined in this research on the specific title and area of the study. Because, whether it is local or international, unfavorable foreign purchasing decisions can cost the firm valuable time and money. So, careful analysis of key decision drivers is vital for ultimate foreign purchasing success. It was for this reason that the study seeks to assess the impact of Foreign purchasing on the operational performance specifically focus on raw material purchase, which shares 70% of the foreign purchasing in Habesha breweries intending to identify problems and conducted to fill this gap by investigating the relationship.

1.4 Research questions

1. What is the effect of Foreign exchange of foreign purchasing on the operational performance of Habesha breweries?
2. What is the effect of the optimal inventory of foreign purchasing on the operational performance of Habesha breweries?
3. What is the effect of foreign purchasing lead time on the operational performance of Habesha breweries?

1.5 Research objectives

1.5.1 General objective

The general objectives of the study are to assess the effect of foreign purchasing on operation performance in the case of Habesha breweries.

1.5.2 Specific Objective

- To examine the effect of Foreign exchange of foreign purchasing on the operational performance of Habesha breweries.
- To examine the effect of optimal inventory of foreign purchasing on the operational performance of Habesha breweries.
- To examine the effect of foreign purchasing lead time on the operational performance of Habesha breweries.

1.6 Significance of the Study

Therefore, the research could also be used as a stepping-stone for managers of the organization. It will also enable decision-makers to know how foreign purchasing makes an impact on their operation.

The finding of the research also can be a base for further study and a reference for academician those may focus on similar topics.

1.7 Scope of the Study

As the foreign purchasing is complex and has different factors, this study will focus on Foreign exchange, optimal inventory and lead time of foreign purchase, mainly on raw materials which share 70% of purchasing of the company. Additionally, for its manageability, the study will be delimited to the effect of foreign purchasing on operation performance in the case of Habesha breweries.

1.8 Limitation of the Study

While doing this research the researcher has faced the following limitations. Unavailability of secondary data and related research work on the current topic is the limitations of this study. Difficulty to access data because of confidential reasons about raw materials the factory is using were constraints for the study. The researcher also encountered hostility from some respondents who felt that the information would be exposed to their business competitors.

1.9 Definition of Terms

Brewery: is a business that makes and sells beer (Hornsay, 1999)

Purchasing: Purchasing refers to the function of buying or acquiring goods and services as a transactional activity, and it manages the flow of materials and information as an operational process, searching for the lower purchasing cost (Burt and Pinkerton.,1996)

Foreign purchase: purchasing worldwide and searching for procuring from vendors who meet the right quality, price, quantity, delivery target (Monczka & Trent, 2003)

Operational performance: Firms performance measured against a standard or recommended marker of adequacy, effectiveness, and ecological obligation, for example, productivity, regulatory compliance, cycle time and waste reduction (Russell and Taylor, 2008)

1.10 Organization of the Study

The arrangement of this research paper organized into five chapters and appendix and reference. The first chapter deal with the introduction part of the study which includes a background of the study, Background of the company, statement of the problem, the objective of the study, research question, significance of the study, the scope of the study, definition terms and limitation of the study.

The second chapter is the literature review part that discusses Foreign Purchase, operational performance and related issues.

The third chapter concentrate on research design and methodology. The fourth chapter contains the finding and data analysis part of the study where primary and secondary data collected from various sources is analyzed and presented.

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

CHAPTER TWO: RELATED LITERATURE REVIEW

2.1 Theoretical review of literature

2.1.1 Foreign Purchasing definition

Purchasing refers to a process by which an enterprise or organization endeavors to acquire materials or products in order to accomplish their objectives. In the process of purchasing the ownership and possession of products will be moved from the seller to the buyer. The activities of purchasing incorporate inquiry, an order, tracking the order, supervising, and accounting for an order, receiving goods, and making payment (Trent & Monczka, 2008).

Purchasing refers to the activities associated with the acquisition of products, raw materials, or services vital for firms to accomplish their business goals. This is alluded to as foreign purchasing when those purchasing activities are applied in foreign markets to help the firm's operations and ensure a reliable source of supply (Joyce, 2006).

2.1.2 Theories of Foreign Purchase

2.1.2.1 Resource-Based Theory

The resource-based view, in essence, was mainly developed in the late 1980s and 90s, while later being adjusted with augmentations. With focusing on the accomplishment of competitive advantage through internal resources, the resource-based view became one among the grand theories of economics (Barney, 1991). The resource based view is able to contribute to every decision point of the purchasing year cycle. With assuming that activities leading a competitive advantage should be maintained in-house, clearly less important items are sourced externally (Tobias, 2013).

The theory posits that a company has the ability to create and maintain a competitive advantage when it is able to identify and possess internal strategic resources which lead to improved performance (Crook, Ketchen, & Todd, 2008). They further argue that a resource is considered strategic if it has value, cannot be substituted, rare and can be employed to improve the competitive position of a company and contribute to improved performance. According to the theory, firms will always identify strategic resources having the capability of enabling them to achieve and sustain a competitive advantage (Sirmon, Hitt & Ireland, 2007). An international sourcing initiative is hence a strategic resource that leads to higher operational performance. The

theory conveys that it's a firm's availability or non-availability of resources that will determine if an organization will globally source resources or not.

According to the theory, a company can exploit the strategic resources through contracting which forms a basis on activities to purchasing, which ones to perform in-house and the resources to be acquired from the market (Gainey & Klaas, 2003). Companies can own resources such as human, physical, good organizational structure and financial wellness that can lead to the generation of competitive advantage (Miller & Ross, 2003).

2.1.2.2 Resource Dependence Theory

The Resource Dependence Theory is developed by the American business scholar Jeffrey Pfeffer and therefore the American organizational scholar Gerald R. Salancik in the time of 1978 at the Stanford University (Pfeffer & Salancik, 1978). The purpose of the Resource Dependence is presenting a guide on how to design and manage organizations that are externally constrained (Pfeffer & Salancik, 1978, p. xi). The result of the studies done on Resource Dependence Theory leads to the basic concept of Resource Dependence Theory, namely an organization can be characterized as an open system, dependent on or subject to contingencies in the external environment (Pfeffer & Salancik, 1978, p. 1).

The theory states that an organization can survive through the minimization of situations of uncertainty and dependency even though it is depicted as an open system that is dependent on contingencies in the external environment (Delke, 2015). This reliance on the external environment for critical resources like financial assistance subjects the organization to an external control (Brettel & Voss, 2013). The theory assumes that companies cannot be fully self-sufficient in terms of critical strategic resources and hence the need to depend on resources from other companies to achieve and sustain competitive advantage (Heide, 1994). The organizations must, however, deal with this dependency with other firms to strive for sustainable development (Ulrich & Barney, 1984). Companies need to control or access critical resources including standards, procedures, enabling technologies, materials sources and distribution channels. This can be achieved by adopting effective foreign ping practices. Firms that lack certain resources can source them from other firms by developing effective relationships that help reduce uncertainties that exist in the operating environment (Carter & Rogers, 2008).

2.1.2.3 Theory of Comparative Advantage

David Ricardo built up the classical theory of comparative advantage in 1817 to elucidate why countries take part in international trade even when one country's laborers are more effective at producing every single good than laborers in other countries.

The international sourcing approach enables companies to integrate their expertise and those of their suppliers with different location advantages to create a competitive advantage (Mudambi, 2008). Many companies, therefore, use this as a basis of maintaining relationships with suppliers from different countries with different capabilities. Companies, however, must deal with the challenge of being able to distinguish between items that should be sourced globally from different areas and those that should be sourced locally (Trautmann, Bals & Hartmann, 2009). The theory generally, holds that countries can actually benefit from free trade even in circumstances where more than one country produces the same products most efficiently (Daniels, Radebaugh & Sullivan, 2013).

2.2 Differences between domestic purchasing and foreign purchasing

Foreign purchasing relates to a commercial purchase transaction between a buyer and a supplier situated in an alternate country. This type of purchase is typically more complex than domestic purchase. Organizations must battle with longer material pipelines, expanded their rules and regulations, fluctuations of currency, customs requirements, and a host of other factors like language and time differences (Trent & Monczka, 2008).

As opposed to domestic purchasing, the foreign purchasing mode has the following attributes (Fan, 2007):

- **Increased purchasing scope:** Because the scope of purchasing activities extends to the international 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 feasible for organizations to acquire their ideal resources and products with a rational cost because of the greater abundance of potential vendors.
- **Increased purchasing risk:** Because foreign purchasing always involves a series of purchases, companies usually buy the materials or goods on a larger scale, which requires greater monetary transactions. Larger scale transactions are presented to greater risks due to fluctuations of currency. In addition, the cross-border transaction brings in complicated

procedures and processes, which exposes the company to bunches of extra existing potential risks.

