

**Effect of Strategic Sourcing on Organizational  
Performance:  
The case of MOHA Soft Drinks Industry S.C.**

**A Thesis Submitted to Addis Ababa University College of Commerce  
in Partial Fulfillment of the Requirements for the Degree of Master  
of Art in Logistics and Supply Chain Management**

**By  
Binyam Tesfaye**

**Addis Ababa University College of Commerce**

**June, 2019  
Addis Ababa, Ethiopia**

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**June, 2019  
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## **Declaration**

I, the under signed, declare that this thesis entitled '*Effect of Strategic Sourcing on Organizational Performance: The case of MOHA Soft Drinks Industry S.C.*', is my original work and to the best of my knowledge has not been presented for a degree by any other person, and that all the sources of material used for the thesis have been duly acknowledged.

Declared by:

Binyam Tesfaye Kersie

---

Date & Signature

### **Statement of Certification**

This is to certify that the thesis carried out by Binyam Tesfaye on the topic entitled: *“Effect of Strategic Sourcing on Organizational Performance: The case of MOHA Soft Drinks Industry S.C”* is his original work and is suitable for submission for the award of Master of Art Degree in Logistics and Supply Chain Management.

**Advisor:** Teklegiorgis Assefa (Asst. Prof.)

---

Date & Signature

**Addis Ababa University**  
**College of Commerce**

This is to certify that the thesis carried out by Binyam Tesfaye Kersie, entitled '*Effect of Strategic Sourcing on Organizational Performance: The case of MOHA Soft Drinks Industry S.C.*' and submitted in partial fulfillment of the requirements of the Degree of Master of Art in Logistics and Supply Chain Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee:

External Examiner \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Internal Examiner \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Advisor \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

## **Abstract**

*The purpose of this study is to examine effect of strategic sourcing on organizational performance, identify the gap, and to recommend improvement areas in the case of MOHA Soft Drinks Industry SC. In this study strategic sourcing is evaluated by supplier development, long term supplier relationship, effective procurement plan, and communication. Both descriptive and explanatory research design is employed. Primary data was collected from employees of MOHA Soft Drinks Industry SC. through structured questionnaires. Out of a total of 102 questionnaires distributed, only 87 (85.2%) complete responses were returned. Data were analyzed through descriptive statistical and inferential analysis methods. Employees of MOHA Soft Drinks Industry SC have agreed with supplier development, long term supplier relationship, effective procurement plan, and communication aspects of Strategic Sourcing practices of the company. From moderate to strong positive and significant correlation/relationship is observed between strategic sourcing and organizational performance. The multiple regression analysis results indicated that, unlike long term supplier relationship, the three strategic sourcing dimensions (supplier development, effective procurement plan, and communication) have positive and significant effect on organizational performance. Furthermore, 67.8% change in organizational performance is explained by those significant strategic sourcing dimensions. Finally, the study recommended MOHA Soft Drinks Industry SC has to reassess its long term supplier relationship and is suggested to improve its relationship with suppliers from simply buy-sale relationship to a modern supply chain relationship through establishing strategic or long term supplier relationship and continuous information sharing in order to minimize supply uncertainty which resulted in demand and supply mismatch.*

**Key terms: Supplier development, Long term supplier relationship, Effective procurement plan, Communication, and Organizational performance**

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Table of Contents	vi
<i>Abstract</i> .....	vi
Acknowledgements.....	vii
List of Tables and Figures.....	x
List of Acronyms/Abbreviations .....	xi
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem .....	4
1.3 Research questions .....	7
1.4 Objective of the study.....	8
1.5 Scope of the Study .....	8
1.6 Limitations of the Study .....	9
1.7 Significance of the Study.....	9
1.8 Operational definitions of key terms .....	10
1.9 Organization of the study .....	11
CHAPTER TWO.....	12
RELATED LITERATURE REVIEW .....	12
Introduction.....	12
Theoretical Literature Review.....	12
2.1 Concept of strategic sourcing .....	12
2.2 Evolution of Strategic Sourcing .....	13
2.3 Theories of strategic sourcing.....	13
2.4 Model for representation of strategic sourcing decision making.....	18
2.5 Dimensions/aspects of strategic sourcing .....	21
2.6 Organizational Performance .....	26
2.7 Empirical Review.....	28
2.8 Conceptual framework of the study.....	34
CHAPTER THREE.....	36
RESEARCH DESIGN AND METHODS.....	36
Introduction.....	36
3.1. Description of study area .....	36
3.2. Research Approach .....	37
3.3. Research Design.....	37
3.4. Data type and Source .....	37
3.5. Target Population .....	38
3.6. Method of Data Collection .....	40
3.7. Methods of Data Analysis .....	41
3.8. Validity and Reliability .....	42

3.9. Ethical Considerations .....	43
CHAPTER FOUR .....	44
DATA PRESENTATION, DATA ANALYSIS AND DISCUSSION RESULTS .....	44
Introduction.....	44
4.1. Response Rate.....	45
4.2. Reliability Analysis .....	45
4.3 Descriptive statistics .....	46
4.4 Descriptive Statistics for Strategic Sourcing Dimensions .....	48
4.5 Inferential Analysis.....	54
4.6 Multiple Regression Analysis .....	63
4.7 Hypothesis Testing.....	68
CHAPTER FIVE.....	71
CONCLUSION AND RECOMMENDATION .....	71
Introduction.....	71
5.1. Conclusion .....	71
5.2. Recommendation.....	73
5.3. Limitation and Suggestions for Future Studies.....	74
References .....	75
Annex .....	84

## List of Tables and Figures

### Tables and Figures

<b>Tables</b>	<b>Page No.</b>
Table 3.1. Total Population	39
Table 3.2. Target Population	40
Table 3.3. Rule of thumb of Cronbach's Alpha	43
Table 4.1. Response Rate of Questionnaire	45
Table 4.2. Reliability Test Result	46
Table 4.3. Demographic Characteristics	47
Table 4.4. Descriptive statistics (Mean and standard deviation) for supplier development	49
Table 4.5. Descriptive statistics (Mean and standard deviation) for Long term orientation	50
Table 4.6. Descriptive statistics (Mean and standard deviation) effective procurement plans	51
Table 4.7. Descriptive statistics (Mean and standard deviation) for communication	52
Table 4.8. Descriptive statistics (Mean and standard deviation) for organizational performance	53
Table 4.9. Correlation Interpretation	54
Table 4.10. Correlation analysis result	55
Table 4.11. Multicollinearity Test	58
Table 4.12. Skewness and Kurtosis test	59
Table 4.13. Residual Statistics	63
Table 4.14. Model Summary	64
Table 4.15. ANOVA (Analysis of variance)	65
Table 4.16. Regression Coefficients Result	66
Table 4.17. Hypothesis Testing Results	70
<b>Figures</b>	
Fig. 2.1. Conceptual framework of the study	35
Fig. 4.1. Histogram	60
Fig. 4.2. Normal P-P Plot of Regression Standardized Residual	61
Fig. 4.3. Scatter Plot	62

## **List of Acronyms/Abbreviations**

EPP – Effective procurement plan

LTSR – Long Term Supplier Relationship

RBT - Resource Based Theory

SD – Supplier Development

# CHAPTER ONE

## INTRODUCTION

This chapter provides the reader with the introduction of the study. The study as a whole is concerned with an investigation of the effects of strategic sourcing on organizational performance in MOHA Soft Drinks Industry S.C.

### 1.1 Background of the Study

With a population of more than 102 million people, Ethiopia is the second most populous country in Africa and represents a largely untapped consumer market. There is growing demand for carbonated soft drinks, as well as bottled water, and although the majority of Ethiopians still drink home brewed beer, branded alcoholic beverages are becoming increasingly popular amongst upwardly mobile members of society. During the past five years foreign companies have made substantial investments in the Ethiopian beverages industry and several manufacturers have expanded their installed capacity in an effort to meet growing demand.

The report on the Ethiopian beverages industry investigates the local beverages market, recent developments and factors influencing the success of the formal industry. The report profiles 16 companies including Moha, which with market share of approximately 52%, dominates Ethiopia's multi-million dollar carbonated soft drinks market (<http://www.reportlinker.com/p04411879-summary/view-report.html>)

The current competitive business environment is defined by intense global competition, shortening product life cycles, and increasingly demanding customers. Within this environment, the importance of strategic sourcing has become more and more recognized, taking into consideration the challenges of reducing costs while improving service levels significantly. Purchasing and supply management is one of the supply chain management areas, which promises better costs control and resources utilization (Kocabasoglu and Suresh, 2006). Strategic sourcing has become

a highly recognized business tool, whereby competitive advantage may be gained when products or services are produced more effectively and efficiently by outside suppliers (McCarthy and Anagnostou, 2004).

Lysons and Farrington (2006) defines strategic sourcing as “concerned with the top-level, longer-term decision relating to high – profit, high supply risk items and low-profit, high supply risk bottleneck product and services”. It’s also concerned with the formulation of long-term purchasing policies, supplier base, partnership sourcing, reciprocal and Intra Company trading, globalization and countertrade, the purchase of capital equipment and ethical issues.

Strategic sourcing has been proven to be effective and result in cost reduction, increases in productivity, quality improvement, and return on investment. Considering sourcing as strategic has been considered as a driver for company growth. Strategic sourcing allows an organization to share information with its suppliers in real time with the aim of cutting the cost of materials, minimizing inventory, reducing shortages, and expediting deliveries. Strategic sourcing can reduce costs by consolidating purchases with a limited number of suppliers and by allowing the centralized purchasing departments negotiating leverage via a purchase of increased volume. Strategic sourcing can also help reduce ordering costs of purchasing orders thus reducing inventory handling costs (Rendon, 2005; Van Weele, 2010; and Thomas, 1999).

According to Presutti (2003), Lo & Yueng (2004), Tayles and Drury (2001) seventy percent of an organization’s sales revenues or total manufacturing costs is spent on purchasing raw materials, components, finished goods or services. Hence, if sourcing costs can be reduced, this can improve returns on investment by increasing both profit margins and asset turnover rate. Furthermore, there is a need of solutions for lack of points regarding to sourcing strategies in order to be adapted to changes and latest trends in the competitive market globally with the mitigation of sourcing risks which were mentioned in different groups; supply risk, process and control risk,

environmental and sustainability risk, operation risk and demand risk (Christopher, 2011).

Sislian and Satir (2000) described strategic sourcing as a packaging work that can help managers amid the time spent settling on obtaining decisions, considering high ground as a crucial part (Gottfredson et al, 2005). Strategic Sourcing is also described as the method of surveying, selecting and acclimating to suppliers or consortiums of suppliers to achieve operational changes in moving of an affiliation's strategic objectives (Jin Su, 2012).

A study done by Odhiambo (2013) on strategic sourcing practices and factors influencing strategic sourcing practices of manufacturing multinational corporations in Kenya, he found that the most outstanding strategic sourcing practice were strategic purchasing, internal integration, and information sharing.

As pointed out by Milliken (2011) the principal objective of strategic sourcing is to effectively handle situations when faced with supply, competitive, and demand uncertainties. They further noted that, it is achieved by developing a set of practices through which certain flexibilities could be obtained to face these uncertainties.

A research is conducted which concentrated on the role of contract management, early supplier involvement and their contribution to organizational performance. From the findings, it was noted that there are other aspects affecting organizational performance. Thus the researchers recommend future studies to be done on role of early supplier involvement on organizational performance. Additionally researchers recommend supplier development and Supplier Relationship management on organizational performance. Future researchers can try to look at the manufacturing sector (Carren C., Esther W., Antony K., 2015).

Eyerusalem, K.(2017) discussed that in order to benefit from a comprehensive assessment of the factors that truly affect the operational performance of the organization, future studies shall consider more dimensions of strategic sourcing

practice (logistic integration, supplier selection, contract administration) that haven't been considered in her particular study as all domains cannot be covered in just one study. Therefore, the study recommended future researches can expand the domain of SCM practices by considering additional supply chain dimensions and supply chain parties. Moreover, future researches shall be done with multiple organizations and with large number of respondents to enhance the research findings.

A study by Asrat (2017) mainly focused on Supplier relationship management, contract management, rationalization of supply base and supply chain improvements in operational performance of the organization. From the research findings, it was noted that there are other aspects affecting organization operational performance and it is recommended that a study can be improved by considering other factors.

## **1.2 Statement of the Problem**

According to Gelderman et al, (2005), strategic sourcing process is not simply a way to find the best price for a certain product but it has become a decision-making process that can shape the business of an entire organization.

Carr and Smeltzer (1997) noted that organizations have transformed their purchasing capabilities into competitive advantage, others are still lagging behind. They further noted that proactive firms are expected to control their purchasing operations in an effort to build competitive advantage. In order to get a competitive advantage of any organization, sourcing activities need great attention. Therefore, it is essential that managers should apply strategic sourcing, but these procedures should be tightly related to the overall strategy of the company and to customers' needs.

According to Court (1997) in many organizations, strategic sourcing process remains the least understood and most ineffectively managed of all the business processes. As this determines or affects the overall performance of the organization, special attention needs to be given to this function. According to Quayle (2002), and Carr and Smeltzer (1997) the aim of strategic sourcing is to increase the bottom line of the

company's income through the most thoughtful use of procurement approaches and strategies.

From the aforementioned discussion it is clear that there exists an important but neglected research gap that needs to be investigated very well. For one thing, there is no evidence that designate sufficient studies were conducted on the effects of strategic sourcing on organizational performance with respect to private sectors in Ethiopia.

Studies relating to strategic sourcing have been done but a few deals with impact on organizational performance. A study done by Odhiambo (2013) on strategic sourcing practices and factors influencing strategic sourcing practices of manufacturing multinational corporations in Kenya, he found that the most outstanding strategic sourcing practice were strategic purchasing, internal integration, and information sharing. Nyagariet (2014) have looked at the relationship between strategic sourcing and the triple bottom line in commercial banks in Kenya. Chiang, Hillmer,& Suresh (2012), has conducted a study on the impact of strategic sourcing and flexibility on firm's supply chain agility, which the study found out that strategic supplier partnership, supplier evaluation, sourcing flexibility and trust in supply chain members are the key dimensions of strategic sourcing. With all this studies it implies that little research have been conducted on its impact on organizational performance itself. With these knowledge gaps this study therefore tends to investigate the effect of strategic sourcing on organizational performance specifically looking at MOHA Soft Drinks Industry S.C.

On the other hand, the methodology employed by various studies conducted in Ethiopia on the same issues seems inadequate or inefficient to expose the reality on ground. Local studies on the strategic sourcing were conducted using descriptive survey design. Descriptive design by its very nature is used to describe situations and any phenomena as it actually exist (Abiy, 2009). Descriptive study is not sufficient to deal with cause and effect relationship among variables. Hence, in this research both

descriptive and explanatory research design is used to identify the effect of strategic sourcing on organizational performance.

The researcher identified that there is an inefficient implementation of strategic sourcing in the case company due to less understanding of an overall strategic sourcing concept at all levels, giving less attention for suppliers' evaluation and selection, inadequate interdepartmental integration and in general, giving less focuses to the sourcing function. As learnt from informal discussions with employees, in case of MOHA soft drinks Industry S.C., over the past recent years most of planned annual budget were spent at the end of each fiscal years and this indicated that the ultimate goals were spending on the planned annual budget at the end of the day regardless on focusing on quality, cost, and strategic thinking.

