

**EFFECT OF SUPPLIER SOURCING STRATEGIES ON  
ORGANIZATIONAL PERFORMANCE IN SOUTH NYANZA SUGAR  
COMPANY LIMITED MIGORI COUNTY, KENYA**

**BY**

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**A RESEARCH PROJECT SUMMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**MASENO UNIVERSITY**

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## DECLARATION

I declare that this research project is my original work and has not been submitted to any other university.

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This research project has been submitted for examination with my approval as the university supervisor

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## **ACKNOWLEDGMENT**

I acknowledge the contribution of all those who supplemented my knowledge and willingly shared their experience with me. My research supervisor Dr. Johnmark Obura who assisted me in a special way and gave much needed experience, guidance and support during the exercise. My classmates for the encouragement and support they gave me when the going become tough.

## **DEDICATION**

I dedicate this research project to my wife Mrs. Caroline Awuor Oduor and my children Angeline, Joseph, Henry and Steven.

## ABSTRACT

Performance of most sugar companies in Kenya has been taking downward trend overtime with shareholders complaining of the ever declining asset values. South Nyanza Sugar Company located in Migori County is one such organization where the performance has never been stable. Organizations have devised various strategies to improve on the performance trends. One key strategy adopted by South Nyanza Company is supplier sourcing with an aim of ensuring that right sourcing strategy would give better procurement performance which in turn would lead to better organizational performance. Supplier sourcing is an important aspect to most organizations. This is because it leads to identification of a reliable and credible supplier. In purchasing, the most important decision is not where to buy from, but selecting the right source of supply, that will supply goods and services to organization's requirements. Despite adopting and implementing these strategies, performance of the companies are still having unpredictable trend. The purpose of this research was therefore to determine the effect of supplier sourcing strategies on organizational performance in South Nyanza Sugar Company Limited, Migori County, Kenya. Specifically, the study sought to establish the level of influence of open sourcing, single sourcing, multiple sourcing and partnership sourcing; on organizational performance. The study was guided by a conceptual framework where the dependent variable was organizational performance and independent variable were supplier sourcing strategies like open sourcing, single sourcing, multiple sourcing and partnership sourcing. The study was based on both economic transaction cost and resource-based view theories. Correlation design was adopted. Census survey on all the 120 employees was used. Primary data was collected using structured questionnaires. Validity was gauged using research supervisor's criticism while reliability was tested using test retest and an  $r=0.81$  showed consistency. Regression results revealed that sourcing strategies together explained 2.3% of the variance in performance (Adj.  $R^2=.023$ ). Moreover, open sourcing and single sourcing were negative predictors of performance though not significant: Open sourcing ( $\beta_1 = -0.068$ ,  $p>0.05$ ) and single sourcing ( $\beta_2=-0.059$ ,  $p>0.05$ ). On the other hand multiple sourcing and partnership sourcing were found to be positive predictors of performance with multiple sourcing being significant predictor while partnership sourcing not a significant predictor. Hence multiple sourcing ( $\beta_3= 0.203$ ,  $p<0.05$ ) and partnership sourcing ( $\beta_4= 0.044$ ,  $p>0.05$ ). The study concluded that open sourcing, single sourcing and partnership sourcing have no significant influence while multiple sourcing had significant influence on organizational performance. The study recommended that Companies should invest much on multiple sourcing since it has a significant positive influence on the overall performance.

## TABLE OF CONTENTS

<b>TITLE PAGE</b> .....	<b>I</b>
<b>DECLARATION</b> .....	<b>II</b>
<b>ACKNOWLEDGMENT</b> .....	<b>III</b>
<b>DEDICATION</b> .....	<b>IV</b>
<b>ABSTRACT</b> .....	<b>V</b>
<b>TABLE OF CONTENTS</b> .....	<b>VI</b>
<b>ABBREVIATIONS AND ACRONYMS</b> .....	<b>VIII</b>
<b>OPERATIONAL DEFINITION OF TERMS</b> .....	<b>IX</b>
<b>LIST OF TABLES</b> .....	<b>X</b>
<b>LIST OF FIGURES</b> .....	<b>XI</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study .....	1
1.2 Statement of the Problem .....	3
1.3 General Objective .....	3
1.4 Research Hypotheses .....	4
1.5 Justification of the Study .....	4
1.6 Scope of the study.....	4
1.7 Conceptual Framework.....	5
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>6</b>
2.1 Theoretical Literature .....	6
2.1.1 Supplier Sourcing.....	7
2.1.2 Sourcing Strategies .....	8
2.1.3 Organizational Performance .....	10
2.2 Empirical Literature Review.....	12
2.2.1. Open sourcing and organizational performance .....	12
2.2.2. Single sourcing and organizational performance.....	13
2.2.3. Multiple sourcing and organizational performance .....	14
2.2.4 Partnership sourcing and organizational performance.....	16
2.3 Summary of Literature Review.....	17