- **Decreased purchasing price:** Because all possible resources from the whole world can be considered, the business can “shop around” to obtain high-quality goods with a rational price through the mode of comparative cost.
- **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. Henceforth, it is incredibly important for organizations to make systematic and standardized criteria and conditions to pick a dependable supplier.
- **Stable purchasing channels:** A business utilizing foreign purchasing collaborate with suppliers worldwide due to the idea of supply-chain management. Therefore, the purchaser and vender are developing a relationship of strategic cooperation. Consequently, this business with a foreign purchasing strategy forms a moderately steady purchasing channel.

Generally, carrying out the activities of international business and its management is far more difficult than conducting a domestic business. Due to changes in the political, economic, socio-cultural environment across the countries, most business entities find that it is hard to grow their business globally. To become a successful player in the international market firms need to plan their business strategies as per the requirement of the foreign market (Surbhi, 2017).

2.3 Driving forces of foreign purchasing

Nowadays, foreign purchasing has been considered by more and more enterprises as positive strategic activities under the pressures of the business competition. Because it is an integration and coordination of procurement requirements across the worldwide business units, looking at common items, processes, technologies, and suppliers (Stevens, 1995).

According to the study of John Stevens (1995), several main driving reasons for foreign purchasing are concluded as follows:

- **Materials are not available domestically:** Due to reasons of geography and technology, some domestic manufacturers may be unavailable to supply specific materials. In

addition, most likely they are incapable of meeting the necessary delivery time or supplying some materials due to their limited technical capabilities.

- **Unsatisfactory quality of domestic products:** The quality of products obtained from the local market may not meet the necessities of buyers. The quality of domestic goods may not be adequate for the manufacturers to sell their products to international markets where better expectations may apply. In addition to the quality of the goods themselves, possibly the supplier cannot provide adequate warranties or after-sales services to the manufacturers.
- **Price:** Especially in developed countries, the materials or products supplied by domestic suppliers may be too expensive, and they can obtain the same goods at a cheaper price elsewhere around the world.
- **Technology:** Especially in developing countries, some enterprises may have no choice but to source internationally; otherwise they cannot get access to world-class levels of technology

2.4 Operational performance

The company's performance measured against the standard or prescribed indicators of effectiveness, efficiency, and environmental commitment, for instance, cycle time, regulatory compliance, profitability, and waste reduction, (Brown, 2008). According to Nicky (2019), it is important to understand the objectives of operational performance within a manufacturing operation in order to boost production efficiency within your overall operation. These objectives of operational performance include the objectives such as speed, quality, flexibility and dependability, which are explained below:

2.4.1 Objective of Speed

The objective of speeds measures how quickly a company can deliver products and generates sales quotes. This objective is going to be caring with issues, for example, the time that it takes to fabricate and process one or more production of the company or the measure of time that it takes to research a new product and develop it. Speed is critical within manufacturing operations and is a clear indicator of how proficient your activity and operation is.

2.4.2 Flexibility of Operations

Flexible operations are operations that relate to configuring product lines to deal with different requirements and to likewise adjust these product lines quickly to new prerequisites. Flexibility lies close to the speed objective, in which an organization ought to have the option to create different quality items while also adjusting to the operations in order to sufficiently suit different market conditions.

2.4.3 Quality of Product

Quantity ordinarily measures how well a product complies with specifications. While this is significant, it is much more than that, and the quality of the product is also additionally critical. Having a desirable product that is reliable, durable, can without much of a stretch be serviced, performs well, and your clients believe it is certainly a substantial component within the objectives of performance. In general, these are relevant measures of quality.

2.4.4 Costs Variation

Cost variation relates to the target of how much variation there is in the unit cost of a product as measured by changes in a variety of factors. These factors incorporate volume and the assortment of the products. Products that include a wide assortment tend to sport lower volumes and higher unit costs. This influences the price of the product as well as the costs of producing it, and the benefits of acquiring from the item the product.

2.4.5 Dependability

Dependability is an enormous segment within operations and operational objectives. Dependability is an operational performance target that measures how dependable the organization is with regards to the timely delivery of products to customers as per planned prices and costs. A product's capacity to function in an intended way over some stretch of time is also a measure of dependability.

2.5 Foreign purchasing and operational performance

Monczka & Giunipero (1990), identified Business competition has become a central issue for many organizations. A lot of advantages are increasingly perceived in making and integrating different business operations across national boundaries. This has resulted in an increasing number of organizations engaging in foreign purchasing.

Purchasing in manufacturing generally refers to those decisions determining how raw materials and components will be supplied for production. Many organizations have therefore been pursuing integrated sourcing to a greater extent than ever before. Such an operation allows them to exploit their own competitive advantages whilst also allowing them to exploit the competitive advantages of various countries that are more efficient.

According to Han, Dresner, and Windle (2008), the concept of foreign purchasing is based on the argument that manufacturing companies cannot be in a position to fully rely on local supplier networks for raw materials, components, modules and systems. Foreign purchasing ensures reduced labor cost and increased access to specialized resources and technology. The process of foreign purchasing has been facilitated by advanced technology and improved supply chain management practices. Rajagopalan and Malhotra (2001), noticed that buying materials from foreign sources prompt higher levels of raw materials inventory. Levy (1995), also observes that when a firm's global supply is disrupted, it can lead to increased cost of operations arising from increased inventory levels.

Russell and Taylor (2008), emphasizes that operational performance is based on the need for efficiency which simply refers to the proper use of the available resources in order to maximize output. This leads to reduced cost of operations, reduced wastage and hence low-cost products leading to value addition to customers. Foreign sourcing additionally leads to continuous improvement because the total cost performance is improved leading to quality of output (Prajogo & Goh, 2007).

Das and Narasimhan (2000) also revealed that foreign purchasing creates an important impact on manufacturing quality, delivery and cost besides research and development on introducing new products and unique customization. Thrulogachantar and Zailani (2011), also revealed that foreign purchasing creates a significant impact on operational performance which comprises the competitive priorities of the firms in terms of introducing new product timelines, quality, cost,

the flexibility of operation, delivery speed, and dependability and at last, customization responsiveness performance.

2.6 Empirical review of literature

2.6.1 Foreign exchange of the foreign purchase

Foreign exchange trading was once something that people possibly did when they required foreign currency to utilize when traveling in different countries (Russell, 2019). This included exchanging a portion of their country's currency for another at a foreign exchange broker or a bank, and they would get their foreign currency at the present-day exchange rate offered by the bank or broker (Russell, 2019).

According to Carter and Joseph R. (1989), foreign exchange considerations are becoming an important facet of foreign sourcing. Not exclusively would volatile exchange rates impact the supplier selection decision, they can also influence the volume-timing of purchases once the supplier is chosen.

2.6.2 Optimal inventory of foreign purchasing

In a foreign sourcing setting, organizations normally shield themselves from supply variability and disruption by methods of higher inventory and capacity levels (Stratton and Warburton, 2006). Foreign purchasing has a potentially effects on inventory performances and in this way that organizations attempt to compensate for the operational effects of this practice by improving their supply chain processes (Golini and Kalchschmidt, 2011).

According to Madison Abraham (2014), in order for customer service levels to be sufficiently kept up, a few products should be held in foreign markets. Inventory managers will need to make decisions with respect to how much inventory to hold, and how the supply chain will need to function viably to address consumer requirements. Trent and Monczka (2003), stated that organizations performing experienced foreign sourcing organizing buying activities on a worldwide scale – additionally better deal with their inventory management. For example, this can be connected to the more significant level adoption of specialized communication methods and information-sharing with vendors on the part of foreign sourcing companies.

These factors will enable a company to decide on optimal locations for serving the foreign market and can help identify any issues which may add unpredictability to the global supply chain.

2.6.3 Lead time of foreign purchasing

Lead time is the time it takes between the commencement and the finish of a production process for a product or products. This incorporates the order placement, sourcing of materials, manufacturing or assembling and delivery of the final product (Melanie, 2017).