According to internal sources, the challenge of delayed deliveries, poor quality outputs, poor procurement planning, and lack of good supplier relationship management were sought as major bottleneck in MOHA Soft Drinks Industry S.C. This would obviously results in devastating effect on profit forecasts, affects the viability of the company by raising costs, damages company's image and causes delays in supply of goods and services, which in turn leads to a loss of competitiveness of the company. Furthermore, in this light, strategic sourcing is assumed to play a key role in ensuring that this is achieved, therefore there is a need for firms to ensure that they don't only source but source strategically.

It can be noted that many researchers have investigated the relationship of strategic purchasing and organization performance (Keitany & Riwo-Abudho, 2014), strategic purchasing and negotiation strategy (Thrulogachantar & Zailani, 2011), strategic purchasing and buyer-supplier relationship (Perks & Oosthuizen, 2013), negotiation strategy and organizational performance (Alafi, 2014), buyer-supplier relationship and organization performance (Damlin., 2012), negotiation strategy and buyer-supplier relationship (Perks & Oosthuizen, 2013).

However, to the knowledge the researcher, there is no study that has examined the interaction between the four constructs - supplier development, long term supplier relationship, communication, and effective procurement plan; and organization performance. In order to fill this gap, the present study concentrates on the examination of the effect of strategic sourcing on organization performance in the context of MOHA Soft Drinks Industry SC. This study contributes significantly to the current research on the supply chain management and paves the way for managers in the field to establish a supplier development, long term supplier relationship, communication, and effective procurement plan in the pursuit of superior organization performance.

Furthermore, some internal sources from MOHA Soft Drinks Industry S.C. underlined that sourcing performance still remains with high procurement cost and difficulty of sourcing material as per the specification. In addition, MOHA Soft Drinks Industry S.C. faces with the problem of on time shipment and quality at delivery. However, this situation is not empirically studied. This study, therefore, aims at investigating this phenomenon and finds the effect of strategic sourcing on organizational performance in terms of cost, quality, timely delivery, flexibility and customer satisfaction of MOHA Soft Drinks factory. Thus, the following basic research questions are established.

### **1.3 Research questions**

As it is already mentioned above the focus of this study is to examine the effects of strategic sourcing on organizational performance. The research tried to address to the following basic questions.

1. What is the effect of Supplier Development on organizational performance of MOHA Soft Drinks Industry SC?
2. What is the effect of Long Term supplier relationship on organizational performance of MOHA Soft Drinks Industry SC?

3. What is the effect of Effective procurement plan on organizational performance of MOHA Soft Drinks Industry SC?
4. What is the effect of Communication on organizational performance of MOHA Soft Drinks Industry SC?

## **1.4 Objective of the study**

This study has general and specific objectives.

### **1.4.1 General objective**

The general objective of this study is to examine the effects of strategic sourcing on organizational performance at MOHA Soft Drinks Industry S.C.

### **1.4.2 Specific objective**

The specific objectives of this study are:-

1. To find out the effect of Supplier Development on organizational performance.
2. To examine the effect of Long term supplier relationship on organizational performance.
3. To investigate the effect of Effective procurement plan on organizational performance.
4. To determine the effect of Communication on organizational performance.

## **1.5 Scope of the Study**

This study tried to see the four main pillars of Strategic Sourcing namely supplier development, long term supplier relationship, effective procurement plan and communication in respect to their effect on organizational performance. The study did not focus on other determinants of strategic sourcing practice since the problem took place in the above mentioned aspects.

In assessing the effect of strategic sourcing on organizational performance, MOHA Soft Drinks Industry S.C. was chosen without considering other Soft Drinks factory, the rationality is though there is practice of strategic sourcing, it is not empirically studied. In assessing the effect of strategic sourcing on organizational performance in MOHA Soft Drinks Industry S.C. only Head Office and Plants in Addis Ababa namely Teklehaimanot, Nefas Silk and Summit are considered.

Methodologically, among the different types of research designs the research design of this study is explanatory research. The design used for the research is quantitative approach research. The data is gathered using primary source and analyzed using both descriptive (such as mean and standard deviation) and inferential statistics (such as Pearson correlation and multiple regression).

## **1.6 Limitations of the Study**

Some of the specific limitations regarding this study include:

- Though there are eight plants across the country, the study is confined only in three plants (Nefas Silk, Teklehaimanot and Summit) and the head office which all are located in Addis Ababa area. Regional effects associated with remaining parts of the country that are contributing to the effect of Strategic Sourcing on Organizational Performance is not considered in the study.
- Financial performance data and information are not disclosed to external body due to the policy of the company. This delimits the study not to present the effect of strategic sourcing on organizational performance in terms of financial results and/or leverages.

## **1.7 Significance of the Study**

**Theoretically:** Unlike the availability of several literatures on supply chain management, the available literature and previous studies which provide detailed information regarding organizational performance and strategic sourcing practice are

very few. Hence, undertaking this study is expected to contribute to the advancement of the existing theoretical coverage on strategic sourcing practice and organizational performance. Also, the finding and conclusion of this study can lead to the initiation of further study by anyone who might be interested in the topic.

**Practically:** the study has the potential to have significant value for many companies. If such companies employ unorganized and inappropriate sourcing practice, they could face a multiple of problems in their day to day activities such as: incurring a huge amount of cost due to procuring poor quality inputs, facing frequent production interruption and the like. Therefore, the findings of this study can provide the opportunity, for many organizations, to understand the essence of the modern sourcing practice and its effect on organizational performance. Finally, after completing the study and analyzing the results, proper recommendations will be reported to the concerned bodies of the case study company - MOHA Soft Drinks Industry S.C.

## **1.8 Operational definitions of key terms**

**Sourcing:** Is researching the market for potential input sources, securing the continuity of these sources, searching for alternative sources and keeping the relevant knowledge up to date (Vollman, Berry, and Whybark, 2004).

**Strategic sourcing:** Is defined as the process of planning, implementing, controlling, and evaluating highly important purchasing in an effort to meet a firm's goals (Carr and Smeltzer, 2000; Carr and Pearson, 1999 & 2002).

### **Supplier Development**

Defined as any effort of a buying firm working with its supplier(s) to increase the performance and/or capabilities of the supplier(s) and meet the buying firm's short- and/or long-term supply needs as well as promote on-going improvements that are intended to benefit both buyer and supplier.

## **Long Term Supplier Relationship**

Long-term supplier relationship in the context of buyer-supplier relationship can be defined as the tendency to stick on relationships for a relatively longer period between a firm and its suppliers.

## **Communication**

Information sharing/exchange is the extent of which a firm shares a variety of relevant, accurate, complete and confidential ideas, plans and procedures with its supply chain partners in a timely manner.

## **Effective procurement plan**

Procurement plan is derived from the plans which have been formulated and should allow for subsequent comparison, evaluation and control of the efforts made to meet the company's objectives.

## **1.9 Organization of the study**

This paper has five chapters. The first chapter deals with the introduction part that consists of background of the study, statements of the problem, research questions, objectives of the study, significances of the study, scope and limitations of the study and organization of the study. Chapter two contains a review of the related literature. The research design and methods is presented in chapter three. In chapter four, the results and findings of the study are discussed. Finally, the last chapter dealt with the summary of findings, conclusions and recommendations based on the results obtained.

## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

#### **Introduction**

This chapter presents literature reviews related to the purpose of this study. The purpose of reviewing the literature is to give insight on strategic sourcing processes. The purpose of reviewing the literature is to establish the conceptual foundation for the study, to define and establish the importance of research question. According to Saunders (2003), a literature search is “a systematic search of one or more databases for material on a specific subject”. It gives the researcher an insight to see clearly how the research at hand relates to previous researches. Thus, literature is reviewed under the following subheadings.

#### **Theoretical Literature Review**

##### **2.1 Concept of strategic sourcing**

Strategic sourcing is an institutional procurement process that continuously improves and re-evaluates the purchasing activities of a company. In the services industry, strategic sourcing refers to a service solution, sometimes called a Strategic Partnership that is specifically customized to meet the client's individual needs. In a production environment, it is often considered one component of supply chain management (Tzokas, 2007).

The principal objective of strategic sourcing is uncertainty reduction and improvement of flexibilities when faced with supply, competitive, and demand uncertainties (Milliken, 1987; Johnson & Johnson, 1991). Carter et al. (1990) described strategic sourcing as an initiative to build competitive advantage through early supplier involvement in product engineering, sharing of supplier technology, and supplier assistance in developing product and process improvements. Strategic sourcing is a way to obtain manufacturing capabilities without capital investments.

## **2.2 Evolution of Strategic Sourcing**

Ellram and Carr (1994) provide a history and review of literature related to sourcing's strategic importance. They note that even as the oil crisis of 1973-1974 highlighted the perils of raw material supply shortages, research on industrial buying behavior largely viewed the purchasing function as administrative. It was not until the 1980s when Porter's Five Forces model gained popularity that the strategic role of the interface between suppliers and buyers was better understood. This has led to more contemporary research investigating the strategic impact of sourcing as an integrative link between the firm and its suppliers.

As the interface between suppliers and the firm, purchasing's influence on firm performance increases as supplier contribution to the firm increases. Further, the inclusion of purchasing (sourcing) strategy in corporate strategy is more vital as global competition and the pace of technological change quickens. A firm's supplier management orientation is reflected in its contracting policies for external purchases, model the trade-offs between short term and long term contractual relationships. Short term contracts provide more flexibility and avoid fixed investments, but also forgo improvement and price certainty benefits afforded from long term contracts. Analysis made by Cohen and Agrawal (1999) reveals that short term contracting is optimal under a wide range of conditions. In a survey of supply managers they find that management intends to develop long term supplier relationships, but often engage in short term contracting. This conflict over the optimal buyer supplier relationship is not exclusive to the ranks of supply managers (Cohen and Agrawal, 1999).

## **2.3 Theories of strategic sourcing**

### **2.3.1 Institutional theory**

Institutional theory is a theory on the underlying and more irrepressible aspects of structure on the social sense. It tables into account the procedures by which structures including standards, policies, routines and schemes are built up as

legitimate rules for social conduct. In this study, it explains how a business's environment through regulations, normal and subjective components regulates and approves methodologies (Scott, 1995).

Although the institutional theory and "neo-institutional" theory have distinctive perspectives on whether definitive modification is acknowledged by aware decision methods made to consent to the affiliation's condition (the last attributes more centrality to such decisions), both gauge that institutional weights may influence the relationship to grasp sourcing courses of action that hold quick to its condition (March and Olsen, 1984).

Diverse institutional weights may influence relationship to source unmistakably which may have financial outcomes and may provoke moral dilemmas. Notwithstanding, it is essential for firms to adhere to the scope of legal sourcing strategies on the grounds that a legitimate firm gets assets of higher quality at more good terms than an unlawful firm. On the other hand, if firms are too similar deliberately, their execution may fall apart. Therefore, it could be stated that select sourcing strategies that help legitimize them, but do not lead to isomorphism. Observing changes in government strategies and laws such as the trade accords between states or tax laws, or the legislation supporting low salary organizations as they are relatable to the sourcing choices and may prompt a firm being a pioneer of sourcing developments (March and Olsen, 1984).

We should however note that outsourcing may incur some serious short and long term effects such as increased expenditure and lowered performance, and the loss of crucial skills and knowledge and therefore managers should be keen to make these sourcing decisions by placing them against their strategic merit (Jennings, 2002).

### **2.3.2 Agency theory**

The agency theory is a notion that clarifies the connection between the principals and operators in a business. From this perspective, the principal is the firm's strategic

sourcing function while the agent is represented by the supplier. It keeps up that the settle on against the purchase choice is to be decided by the economic relationship between the cost of producing goods and the cost of transacting. Where production costs fall below transaction costs, the business should come up with and run the process internally and vice versa. By transaction costs we are referring to the actual sourcing costs and what's more additional checking and control costs that are normal by the chief. Observing costs allude to any expenses brought about by the primary to guarantee that the specialist's practices and exercises that may make misfortunes for the central, and furthermore guarantees that the key meets the simple terms and states of the sourcing contract. Control expenses are the binding costs that the principal assumes to enforce the terms of the sourcing contract upon term violation (Eisenhardt, 1989; Jensen and Meckling, 1976).

Agency theory statutes recommend that lower exchange costs are pushing firms far from sourcing inside and toward buying or partnership key sourcing connections. Certain fundamental forces are accepted to drive the advancement towards more progressive and more grounded sourcing securities among principals and authorities. Additionally, the extended use of key sourcing as a fundamental contraption has given more firms extended association in enhancing effective watching and control systems to manage master hones. On account of the advancement of the information reachable by sourcing principals, more masters and an extended contention among administrators, pros expect more perils if they partake in rehearses that adventure the principals (Logan, 2000, Zsidisinet, 2004).

### **2.3.3 Network theory**

The network theory studies the complex interactions of systems of systems that can be represented graphically with extra structures. It focuses on the interactions between firms and how these interactions affect the firm's behaviors and results. It however, does point out the choices to trade with or ally themselves with as partners. Network theory is the core on the relationships a firm has with other firms, and on

how these relationships influence a firm's behavior and outcomes. Network theory inform on choice of which firms an organization chooses to buy from or engage with as alliance partners (Thorelli, 1986).

Centrality is a key concept within network theory. Centrality refers to how critical a firm is within a network. High supremacy refers to a firm that is always sought out as a partner. Such firms enjoy high regard and status among the network (Gulati, 2000). Being central within a network would seem to offer the potential to improve the four key competitive priorities within supply chains: quality, speed, cost, and flexibility (Hult, 2006). A highly central firm can tap its tight links in order to rush orders when required, make seamless transitions over time and seek out the provider offering the best materials and lowest prices. Therefore, with regard to sourcing, a firm should endeavor to be central to its network and should seek sources that are central to their networks (Thorelli, 1986).

Centrality is how essential a firm is within the network. A firm with a higher centrality is very attractive as an accomplice. Being in the center inside a system offers four prime worries inside supply chains: speed, quality, cost, and adaptability. A very focal firm can exploit it's associations with surge orders when the need emerges, distinguish the supplier offering the most elevated quality materials at the least cost and make cover advances up time. Therefore, as far as sourcing is concerned, a firm should work hard to be vital to its network and should seek sources that are central to their networks (Gulati et...al, 2000, Thorelli, 1986, Hult., 2006).

### **2.3.4 Resource Based Theory**

Resource Based Theory (RBT) is the study of how the exterior resources of organizations affect the performance of the organization. The procurement of exterior resources is a significant tenet of both the strategic and tactical management of any company. It has implications in the procurement efficiency of the buying firms especially in tapping into the connection with suppliers as their important and

dependable associates. Thus this theory props up the concept of supplier development. RBT proposes that actors lacking in crucial resources will seek to create relationships with (i.e., be dependent upon) others in order to acquire required resources (Pfeffer and Salancik., 1978).

Just like sellers on buyers for precious markets and buyer will depend on suppliers for external resources. Also, organizations endeavor to alter their reliance relationships by lessening their own reliance or by increasing the dependence of other organizations on them. Within this viewpoint, organizations are viewed as coalitions alerting their structure and patterns of behavior to acquire and maintain required external resources. Acquiring the external resources required by an organization comes by diminishing the organization's reliance on others and/or by increasing other's reliance on it, that is, modifying an organization's influence with other organizations (Pfeffer and Salancik, 1978).