<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>19</b>
3.1 Research Design.....	19
3.2 Area of the Study.....	19
3.3 Population of the study .....	19
3.4 Sample and Sampling Procedure.....	20
3.5 Data and Data Collection Methods.....	20
3.5.1 Data Collection Instruments and Procedures.....	20
3.5.2 Validity and Reliability of Instruments.....	20
3.6 Data Analysis .....	20
<b>CHAPTER FOUR: RESULTS AND DISCUSSIONS.....</b>	<b>21</b>
4.1 Descriptive Statistics.....	21
4.2 Results of Regression Analysis.....	21
4.3: Results of the Regression of Performance on sourcing strategies.....	22
<b>CHAPTER FIVE : SUMMARY, CONCLUSION AND RECOMENDATION .....</b>	<b>25</b>
5.1 Summary of Findings.....	25
5.2 Conclusion .....	25
5.3 Recommendations of the Study .....	26
<b>REFERENCE.....</b>	<b>27</b>
<b>APPENDICES .....</b>	<b>30</b>
APPENDIX I: .....	30
<b>QUESTIONNAIRE.....</b>	<b>30</b>

## **ABBREVIATIONS AND ACRONYMS**

**TCE** - Transaction Cost Economics

**NAPM** - National Association of Purchasing Management



## **OPERATIONAL DEFINITION OF TERMS**

**Supplier** - Is an individual, a company or an organization contracted by another firm or organization to be availing items, goods, components, raw materials and services according to the terms and conditions in the contract of sale.

**Sourcing** - A process of analyzing potential input sources, choosing and securing the continuity of these sources for input of production and subsequently managing these sources.

**Sourcing strategy** - These are the various ways used to get the potential sources and the subsequent selection of the best supplier considered by the organization.

**Open Sourcing** - Is a process by which competing bids of a particular contract is invited, received and evaluated where-upon the contract is awarded to the tenderer who submitted the most advantageous bid.

**Multiple Sourcing** - This is a practice of obtaining materials from various suppliers.

**Single Sourcing** - Sourcing strategy under which a purchasing product family is obtained only from one individual supplier.

**Partnership sourcing** - Commitment between organization and there supplier to a long – term relationship based on clear mutually agreed objectives.

**Purchasing efficiency** - Is the ability of an organization to maximize productivity with the least amount of efforts, time, money or other resources.

## LIST OF TABLES

Table 3.1: Target Population.....	19
Table 4. 1: Descriptive Statistics of the Study Variables.....	21
Table 4.2: ANOVA Results of the Suitability of the Proposed Regression Model.....	21
Table 4.3: Model Summary .....	22
Table 4.4: Presents results of the regression analysis in which performance was regressed on the four sourcing strategies. ....	22

## **LIST OF FIGURES**

Figure 1: Relationship between supplier sourcing and organizational performance .....	5
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## **CHAPTER ONE: INTRODUCTION**

This chapter deals with background of the study, statement of the problem, the general and specific objectives of the study, research hypotheses, significance of the study, limitations of the study and conceptual framework.

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

Sourcing is defined as the processes and procedures by which the buyer seeks, surveys suppliers and determines policies relating to those who can most suitably meet the requirements of his undertakings. Sourcing is therefore, the counterpart of product marketing (Lysons, 1994). The process of source selection may be described as the preparation of an exhaustive list of prospective suppliers and the successive elimination from that list on various grounds until the number of prospective suppliers has been reduced to the one or few to be favoured with the organization business (Baily and Farmer, 1988). The supplier selection process has been the focus of many academics and purchasing authorities since the 1960s. Over time, the supplier sourcing process has changed considerably (Boer *at al* 2001).