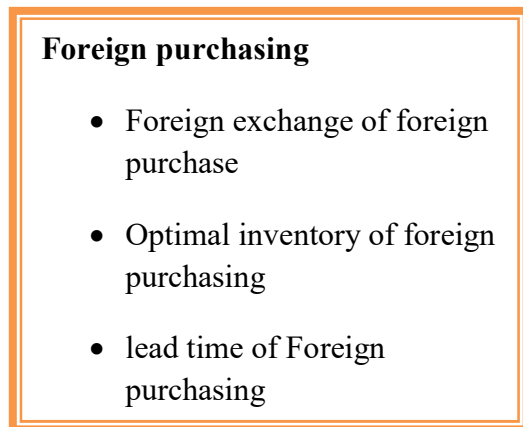
As of Melanie (2017), lead times can be particularly long if the companies are sourcing materials or items that have long-distance. For instance, numerous manufacturers purchase raw materials from abroad, and clients purchase finished products in various countries. Nonetheless, different components can increase lead-time unnecessarily, like being late in order processing, unprofessional capacity management by suppliers, being late at the receiving port and much more. Other conditions may incorporate decisions to give the product a minimum prime concern or poor internal procedures at the suppliers' end. The utilization of non-direct shipping courses or being late at the freight forwarder may likewise increase lead time. These elements can altogether impact the supply chain in general and inventory control processes.

Empirically, this is mentioned by Handfield (1994): among the top five cost issues experienced in the utilization of foreign sources are long lead time and inventory expenses. In a similar report, it is moreover indicated that foreign sourcing efficiently causes less on-time deliveries and longer lead-times

2.7 Conceptual Framework

From the available literature, the researcher adopts the following conceptual framework to suited for the nature of the study, that is, the study of the effect of foreign purchasing on operational performance. The below framework of the study has developed to measure the strength of logistics activities interact with the inbound logistics performance.

Independent Variables



Dependent Variable

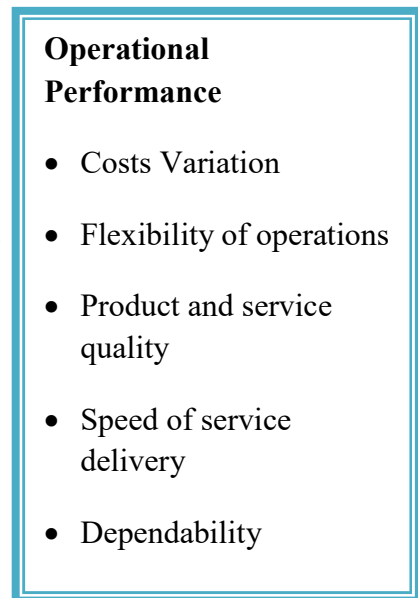


Figure 2.1. Conceptual Framework of the Study

Source: Researcher's conceptual framework

2.8 Research Hypotheses

Different studies indicated that foreign exchange have an impact on various aspects of operational performance. As stated by James Lloyd and Bisrat Teshome (2018), the foreign currency shortage will reduce competitiveness and hampering the growth and operation of businesses. Unit production costs are increasing as production stalls. It is resulting in businesses i) laying off workers (especially temporary workers), ii) becoming dormant and iii) ceasing expansion. Organizations that can hold huge stocks of inputs because of the absence of clarity of when they will get forex. This influences cash flow, increases warehouse storage costs, and risks product loss when inputs expire. These issues diminish investment, revenue generation, value-added, employment, and return on equity. However, these effects are not being felt evenly across segments of businesses. On the basic of the above arguments the study hypothesized the following:

Hypothesis 1: Foreign exchange of foreign purchasing have significant positive effect on the operational performance.

Most importantly, to avoid carrying excess and obsolete stock, the company needs to optimize strategic planning, demand forecasting, and replenishment processes. After all, inventory management is principally concerned with maintaining legitimate stock levels to fulfill customer demand at an adequate service level and at minimal costs (Romanov, 2013). As a buying process, the foreign purchasing activity is directly linked to the inventory level control. On the basis of the above arguments the study hypothesized the following

Hypothesis 2: *Optimal inventory of foreign purchasing have significant positive effect on the operational performance.*

As of Melanie (2017), lead times can be particularly long if the companies are sourcing materials or items that have long-distance. This element can impact the supply chain in general and inventory control processes. Uncertain lead time can lead to increased inventory costs and unstable service levels, which will directly affect the overall operation performance (Li, Fei, and Zhou, 2019). On the basis of the above arguments the study hypothesized the following

Hypothesis 3: *Lead time of foreign purchasing have significant positive effect on the operational performance.*

CHAPTER THREE: RESEARCH METHODOLOGY

This part describes the research methodology in general and the methodology that is used for the research. This includes Research Approach and Research Design, Population and Sample, Data Sources and Types, Data Collection Procedures, Ethical Consideration, and Data Analysis.

3.1 Research Approach

Research Approach is a plan and procedure for the research that spans the decision from broad assumption to detail methods of data collection and it's of three types qualitative, quantitative and mixed methods (Creswell, 2015).

Because the researcher was intended to assess the impact of Foreign Purchase on operational performance and for the sake of realizing this relationship the study adopts a quantitative research method. Qualitative research is a means for investigating objective theories by examining the connection among variables and these variables are often measured typically on the instrument, in order that data can be measured using statistical procedure (Creswell, 2015).

3.2 Research Design

As the researcher selects quantitative research, there are three broad classifications of quantitative research: descriptive, experimental and causal research (Leedy and Ormrod, 2001). The descriptive research approach is one of the basic research methods that investigates the situation, as it exists in its current state (Williams, 2007). Causal research helps for the researcher to examines how the independent variables are influenced by the dependent variables and involve cause and effect relationships between the variables (Creswell, 2002).

This study uses a causal research design. This research design provides the researcher with the opportunity to examine the interaction between independent variables and their influence on dependent variables (Vogt, 1999). Causal research also called explanatory research is that the investigation of cause and effect relationships to decide causality; to detect variation within the variable that is assumed to cause the change in the other variable then measure the changes in the other variable using statistical methods (Nicholas, 2008).

3.3 Population and Sample

The population is defined as the complete set of units of analysis that are under investigation (Davis, 2000). Sampling is that the selection of a fraction of the entire number of units of interest for the ultimate purpose of having the ability to draw general conclusions about the whole body of unit (Parasurman, 2004).

The sample frame of this study is from the employees of Habesha brewery having a link with the foreign purchasing of raw material from selected departments. For the reliability and accuracy of data especially from Warehouse and material control, Production and Operation, sales and Distribution and Supply Chain and Purchasing.

The sampling technique of this study was probability sampling techniques called stratified sampling on a random sampling base. A representative sample for the questionnaire was selected from 162 employees of Habesha breweries. It was employed based on the strata of the departments and a random table. Using stratified sampling helps to ensure each subgroup within the population receives proper representation within the sample (Murphy, 2019)

Thus the sample size was determined by formula bases of Taro Yamane's (1967) simplified formula, to determine the required sample size at 95% confidence level, and degree of error expected of 0.05% and the number of employees are related with the lines of foreign purchase of the company are 162.

$$n = \frac{N}{1 + Ne^2}$$

Where:

'n' = the sample size,

N = the total number of employees in line with foreign purchase (162) and

'e' = the level of precision/ degree of error expected (0.05)

$$n = \frac{162}{1 + 162 * 0.05^2} = 115$$

Therefore n=115 according to the simplified formula to calculate sample size (Yamane, 1967).

Population	Departments	Population size	Sample size proportion
162 Employees	Warehouse and material control	10	$\frac{10 \times 115}{162} \approx 7$
	sales and Distribution	31	$\frac{31 \times 115}{162} \approx 22$
	Production and Operation	103	$\frac{103 \times 115}{162} \approx 73$
	Supply Chain and Purchasing	18	$\frac{18 \times 115}{162} \approx 13$
	Total	<u>162</u>	<u>115</u>

Table 3:1 Summary of Sample Size determined

Accordingly, based on the above table proportion, the study takes 115 permanent employees of the company as a sample.

3.4 Data Sources and Types

According to Kothari (2004), a researcher should consider two types of data, primary and secondary. The researcher uses both primary and secondary sources of data to gather relevant information. Primary sources of data have collected directly from the respondents through questionnaires.

3.5 Data Collection Procedures

According to Kibera and Waruinge (1998), a questionnaire is employed when researchers require data or information on consumer feelings and attitudes. The researcher collects data for this study by designing questionnaires. Each question was analyzed from different aspects related to the study area. They are designed in a way that clear, brief and understandable to the respondents as well as covers the relevant aspects of the study.

To get secondary data, different documents and from concerned bodies of the brewery were referred.