According to the Resource Based Theory of the firm (RBT), firms actively exchange resources in their operation. We can see that intentional nets of actors are a form of collaboration, in which the main elements or components from management can be recognized. In addition, we see that it is possible to identify the different – but simultaneously extant – modes of management, and we propose that in the supply net context they are influencing, control and monitoring, coordination, and integration (Svahn & Westerlund, 2007).

### **2.3.5 The Principal-Agent Theory (PAT)**

Based on the separation of ownership and control of economic activities between the agent and the principal, various agency problems may arise, such as asymmetric information between the principal and the agent, conflicting objectives, differences in risk aversion, outcome uncertainty, behavior based on self-interest, and bounded rationality. The contract between the principal and the agent governs the relationships between the two parties, and the aim of the theory is to design a contract that can mitigate potential agency problems. The “most efficient contract”

includes the right mix of behavioral and outcome-based incentives to motivate the agent to act in the interests of the principal (Eisenhardt, 1998; Logan, 2000).

### **2.3.6 Theory of Legitimacy**

This theory affirms that institutions have the command to explain their operations to their respective key actors, especially if it is a public entity should state its benefits to the society (Wilmshurst & Frost, 2000). Suchman (1995) stated that Theory of Legitimacy (LT) is a generalized assumption or perception that the activities of any organization which are workable, appropriate and viable in system which are based on social beliefs, values, definitions and norms. The notion of LT sturdily proposes that the social agreement which is between the government and the public universities is in position of being eliminated. Based on the context of procurement in public universities like the University of Nairobi, there is likelihood of existence of issues like cronyism, corruption, as well as nepotism which can affect the practice of legitimacy theory.

## **2.4 Model for representation of strategic sourcing decision making**

The cost saving strategic sourcing decision making model describes a company's sourcing decisions focused on cost saving targets, taking a tactical management perspective. This perspective focuses on minimizing costs, competition with suppliers to obtain lowest possible price, and both sourcing department and overall company each trying to achieve their own goals independently (Axelsson, Rozemeijer & Wynstra, 2005).

### **2.4.1 Learning decision category**

The learning decision category describes how much knowledge is used to create money in a company. It focuses on discovering the right mix of knowledge for new products and services. Learning-oriented sourcing decisions are make-or-buy decisions and choosing right sourcing alternatives. One sourcing method, the Kraljic

Purchasing Analysis, is identified in this decision category. Kraljic Purchasing Analysis advises to examine the supply market complexity and the importance of the purchased item. Four sourcing strategies are proposed depending on this examination: strategic (focus on long-term alliances), bottleneck (focus on buffers against supply shortage), leverage (focus on short term regular market testing) and non-critical (focus on short-term functional efficiency) (Caniëls&Gelderman, 2005; Cox, 2014; 2015; Kraljic, 1983).

Making all products and service the company needs itself, is not the most optimal way of working. Next to new products and services, the company is advised to analyze all activities based mainly on costs in order to decide to insource, make it itself, or outsource, buy it from suppliers. By outsourcing, the company can concentrate on those products, services and activities made in-house, increase production efficiency, reduce its costs and increase flexibility (adapt to changes in customers' needs). A distinction is made between activities, categories of spend and components (Erridge, 1995; Ungson& Wong, 2008).

#### **2.4.2 Relationship decision category**

Each company needs to understand its industry environment so as to create value-adding strategies. From the viewpoint of a buying company, it stands in relation with its customers and suppliers, and needs to understand them (Frynas & Mellahi, 2005). For each relation, different questions and sourcing metrics are determined. In this decision category, the following six sourcing methods are defined: -

Cox Power Analysis: advises to examine the supplier power and buyer power. The main focus lies on the analysis between the buyer and all of the potential suppliers within a supply market.

Porter's Five Forces Model: distinguishes five different forces within a business arena: power of the buyer, power of the supplier, threat of substitutes, threat of new entrants and rivalry in the market. These forces are evaluated in order to assess the

attractiveness of the business arena and the company's competitive position (Frynas&Mellahi, 2005; Porter, 1979; Ungson&Wong, 2008).

Industry customer analysis: examines the position of the customers in the industry's competitive environment. This customer knowledge helps to better understand the complexity of the market (Parniangtong, 2016).

Supply chain analysis: describes the company's main activities and discovers the value added among those activities in the supply chain. The value added is the subtraction of the selling price of the output and cost of the input. This analysis helps to understand the company's cost structure (Frynas&Mellahi, 2005).

Vendor appraisal: analyses potential suppliers via systematic investigation and assessment in order to meet to buyer's requirements (Erridge, 1995).

Experience curve: examines the relation between the decrease in the supplier's selling price and the increase in accumulated knowledge. The price will eventually decline over time at a constant rate, related to the gained knowledge (Parniangtong, 2016).

### **2.4.3 Planning decision category**

The planning decision category focuses on defining decisions related to the general goals and strategy of the company and specific goals of the procurement department. Therefore, a distinction is made between general management and procurement based decisions and different questions and sourcing metrics can be determined. In this decision category, the following two sourcing methods are defined: - SWOT analysis: the company's external properties, opportunities and threats and internal properties, strengths and weaknesses, are put together and evaluated in this framework. Strategic alternatives can be generated on the basis of this analysis (Grant, 2010; Kotler & Keller, 2012).

Purchasing Chessboard: is based upon the Kraljic Purchasing Analysis but uses also the four power positions from the Cox Power analysis. This approach advises to

examine the demand power and supply power. The same four sourcing strategies as Kraljic Purchasing Analysis are proposed: strategic, leverage, bottleneck and non-critical, each with 16 methods (Cox, 2014; 2015; Schuh et al., 2008).

#### **2.4.4 Performance decision category**

After having analyzed the learning, relationship and planning perspective of the buying company, the fourth and last decision category is the performance decision category. Performance is related to evaluation if the buyer's goals are met. Therefore, costs and benefits based decisions are described via specific questions and their corresponding sourcing metrics. The following two sourcing methods can be used to analyze this decision category:

- Cost-benefit analysis: measures the costs and benefits of a certain decision to conclude if the benefits exceed the costs and to compare with other decisions (Eldenburger, 2016).
- Spend analysis: systematic analysis of all purchasing data of the company in order to identify opportunities to realize savings in the total spend. For example, when the spending for a supplier of products of low impact on final performance of the buyer's product is high relative to a supplier of products of high impact, lower prices should be negotiated (Pandit & Marmanis, 2008).

### **2.5 Dimensions/aspects of strategic sourcing**

#### **2.5.1 Supplier Development**

Supplier development is defined as any effort of a buying firm working with its supplier(s) to increase the performance and/or capabilities of the supplier(s) and meet the buying firm's short- and/or long-term supply needs as well as promote on-going improvements that are intended to benefit both buyer and supplier(s) (Wagner, 2011, Ahmed, and Hendry, 2012). The objective of supplier development is generally two fold from the buyer's perspective: firstly, to reduce cost, improve quality, and streamline delivery; and, secondly, to educate suppliers in a systematic process to

keep driving continuous improvement; alternatively it has been conceived as one of the most important choices that could be employed by buying firms to manage problems buying firms may experience in their supply networks, such as underperformance of current suppliers, failure of current suppliers to support buying firms' strategic growth or unavailability of capable suppliers (Ahmed, and Hendry, 2012).

The SCM literature has also stressed on the significance of supplier development in supporting a firm's operations strategy by ensuring that suppliers' performance and capabilities meet the needs of the buying firm (Humphreys, Liand Chanc, 2004). Regarding the pertinent initiatives of supplier development, the extant literature have indicated that buying firms typically improve suppliers' performance and capabilities by setting supplier performance goals, providing the supplier with training, providing the supplier with equipment, technological support and even investments, exchanging personnel between the two organizations, evaluating supplier performance, recognizing supplier progress in the form of rewards, conducting visits to supplier's sites to assess its process and collaborations with supplier in materials improvement, (Krause, Robert, Handfield, and Tyler, 2007; Humphreys et al., 2004; Sanchez-Rodriguez, 2009).

The practice of supplier development is aimed at strengthening relationships with key suppliers so that risk of opportunistic behavior is limited. Dyer and Singh (1998) and Dwyer et al. (1987) claimed that if firms invest in relationship-specific assets and have shared know-how, opportunistic risk is decreased and such relationships might improve performance and reduce uncertainty. In this study, the definition of supplier development follows as being any activity that a buyer undertakes to improve a supplier's performance and/or capabilities to meet the buyer's short-term or long-term supply needs (Krause, 1999). Based on the description above, the following hypothesis is formulated:

**H1: 1 Supplier Development has positive and significant effect on organizational performance.**

### **2.5.2 Long-Term Supplier Relationship**

Long-term supplier relationship in the context of buyer-supplier relationship can be defined as the tendency to stick on relationships for a relatively longer period between a firm and its suppliers (Prajogoetal.,2012). According to Paulraj and Chen (2005) long-term orientation focuses on initiatives that enhance superior relational characteristics between supply chain members and create a win-win situation for the buyer and its suppliers instead of adversarial relationships. Firms with short-term orientation rely on the efficiencies of market exchanges to maximize their gains in a transaction, whereas firms in a long-term orientation rely on relational exchange to maximize their gains over a serious of transactions (Ganesan,1994). Through close relationships with suppliers, buyers are more willing to share risk and reward, encourage mutual planning and problem-solving efforts, and maintain the relationships over a longer period of time(Lietal., 2007; Chen et al., 2004).

According to DeToni et al (1994) as cited by Prajogoetal (2012) it has been also claimed that in the context of supply chain management effective supplier relationships in the sense of creating long-term supplier relationships with key suppliers helps firms achieve superior performance by reducing cost, improving quality, and enhancing customer responsiveness or flexibility. Moreover, by building upon the results of prior studies, Chenetal (2004) suggested that present day competitiveness has brought about a marked evolution in supply management where the achievement of superior performance in terms of cost, quality and flexibility (customer responsiveness) is increasingly dependent on long-term supplier relationship with suppliers. Long-term Orientation is “operationalized by items tapping the extent to which the buying firm:(a) expects its relationships with key suppliers to last a longtime; (b) works closely with key suppliers to improve product quality; and (c) views the suppliers as an extension of the company; in turn (d) suppliers see their relationship with the buying firm as a long-term alliance (Krauseand Ellram, 1997;Shinet al., 2000).

A study by Damlin et al (2012) indicated that the company's goal could be achieved with the support of the supplier arising from the creation of a close relationship between the company and suppliers. Research conducted by Onyango et al (2015) on manufacturing company located in Kenya East Africa indicated that the organization's performance is influenced by the existence of a good relationship with suppliers. A study by Alafi (2014) stated that the company's performance is significantly influenced by the relationship between the vendor and the buyer through. The relationship between the provider and the company has a significant positive effect on the performance of the company because the two parties can work together in the long term (Abul & Rashed, 2010). Based on the description above, the authors formulate hypotheses as follows:

**H1: 2 Long Term supplier relationship has a positive and significant effect on organizational performance.**

### **2.5.3 Communication**

Information sharing/exchange is the extent to which a firm shares a variety of relevant, accurate, complete and confidential ideas, plans and procedures with its supply chain partners in a timely manner (Cao.,2009; Simatupang and Sridharan, 2004). Information sharing has been described as the heart, lifeblood, nerve centre, essential ingredient or foundation of supply chain collaboration (Caoetal, 2009). Supply chain partners who exchange information regularly are able to work as a single entity and can understand the needs of the other partner better and, hence, can respond to market change quicker (Lietal, 2006). By building upon the findings of prior studies, Lietal (2006) suggested that simplified material flow, including streamlining and making highly visible all information flow throughout the chain, is the key to an integrated and effective supply chain.

Communication becomes crucial in these turbulent economic times as it drives the firm into becoming a collaborative structure (Krishnapriya, and Rupashree, 2014). It has been revealed that buyer and supplier strategic information flows positively impact the relationship-specific performance of both sharing and receiving parties,

among which delivery time, quality and flexibility are prevalent (KleinandRai,2009). However, to realize the streamlining effect of information, the information shall be more proprietary, tacit and holistic than the data traded in arm's length relationship, given the fact that levels of information sharing as well as quality and relevance of information shared become critical aspects in deciding success in collaborative efforts in buyer-supplier relationships (Krishnapriya, and Rupashree, 2014;Cao et al., 2009).

Communication is operationalized to include the extent to which the firm and its key suppliers:(a) share critical, sensitive information related to operational and strategic issues; (b) exchange such information frequently, informally and/or in a timely manner; (c) maintain frequent face-to-face meetings; and (d) closely monitor and stay abreast of events or changes that may affect both parties (Krause and Ellram, 1997; Carr and Pearson, 1999; Carr and Smeltzer, 1999). Based on the description above, the following hypothesis is formulated:

**H1: 3 Communication has a positive and significant effect on organizational performance.**

#### **2.5.4 Effective Procurement Plan**

According to Baily et al (2005) effective procurement plan is derived from the plans which have been formulated and should allow for subsequent comparison, valuation and control of the efforts made to meet the company's objectives. In addition to that budget should be prepared in relation to relevant financial projections and overall company estimates with regards to e.g. return on investment. A multiyear procurement plans may be prepared and integrated into the medium term budgetary expenditure framework. The benefits of good planning include: better alignment of procurement activities to strategic objectives, improved quality analysis for recommending a course of action, justifying the project is worth doing, testing that implementation is realistic and achievable, detecting the potential impacts and pitfalls before starting knowing the sustainability of service or product design and delivery. An effective procurement plan provides an organized means whereby time

and money are saved. It also provides a framework to that guides the achievement of tasks and duties (Langford, 2010; Kakabadse, 2005). Based on the description above, the following hypothesis is formulated:

**H1: 4 Effective Procurement Plan has a positive and significant effect on organizational performance.**

## **2.6 Organizational Performance**

Organizational performance is the actual output or outcomes of an institution and its intended outputs or goals and objectives (Upadhaya, Munir& Blount, 2014). Organizational performance can be measured through reduction in cost, quality of goods/services delivered, productivity, lead time (Mchopa, Njau, Ruoja, Huka&Panga, 2014; and Richard, Devinney, Yip & Johnson, 2009).

Huo et al (2014) stressed that though financial performance has been widely used as a key output measure of firm performance; numerous studies have pinpointed the limitations in relying on financial performance measures in supply chain studies.

Hamon (2003) states that the most critical factor for effective management is Performance Measurement (PM) and that identifying and measuring the influence of Supply Chain Management (SCM) on it enhances the organizational performance. However, the subject of performance does not receive sufficient motivation in supply chain management research. The indicators of performance of an organization can be financial targets attained and satisfaction of labour force. On the same note, Ho (2008) observed that organization performance could also be estimated based on institutions effectiveness and efficiency.

On the basis of such arguments, this study would adopt operational performance of focal plants (i.e. Moha Soft Drinks Industry S.C. plants in Addis Ababa) to assess its strategic sourcing practice. In this regard, it has been stressed that while many performance frameworks have been advanced in the literature on operations and supply chain management advocating the use of various operational performance

measures, cost, quality, flexibility, and delivery are widely regarded as constituting the major operational performance variables (Vereecke and Muylle, 2006).

In a similar fashion, Sanchez Rodriguez (2009) has defined purchasing operational performance as the effectiveness in procuring materials at the lower total cost of acquisition, on time, of the right quality and in the right quantities. Similarly, it has been argued that internal customer satisfaction has been identified as the most important element of purchasing performance outcome in several studies since the measures of the operational successes of purchasing such as quality of purchase, on time delivery and both volume and mix flexibility have a direct implications on the satisfaction of the user organ, hence, determining the level of internal customers' satisfaction (Sanchez Rodriguez, 2009).