An influential research study by professor New (1986) showed that UK firms tended to pay far less attention than should have been the case to source decision-making and supplier management. The report found that 52% of full factory cost was accounted for by purchases, and supported strongly the view that the unit cost performance of most manufacturing companies depended far more on the effectiveness of purchasing than on the control of labour performance (Baily *et. al* 1998). Rising customer expectations as well as the increase in global competition have made product and service quality an important strategic priority (Min. H. 1994). This has further compounded the aspect of supplier sourcing decisions. (Boer *et al* 2001) states, there is now an increasing trend for companies to develop supplier – partnering relationships.

Another factor which needs to be kept in mind in making key supplier selection decisions, is who should be involved in the process.

According to Westing and Fine (1995), good supplier sourcing helps to identify those who can meet the conditions of the purchase from all who claim to be able to supply. Time and money spent on careful source selection is a long – run investment because once a good choice has been made, succeeding orders can be placed economically and with confidence. It also helps in

fostering good internal relationship between the procurement and the user departments. These writers further argue that a good supplier is an invaluable resource to the organization requiring its products or service. Such suppliers make direct contribution to a firm's success. They can assist their customers with product development, value analysis, and timely delivery of the desired level of quality.

Supplier sourcing has emerged as an important enabler for managing global supply chain because organizations are exposed to a wide variety of supply chain risks and disruptions nowadays. For instance, the financial crisis led to several supplier bankruptcies, which resulted in supply shortages. The nuclear catastrophe in Fukushima in 2011 (Japan) and the volcanic ash in Europe in 2010 (Iceland) led to significant disturbances in the supply chain (Kotula and Reib, 2011). Furthermore, other risks such as wars and terrorisms, political instability, diseases or epidemics, product recalls, pirate attacks on container ships tremendously affect the supply chain (Chopra and Sodhi, 2004; Meena et al., 2011). All these risks have direct impact on long-term strategic sourcing decision, and have led many organizations to consider switching from single to multiple sourcing strategies.

Hult (2002), Kotabe and Murray (2004), state that sourcing can influence the competitive advantage and business performance of a company. Narasimhan and Das (1999) empirically support the positive influence of strategic sourcing on manufacturing flexibilities, as buyers can increase manufacturing performance and reduce costs through strategic sourcing. Khan and Pillania (2008) present the key dimensions of strategic sourcing with empirical validation, where partnerships, flexibility, supplier selection, and trust are essential. The authors provide evidence for the importance of strategic sourcing, and its positive correlation with the company's performance. Su et al. (2009) analyze how strategic sourcing and supplier selection influence competitive advantage and business performance. The study supports that the supplier selection process has an impact on gaining a competitive advantage, and strategic sourcing positively influences business performance. Furthermore, Chiang et al. (2012) show that strategic sourcing and strategic flexibility have significant influences on the agility of supply chains. The determination of strategic sourcing by strategic purchasing, supplier development, internal integration, and information sharing has a greater influence on a firm's supply chain agility than flexibility.

## **1.2 Statement of the Problem**

Performance of most sugar companies in Kenya has been taking downward trend overtime with shareholders complaining of the ever declining asset values. South Nyanza Sugar Company located in Migori County is one such organization where the performance has never been stable. Organizations have devised various strategies to improve on the performance trends. One key strategy adopted by South Nyanza Company is supplier sourcing with an aim of ensuring that right sourcing strategy would give better procurement performance which in turn would lead to better organizational performance. Supplier sourcing is an important aspect to most organizations. This is because it leads to identification of a reliable and credible supplier. In purchasing, the most important decision is not where to buy from, but selecting the right source of supply, that will supply goods and services to organization's requirements. Despite adopting and implementing these strategies, performance of the companies are still having unpredictable trend. This research is therefore designed to determine the effect of supplier sourcing strategies on organizational performance in South Nyanza Sugar Company Limited, Kenya

## **1.3 General Objective**

The main objective of the study was to determine the effect of supplier sourcing strategies on organizational performance in South Nyanza Sugar Company Limited, Kenya

Specifically the study sought to:

- i. To establish the level of influence of Open sourcing on organizational performance of South Nyanza Sugar Company
- ii. To determine the level of influence of Single sourcing on organizational performance of South Nyanza Sugar Company
- iii. To find out the level of influence of Multiple sourcing on organizational performance of South Nyanza Sugar Company
- iv. To examine the level of influence of Partnership sourcing on organizational performance of South Nyanza Sugar Company