3.6 Data Analysis

The data which are collected through the questionnaires in this study, which is the quantitative data are analyzed using a statistical tool, known as SPSS, version 26. The scoring of the questionnaire will be analyzed by using the five-points rating scale or five– Likert scale. Accordingly, data will be done by descriptive statistics using tables to display the collected data in a concise and meaningful way. The data will be finally interpreted based on statistical findings.

The test was done Statistically by correlation statistical technique that can show whether and how strongly pairs of variables are related, to see that the impact of foreign purchasing on operational performance. Also, to investigate the impact of foreign purchasing on the operational performance multiple regression analysis will be used. It is about observing a relationship between variables and forming a model. The Model for this study was developed using three foreign purchasing variables or predictors that have influences on operational performance.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y= Dependent variable (Operational performance)

β_0 = constant, if all predictor variables are 0 (zero), the value of the dependent variable equals to constant.

β_1 , β_2 , and β_3 = the beta coefficient of foreign exchange, optimal inventory and lead time respectively.

x_1 , x_2 , and x_3 = the predictors or independent variables (foreign exchange, optimal inventory and lead time respectively).

3.7 Ethical Consideration

Participants in the questioner were assured that the information they provide will be confidential and is not be disclosed to anyone else. So that anonymity and confidentiality of their response are guaranteed. The collected data were analyzed in aggregate without any change by the researcher. The researcher also respects the work of previous study, literatures and cite appropriately those works that are taken as a basis.

3.8. Reliability and Validity Test

3.8.1 Reliability

Reliability is really the dependability of an instrument to check what it was intended to check or test. The allowable test for reliability is inter-item consistency reliability which is universally mentioned as the Cronbach's coefficient alpha.

According to Joseph and Rosemary (2003), Cronbach's alpha reliability coefficient (α) normally ranges between 0 and 1. According to these authors, there is the greater internal consistency of the items if the Cronbach's alpha coefficient closes to 1.0.

Table 3.2: Reliability Coefficient

Reliability Statistics	
Cronbach's Alpha	N of Items
.799	31

Source: SPSS output of own survey result, 2020

3.8.2 Validity

Validity is an important term in research that refers to the conceptual and scientific soundness of a research study to adequately find explanations for the finding of the study (Bordens & Abbott, 2011). Every single attempt was applied to make the data gathering instruments effectively understandable by the respondents so that the proposed data can be gathered accordingly increasing the trustiness of the ultimate discoveries. Pre-testing was done after the questionnaire was built, with individuals who know the area by permitting them to peruse and comment on it. Useful comments were got from these people and the questionnaire was modified accordingly. Subsequently, validation of the instrument was given by an academic advisor prior to the data collection.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION

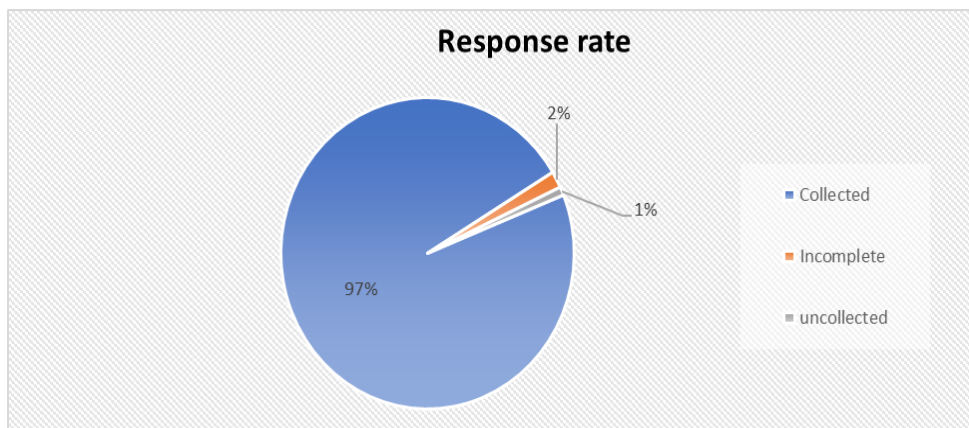
4.1 Introduction

In this chapter the collected data was analyzed and interpreted; the analyzed and interpreted data was presented and discussed. It includes the response rate of the distributed questioner, the background of the respondent through frequency distribution and percentage, descriptive statistical analysis to explain the effect of foreign purchasing elements on the operational performance of Habesha breweries S.C., correlation analysis to show the relationship between the dependent variable and independent variable (operational performance as a dependent variable and foreign purchasing elements as an independent variable) and multiple regression analysis to determine the impact of foreign purchasing on operational performance by using SPSS statistic version 26.

4.2 Response rate

For this study, one hundred fifteen (115) questionnaires were distributed for the employee of Habesha breweries S.C. Therefore, out of 115 questioners, one hundred twelve (112) (97.4%) are collected and used to analyze. Hence, two (2) (1.74%) questioners have been rejected because they aren't filled appropriately or incomplete questionnaires and the remaining one (1) (.87%) was uncollected questionnaire. Therefore, one hundred twelve (112) (97.4%) questionnaires were employed for this study.

Fig 4.1 Response rate of questionnaires by respondents



Source: Own survey result, 2020

4.3 General information of respondents

To obtain the general profile information of the participant employee of the Habesha brewery, the respondent was asked about their gender, age, educational level, their department, and their experience in Habesha Breweries S.C.

Table 4.1 Demographic Characteristics of the Respondents

	Categories	Frequency	Percent	Cumulative Percent
Gender	male	91	81.3	81.3
	Female	21	18.8	100.0
	Total	112	100.0	
Age	18-25	8	7.1	7.1
	26-30	70	62.5	69.6
	31-35	18	16.1	85.7
	36-40	10	8.9	94.6
	>41	6	5.4	100.0
	Total	112	100.0	
Educational qualification	Diploma	5	4.5	4.5
	BA/BSC	85	75.9	80.4
	MA/MSC	22	19.6	100.0
	Total	112	100.0	
Departments	Sales and distribution	19	17.0	17.0
	Warehouse and material control	7	6.3	23.2
	Production and operation	73	65.2	88.4
	Supply chain and purchasing	13	11.6	100.0
	Total	112	100.0	
Departments	Sales and distribution	19	17.0	17.0

	Warehouse and material control	7	6.3	23.2
	Production and operation	73	65.2	88.4
	Supply chain and purchasing	13	11.6	100.0
	Total	112	100.0	
Experience in year	<1	5	4.5	4.5
	1-3	15	13.4	17.9
	3-5	50	44.6	62.5
	>5	42	37.5	100.0
	Total	112	100.0	

Source: Own survey result, 2020

The above table was designed to display the respondent's demographic characteristics.

The above table 4.1 shows that 81.3% were male and 18.8% female. This indicates that males were more than females in the study. This implies that the gender distribution Habesha breweries S.C. is dominated by male employees.

The age profile of the respondent on Table 4.1 shows that, out of 112 respondents, 7.1% of the respondents were between 18-25years of age, 62.5% were between 26 to 30years, 16.1% were between 31 to 35 years, 8.9% were between 36 to 40 years and 5.4% were above 41years. This implies that the majority of respondents were youth.

The educational level of the respondent on Table 4.1 shows that 4.5% of the respondents were diploma holders, 75.9% BA/BSC degree holders, and 8.3% had MA/MSc master's degree. This suggests that the company has a well-educated workforce.

As can be seen from the above table 4.1 the Department of the respondent shows majority of the respondents (88.4%) are from the Production and operation department based on the company's

department classification. The department of Sales and distribution counts for 17%. warehouse and material control cover 6.3% percent and Supply chain and purchasing cover 11.6% of the respondents. Accordingly, the department of production and Operations accommodate a large number of employees.

Company experience of the respondent on Table 4.1 shows that 4.5% of the respondents had spent less than a year working in the organization, 13.4% between 1 to 3years, 44.6% between 3 to 5years, and 37.5% over 5years. This means that respondents had experience with the study.

4.4 Descriptive analysis

In this part, descriptive statistics, in the kind of mean and standard deviation are presented to show the extent of agreement of the respondents with their implications of the Habesha breweries.

The agreement of the respondents for the variables indicated below were measured on five-point Likert scale with measurement value 1= Strongly disagree; i.e. considerably dissatisfied with the case described; 2= Disagree, i.e. not satisfied with the described case; 3= Neutral, i.e., uncertain with the described case; 4= Agree, i.e., feeling all right with the described case and considered as satisfying; and 5 =strongly agree, i.e. considerably supporting the case described and regarded as highly satisfied.