The four dimensions of operational performance are quality, delivery, flexibility and cost (Prajogo, 2012). Quality with respect to conformance product specification and product quality performance. Delivery is operationalized to on time delivery/speed of delivery and flexibility is seen in terms of mix and volume while cost in terms of operation cost.

The performance of a company may be measured by looking at the financial and operational performance (Chen, Paulraj, & Lado, 2004). Financial performance can be measured by looking at the operating performance of a company. Business performance would be more efficient to measure by using the operational performance indicators. Operational performance reflects more directly on the efficiency and effectiveness of the business's operations (Ya'kob and Jusoh, 2016). The operational performance reflects specific competencies of the supply chain, including cost, reliability, quality, and flexibility (Slack, Chamber, & Johnston, 2010), as well as the time it takes for a product to enter the market (Li, Ragu-Nathan, Ragu-Nathan, & Subba Rao, 2006).

Research by Vij & Bedi, (2016) indicated that business performance measurement could use either or both of subjective and objective measure. The objective measure

means the assessment based on secondary data such as financial ratio obtained directly from a regular financial report issued by management. While subjective assessment involves the evaluation using the primary data obtained from respondent through a questionnaire. On this study, organization performance was assessed using a subjective measure which is represented by five indicators, i.e. cost efficiency, timely delivery, volume and mix flexibility, products quality and customer satisfaction.

## **2.7 Empirical Review**

The responsibilities of purchasing have changed markedly over the last few decades, Purchasing focused heavily on the transactional elements of the procurement process. Purchasing was accepted as a support function that provides for the sourcing needs of other departments. Major changes are currently taking place within purchasing functions of firms. Purchasing is shifting its focus from daily procurement activities to long term, value-adding purchasing and supply chain initiatives (Kanyarat, 2008).

### **Supplier Development**

In their study Krause and Ellram indicated supplier development is important because of the following reasons: improves supplier performance, reduces costs, resolves serious quality issues, developing new routes to supply, improving business alignment between the supplier and the buying organization, developing a product or service not currently available in the marketplace and finally generating competition for a high price product or service dominating the marketplace (Krause & Ellram, 1997).

### **Long Term Supplier Relationship**

A study by Damlin et al (2012) said that the company's goal could be achieved with the support of the supplier arising from the creation of a close relationship between

the company and suppliers. Research conducted by Onyango et al (2015) on manufacturing company located in Kenya East Africa indicated that the organization's performance is influenced by the existence of a good relationship with suppliers. A study by Alafi (2014) stated that the company's performance significantly influenced by the relationship between the vendor and the buyer through. The relationship between the provider and the company has a significant positive effect on the performance of the company because the two parties can work together in the long term (Abul&Rashed, 2010).

Supplier Relationship Management focused on joint value creation based on trust, open communication and collaboration with a limited number of key suppliers with the Objective of Leveraging on supplier capabilities, reducing cost and security of supply. So far, procurement has always been responsible for running sourcing projects. Functional competencies like negotiation skills, market analyses, and cost & risk management were perceived as the key to success. However, SRM requires completely different skills like influencing, leadership and change management. Traditionally, buyers do not naturally have such skills or are not trained to develop them. World class SRM promotes Real time exchange of operational, tactical and strategic information with suppliers, has proper supplier performance measurement system and requires adequate knowledge and/ or skill on different functional competencies, like: negotiation skill, market analysis (Remko, 2013).

Long-term supplier relationships with key suppliers transaction cost theory predicts that as environmental uncertainty and frequency of transactions between organizations increase, firms prefer vertical integration in order to reduce transaction costs (Williamson, 1989). These costs include the costs associated with negotiating, implementing, coordinating, monitoring, adjusting, enforcing and terminating exchange agreements (Pint & Baldwin, 1997).

Supplier relationship management has become a critical business process as a result of competitive pressures; the need to consider sustainability and risk; the need to achieve cost efficiency in order to be cost competitive; and the need to develop closer

relationships with key suppliers who can provide the expertise necessary to develop innovative new products and successfully bring them to market. Significant benefits are possible from better managing relationships with key suppliers. It has been shown that integration of operations with suppliers can improve firm performance (Swink, 2007; Singh & Power, 2009).

According to Ramanathan (2007) Suppliers are integral part of the supply chain of an organization, and management of suppliers requires specialized negotiating skills, as they are not a part of the organization. Suppliers have to be selected carefully, as they can have a very positive or a very adverse impact on the overall performance of the organization.

According to Paulraj and Chen (2005) long-term orientation focuses on initiatives that enhance superior relational characteristics between supply chain members and create a win-win situation for the buyer and its suppliers instead of adversarial relationships. Firms with short-term orientation rely on the efficiencies of market exchanges to maximize their gains in a transaction, whereas firms in a long-term orientation rely on relational exchange to maximize their gains over a series of transactions (Ganesan, 1994). Through close relationships with suppliers, buyers are more willing to share risk and reward, encourage mutual planning and problem-solving efforts, and maintain the relationships over a longer period of time (Li., 2007; Chen., 2004).

It has been also claimed that in the context of supply chain management effective supplier relationships in the sense of creating long-term supplier relationships with key suppliers helps firms achieve superior performance by reducing cost, improving quality, and enhancing customer responsiveness or flexibility (De Toni, 1994). Moreover, by building up on the results of prior studies, (Chen, 2004) suggested that present day competitiveness has brought about a marked evolution in supply management where the achievement of superior performance in terms of cost, quality and flexibility (customer responsiveness) is increasingly dependent on long-term supplier relationship with suppliers.

Long-term supplier relationship is “operationalized by items tapping the extent to which the buying firm: (a) expects its relationships with key suppliers to last a long time; (b) works closely with key suppliers to improve product quality; and (c) views the suppliers as an extension of the company; in turn (d) suppliers see their relationship with the buying firm as a long-term alliance (Krause and Ellram, 1997; Shin, 2000).

Van der Vaart and van Donk (2008) suggested that it seems potentially more fruitful to relate the level of collaboration in a single buyer-supplier relationship to the performance of that particular relationship, which in fact is supposed to involve mostly operational aspects or Operational performance measures. Similarly, Huo. (2014) stressed that though financial performance has been widely used as a key output measure of firm performance; numerous studies have pinpointed the limitations in relying on financial performance measures in supply chain studies.

### **Effective Procurement Plan**

In a study “Sustainable procurement among the United Kingdom (UK) public sector” by Walker and Brammer (2007), nature of procurement practices was found to have significant variations in public sector agencies. The study focused policies familiarization, inefficiencies/costs perceived by policies, incentives/pressures of organizations, and availability/resistance of suppliers. Also in their study “Effect of procurement practices on performance of public projects in Rwanda”, Kabega, Kule and Mbera (2016) identified there was significant relationship between public procurement planning and performance and that the positive organizational performance in Rwanda was attributed by proper public procurement planning. This study investigated practices such as procurement planning, tendering system, and contract administration. Their study did not outline how the government should monitor, control, and train their employees.

According to Baily et al (2005), procurement plan is derived from the plans which have been formulated and should allow for subsequent comparison, evaluation and

control of the efforts made to meet the company's objectives. In addition to that budget should be prepared in relation to relevant financial projections and overall company estimates with regards to e.g. return on investment. A multi-year procurement plans may be prepared and integrated into the medium term budgetary expenditure framework.

The benefits of good planning include: better alignment of procurement activities to strategic objectives, improved quality analysis for recommending a course of action, justifying the project is worth doing, testing that implementation is realistic and achievable, detecting the potential impacts and pitfalls before starting knowing the sustainability of service or product design and delivery. An effective procurement plan provides an organized means whereby time and money are saved. It also provides a framework to that guides the achievement of tasks and duties (Langford, 2010, Kakabadse, 2005).

## **Communication**

Communication becomes crucial in these turbulent economic times as it drives the firm into becoming a collaborative structure (Krishnapriya, and Rupashree, 2014). It has been revealed that buyer and supplier strategic information flows positively impact the relationship-specific performance of both sharing and receiving parties, among which delivery time, quality and flexibility are prevalent (Klein and Rai, 2009). However, to realize the streamlining effect of information, the information shall be more proprietary, tacit and holistic than the data traded in arm's length relationship, given the fact that levels of information sharing as well as quality and relevance of information shared become critical aspects in deciding success in collaborative efforts in buyer-supplier relationships (Krishnapriya, and Rupashree, 2014; Cao., 2009).

Communication is operationalized to include the extent to which the firm and its key suppliers: (a) share critical, sensitive information related to operational and strategic issues; (b) exchange such information frequently, informally and/or in a timely manner; (c) maintain frequent face-to-face meetings; and (d) closely monitor and stay

abreast of events or changes that may affect both parties (Krause and Ellram, 1997; Carr and Pearson, 1999; Carr and Smeltzer, 1999).

### **Organizational Performance**

Makabira and Waiganjo (2014) in their study 'the role of procurement practices on performance of Kenya National Police Service in Makueni County' indicated procurement practices such as development, controlling, monitoring and training workforce played a great responsibility in the performance within the Kenya National Police Service. The existing procurement practices in this study did not include inventory management of which if applied well, can improve organizational performance.

A highly skilled purchasing group equipped with the power and tool to take part in the strategic formation of a company can and does impact firm and eventually supply chain performance. Yet, several challenges have to be faced to enjoy these benefits. Companies need to accept purchasing as one of their primary and critical functions. Purchasing needs to be elevated to a level where it can provide input to the strategic direction of the company (UngulLaptaned, 2010).

During the past two decades, the purchasing function has changed from playing a supporting role to becoming a strategic activity, and now makes a significant contribution to the competitive advantage of an organization (Quayle, 2002; Carr &Smeltzer, 1997).

Organizations ought to consider sourcing when it is trusted that different help capacities can be done speedier, less expensive, or better by an outside association (Barthelemy&Adsit, 2003). Those functions that are not key to the organization should be considered as options to contract out. However, any skill or knowledge that are vital to the organization to serve its customers better, directly related to the product or service it is trying to sell out, is one that must remain in-house.

As opposed to the above authors, it has established that successful undertaking of strategic sourcing procedure has been attributed with expanding the limit, enhance the limit, and enhance the quality (Lau and Hurley 1997; Kotabe, Murray and Javalugi 1998). According to D'Aveni and Ravenscraft (1994), all business substances have reducing assets, and each administrator has decreasing time and consideration. Key sourcing can make your business occupy its concentration from remote exercises toward work that better serves the client, and it can help managers set their priorities more clearly. According to Elmuti (2003), staff costs were the essential explanation for vital sourcing; be that as it may, it likewise enhances the working productivity.

In a Supply chain with external actors it is important to think about that efficiency improvements have to consider the whole Supply chain. There is no good solution when the own company makes profit at the expense of another part for example a supplier. This is short-term profit and will for sure result in an increase of price in the long term. An individual, when optimizing its own success has to consider both how it best utilizes its internal resources and how it best benefits of collaborative efforts in the Supply chain (Simchi –Levi, 2000).

On the basis of such arguments, this study would adopt operational performance of plants (i.e. MOHA Soft Drinks Industry S.C.) to assess its strategic sourcing practice. In this regard, it has been stressed that while many performance frameworks have been advanced in the literature on operations and supply chain management advocating the use of various operational performance measures, cost, quality, supplier relationship, and timely delivery are widely regarded as constituting the major operational performance variables (Vereecke and Muylle, 2006).

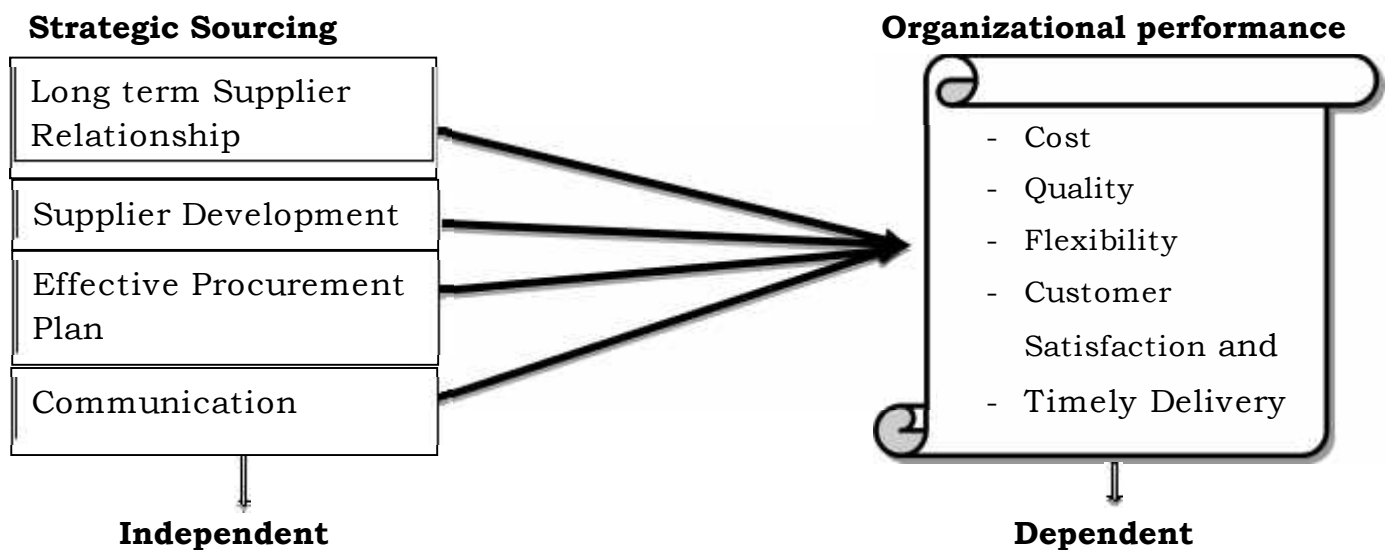
## **2.8 Conceptual framework of the study**

The model of concept can be described as a group of variety of principles and ideas retrieved from fields that are relevant to enquiry and structure usage to a presentation of subsequent study. Conceptual framework is used to show the relationship between the independent variables and dependent variable. Figure 2.1

illustrates that the independent variables of this study are supplier development, long term orientation, effective procurement plan and communication.

As discussed above the dimensions of strategic sourcing (supplier development, long term supplier relationship, effective procurements plan, and communication); independent variables significantly affect the dependent variable 'organizational performance'. The conceptual framework is formulated as follows.

**Fig. 2.1. Conceptual framework of the study**



Source: (Sanchez-Rodriguez,2009);(Prajogo,2012); (Chen *et al.*2004)

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODS**

#### **Introduction**

Methodology comprises the approach, strategy, methods and procedures adopted to conduct research (Chanston and Mangles, 2003). This chapter deals with the methods that are used in this study. This chapter is organized under the following sub-headings: description of study area, research approach, research design, method of data collection, sampling technique and sample size, data source and type, validity and reliability, methods of data analysis, and ethical consideration.

#### **3.1. Description of study area**

MOHA Soft Drinks Industry S.C was established on May 15, 1996 acquiring Nifas Silk Plant, Tekle Haimanot Plant, Gondar Plant, and Dessie Plant from the Ethiopian Privatization Agency with paid capital of Birr 108,654,000. The Company currently has eight operating units including Summit Plant, Bure Plant, Hawassa and the recently inaugurated Mekelle Plant in the Northern Region.