#### **1.4 Research Hypotheses**

HO<sub>1</sub>: Open sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

HO<sub>2</sub>: Single sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

HO<sub>3</sub>: Multiple sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

HO<sub>4</sub>: Partnership sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

#### **1.5 Justification of the Study**

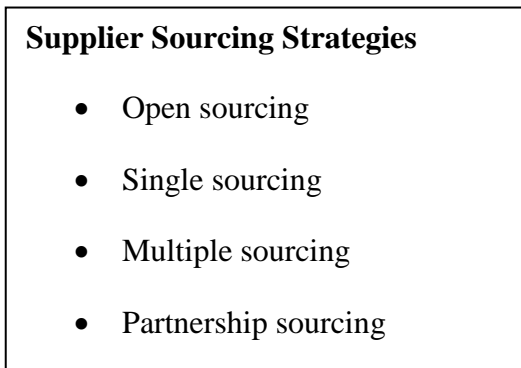
The research is of great importance to individuals, organizations and researchers in the purchasing and supply field. The research is of immediate benefit to the organizations in the formulation of future sourcing policies. This is because the recommendations and conclusion when put in place will improve performance in purchasing function hence promote purchasing efficiency. The research is of great importance to government as it will add some vital information to the already existing literature in the public procurement and disposal act. Future researchers who want to carry out research on the topic will find important information regarding supplier-sourcing strategies from the research findings. Similar organizations will use this research as reference point to improve on sourcing strategies so as to achieve their objectives.

#### **1.6 Scope of the study**

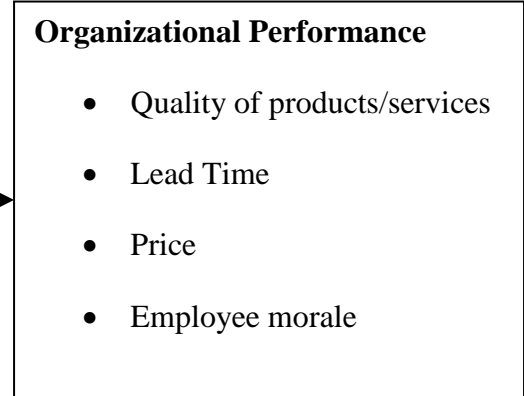
The study was carried out in South Nyanza Sugar Company Ltd located in Migori County. The study was done with specific reference to effects of sourcing strategies on organizational performance. The study included 120 employees of South Nyanza Sugar Company selected in three categories as top management, Divisional heads and all staff of the 3 sections of the procurement division.

## 1.7 Conceptual Framework

### Independent Variable



### Dependent Variable



**Figure 1:** Relationship between supplier sourcing and organizational performance

**Source:** Adopted from Dobler & Bur, 1996)

The conceptual framework above depicts that supplier sourcing strategies which include open sourcing, single sourcing, multiple sourcing and partnership sourcing are the explanatory variables influencing the outcome of the level of organizational performance of South Nyanza Sugar Company Ltd in terms of quality of products and services offered, lead time, competitive pricing and employee morale. The relationship of these variables is in one direction meaning that only utilization of explanatory variables supplier sourcing strategies have the chance to influence the organizational performance in the South Nyanza Sugar Company Ltd.



## **CHAPTER TWO: LITERATURE REVIEW**

This chapter reviewed both theoretical and empirical literature and conclude with summary of literature gaps.

### **2.1 Theoretical Literature**

#### **Transaction Cost Economic Theory**

A conceptual basis for outsourcing is Williamson's (1985) theory of transaction cost analysis. This combines economic theory with management theory to determine the best type of relationship a firm develops in the market place. The central theme of transaction costs theory is that the properties of the transaction determine the governance structure. Asset specifically refers to the non-trivial investment in transaction - specific assets. For example, the level of customized equipment or materials involved in the transaction relates to the degree of asset specificity. Due to the nature of fast food companies' operation basis, most confectionaries and operational equipment are needed and are sometimes outsourced to minimize cost of operations but when asset specificity and uncertainty are low and transactions are relatively frequent, transactions will be governed by markets. High asset specificity and uncertainty lead to transactional difficulties, with transactions held internally within the firm - vertical integration. Medium levels of asset specificity load to bilateral relations in the form of cooperative alliances between the organizations. Transaction cost economics (TCE) has been the most utilized theory of outsourcing. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the managing relationship phase. Another useful issue for outsourcing provided by TCE is explanation of contractual complexity. Though TCE has not been utilized explicitly for studying the Vendor selection phase, it has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities. Even though it has been exercised extensively in outsourcing applications, the TCE has several indulgencies.