To form a simple interpretation, the subsequent ranges of values were reassigned to each scale: 1-1.8= strongly disagree; 1.81-2.6 = Disagree; 2.61-3.4= Neutral; 3.41-4.20= Agree; and 4.21-5 = Strongly Agree Best, as cited by various research works. To investigate the gathered information in accordance with the overall objective of the examination undertaking, statistical procedures were done utilizing by SPSS version 26 software.

4.4.1 Perception of Respondents towards the foreign exchange of foreign purchasing

Table 4.2 Descriptive Statistics of foreign exchange

S.No	Foreign exchange of foreign purchasing	N	Mean	Std. Deviation
1	The company uses Forex from its own foreign currency reserve at the time of severe Forex shortage for foreign purchasing.	112	3.95	0.695
2	The company works proactively by establishing strategies to curb forex shortages.	112	4.22	0.611
3	To minimize the burden of frequent FX requests the company is reducing the volume of imports and moving towards local suppliers.	112	3.91	0.692
4	To get a Foreign exchange advantage the company uses importers to buy the required material.	112	3.93	0.707
5	The company makes bulk purchases to avoid frequent Forex requests.	112	3.96	0.649
	The cumulative mean of foreign exchange	112	3.99	0.375

Source: SPSS output of own survey result, 2020

To measure the perception of employees about foreign exchange five questions were asked to the respondents. As shown in the above table 4.2, the scored mean value of the first sub-construct, i.e. The company uses Forex from its own foreign currency reserve at the time of severe Forex shortage for foreign purchasing 3.95 which is the third mean score, the result indicating that the respondents agreed on and feel all right with the case described and the sub-constructs standard deviation was 0.695.

The scored mean for the second sub-construct i.e. The company works proactively by establishing strategies to curb forex shortages was 4.22 which is the highest mean value indicating that the respondents agreed with standard deviation 0.611. The third question which says to minimize the burden of frequent FX requests the company is reducing the volume of imports and moving towards local suppliers has relatively the least mean score of 3.91 with 0.692 standard deviations. The fourth mean 3.93 is scored by to get a Foreign exchange advantage the company uses importers to buy the required material with a standard deviation of 0.707. The last perception result of the company makes bulk purchases to avoid frequent Forex requests was 3.96 which is the second mean score with a standard deviation of 0.649.

Accordingly, the overall mean score of foreign exchange of foreign purchasing shows that 3.99 with the standard deviation 0.375 which means that most of the respondents were agree/satisfied regarding the listed foreign exchange of foreign purchasing measurements. As stated by James Lloyd and Bisrat Teshome (2018), the foreign currency shortage will reduce competitiveness and hampering the growth and operation of businesses. Unit production costs are increasing as production stalls. It is resulting in businesses i) laying off workers (especially temporary workers), ii) becoming dormant and iii) ceasing expansion. Businesses that hold large stocks of inputs because of the absence of clarity of when they will get forex. This has an effect on cash flow, increases warehouse storage costs and risks product loss when inputs expire.

4.4.2 Perception of Respondents towards the optimal inventory of foreign purchasing

Table 4.3 Descriptive Statistics of optimal inventory

S.No	Optimal inventory of foreign purchasing	N	Mean	Std. Deviation
1	To minimize the frequency of foreign purchasing the company holds excess inventory.	112	3.63	0.587
2	The organization has a good level of coordination for inventory planning decisions.	112	4.33	0.527
3	The company uses good Inventory control systems for inventory tracking.	112	3.94	0.675
4	The company qualifies internal purchasing activities to improve the quality of the purchasing department.	112	3.83	0.815
5	To make the supply stable, the company develops a reliable relationship with suppliers.	112	3.91	0.692
	The cumulative mean of optimal inventory	112	3.93	0.370

Source: SPSS output of own survey result, 2020

To measure the perception of employees about optimal inventory five questions were asked to the respondents. As shown in the above table 4.3, To minimize the frequency of foreign purchasing the company holds excess inventory has a mean value of 3.63 with a standard deviation 0.587 which is relatively the least score in the dimension of Optimal inventory of foreign purchasing. Based on the perception of employee the organization has a good level of coordination for inventory planning decisions has the highest mean score of 4.33 with a standard deviation of 0.527. The second mean 3.94 is scored by the company uses good Inventory control

systems for inventory tracking with a standard deviation of 0.675. The company qualifies internal purchasing activities to improve the quality of the purchasing department has a mean score of 3.83 with a standard deviation of 0.815. To make the supply stable, the company develops a reliable relationship with suppliers has a mean score of 3.91 with a standard deviation of 0.692.

The overall mean score of foreign exchange of foreign purchasing shows that 3.93 with the standard deviation 0.370 which means that most of the respondents were agreed/satisfied regarding the listed foreign exchange of foreign purchasing measurements. Most importantly, to avoid carrying excess and obsolete stock, the company needs to optimize strategic planning, demand forecasting, and replenishment processes. After all, inventory management is fundamentally deal with maintaining an appropriate inventory level to satisfy customer demand at a suitable service level and minimal costs (Romanov, 2013). As a buying process, the purchasing activity is directly linked to the inventory level control.

4.4.3 Perception of Respondents towards the lead time of foreign purchasing

Table 4.4 Descriptive Statistics of lead time

S.No	Lead Time of foreign purchasing	N	Mean	Std. Deviation
1	The company uses proper expediting and follow up to minimize lead time.	112	3.96	0.643
2	The organization Identifies the proper source to minimize the lead time.	112	4.02	0.629
3	The company works in minimizing lead time delays caused by human errors.	112	3.58	0.595
4	The purchasing team in your organization has the necessary relevant qualification, skills, knowledge, and experience in the area.	112	4.30	0.551
5	The company avoids non-value-added activities.	112	3.54	0.656
6	The company is using shipping methods that are quicker and flexible.	112	4.12	0.654
	Cumulative mean of Lead time	112	3.92	0.269

Source: SPSS output of own survey result, 2020

To understand the perception of employees about the lead time of foreign purchasing in Habesha breweries six questions were asked to the respondents. Above table 4.4 shows that, from these questions, the staffs of Habesha breweries agree with the company use proper expediting and follow up to minimize lead time with a mean value of 3.96 and its standard deviation was 0.643. the employee perception about the organization Identify the proper source to minimize the lead time has the mean score 4.02, which is the third mean score with 0.629 standard deviations. The company works in minimizing lead time delays caused by human errors has a mean score of 3.58 with a standard deviation of 0.595. The highest mean 4.30 scored by the employee perception about the purchasing team in your organization has the necessary relevant qualification, skill, knowledge, and experience in the area. This highest mean value has a standard deviation of 0.551. The company avoids non-value-added activities that have the least mean value of 3.54 with 0.656 standard deviations. has the second mean score of 4.12 with a standard deviation of 0.654.

Generally, the overall mean score of the lead time of foreign purchasing shows that 3.92 with the standard deviation 0.269 which means that most of the respondents were agreed/satisfied regarding the listed lead time of foreign purchasing measurements. But this mean value is showing the least when it compares to the previous two independent variables (forex and optimal inventory).

As of Melanie (2017), manufacturers source raw materials from abroad, and numerous clients purchase final products in different countries. However, different variables can increase lead-time unnecessarily, like being late in order processing, unprofessional capacity management by suppliers, being late at the receiving port and much more. Other conditions may incorporate decisions to give the product a minimum prime concern or poor internal procedures at the suppliers' end. Delays at the freight forwarder or using non-direct shipping routes may increase lead time.

4.4.4 Perception of Respondents towards Operational performance

As it is indicated in below table 4.5, from the dimensions of Operational performance we can conclude that the majority of the respondents agreed that the company has been able to meet its Cost variance goal (mean score 4.33), Flexibility (mean score 4.3), Quality of product (mean

score 4.05), speed of Delivery (mean score 4.13) and Dependability (mean score 4.19). Generally, the table indicates that most of the respondents have evaluated most of the constructs as agree to the level of the five-point Likers scale. In other words, we can conclude that the majority of the respondents agreed that the company has been able to meet its cost reduction, flexibility, product quality, speed of delivery, and dependability goals.