The major products of MOHA Soft Drinks Industry S.C. are: Pepsi Cola, Mirinda Orange, 7-Up, Mirinda Tonic, Mirinda Apple (all Pepsi Brands), and Kool (Bure Kool and Tossa bottled water products.). The annual turnover of the company has reached to Birr 556 million and sales stands at an average annual growth rate of 12%.

According to its 2016 Annual Report, MOHA holds 52% of the market share in soft drinks industry in the country. With an expansion and replacement of obsolete machinery, production capacity of the plants has increased substantially.

### **3.2. Research Approach**

The choice between a qualitative and quantitative approach depends on the type of study. Qualitative research is widely used in both business and academic environments. Nonetheless, quantitative research is considered more scientific (Malhotra, 2007). For the purpose of this study quantitative research approach of doing research is employed. Quantitative research approach is used for statistical procedures to analyze and develop inferences from data that's statistical models such as means, standard deviations, correlations and regressions analysis are used.

### **3.3. Research Design**

Among the different types of research designs the researcher used both causal research/explanatory research design and descriptive research design. Descriptive research design is used in order to describe and interpret trends of events as it exists at present and causal/explanatory research is used to discover the effect of independent variable on the dependent variable. In explanatory research the purpose is to develop and evaluate causal theories.

### **3.4. Data type and Source**

There are two sources of data; these are primary and secondary sources. Thus, the researcher used both primary and secondary sources to collect data. Primary data is the information that the researcher finds out by him/herself regarding a specific topic. The main advantage with this type of data collection is that it is collected with the research's purpose in mind so it's more consistent with the research questions and purpose.

The sources of primary data for this study are employees of MOHA Soft Drinks Industry SC. Primary data is collected using questionnaires. A well-designed questionnaire is used as the best instrument for the collection of primary data. For

the purpose of this study, a close ended questionnaire is used as the measuring instrument.

Secondary data are those which have already been collected by someone other than the investigator himself. The source of secondary data are library books, international journals, research papers, E-sources, research papers related to the topic, internet, etc...This data is used to get better insight on the research topic, to establish the theoretical framework constituting the bases of this research, and to design the sample frame and questionnaire for retrieving the primary data. Another advantage of using secondary data is to validate and compare the data collected through questionnaire to existing literature and articles.

### **3.5. Target Population**

Due to the very small number of the target population, which are in total 102, it has been decided to consider the entire population in the study, i.e. to conduct census survey, rather than sampling from the population. This is on the basis of the suggestion that if the target population is smaller (e.g. 200 or less) census survey is very appropriate and effective since virtually all population would have to be sampled in small populations to achieve a desirable level of precision (Israel, 2013).

In addition to knowledge and experience, Bernard (2002) and Spradley (1979), noted the importance of availability and willingness to participate, and the ability to communicate experiences and opinions in an articulate, expressive, and reflective manner. Accordingly, the target populations for this study are MOHA Soft Drinks Industry who has a direct and indirect involvement of sourcing process who are regular staff in Addis Ababa. MOHA Soft Drinks Industry has 102 employees in the departments who are related to the study area. As stated above, since the number of target population is small in number, all the 102 employees are purposively selected on the assumption that they are directly or indirectly related to the study area.

Since the aim of this study is to get actual information about effects of strategic sourcing on organizational performance in MOHA Soft Drinks Industry SC, the study

focused on the target population such as CEO (1); Plant Managers (3); Marketing and Sales Managers at Plants (3); Marketing Director at Head Office (1); Marketing and Sales Supervisors at Head Office (4); Supply Management Supervisor at Head Office (1); and all Staffs under Purchasing & Procurement (89) at each level in head office and the three plants of MOHA Soft Drinks S.C. in Addis Ababa. As per the MOHA Soft Drinks S.C. organizational structure the rationality of focusing on these departments is for the reason that most of the time the strategic sourcing is conducted on those departments and through those personnel.

Table 3.1. **Total Population**

<b>No.</b>	<b>Departments</b>	<b>Head Office</b>	<b>N/Silk</b>	<b>Teklehaimanot</b>	<b>Summit</b>	<b>Total</b>
<b>1</b>	CEO and Plant Mgrs.	1	1	1	1	1
<b>2</b>	Administration	18	121	85	86	310
<b>3</b>	Corporate Planning	10	0	0	0	10
<b>4</b>	Manufacturing	0	219	33	153	405
<b>5</b>	CO2 Plant	0	17	0	9	26
<b>6</b>	Quality Control	5	24	24	50	103
<b>7</b>	Technique	3	51	32	48	134
<b>8</b>	Vehicle Maintenance	0	24	14	12	50
<b>9</b>	Marketing and Sales	5	209	201	174	589
<b>10</b>	Purchasing and Procurement	5	27	32	25	89
<b>11</b>	Finance	8	35	26	21	90
<b>12</b>	Supply Management Supervisor	1				
	<b>Total</b>	<b>55</b>	<b>728</b>	<b>448</b>	<b>579</b>	<b>1,814</b>

Source: Moha Soft drinks Industry S.C. (Jan. 2019)

Table 3.2. **Target Population**

<b>No.</b>	<b>Departments</b>	<b>Head Office</b>	<b>N/Silk</b>	<b>T/Haimanot</b>	<b>Summit</b>	<b>Total</b>
1.	CEO and Plant Managers	1	1	1	1	<b>4</b>
2.	Marketing and Sales Supervisors	5	1	1	1	<b>8</b>
3.	Supply Management Supervisor	1	-	-	-	<b>1</b>
4.	Purchasing and Procurement	5	27	32	25	<b>89</b>
	<b>Total</b>	<b>12</b>	<b>29</b>	<b>34</b>	<b>26</b>	<b>102</b>

Source: Moha Soft drinks Industry S.C. (Jan. 2019)

### **3.6. Method of Data Collection**

A structured close-ended questionnaire instrument with a five point Likert scale is used to gather the data. The close-ended questionnaire is used since they are less costly and less time consuming than other measuring instruments. The constructs in the questionnaire is developed from the literature review.

The questionnaire has three parts. The first section is on demographics information of the respondents. The second section constituted questionnaire on each of the independent variables and the third part consisted of questions on dependent variable.

Self-administered questions are used to obtain background information of respondents relevant to the study. Participants are asked to provide information with regard to their sex, age, educational level, and work experience.

The second part of the questionnaire is consisted of questions on each of the independent variables of Supplier development, long term supplier relationship, effective procurement plan and communication. The third part of the questionnaire is

consisted of questions on the dependent variable which is organizational performance. The responses to each of the items are rated using a 5-point Likert scale including strongly agree (5), agree (4), neutral (3), disagree (2), and strongly disagree (1).

### **3.7. Methods of Data Analysis**

In order to facilitate the interpretation of the study both descriptive and inferential statistics is used in analyzing the data. The Statistical Package for Social Sciences (SPSS) is used to analyze the results

First, descriptive statistics of the variable is calculated in line with Malhotra (2007), which states that using descriptive statistics method helps the researcher in picturing the existing situation and allows relevant information. In the descriptive analysis percentage, mean and standard deviation are used.

Frequency tables are used to summarize the respondents profile in the form of frequency and percentages whereas the descriptive statistics such as mean and standard deviations of employees' answers to strategic sourcing and organizational performance scales are calculated in order to determine employees' perceptions.

According to Sekaran (2000), inferential statistics allow researchers to infer from the data through analysis of the relationship between two variables; differences in a variable among different subgroups; and how several independent variables might explain the variance in a dependent variable.

The model of multiple regressions on this study is generally built around the dependent variable which is organizational performance and the dimensions of the independent variables (Supplier development, long term supplier relationship, effective procurement plan and communication). Therefore the general formula used for the model is:  $Y_i = \alpha + \beta x_i + e$

The left hand variable  $Y_i$  denote the dependent variable organizational performance,  $\alpha$  is the intercept term which gives the mean or average effect on  $Y$  of all the variables excluded from the equation, although its interpretation is the average value of  $Y$  when the stated independent variables are set equal to zero;  $\beta$  is the coefficient of  $x$  variables (independent variables) which measures the change in the mean value of  $Y$  per unit change in their respective independent variables,  $x_i$  is the different independent variables which are Supplier development, long term supplier relationship, effective procurement plan and communication and  $e$  is the error term. Finally, the above general least square model is converted to incorporate all the variables to test the hypothesis and address the research questions of the study as follows: (Supplier development, long term supplier relationship, effective procurement plan and communication).

$$OP = \alpha + \beta_1 SD + \beta_2 LTR + \beta_3 C + \beta_4 EPP + e$$

Where:

$\alpha$  = constant (Intercept)

$\beta$  = slope (gradient) showing rate dependent variable is changing for each unit change of the independent variable.

SD = Supplier Development;

LTR = Long Term supplier relationship;

C = Communication

EPP = Effective procurement plan

OP = Organizational Performance

$e$  = Error Term

### **3.8. Validity and Reliability**

Validity refers to the extent to which differences found with a measuring instrument reflect true differences among those tested (Kothari, 2004). In order to ensure high level of content validity, comments by supervisors who are themselves experts were incorporated and changes made accordingly into the final questionnaire version. Correlation analysis is used to measure criterion related validity.

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 1999). Cronbach's alpha will be used to test for internal reliability of each variable used in the study. Cronbach's alpha values range from 0 to 1 (Bryman, 2008).

It is important to make sure that the instrument that we develop to measure particular concept is indeed accurately measuring the variable and then in fact, we are actually measuring the concept that we set out to measure. Therefore the face validity for this study will be addressed through the review of literature and adapting instrument used in the previous research (Hair, 2007).

Table 3.3. **Rule of thumb of Cronbach's Alpha**

<b>Cronbach's Alpha</b>	<b>Internal Consistency</b>
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Source: Cortina (1993).

### **3.9. Ethical Considerations**

The data is collected from those of willing target respondents without any unethical behavior or forceful action. The results of the study will be used for academic purpose only and response of the participants is confidential and analyzed in aggregate without any change by the researcher. In addition, the researcher respects the work of previous investigations or study and cited appropriately those works that are taken as a basis.

## **CHAPTER FOUR**

### **DATA PRESENTATION, DATA ANALYSIS AND DISCUSSION RESULTS**

#### **Introduction**

The major aim of the study was to find out the effects of strategic sourcing on organizational performance. This chapter, therefore, presents a discussion of the final results and the process through which the results were obtained. In addition to this, background information of respondents is presented. Finally, the statistical methods of analysis are discussed, which included a descriptive analysis, a correlation analysis, and a multiple regression analysis through Statistical Package for Social Science (SPSS version of 24.0).

In order to archive the objective of the study and tackle the key research questions, the researcher has tried to conduct a detailed and technical investigations related to the study matter. In doing so the researcher collected relevant and reliable data from primary sources. Thus, the gathered data have been completed and analyzed meaningfully.

The data from the employees were collected using a five point Likert scale questionnaire measuring at an ordinal level and it is usually non parametric in nature. In analyzing, correlation and multiple regressions, between the response variable (organization performance) and the predictor variables (the factors), the averages of the responses were calculated since this conversion helps the data to be changed into continuous form and hence took the nature of parametric data for statistical manipulation (Creech, 2009).

Generally as basic analysis methods the researcher used descriptive statistics, regression analysis and multiple regression analysis for the quantitative data to find out the relation between the dependent and independent variables. The correlation analysis between each factor and organization performance has been analyzed based

on measures of associations and descriptive adjectives using SPSS. Facts of the study have been presented in tables. The relative influencing degree of each factor and hypothesis test acceptance or rejection has been tested. Multiple regression analysis is used to discuss and express the effect of the whole factors in one equation. Assumptions of normality, linear relationships, homoscedasticity, independence of errors and multicollinearity are analyzed using SPSS. To find out all the necessary relationships between organizational performance (dependent variable) and factors (independent variables), model summary of regression results, the ANOVA, standardized and unstandardized beta ( $\beta$ ) coefficient are used .

#### 4.1. Response Rate

Table 4.1: **Response Rate of Questionnaire**

Number of Questionnaire Returned	Target Number of Respondents	Response Rate (%)
87	102	85.2

Source: Own Survey, 2019

A total of one hundred two (102) questionnaires were distributed to the respondents of MOHA Soft Drinks Industry SC staffs, out of which a total of 87 questionnaires were fully completed and returned. The total response rate was 85.2%. As a result, the analysis of this research is based on the number of questionnaires collected.

#### 4.2. Reliability Analysis

The reliability of scale shows that how free the data is from random error. Therefore, it is always advisable to select that scale that is reliable. One of the most commonly used scales of reliability is internal consistency. Internal consistency refers to “the degree to which the items that make up the scales are all measuring the same underlying attributes (i.e. the extent to which the items “hang together”) Christopher, 2015). The Cronbach Alpha technique was applied to assess reliability of the measurement scales used in the study.

Table 4.2: **Reliability Test Result**

<b>Variables</b>	<b>No. of Items</b>	<b>Cronbach's Alpha Result</b>
Supplier development	5	.759
Long term supplier relationship	6	.764
Effective procurement plans	5	.716
Communication	4	.773
Organizational performance	5	.842

Source: primary data, 2019

As can be seen in Table 4.2, all the independent variables scored good alpha results. As compared to the independent variables, the dependent variable 'organizational performance' has a high reliability with  $\alpha = .842$ , this shows that Cronbach Alpha lays where  $\alpha \geq 0.8$ , so has a good reliability. Compared within the independent variables, Communication has higher acceptable reliability with  $\alpha = 0.773$ , followed by long term supplier relationship with  $\alpha = 0.764$ , Supplier Development follows with acceptable  $\alpha = 0.759$  indicating acceptable reliability. Though the least among the others Effective Procurement Plans has acceptable reliability with  $\alpha = 0.716$ . According to Cronbach (1951), a Cronbach Alpha of 0.70 is an acceptable level; this means that there is internal consistency in the items considered.

### **4.3 Descriptive statistics**

In this section, the basic information of the respondents is explored. Table 4.3 below is about the demographic characteristics of the respondents. This information is presented in order to make the reader understand the size of population taken, the age, gender, education level and working experience of respondents.

Table 4.3 **Demographic Characteristics**

<b>Demographic Information</b>		<b>Frequency</b>	<b>Percent</b>
Gender	Male	61	70.1
	Female	26	29.9
	<b>Total</b>	<b>87</b>	<b>100.0</b>
Age	20-25	6	6.9
	26-31	24	27.6
	32-37	38	43.7
	38-43	19	21.8
	<b>Total</b>	<b>87</b>	<b>100.0</b>
Education Level	Grade 12 and below	1	1.1
	Diploma	12	13.8
	Degree	66	75.9
	Masters	8	9.2
	<b>Total</b>	<b>87</b>	<b>100.0</b>
Working Experience	1-3	13	14.9
	4-6	23	26.4
	7-9	26	29.9
	10-12	25	28.7
	<b>Total</b>	<b>87</b>	<b>100.0</b>

Source: Own Survey, 2019

As shown in table 4.3 above, out of the total 87 respondents of the three plants and head office staffs, 26 employees (29.9%) are female and the remaining 61 employees (70.1%) are male respondents.

From the total, 38 respondents belong to the age group of 32 – 37 (43.7%). The second higher score was for the age group of 26 – 31 that has 24 respondents. Totally 78.2% of the respondents are equal or under age 37. The remaining 21.8% of the respondents (19 of the employees) are above 37. The age category result demonstrates that most of the respondents are from the productive age. That is 78.2% of the population.

Table 4.3 also shows the level of qualification each respondent has. Respondents that have BA degree (75.9%) level have the highest level of frequency which shows that most of the MOHA Soft Drinks Industry SC employees are first degree holders. Next come diploma holders (13.8%) and master's degree holders (9.2%) follow. These results show that level of qualification among employee of MOHA Soft Drinks Industry SC is high and that most of the employees are educated more than a diploma certificate.

Regarding to service years of respondents in the MOHA Soft Drinks Industry SC, 29.9% of the respondents has 7-9 years of experience, 28.7% respondents are under 10-12 years experienced, 26.4% are 4-6 year experienced, and 14.9% are under 1-3 year experienced years respectively. From this we can understand that, most of the respondents are under the range of 7-9 years experienced and 1-3 years of experienced respondents are the lowest as compare to others.

#### **4.4 Descriptive Statistics for Strategic Sourcing Dimensions**

Descriptive statistics in the form of arithmetical means and standard deviation for the respondents were computed for the multiple dimension of strategic sourcing that have been examined through the questionnaires collected from employees in MOHA Soft Drinks Industry SC. Hence, this descriptive analysis is used to look at the data collected and to describe data captured through the questionnaire and it is also desired to determine the employee perception to strategic sourcing and organizational performance. Four indicators of Strategic Sourcing are considered for the study. These four broad antecedents are supplier development, long term supplier relationship, effective procurement plan, and communication. Each factor has incorporated their sub-statements. These statements have the ability to explain the broad dimension (strategic sourcing), while making interpretation of the results of frequency, mean and standard deviation the scales are reassigned as follows to make the interpretation easy and clear. 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, 1977, as cited by Yonas, 2013).

**Table 4.4 Descriptive statistics (Mean and standard deviation) for supplier development**

<b>Items of supplier development</b>	<b>Mean</b>	<b>Std. D.</b>
We conduct regular visits to suppliers' sites	3.5057	0.81944
We reward and recognize suppliers for their best performance	3.0460	0.93893
We collaborate with key supplier sin materials improvement	3.9080	0.83013
We use a supplier certification program to certify supplier quality	3.4943	0.99853
There is a system placed to measure suppliers performance in regular basis	3.6552	0.88695
Cumulative of supplier development	3.5218	0.64003

Source: Own Survey, 2019

As shown in Table 4.4, the mean response of the respondents about their supplier development in MOHA Soft Drinks Industry SC was 3.52 (SD = 0.640). This indicates the respondents agreed with the activities of the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organization they observed in MOHA Soft drinks Industry SC. The standard deviation for supplier development is 0.64003. This standard deviation is low, meaning that there are no extremes in the positive and negative score and this implies that there was no big variation of response among the respondents and this variation is acceptable and the practice of supplier development is good.

**Table 4.5 Descriptive statistics (Mean and standard deviation) for Long term Supplier Relationship**

<b>Items of Long Term Supplier Relationship</b>	<b>Mean</b>	<b>Std. D.</b>
We expect our relationships with key suppliers to last a longer time	4.0805	0.75048
We have long-term contractual agreements with key suppliers	4.0690	0.66110
We collaborate with key suppliers to improve their quality in the long run	4.1609	0.66251
We view our key suppliers as an extension of our company	4.0230	0.73099
Key suppliers see our relationships as a long-term alliance	3.8391	0.62643
The relationship we have with key suppliers is essentially evergreen.	3.8276	0.78068
Cumulative of long term orientation	4.0000	0.477

Source: Own Survey, 2019

As shown in Table 4.5 the mean or the average response of the respondents about their long term supplier relationship in MOHA Soft Drinks Industry SC was 4.00 (SD = 0.477). This indicates the respondents agreed on long term relationship with the fostering of virtues oriented towards future reward or the company is not only willing to delay short-term material or social success or even short-term emotional gratification in order to prepare for the future they observed in MOHA Soft Drinks Industry SC. The standard deviation for long term orientation is 0.477, this standard deviation is low, meaning that there are no extremes in the positive and negative score which implies that there was consistency of response among the respondents and this variation is acceptable and practice of long term orientation is good.

**Table 4.6 Descriptive statistics (Mean and standard deviation) effective procurement plans**

<b>Items of Effective Procurement Plan</b>	<b>Mean</b>	<b>Std. D.</b>
There is a culture of joint procurement planning with concerned Departments.	3.8851	0.84117
Procurement planning is an integral part of the organization's strategic Planning.	3.9080	0.81601
Procurement planning is a smooth exercise in MOHA Soft Drink Industry	3.2989	0.85065
There are no emergency purchasing in MOHA Soft Drink Industry	2.5057	0.86096
Procurement planning implemented as per the schedule	3.2759	0.81682
Cumulative of effective procurement plans	3.3747	0.57288

Source: Own Survey, 2019

As indicated in Table 4.6., the mean response of the respondents about their effective procurement plans in MOHA Soft Drinks Industry SC was 3.3747 (SD = 0.572). This indicates the respondents had moderately agreed on effective procurement plans in MOHA Soft Drinks Industry SC in which an effective plan saves time and money, serves as a conduit to achieving entity's objectives, ensures compliance with regulatory policies, provides a framework to guide procurement officers in the achievement of their tasks and duties. The standard deviation for effective procurement plans is 0.572, which is low, meaning that there are no extremes in the positive and negative score and this implies that there was no as such a big variation of response among the respondents and this variation is acceptable and practice of effective procurement plans is moderately good.

Table 4.7 **Descriptive statistics (Mean and standard deviation) for communication**

<b>Items of Communication</b>	<b>Mean</b>	<b>Std. D.</b>
Suppliers are provided with any information that might help them.	3.8736	0.72824
Exchange of information takes place frequently, informally and/or in a timely manner	3.9425	0.63532
We keep each other informed about events or changes that may affect the other party	3.7356	0.85535
We have frequent face-to-face planning/communication	3.6092	0.95669
Cumulative of communication	3.7902	0.61930

Source: Own Survey, 2019

As shown in Table 4.7 the mean or the average response of the respondents about their communication in MOHA Soft Drinks Industry SC was 3.790 (SD = 0.619). This indicates the respondents agreed bearing to communication with the information sharing/exchange is the extent to which a firm shares a variety of relevant, accurate, complete and confidential ideas, plans and procedures with its supply chain partners in a timely manner as they observed in MOHA Soft Drinks Industry SC. The standard deviation for communication is 0.61930, showing that there are no extremes in the positive and negative score which implies that there was no as such big variation of response among the respondents; and this variation is acceptable and practice of communication is moderately good.

**Table 4.8 Descriptive statistics (Mean and standard deviation) for organizational performance**

<b>Items of Organizational Performance</b>	<b>Mean</b>	<b>Std. D.</b>
We are successful in minimizing cost of materials due to strategic sourcing practice.	3.7126	0.88801
We are successful in assuring quality of purchased materials due to strategic sourcing practice.	3.9080	0.94785
We are successful in assuring on-time delivery of ordered materials due to strategic sourcing practice.	3.6667	0.85816
We are successful in assuring volume and mix flexibility due to strategic sourcing practice.	3.4483	0.74332
Internal customers are much satisfied with the achievements of our purchasing function due to strategic sourcing practice	3.5517	0.74332
Cumulative of organizational performance	3.6575	0.65763

Source: Own Survey, 2019

As shown in Table 4.8 the average response of the respondents about the organizational performance in MOHA Soft Drinks Industry SC was 3.6575 (SD = 0.65763). This indicates the respondents had above average of organizational performance with analyzing the performance of a company by comparing set standards against actual achievements and in the act of achieving the set objectives and responsibilities from the perspective of the judging party observed in MOHA Soft Drinks Industry SC. This standard deviation is low, meaning that there are no extremes in the positive and negative score and this implies that there was no big variation of response among the respondents and this variation is acceptable and organizational performance is good.

## 4.5 Inferential Analysis

### 4.5.1 Pearson Correlation Analysis

In this section, correlation analysis was conducted in light of each research question mentioned in the introductory part. The relationship between strategic sourcing and organizational performance was investigated, using Pearson Correlation Analysis. This provided correlation coefficients which indicated the strength and direction of relationship. The p-value also indicated the probability of this relationships' significance.

### 4.5.2 Assessment of Autocorrelation

Data were assessed to ensure that the autocorrelation is not a threat for the use of OLS for analysis. This assumption can be tested with the Durbin-Watson test which test for serial correlation between errors and the value closer to 2 are acceptable (Field, 2009). If the Durbin-Watson is substantially less than 2, there is evidence of positive serial Correlation. The Durbin-Watson statistics value is 1.853 suggests that there is no severe autocorrelation among error terms.

The interpretation was made based on the following measurement scale intervals or range:

Table 4.9 **Correlation Interpretation**

<b>Correlation Result</b>	<b>Interpretation</b>
+/- 1	Perfect
+/- 0.8-0.9	Very Strong (Positively/Negatively)
+/- 0.5-0.8	Strong (Positively/Negatively)
+/- 0.3-0.5	Moderate (Positively/Negatively)
+/- 0.1-0.3	Modest (Positively/Negatively)
+/- <0.1	Weak (Positively/Negatively)
0	No

McDanail and Gates (2006).

The correlation analysis result is presented in the following Table 4.10.

Table 4.10 **Correlation analysis result**

		Organizational performance
Supplier development	Pearson Correlation	0.514**
	Sig. (2-tailed)	0.000
Long term supplier Relationship	Pearson Correlation	0.492**
	Sig. (2-tailed)	0.000
Effective procurement plan	Pearson Correlation	0.546**
	Sig. (2-tailed)	0.000
Communication	Pearson Correlation	0.738**
	Sig. (2-tailed)	0.000

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

Source: Own Survey, 2019

Reviewing table 4.10 shows that there is strong positive and significant correlation between supplier development and organizational performance at MOHA soft Drinks Industry SC ( $r = 0.514^{**}$ ;  $p\text{-value} < 0.01$ ). According to Prajogo et al (2011) a significant positive relationship among aspects of supplier development practice and the dimensions of operational performance in the study that attempted to separately measure the association between some factors of strategic sourcing practice and individual aspects of organizational performance.

Going through the above table shows that there is moderate positive and significant correlation between long term supplier relationship and organizational performance at MOHA Soft Drinks Industry SC ( $r = 0.492^{**}$ ,  $p\text{-value} < 0.01$ ). A study by Chen in 2004 indicated that strong positive correlation between long-term supplier relationship and rapid handling of customer order (i.e. shorter delivery time) and swift response to customer complaints, where the latter two items were meant to measure the performance of the buying firm (Chen et al., 2004).

Table 4.10 also revealed that a strong positive and significant correlation was found between effective procurement plan and organizational performance at MOHA Soft Drinks Industry SC ( $r = 0.546^{**}$ ;  $p\text{-value} = 0.01$ ). In agreement with Basheka, (2008) in his findings concludes that planning is a process that consists of many steps and the bottom line is that planning is not concerned with future decisions but rather with the future impact of decisions made today. The finding also showed some significant relationship between quality and institutional performance concurring with the finding of (Adamson, 1988; Davis, 1992; Feldman, 1991). The importance of procurement planning has been recognized and most researchers agree that procurement planning supports activities and the quality specification of the product which has a key link to organizations performance.

Further reviewing Table 4.10 indicates that a strong positive and significant correlation was found between communication and organizational performance ( $r = 0.738$ ;  $p\text{-value} < 0.01$ ). This result agreed with previous study, where it has been revealed that effective communication between buyers and their key suppliers, measured in terms of the relevance, timeliness, level and frequency of the information shared, has positive relationship with rapid handling of customers (indicator of organizational performance in terms of customer satisfaction) order on the buyers side (Chen et al. 2004).

On the other hand, the level and quality of information shared among buyers and suppliers have identified to have a positive relationship with the operational aspects of firms performance, such as fulfillment performance (shorter delivery time) inventory performance and flexibility (Simatupang and Sidharan, 2005). According to (Li et al., 2006) the key to the seamless supply chain is making undistorted and up-to-date information available at every node within the supply chain, hence taking the available information and sharing it with other parties within the supply chain can be used as a source of competitive advantage.

A moderate statistically significant relationship is found between long term supplier relationship and organizational performance ( $r = 0.492^{**}$ ,  $P < 0.01$ ), where long-term

relationship acts, such as engaging in long-term contractual agreements, working to make the relationship long lasting and collaborating with suppliers to improve their quality in the long-run, among others are moderately related to how MOHA Soft Drinks Industry performs in assuring reduced cost of purchasing, improved materials quality, on-time delivery, and overall satisfaction of its internal user organs.

### **4.5.3 Assumptions Testing**

When someone choose to analyze the data using linear regression, part of the process involves checking to make sure that the data that one wants to analyze can actually be analyzed using linear regression. Therefore, it is needed to do this because it is only appropriate to use linear regression if the required data "passes" four assumptions that are required for linear regression to give a valid result. Let us look at whether the following assumptions are met or not. One can check assumptions using SPSS Statistics and linearity assumptions should be checked first, before moving into others assumptions.

#### **4.5.3.1 Multi Collinearity**

Multicollinearity refers to the situation in which the independent variables are highly correlated in a way that has undesirable implication on the outcome of regression analysis. According to Robert (2006), if collinearity is discovered then one can either remove one of the variables or create a new variable that combine the previous two that were highly intercorrelated because when the predictor variables are highly correlated, they share essentially the same information and together, they may explain a great deal of the dependent variable, but may not individually contribute significantly to the model. Thus, the impact of multicollinearity is to reduce any individual independent variable's predictive power by the extent to which it is associated with the other independent variables (Beyan, 2014).

Accordingly, Tolerance and Variance Inflation Factor (VIF) values were calculated to check multicollinearity and the result is presented on table 4.11 below. The Tolerance

value is an indication of the percentage of variance in the predictor that cannot be accounted for by the other predictors implying the fact that very small values indicate overlap or sharing of predictive power (Robert, 2006).

Table 4.11: **Multicollinearity Test**

Variables	Tolerance	VIF
Supplier development	0.704	1.421
Long term supplier relationship	0.598	1.673
Procurement plans	0.757	1.321
Communication	0.713	1.402

Source: Own Survey, 2019

As shown in the table above, the Tolerance values for all the independent variables are within the acceptable level of greater than 0.1, the VIF values are also less than the cut of value of 10. If the VIF values of independent variables are beyond 10, then it is suggested that further investigation is required (Robert, 2006). As implied by the Tolerance and VIF values, in this particular case, multicollinearity is not a problem.

#### **4.5.3.2 Test of Normality (Skewness and the kurtosis Test)**

The assumption of normality shows the distribution of the errors for any given combination of values on the predictor variables (independent variables) (Matt, Carlos, and Deson, 2013). One way of measuring the normality of distribution is through checking the level of skewness and kurtosis. Usually the value of skewness and kurtosis for normal distribution is varied from 1 to -1.

As it is shown in table 4.12, except for Supplier Development, the results of skewness in construct dimensions of strategic sourcing, against the factors affecting organizational performance were within the acceptable range of normality (-1 to +1). But the Kurtosis of the factors under Strategic Sourcing; supplier development and effective procurement plan (3.172 and 2.402 respectively) are bit out of the +1 range and this violates the assumption of normality. However, since the population of 102

according to the central limit theorem and the use of the statistical test with this variable is appropriate. Hence the normality assumptions are satisfied for the obtained data (Field, 2006).