Table 4.5 Descriptive Statistics of Operational performance

Operational performance			N	Mean	Std. Deviation
Cost	1	There is a decrease in production costs.	112	4.19	0.651
	2	There is a decrease in material costs.	112	4.53	0.519
	3	There is a decrease in overhead costs.	112	4.27	0.735
	The cumulative mean of Cost variance		112	4.33	
Flexibility	4	There is Volume flexibility.	112	4.37	0.537
	5	There is Expansion flexibility.	112	4.15	0.713
	6	There is Mix flexibility.	112	4.38	0.604
	The cumulative mean of flexibility		112	4.30	
Quality	7	It results in a Strong brand value.	112	4.42	0.548
	8	There is an increase in the number of customers.	112	4.37	0.537
	9	It results in High sales revenue.	112	3.37	0.805
	The cumulative mean of product quality		112	4.05	
Delivery	10	There is improved communication.	112	4.17	0.656
	11	There is short delivery time.	112	4.18	0.713
	12	There is high regulatory compliance.	112	4.05	0.721
	The cumulative mean of speed of delivery		112	4.13	
Dependability	13	There is high customer loyalty.	112	4.57	0.497
	14	There is high customer satisfaction.	112	3.63	0.658
	15	It creates a highly competitive advantage.	112	4.37	0.537
	The cumulative mean of dependability		112	4.19	
The cumulative mean of Operational performance			112	4.20	0.25

Source: SPSS output of own survey result, 2020

Generally, there are several studies investigated the relationship between foreign purchasing and operational performance, and it is accepted that the former enhances the latter. Fendo (2017) found Foreign purchasing is the greatest strategy for companies to lower the costs of labor and to be accessible with modern technology and resources. Also, he states that competition has

constrained organizations to devise and go after foreign purchasing strategies that target at lower costs and optimizing the quality. Das and Narasimhan (2000) also revealed that foreign purchasing creates an important impact on manufacturing quality, delivery and cost besides research and development on introducing new products and unique customization. Thrulogachantar and Zailani (2011), also revealed that foreign purchasing creates a significant impact on operational performance which comprises the competitive priorities of the firms in terms of introducing new product timelines, quality, cost, the flexibility of operation, delivery speed, and dependability and at last, customization responsiveness performance.

4.5 Correlation Analysis

Like the demographic factors, the scale typed questionnaire entered to the SPSS software version 26 to get correlation analysis. Correlation is a bivariate analysis that shows the strength of the association between two variables and their relationship direction. The linear relationship between variables can be measured by correlation coefficient (r) varies between +1 and -1, which is commonly called the Pearson product-moment correlation. Pearson's " r " measures the data from the interval or ratio level and helps to measure based on the deviation from the mean (Yabebal, 2017).

Correlation coefficient interpretation guideline (MacEachron, 1982), shows Measures of Associations and Descriptive Adjectives which is;

- ❖ $r = 0$: no correlation
- ❖ $0.0 < r < 0.2$: - very weak correlation
- ❖ $0.2 \leq r < 0.4$: - weak correlation
- ❖ $0.4 \leq r < 0.6$: - moderately strong correlation
- ❖ $0.6 \leq r < 0.8$: - strong correlation
- ❖ $0.8 \leq r < 1.0$: - very strong correlation
- ❖ $1.0 = r$: - perfect correlation

Hence, the correlation output of the dependent and independent variables is interpreted based on below table 4.6.

Table 4.6 Correlation Matrix between the dependent and the Independent Variables

		Operational Performance	Foreign exchange	Optimum Inventory	Lead Time
Operational Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	112			
Foreign exchange	Pearson Correlation	.597**	1		
	Sig. (2-tailed)	0.000			
	N	112	112		
Optimum Inventory	Pearson Correlation	.611**	.318**	1	
	Sig. (2-tailed)	0.000	0.001		
	N	112	112	112	
Lead Time	Pearson Correlation	.720**	.482**	.390**	1
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	112	112	112	112

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

Source: SPSS output of own survey result, 2020

Regarding the above table 4.6, all of the three dimensions has a strong statistical or significant positive relationship with an operational performance at the p-value 0.000 which is less than the significant level 0.01 (1%). Among them, lead time has the strongest relationship with a correlation coefficient of 0.720 followed by optimal inventory with a coefficient of 0.611 and foreign exchange has the weakest relationship with operational performance relative to the other for dimensions at the Pearson correlation coefficient 0.597.

In general, the correlation of three foreign purchasing factors with operational performance is analyzed with the help of SPSS version 26. The finding depicts that all are important determinants of foreign purchase and significant to show the effect of foreign purchase on operational performance.

4.6 Multiple Linear Regression analysis

Regression analysis is a predictive technique of identifying the variable(s) that have an impact on a variable of interest and investigating the relationship between the target-dependent variable and the predictor independent variable(s) (Disha, 2020). In other words, the regression model is the process of estimating the value of the dependent variable while the independent variable changed by per unit (sekaran and bougie, 2010).

In this study, regression analyses used to see what the dependent variable (operational performance) will be as a result of change occur on the independent variable (foreign exchange, optimal inventory and lead time).

The researcher has conducted basic assumption tests for the regression model, before running the analysis for multiple linear regression, Each test is explained below.

Assumption 1 – Multicollinearity Test

Before running regression, one should check for the problem of multi-collinearity which is present if there is a high correlation between some of the independent variables. The study checks this with the variance Inflation Factor (VIF) which calculates the influence of correlation among the independent variables on the precision of regression estimates. The VIF should not exceed 10. Tolerance is an indicator of how much of the variability of the specified independent variable is not explained by the other independent variable in the model and is calculated using the formula $1-R^2$ for each variable. If this value is less than 0.1 it indicates that there is a possibility of multi-collinearity, but if it is greater than 0.1 it means that there is no multicollinearity problem within the model. The below table 4.7 confirms the absence of multicollinearity according to collinearity statistics.

Table 4.7 Multicollinearity Table

Model	Collinearity Statistics	
	Tolerance	VIF
Forex	0.748	1.338
Inventory	0.825	1.211
Lead Time	0.705	1.418

a. Dependent Variable: Operational Performance

Source: SPSS output of own survey result, 2020

Assumption 2 - Normality Distribution Test

A normality test is used to determine whether the sample data drawn from the normally distributed population or not (Micceri, 1989). According to Smith and Wells (2006), multiple regressions need the independent variables to be normally dispersed. Skewness and kurtosis are statistical methods that can allow to inspect if the data is normally dispersed or not. Kurtosis is explained as “property of a distribution that describes in detail the thickness of the tails. The thickness of the tail originates from the number of scores falling at the extremes relative to the Gaussian/normal dispersion”. Skewness is a measure of symmetry. A distribution or data set is symmetric if it appears to be like the left and right of the center point.

The skewness and kurtosis test results of the data are within the satisfactory range (-1.0 to +1.0) and it tends to be presumed that the data is normally distributed (Park, 2008). Accordingly, the result of the study on table 4.8, shows that the skewness and kurtosis of the studied variables fell within the acceptable range.

Table 4.8 Normality Test (Skewness and Kurtosis)

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Operational Performance	112	-0.808	0.228	0.569	0.453
Forex	112	-0.248	0.228	-0.843	0.453
Inventory	112	-0.264	0.228	-0.190	0.453
Lead Time	112	-0.212	0.228	-0.909	0.453

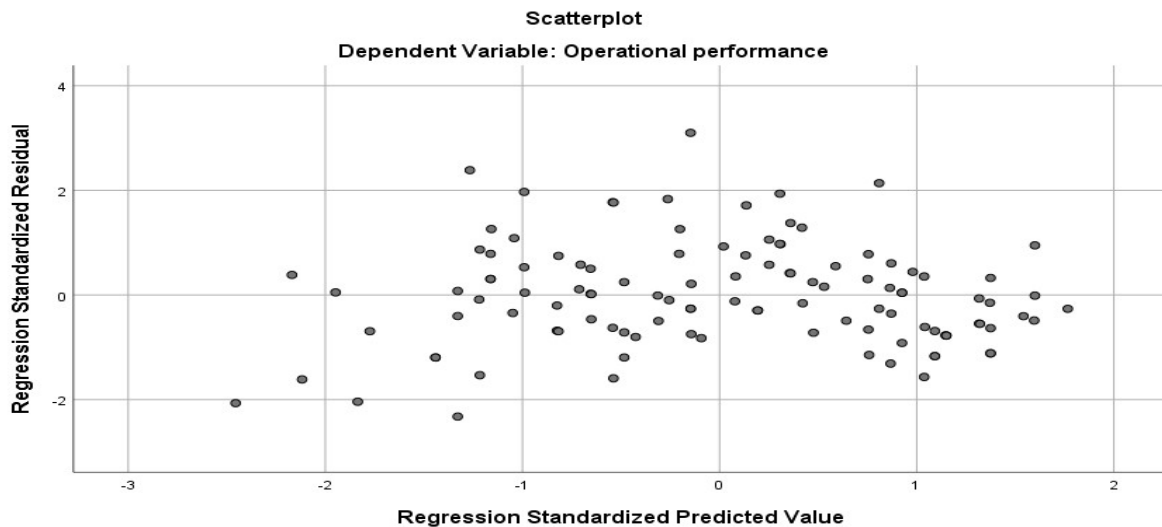
Source: SPSS output of own survey result, 2020

Assumption 3 - Homoscedasticity (Equal Variance)

The variability in scores for independent variables should be similar at all values of the dependent variable. The scatter plot should show along its length a fairly even rectangular shape. There should be homoscedasticity before running multiple regression analysis, this means that the residuals (the differences between the values of the observed and predicted dependent variable) are normally distributed and that the residuals have constant variance (Burns & Burns,

2008). If this assumption of homoscedasticity is violated, i.e. there is heteroscedasticity. The below figure 2 has demonstrated the homoscedasticity of the study.

Figure 2: Homoscedasticity of the study



Source: SPSS output of own survey result, 2020

Assumption 4 - Linearity of the Relationship Test

Linearity is the relationship between the dependent and independent variable should be linear concerning their parameter, this can be checked by the scatter plot of the dependent variable versus standardize predicted. In other words, Linearity means that the predictor variables in the regression have a straight-line relationship with the outcome variable. If the residuals are normally distributed and homoscedastic, we will don't have to worry about linearity (<http://www.statisticssolutions.com>).

Assumption 5- Independent of residuals

The errors are assumed to be independent (Chatterjee & Hadi, 2012; Fox, 1997; Weisberg, 2005). Violation of this assumption results in, a biased estimate of standard errors and significance, even if the estimate of the regression coefficient remains unbiased but yet inefficient, (Chatterjee & Hadi, 2012).

The Durbin-Watson statistic is used to test for the independence of residuals. This particular test was obtained from the model summary part of the regression output. Table 4.14 showed the Durbin-Watson test for this study.

The value of the Durbin-Watson statistic ranges from 0 to 4. As a general rule, the residuals are independent (not correlated) if the Durbin-Watson statistic is approximately 2, and an acceptable range is 1.50 - 2.50 (Babatunde O.S, Oguntunde P.E, Ogunmola A. O, and Balogun O.S, 2014). In this case, the above table 4.9 Durbin-Watson is 1.789, close to 2 and within the acceptable range and hence, we assumed independence of residuals assumption.

Generally, the above assumptions of multiple regressions are met and the next step was processing the regression analysis to determine the values of the model summary (R and R²), the model fit (ANOVA) and the beta coefficients.

With the utilization of multiple linear regression analysis, model summary, Beta coefficient, and ANOVA were resolved, and also the regression model was developed. Accordingly, the relative effect of foreign purchasing for operational performance was indicated.

4.6.1 Model Summary

In the model summary underneath table 4.9, the multiple regression coefficients R indicates a very solid correlation of .837 between operational performance and the three independent variables. The letter R shows the direction of the relationship (positive or negative). Thus, the R-value at 0.837 shows a stronger relationship between observed and predicted values in a positive direction.

R²=0.700 reveals that the model records for 70% of the variation in the operational performance and is indicated by the linear combination of all the independent variables of foreign purchasing (foreign exchange, optimal inventory and lead time). This leaves 30% unexplained.

Table –4.9. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.837 ^a	0.700	0.692	0.13881	1.789

a. Predictors: (Constant), Lead Time, Inventory, Forex

b. Dependent Variable: Operational Performance

Source: SPSS output of own survey result, 2020

4.6.2 ANOVA Model Fit

The ANOVA tells us whether the model, overall, results in a significantly good degree of prediction of the outcome variable (Field, 2008). Accordingly, table 4.10 of this investigation shows that the value of R and R² established from the model summary is statistically significant at (F=84.017), (P<0.001) and this informs us that the three independent variables are taken together as a set are significantly related to the dependent variable.

Table 4.10 ANOVA Model Fit

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.857	3	1.619	84.017	.000 ^b
	Residual	2.081	108	0.019		
	Total	6.938	111			
a. Dependent Variable: Operational Performance						
b. Predictors: (Constant), Lead Time, Inventory, Forex						

Source: SPSS output of own survey result, 2020

4.6.3 Beta Coefficient

❖ Standardized Beta Coefficient

Greene and D'Oliveira (2005) indicate that using these standardized beta coefficients, each predictor variable can be compared in terms of how much it contributes to units of change in the criterion variable compared with other variables.

The standardized coefficients are the coefficients which can describe the relative significance of explanatory variables. These coefficients are acquired from regression analysis after all the explanatory variables are standardized.

The bigger the standardized coefficient, the more impact of the factors to the operational performances. As can be seen from Table 4.11 below, the standardized coefficient of lead Time is the largest value (0.456). This suggests, this variable has comparatively solid degree of significance for analyzing the effect of foreign purchasing on operational performance followed by optimal inventory of foreign purchasing and foreign exchange of foreign purchasing whose beta value equals 0.348 and 0.267, respectively.

The significance tests of the three explanatory variables indicate that all of the explanatory variables are significant with p-value (P<0.05) for predicting operational performance.

Table 4.11 Beta Coefficient

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.909	0.209		4.339	0.000
	Forex	0.178	0.041	0.267	4.38	0.000
	Optimal Inventory	0.235	0.039	0.348	5.997	0.000
	Lead Time	0.423	0.058	0.456	7.259	0.000

a. Dependent Variable: Operational Performance

Source: SPSS output of own survey result, 2020

❖ Unstandardized Beta Coefficient (β)

The unstandardized coefficients (β_1 up to β_3) are the coefficients of the estimated regression model. Consequently, by incorporating the error term (ε), the model for operational performance can be composed as;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$Y = 0.909 + .178X_1 + .235X_2 + 0.423X_3 + 0.13881$
--

Y= Dependent variable (Operational performance)

β_0 = constant, if all predictor variables are 0 (zero), the value of dependent variable equals to constant.

β_1 , β_2 and β_3 = the beta coefficient of foreign exchange, optimal inventory and lead time respectively.

x_1 , x_2 and x_3 = the predictors or independent variables (foreign exchange, optimal inventory and lead time respectively).

The above table 4.11, indicate that the overall foreign purchasing dimensions (foreign exchange, optimal inventory and lead time) has a positive and significant impact or contribution on operational performance by 0.178, 0.235 and 0.423 beta value and at all $p=0.000$.

4.7 Hypotheses Summary

Based on the regression results, the researcher summarized alternative hypotheses in table 4.12 below. The researcher tested hypotheses by using p-value.

Table 4.12 Hypotheses Summary

No.	Hypothesis	Sig.	Decision
Hypothesis 1	Foreign exchange of foreign purchasing has significant positive effect on the operational performance	0.000	Accepted
Hypothesis 2	Optimal inventory of foreign purchasing has significant positive effect on the operational performance	0.000	Accepted
Hypothesis 3	Lead time of foreign purchasing has significant positive effect on the operational performance	0.000	Accepted

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1. Summary of the Findings

This study conducted to identify the effect of foreign purchasing on operational performance in the case of Habesha breweries S.C. The study committed to knowing the impact of foreign purchasing dimensions (foreign exchange, optimal inventory and lead time) on operational performance. To accomplish the expressed objectives, a quantitative approach, multiple regression analysis and correlation were utilized dependent on the data gathered from the employees of the company through a questionnaire. The total sample size was 162 and 115 questionnaires were distributed to the respondents out of which, 112 questionnaires were returned with a response rate of 97.4%.

Out of 112 respondents, the major share of the respondents was male 81.3% (91) and the remaining 18.7% (21) were Female. 75.9% of the respondents have an educational level of BA/BSC degree. 44.6% of the respondents have company experience of 3-5 years and 37.5% have more than five years of experience while the remaining of them have less than three years of company experience. 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 65.2%.

The analysis result shows that the mean score values of dimensions of the foreign purchase (foreign exchange, optimal inventory and lead time) were above the average mean value.