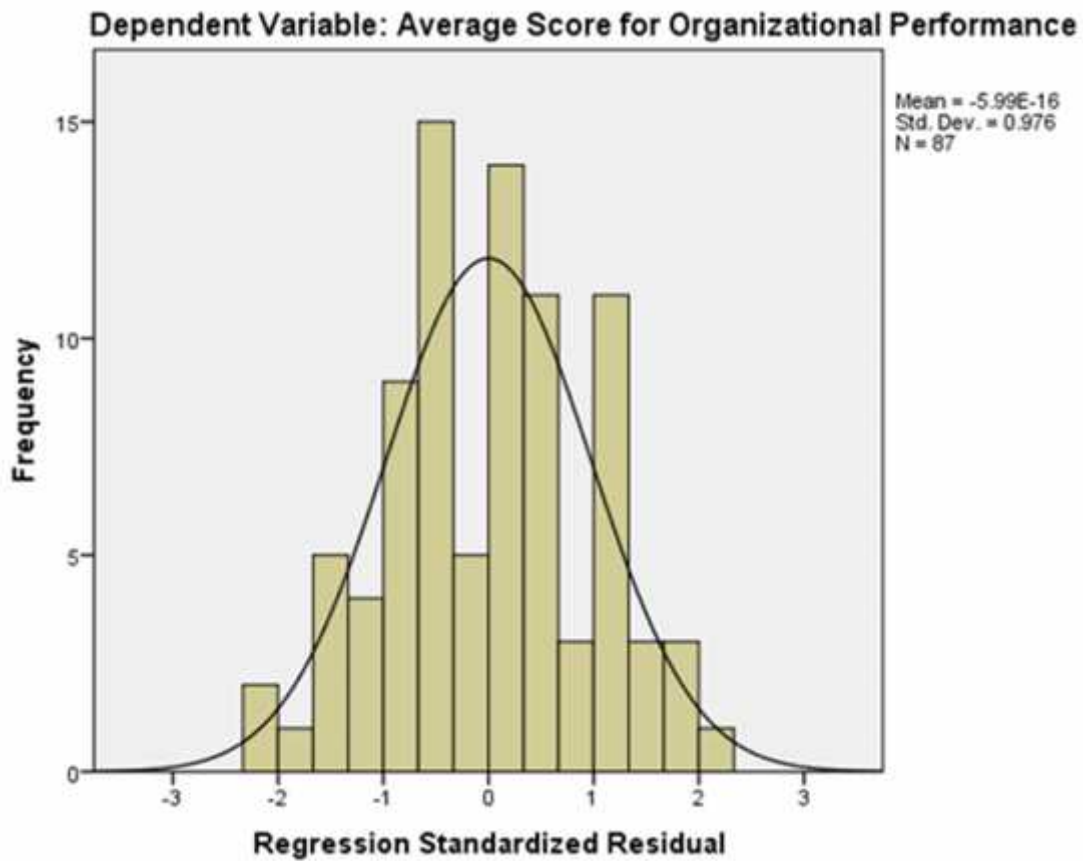
Table 4.12 **Skewness and Kurtosis test**

		Supplier Development	Long Term Supplier Relationship	Effective procurement plan	Communication	Organizational Performance
N	Valid	87	87	87	87	87
	Missing	0	0	0	0	0
Skewness		-1.093	-0.379	-0.523	-0.682	-1.048
Std. Error of Skewness		0.258	0.258	0.258	0.258	0.258
Kurtosis		3.172	0.424	2.402	0.838	0.870
Std. Error of Kurtosis		0.511	0.511	0.511	0.511	0.511

Source: Own Survey, 2019

The normality assumption is based on the shape of normal distribution and gives the researcher knowledge about what values to expect. Once the sampling distribution of the mean is known, it is possible to make predictions for a new sample. The figure below shows histogram with normal distribution from the SPSS software.

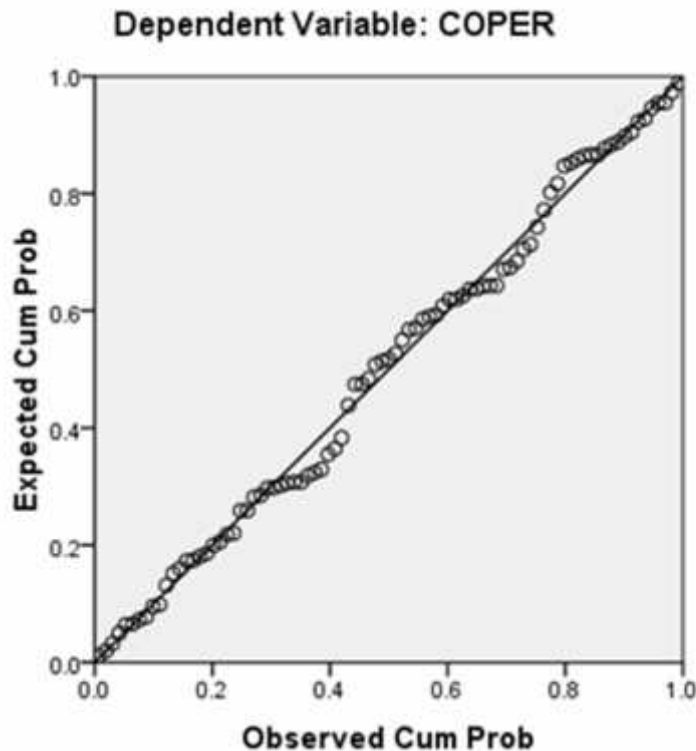
Fig. 4.1 **Histogram**



Source: Own Survey, 2019

Linearity defines the dependent variable as a linear function of the predictor (independent) variables. Multiple regression can accurately estimate the relationship between dependent and independent variables when the relationship is linear in nature. The figure below shows normal P-plot with normal distribution from the SPSS software.

Figure 4.2. **Normal P-P Plot of Regression Standardized Residual**



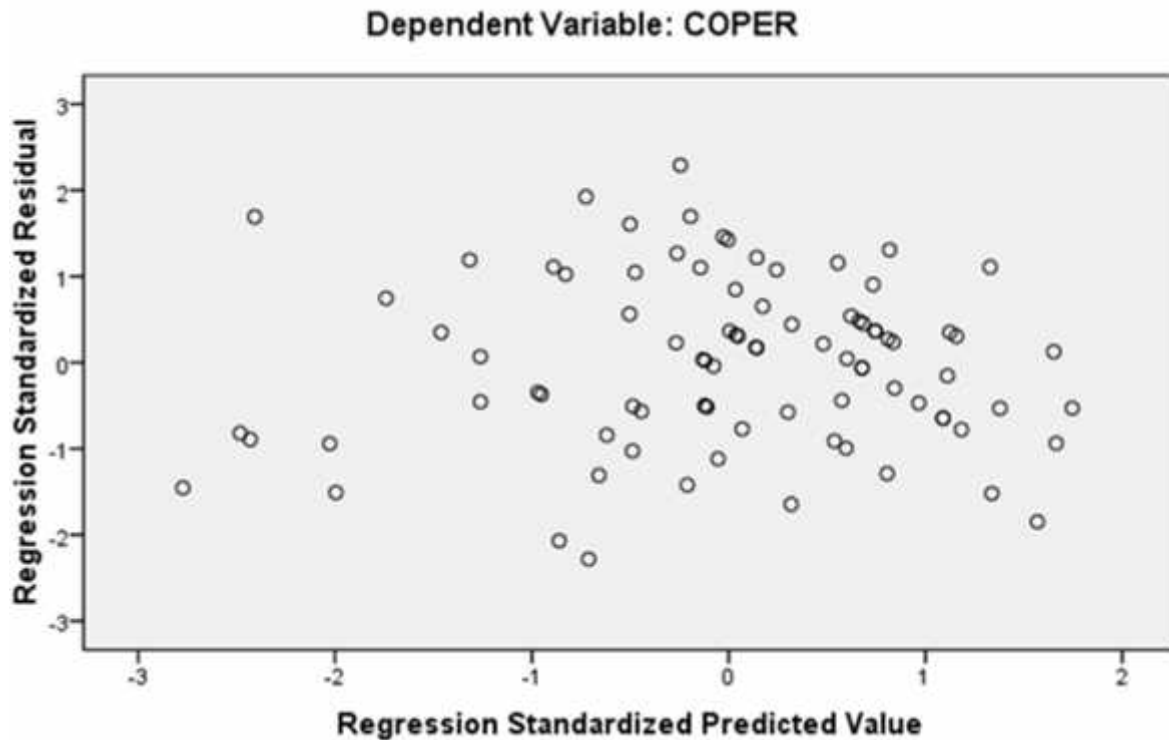
Source: Own Survey, 2019

Multiple regressions assume that variables have normal distributions. This means that errors are normally distributed, and that a plot of the values of the residuals will approximate a normal curve.

#### **4.5.3.3 Linearity test**

Test for linearity is necessary because of correlation, regression and others members of the General Linear Model (GLM) assumes linearity. The study checks for patterns in scatter plots of strategic sourcing (supplier development, long term supplier relationship, effective procurement plans, and communication) against organizational performance if they have linear relation and the assumption have met or not. The scatter plot in figure below indicated that the dimensions of strategic sourcing and organizational performance have linear relationship.

Figure 4.3 **Scatter Plot**



Source: Own Survey, 2019

In regression as a rule of thumb, an indicator of possible linearity is when the standard deviations of the residual exceed the standard deviations of the dependent. Therefore, as residual statistics in descriptive statistics table below shows that the standard deviation of the residual is exceeding the standard deviation of the dependent variable (organizational performance). Therefore, there is a liner relationship between strategic sourcing variables and organizational performance.

Table 4.13 **Residual Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.1563	4.6025	3.6575	.54139	87
Std. Predicted Value	-2.773	1.746	0.000	1.000	87
Residual	-0.87233	0.87528	0.000	0.37332	87
Std. Residual	-2.282	2.289	0.000	0.976	87

a. Dependent Variable: Average Score for Organizational Performance

Source: Own Survey, 2019

## 4.6 Multiple Regression Analysis

Multiple regression analysis was employed to examine the effect of strategic sourcing (supplier development, long term supplier relationship, effective procurement planning, and communication) on organizational performance. Multiple regression analysis was chosen because it helps to predict the linear relationship of a dependent variable. Here, the dependent variable is regressed and independent variable is regressed or, which will show the influence on the relationship of these variables by one another. Before explaining the table, the effects of values of the coefficient, R-square are discussed briefly.

**Coefficient value:** It shows the negative or positive effect of the variables. If the coefficient value is positive, it shows that independent variable is affecting the dependent variable in a positive way. If the sign is negative, it shows that the effect is negative.

**R-square:** R-square is the coefficient of determination; it explains how much variation in the dependent variable is taking place due to the strategic sourcing variables.

**Constant:** Constant is basically the intercept. Therefore, the value of constant cannot be ignored but it does not affect the result in a direct or indirect way. It just shows that even if the independent variable has zero value, there will be still some value of the dependent variable.

**Probability:** Probability and t-statistics basically indicate the same results. Either both of them or just one of them can be taken because in any way the results will show similar indication overall.

Table 4.14 **Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.823 <sup>a</sup>	0.678	0.662	0.38232	0.678	43.114	4	82	0.000	1.853

a. Predictors: (Constant), Average Score for Communication, Average Score for Effective procurement plan, Average Score for Suppliers Development, Average Score for Long Term supplier relationship  
b. Dependent Variable: Average Score for Organizational Performance

Source: Own Survey, 2019

The table shows the variation of variables used in the analysis. R-square which is the coefficient of determinant tells that how much variation is taking place in organizational performance (dependent variable) due to supplier development, long term supplier relationship, effective procurement plan, communication (independent variables). When the table is analyzed, it depicts that the value of R-square is 0.678, that means 67.8% change taking place in organizational performance is due to the supplier development, long term supplier relationship, effective procurement plan, and communication.

Table 4.15 **ANOVA<sup>a</sup> (Analysis of variance)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.207	4	6.302	43.114	0.000 <sup>b</sup>
	Residual	11.986	82	0.146		
	Total	37.193	86			

a. Dependent Variable: Average Score for Organizational Performance

b. Predictors: (Constant), Average Score for Communication, Average Score for Effective procurement plan, Average Score for Suppliers Development, Average Score for Long Term supplier relationship

Source: Own Survey, 2019

According to table 4.15 the analysis of variance (ANOVA) for these data, if the F ratio is large and probability is less than 0.05 then it is termed statistically significant (Saunders, 2012). Thus, the F-statistic of each independent variables is 43.114, which is more than 4 this indicates that the model is overall good fit and significant at  $p < 0.05$ . Therefore, it can be concluded that the regression model overall predicts organizational performance significantly well.

ANOVA (Analysis of variance), was employed to compare whether the mean of one dependent variable differ significantly across the categories of another independent variables. The ANOVA table provided, the result of the test of significance for R and  $R^2$  using an F-statistic. Since the result of the test is significant, with P-value below 0.01, that  $R^2$  is significantly different from zero and there is a relationship between the independent variables (the factors) and dependent variable (organization performance) in the population (Field, 2006).

Table 4.16 **Regression Coefficients<sup>a</sup> Result**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-0.376	0.372		-1.012	0.315		
	Supplier development	0.184	0.077	0.179	2.396	0.019	0.704	1.421
	Long term supplier relationship	-0.040	0.112	-0.029	-0.360	0.720	0.598	1.673
	Effective procurement plans	0.351	0.083	0.305	4.240	0.000	0.757	1.321
	Communication	0.624	0.079	0.587	7.912	0.000	0.713	1.402

a. Dependent Variable : Organizational performance

Source: Own Survey, 2019

Based on table 4.16, the regression coefficient result table, we can formulate the regression equation (as per Model:  $OP = \alpha + \beta_1SD + \beta_2LTR + \beta_3EPP + \beta_4C + e$ ) as:

$$OP = -0.376 + 0.184SD - 0.04LTR + 0.351EPP + 0.624C$$

From the Beta Coefficient table, the researcher highly concentrated on the values of the standardized Beta coefficient in order to figure out the relative importance of each independent variable, in predicting the dependent variable and on the unstandardized Beta coefficient in order to formulate the linear regression equation.

### A. Standardized Beta Coefficient

Standardized beta coefficients are sometimes called relative importance weights and can be used to compare scores like Z-scores since they all are measured in standard deviation and are not dependent on the unit of measurement of the variables (Field, 2006). Relative importance weights are the proportionate contribution from each predictor to  $R^2$  correcting for the effects of the inter-correlations among predictors (Lorenzo-Seva et al., 2010). This method is recommended when the researcher is examining the relative contribution each predictor variable to the dependent variable (Johnson, 2004).

Based on the relation observed on table 4.16 we can see that the contribution of communication, effective procurement plan and supplier development as 58.7%, 30.5% and 17.9% respectively for the variation observed in the dependent variable (organizational performance). The highest contributor for the variation in organizational performance according to the responses of employees is communication. The second important factor that contributed more, to the organizational performance is effective procurement plan.

From the questionnaire survey made on employees of selected factories of Moha Soft Drinks Industry S.C, the least affecting/contributor factor for the organizational performance from the given factors was supplier development. That means as supplier development offered by the company increase by one standard deviation, organizational performance increases by 0.179 standard deviations (Field, 2006). The same is true for the other factors.

### **B. Unstandardized Beta Coefficient**

Unstandardized beta coefficient is sometimes called, the Beta Weights and tells us about the relationships between the dependent variable and the independent variables. If the value is positive the relationship between the predictor and the outcome is positive. Negative coefficient represents a negative relationship (Field, 2006). According to Pedhazur, (1997), a  $\beta$  weight coefficient informs us, as to how much change in the criterion variable (i.e. organizational performance in our case) we might expect with a one-unit change in the predictor variables, (i.e. supplier development, long term supplier relationship, effective procurement plan, and communication) holding all other predictor variables constant. That means from table 4.16, as supplier development of the company increases by one unit organizational performance increases by 18.4% if the other factors kept constant (Field, 2006).

## **4.7 Hypothesis Testing**

### **Hypothesis 1**

H<sub>1</sub>:1 Supplier development has effect on organizational performance.

H<sub>0</sub>:1 Supplier development has no effect on organizational performance.

The results of multiple regressions, as presented in table 4.16 above, revealed that supplier development has a positive and significant effect on organizational performance with a B value (B =.184), at 95% confidence level ( $p < 0.05$ ). This implies that, if supplier development increases by 1 percent, organizational performance will increase by 18.4%. Therefore, the researcher may reject the null hypothesis and it is accepted that, supplier development has a positive and significant effect on organizational performance. In connection to the above result, it is supported by any effort of a buying firm working with its supplier(s) to increase the performance and/or capabilities of the supplier(s) and meet the buying firm's short- and/or long-term supply needs as well as promote on-going improvements that are intended to benefit both buyer and supplier(s) (Wagner, 2011, Ahmed, and Hendry, 2012).

### **Hypothesis 2**

H<sub>1</sub>:2 Long term supplier relationship have effect on organizational performance.

H<sub>0</sub>:2 Long term supplier relationship have no effect on organizational performance.

The results of table 4.16 showed that the standardized coefficient beta and p-value of long term supplier relationship has negative and insignificant effect with (beta =-.029,  $p > 0.05$ ). Accordingly, this hypothesis is rejected.

While, according to (Paulraj and Chen 2005) long-term relationship focuses on initiatives that enhance superior relational characteristics between supply chain members and create a win-win situation for the buyer and its suppliers instead of

adversarial relationships. Thus, the researcher fails to accept the directional hypothesis and establish long term supplier relationship has a negative and insignificant effect on organizational performance. Therefore with regard to MOHA Soft Drinks Industry S.C. its contribution to organizational performance is insignificant.

The non-significant relationship between long-term supplier relationship and organizational performance is unexpected. On scrutinizing the result, we see that the result is in the right direction as the path coefficient was negative and insignificant at  $p = 0.720$ . Respondents suggest that in order to ensure high organizational performance, strict supplier assessment and continuous monitoring of suppliers' performance is the key factor, rather than simply building relationships with suppliers. For example, the company requires its suppliers to be certified to ISO 9001 or they conduct quality audits of their suppliers. However, the finding suggests that supplier assessment needs to be conducted in the context of building strategic long-term supplier relationships with suppliers, instead of being taken as a once-off transaction (or arm's length relationship).

### **Hypothesis 3**

H<sub>1:3</sub> Effective procurement plan have effect on organizational performance.

H<sub>0:3</sub> Effective procurement plan have no effect on organizational performance.

The result of table 4.16 showed that the standard coefficient of beta and p-value of effective procurement plan has positive and significant effect at ( $B = .351$ ,  $p < 0.01$ ). This implies that, if effective procurement plan increases by 1 percent, organizational performance will increase by 35.1%. This result is supported by Baily, (2005) that procurement plan is derived from the plans which have been formulated and should allow for subsequent comparison, evaluation and control of the efforts made to meet the company's objectives. So that, researcher rejects the null hypothesis and it is

accepted that effective procurement plan has a positive and significant effect on organizational performance.

### **Hypothesis 4**

H<sub>1:4</sub> Communication has effect on organizational performance.

H<sub>0:4</sub> Communication has no effect on organizational performance.

Table 4.16 further shows that, communication has a positive and significant effect on organizational performance with a B value (B = .624), at 99% confidence level (p < 0.01). This implies that, if communication increases by 1 percent, organizational performance will increase by 62.4%. This result is in agreement with (Krause and Ellram, 1997; Carr and Pearson, 1999; Carr and Smeltzer, 1999). Furthermore, the relevance of information shared become critical aspects in deciding success in collaborative efforts in buyer-supplier relationships (Krishnapriya, and Rupashree, 2014; Cao, 2009). Therefore, the researcher rejects the null hypothesis and communication has positive effect on organizational performance.

Table 4.17: **Hypothesis Testing Results**

<b>Hypothesis</b>	<b>Method</b>	<b>Test</b>
Supplier development has statistically positive and significant effect on organizational performance.	Regression	Accepted
Long term supplier orientation has statistically positive and significant effect on organizational performance	Regression	Rejected
Effective procurement plan has statistically positive and significant effect on organizational performance	Regression	Accepted
Communication has statistically positive and significant effect on organizational performance	Regression	Accepted

Source: Own Survey, 2019

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATION**

#### **Introduction**

This chapter deals with conclusions and recommendations. The main purpose of the study was to evaluate the effects of strategic sourcing on organizational performance of MOHA Soft Drinks Industry SC. To achieve the objective of the study, relevant literatures were reviewed and quantitative data were collected through questionnaire filled by employee's respondents. The data collected through questionnaire were presented, analyzed, interpreted and discussed using statistical package for social science (SPSS 24.0) version. Thus, based on the analysis, the following, conclusions drawn, and recommendations forwarded for the practitioners of the strategic sourcing program in MOHA Soft Drinks Industry SC and researchers who are interested to conduct in-depth study on this issue on the same organization or other sectors in the country in general and Addis Ababa in particular.

#### **5.1. Conclusion**

The following conclusions were proposed as follows.

- ✓ The mean score of supplier development (3.5218), long term orientation (4.00), effective procurement plans (3.37), communication (3.79), and organizational performance (3.65) this indicated that most of employees agreed with the practice of strategic sourcing variables such as communication, supplier development, long term orientation and effective procurement plans. Hence, as per the employee perception the existing strategic sourcing activities are effective.
- ✓ The correlation result show that there is positive and significant relationship between strategic sourcing (communication, supplier development, long term orientation and effective procurement plans) and organizational performance. The finding further indicates that the highest relationship is found between

communication and organizational performance ( $r = .738^{**}$ , and  $P < 0.05$ ) respectively. However, the lowest relationship exists between long term orientation and ( $r = .492^{**}$  and  $P < 0.01$ ) consecutively.

- ✓ Regarding the regression result, the findings show that supplier development significantly explains 18.4% of the variation in organizational performance. Therefore H1: there is significant effect of supplier development on organizational performance is supported and conclude that supplier development has a significant effect on organizational performance.
- ✓ Long term supplier relationship negative and insignificantly explains -4% in the variation in organizational performance. Therefore hypothesis H1: there is significant effect of long term orientation on organizational performance is rejected and concluded that long term supplier relationship has a negative and insignificant effect on organizational performance.
- ✓ Effective procurement plan was found to significantly explain 35.1% of the variation in organizational performance. Therefore hypothesis H1: there is significant effect of effective procurement plan on organizational performance is supported and concluded that effective procurement plan has a significant effect on organizational performance.
- ✓ Communication was found to significantly explain 62.4 % of the variation in organizational performance. As such, hypothesis H1: there is significant effect of communication on organizational performance is accepted and concluded that communication has a significant effect on organizational performance.
- ✓ The overall, results revealed that all independent variables accounted for 67.8% of the variance in organizational performance ( $R^2 = 0.678$ ). Thus, 67.8% of the variation in organizational performance can be explained by the four strategic sourcing dimensions and other unexplored factors may limit organizational performance which accounts for about 32.2%.

## 5.2. Recommendation

Based on the findings and conclusion of the study, the following recommendations are forwarded to alleviate or at least to minimize currently encountered problems in the MOHA Soft Drinks Industry SC that are related to effects of strategic sourcing on organizational performance.

- MOHA Soft Drinks Industry SC corresponding to the supplier development, the company should confirm better attention in order to maintain the company supplier development driver which is in consistent with the company vision to be accomplished what the company wants to reach. Thus, the MOHA Soft Drinks Industry SC should supplementary warrant that they develop their suppliers by non-financial and financial support such as sharing of their expertise which will result in win-win outcome with the suppliers and can play a greater role in improving organizational performance.
- Another important issue that is suggested to the case company's marketing department is improving the relationship with customers through a continuous information sharing, follow-up them and get feedback.
- More importantly, the case company is suggested to improve its relationship with suppliers from simply buy-sale relationship to a modern supply chain relationship through establishing strategic or long term supplier relationship and continuous information sharing in order to minimize supply uncertainty which resulted in demand and supply mismatched of the case company.
- The researcher remarks that it is difficult to generalize the results based on this single case study. Therefore, suggests for further researches to demonstrate and evaluate the models on a diversified portfolio of companies including different sectors based on their business activities, different sizes, and different current strategic sourcing practices.
- Besides, it is recommended to see the impact of strategic sourcing outside MOHA Soft Drinks since in this dynamics and complex business environment; it will help

to see the variation between soft drinks industry and other sectors organizational performance.

- This study found a gap in MOHA Soft Drinks Industry SC concerning the variable which is, long term supplier relationship are not well addressed by the MOHA Soft Drinks Industry SC. Therefore, the future researchers can study on those and fill the gap to the maximum extent and check if the company has filled its gap after 2019.
- Finally, future researchers can make a comparison between soft drinks and beverage industry in Ethiopia on the effect of strategic sourcing on organizational performance.

### **5.3. Limitation and Suggestions for Future Studies**

Like many research works, this particular study is also subjected to some limitations. First and for most, this study does not comprehensively capture all aspects of supply chain practices as applicable to strategic sourcing, rather it made emphasis in revealing the associations and impact relationships that four strategic sourcing dimensions have with organizational performance of MOHA Soft Drinks Industry S.C. In order to benefit from a comprehensive assessment of the factors that truly affect the performance of firms' organizational performance, future studies shall consider more dimensions of strategic sourcing that haven't been considered in this particular study as suggested by Prajogo et al (2012).

The other most important limitation of the study is the fact that the study was purely conducted on the basis of the responses obtained from MOHA Soft Drinks Industry S.C since it assumed the buying firm's perspective. To have a holistic insight, future studies need to have to fully examine the nature of the strategic sourcing from the suppliers' perspective in order to establish whether or not the relationship is reciprocal and mutually beneficial (Chen et al., 2004; Van der Vaart and van Donk, 2008).

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Annex

**ADDIS ABABA UNIVERSITY - SCHOOL OF COMMERCE**  
**LOGISTICS AND SUPPLY CHAIN MANAGEMENT POSTGRADUATE PROGRAM**  
**QUESTIONNAIRE**

Dear Respondent,

My name is Binyam Tesfaye, from Addis Ababa University School of Commerce. Currently I am conducting my Master thesis entitled “***Effect of Strategic Sourcing on Organizational Performance: the Case of MOHA Soft Drinks Industry S.C.***”. The information I collect will help me to know the effect of strategic sourcing on organizational performance and forward recommendation based on results. As one of study subjects, you are selected to take part in this study. This administered questionnaire may take about 15-20 minutes.

Thank you in advance.

Note:

1. No need of writing your name.
2. Indicate your answer with a check mark (✓) on the appropriate block/cell both for multiple choice and Likert scale questions.
3. If you need further explanation you can contact me and discuss the matter freely via my cell phone number 0911666660

**PART I: Demographic Information**

1. **Age:**  18-25  26-35  36-45  Above 45 years
2. **Sex:**  Male  Female
3. Educational Qualification:  
 Below college diploma  College Diploma  First Degree (Bsc,BA)  
 Second Degree (Msc, MA)  PhD and Above
4. Current Position \_\_\_\_\_
5. **Years of service in the current position:**  
 1-3 year  4-7 year  8-10 years  Above 10 years

**Section II: Main Questionnaire**

Please indicate your choice by putting the tick mark (✓) on the appropriate cell. Where, 1 =Strongly Disagree, 2 = Disagree, 3=Neutral, 4 = Agree, 5= Strongly Agree

	Measurement Items	Score				
		(SD)1	(D)2	(N)3	(A)4	(SA)5
<b>Supplier Development</b>						
1	We conduct regular visits to suppliers’ sites					
2	We reward and recognize suppliers for their best performance					
3	We collaborate with key suppliers in materials improvement					
4	We use a supplier certification program to certify supplier quality					
5	There is a system placed to measure suppliers performance in regular basis					
<b>Long-term Supplier Relationship</b>		(SD)1	(D)2	(N)3	(A)4	(SA)5
1	We expect our relationships with key suppliers to last a longer time.					
2	We have long-term contractual agreements with key suppliers					
3	We collaborate with key suppliers to improve their quality in the long run					
4	We view our key suppliers as an extension of our company					
5	Key suppliers see our relationships as a long-term alliance					
6	The relationship we have with key suppliers is essentially evergreen.					
<b>Effective procurement plan</b>		(SD)1	(D)2	(N)3	(A)4	(SA)5
1	There is a culture of joint procurement planning with concerned Departments.					
2	Procurement planning is an integral part of the organization’s strategic Planning.					
3	Procurement planning is a smooth exercise in MOHA Soft Drink Industry					
4	There are no emergency purchasing in MOHA Soft Drink Industry					
5	Procurement planning implemented as per the schedule					

<b>Communication</b>		(SD)1	(D)2	(N)3	(A)4	(SA)5
1	Suppliers are provided with any information that might help them.					
2	Exchange of information takes place frequently, informally and/or in a timely manner					
3	We keep each other informed about events or changes that may affect the other party					
4	We have frequent face-to-face planning/communication					
<b>Organizational Performance</b>		(SD)1	(D)2	(N)3	(A)4	(SA)5
1	We are successful in minimizing cost of materials due to strategic sourcing practice.					
2	We are successful in assuring quality of purchased materials due to strategic sourcing practice.					
3	We are successful in assuring on-time delivery of ordered materials due to strategic sourcing practice.					
4	We are successful in assuring volume and mix flexibility due to strategic sourcing practice.					
5	Internal customers are much satisfied with the achievements of our purchasing function due to strategic sourcing practice					

**Note:**

The following key terms will help you to fill the questionnaire understanding their contextual meanings in the study:

**Strategic sourcing:** is defined as the process of planning, implementing, controlling, and evaluating highly important purchasing in an effort to meet a firm’s goals (Carr and Smeltzer, 2000; Carr and Pearson, 1999 & 2002).

**Supplier Development** is defined as any effort of a buying firm working with its supplier(s) to increase the performance and/or capabilities of the supplier(s) and meet the buying firm's short- and/or long-term supply needs as well as promote on-going improvements that are intended to benefit both buyer and supplier.

**Long term Supplier Relationship** can be defined as the tendency to stick on relationships for a relatively longer period between a firm and its suppliers.

**Communication** is the extent of which a firm shares a variety of relevant, accurate, complete and confidential ideas, plans and procedures with its supply chain partners in a timely manner.

**Effective procurement plan** is derived from the plans which have been formulated and should allow for subsequent comparison, evaluation and control of the efforts made to meet the company’s objectives.