The finding from the correlation analysis indicates all foreign purchasing dimensions have a strong positive and statistically significant relationship with operational performance. Among them, foreign exchange of foreign purchasing has positively and strongly correlated with operational performance at ($r=0.597$, $p<0.01$). The result agreed with the finding of James Lloyd and Bisrat Teshome (2018), the foreign currency shortage will reduce competitiveness and hampering the growth and operation of businesses.

The finding also shows that optimal inventory of foreign purchasing has also positively and strongly correlated with an operational performance with a coefficient of ($r=0.611$, $p<0.01$). This

finding agreed with Golini and Kalchschmidt, (2011) that foreign purchasing has a potentially effects on inventory performances and in this way that organizations attempt to compensate for the operational effects of this practice by improving their supply chain processes.

The study result for lead time of foreign purchasing shows a positive and strong correlation with an operational performance with a coefficient of ($r=0.720$ with $p<0.01$). The result agreed with the finding of Handfield (1994), among the top five cost issues experienced in the utilization of foreign sources are long lead time and inventory expenses. In a similar report, it is moreover indicated that foreign sourcing efficiently causes less on-time deliveries and longer lead-times.

The multiple regression analysis results demonstrate that the overall foreign purchasing dimensions have an impact on operational performance. From this result, foreign exchange, optimal inventory and lead time have a positive and statistically significant impact on operational performance at $p<0.05$. From the model summary of multiple regression, the value of R squared shows that 70% of the variation of operational performance explained by foreign purchasing dimensions the remaining 30% explained by other factors that are doesn't include in this study.

5.2. Conclusion

The main purpose of this study is to analyze the effect of foreign purchasing on operational performance of Habesha breweries respect to three foreign purchasing dimensions. This study intended to investigate and address three research questions that are developed in this research.

The first research objective of this thesis work was to examine the effect of Foreign exchange of foreign purchasing on the operational performance of Habesha breweries and from the finding, the researcher concludes that foreign exchange of foreign purchasing has a positive and significant effect on the operational performance of Habesha breweries.

The second research objective of this thesis work was to examine the effect of the optimal inventory of foreign purchasing on the operational performance of Habesha breweries and from the finding, the researcher concludes that optimal inventory of foreign purchasing has a positive and significant effect on the operational performance of Habesha breweries.

The third research objective of this thesis work was to investigate the effect of the lead time of foreign purchasing on the operational performance of Habesha breweries and from the finding,

the researcher concludes that lead time of foreign purchasing has a positive and significant effect on the operational performance of Habesha breweries.

Depend on the indication of variables in regression analysis, it can be possible to conclude that all three foreign purchasing dimensions foreign exchange of foreign purchasing, optimal inventory of foreign purchasing and lead time of foreign purchasing have a significant effect on operational performance.

5.2. Recommendations

Based on the findings of this research study and the conclusion made, the researcher makes the following recommendations:

- ❖ Since foreign purchasing has significant effect on operational performance of the company, the management of the company shall increase the efficiency of its foreign purchasing practices through building effective policies for minimizing its lead time effect and non-value add practices, proper planning for foreign purchasing optimal inventory and establishing strategies to curb forex shortages.
- ❖ Based on the study finding, Foreign exchange of foreign purchasing strongly affects the operational performance of the company. Thus, the management of the company shall proactively improve and establish strategies to curb foreign exchange shortages, strengthening itself to make exporting its product to get forex and strengthen its foreign exchange reserve.
- ❖ According to the study, optimal inventory of foreign purchasing significantly affecting operational performance of the company. Thus, the company shall further improve its coordination and planning decisions for inventory. The company also shall integrate all aspects of inventory tasks, including shipping, foreign purchasing, receiving, warehouse storage, turnover, tracking, and recording with inventory control system to build continuous inventory optimization.
- ❖ Since lead time of foreign purchasing is significantly affecting operational performance of the company, hence, the company shall minimize the lead time of foreign purchasing

through further decreasing non-value adding activities and improving its foreign purchasing activities.

5.4 Further Research for the study

The researcher has proposed what areas or aspects further studies should consider.

- The study conducted on manufacturing firm, apart from this, other studies would be directed to build up its significance in the different industries like service and other sector of the economy.
- Moreover, this study was conducted only with a few aspects of foreign purchasing, hence further research is needed by using other aspects of foreign purchasing that may affect the dependent variables directly or indirectly, which is not included in this study.

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APPENDIX

Appendix 1: (Questionnaire)

Research Questionnaire

Addis Ababa University School of Commerce

Department of Logistics and Supply Chain Management Research- Questionnaire on the effect of foreign purchasing on operational performance: in the case of Habesha breweries s.c.

Dear Respondent

This questionnaire is designed to assist the researcher to make an objective assessment on the effect of foreign purchasing on operational performance: in the case of Habesha breweries s.c. In partial fulfillment of the requirements for the award of the Master of Arts degree in Logistics and Supply Chain Management in Addis Ababa University School of Commerce. The exercise is academic and your answers will be treated with the utmost confidentiality they deserve.

Instructions

Your maximum co-operation is highly anticipated. Please tick (✓) the response applicable to you. You are requested to fill out your personal information in the spaces below. Please tick only one response.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

1. Gender: Male ☐ Female ☐

2. Please indicate your age group:

18 – 25 ☐ 26-30 ☐ 31-35 ☐ 36-40 ☐ >41 ☐

3. Please indicate your highest educational qualification:

Diploma ☐ BA/BSC ☐ MA/MSc ☐ PhD ☐

4. Please indicate the department that you are currently working:

- Sales and Distribution ☐
- Production and operation ☐
- Supply Chain and Purchasing ☐
- Warehouse and material control ☐

5. Please indicate your work experience in Habesha breweries

Less than 1-year ☐ 1-3 year ☐ 3-5 year ☐ more than 5 year ☐

**SECTION B: THE EFFECT OF FOREIGN PURCHASING ON
OPERATIONAL PERFORMANCE: IN THE CASE OF HABESHA
BREWERIES S.C.**

PART I: FOREIGN PURCHASING

Sq.	The following list is related to foreign purchasing practices. Please Tick (“√”) the proper number to indicate the extent to which you agree or disagree with each statement. The item scales are five-point Likert type rate scales with 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree	1	2	3	4	5
	<i>Foreign exchange of the foreign purchase</i>					
1.	The company uses Forex from its own foreign currency reserve at the time of severe Forex shortage for foreign purchasing.					
2.	The company works proactively by establishing strategies to curb forex shortages.					
3.	To minimize the burden of frequent FX requests the company is reducing the volume of imports and moving towards local suppliers.					
4.	To get a Foreign exchange advantage the company uses importers to buy the required material.					
5.	The company makes bulk purchases to avoid frequent Forex requests.					
	<i>Optimal inventory of foreign purchasing</i>					
1.	To minimize the frequency of foreign purchasing the company holds excess inventory.					
2.	The organization has a good level of coordination for inventory planning decisions.					
3.	The company uses good Inventory control systems for inventory tracking.					
4.	The company qualifies internal purchasing activities to improve the quality of the purchasing department.					
5.	To make the supply stable, the company develops a reliable relationship with suppliers.					
	<i>The lead time of Foreign purchasing</i>					
1.	The company uses proper expediting and follow up to minimize lead time.					
2.	The organization Identifies the proper source to minimize the lead time.					
3.	The company works in minimizing lead time delays caused by human errors.					
4.	The purchasing team in your organization has the necessary relevant qualification, skills, knowledge, and experience in the area.					

5.	The company avoids non-value-added activities.					
6.	The company is using shipping methods that are quicker and flexible.					

PART II: OPERATIONAL PERFORMANCE

Sq.	Please indicate your <i>level of agreement</i> on the statements by ticking “√”, the extent to which your organization has experienced the operational outcomes as <i>a result of implementing foreign purchase in your organization</i> . 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 agree, 5 = strongly agree	1	2	3	4	5
	Cost Variation					
1	There is a decrease in production costs.					
2	There is a decrease in material costs.					
3	There is a decrease in overhead costs.					
	Flexibility of operation					
1	There is Volume flexibility.					
2	There is Expansion flexibility.					
3	There is Mix flexibility.					
	Quality of Product					
1	It results in a Strong brand value.					
2	There is an increase in the number of customers.					
3	It results in High sales revenue.					
	Speed of Delivery					
1	There is improved communication.					
2	There is short delivery time.					
3	There is high regulatory compliance.					
	Dependability					
1	There is high customer loyalty.					
2	There is high customer satisfaction.					
3	It creates a highly competitive advantage.					

Thank you for your time and participation!!

Appendix 2: (SPSS generated output)