Lacity and Willcocks (1995) found that the original mapping to the TCE framework only explained with few examples on IT sourcing decisions and generated much more anomalies in their sample. Another critique could be that TCE relies on a single transaction as a unit of analysis, neglecting the contemporary industrial collaborative arrangements. Finally, TCE is

static which does not correspond to dynamism of current business environment.

### **Resource-based View Theory**

The resource-based view was proposed by Barney in 1991. The core premise of the resource based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney and Hesterly, 1996). If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor.

#### **2.1.1 Supplier Sourcing**

Supplier sourcing is a critical process in any organization. What is emerging from the forgoing is that since a typical manufacturing firm spends 55% of earned revenue on purchased materials, (Leenders and Fearon, 1998), disruptions due to supply inadequacies could have a major impact on profitability. A manufacturer's operation strategy and financial livelihood rely on its chosen supplier pool and thus, decisions with regard to suppliers are fundamental to successful supply chain management. Westing and Fine (1995), good supplier sourcing helps to identify those who can meet the conditions of the purchase from all who claim to be able to supply. Time and money spent on careful source selection is a long – run investment because once a good choice has been made, succeeding orders can be placed economically and with confidence. It also helps in fostering good internal relationship between the procurement and the user departments. These writers further argue that a good supplier is an invaluable resource to the organization requiring its products or service. Such suppliers make direct contribution to a firm's success. They can assist their customers with product development, value analysis, and timely delivery of the desired level of quality.

On their part, Dobler and Burt (1996) argue that careful sourcing creates room for the establishment of a good buyer supplier relationship. They further say that such good buyer-seller

relations facilitate the buyer's efforts to gain superior performance, extra service, cooperation on cost reduction programs, and a willingness to share in new processes and procedures. According to Baily and Farmer (1986) Sourcing is an activity that involves much more than simply picking a supplier for each order in isolation. It involves continuing relationships, both with proffered sources, which are actually supplying the goods and services, and with potential sources, which may have been passed over for the present but are still in the running. It also involves decisions about how to allocate the available business and what terms to do business on. Farmer and Weele (1995) sourcing refers to: finding sources of supply; guaranteeing continuity in supply; ensuring alternative sources of supply and gathering knowledge of procurable resources.

Supply mismanagement can have grave financial consequences for firms relying on suppliers for crucial items. Since a typical manufacturing firm spends 55 % of earned revenue on purchased materials (Leenders and Fearon, 1998), disruptions due to supply inadequacies could have a major impact on profitability. For example Hendricks and Singhal (2003a) show that buying firms reporting supply chain disruptions due to supplier glitches typically experience a 12% decrease in shareholder returns. In one study, Hendricks and Singhal (2003b) found out that the performance of these same firms is on the average lower when compared to their per-disruption metrics. The same writers also argue that even sourcing decisions made during a single selling period impact a firm's long-term financial results. For example, the holiday season that ushers out the old year and rings in the new also presents many resellers with an opportunity to move out of the red and into the black but if they do not make optimal sourcing decisions to satisfy the season's demand, they may unnecessarily stock-out of items and suffer opportunity costs, or be left with an oversupply of products that must be deeply discounted to deplete inventories and salvage working capital.

### **2.1.2 Sourcing Strategies**

Open sourcing applies when tenders are invited through advertisement or other forms of public notice from any eligible parties. This is meant to ensure that equal opportunity is given to all qualified candidates in order to ensure full and free competition. According to Dobler and Burt (1996), open sourcing usually results in the lowest price and is the most efficient method of sourcing, mostly applicable to highly standardized products. However, open sourcing is

gradually being replaced by several sets of sourcing strategies designed to suit different circumstances (Gosta Westring, 1989).

Van Weele (1994), multiple sourcing is a practice of obtaining materials from various suppliers. Analytical studies show that in certain cases, multiple sourcing is preferable to other sourcing methods because of the benefits associated with it. These include: insufficient capacity of any other supplier to meet organizational demand; the need to test the performances of new suppliers before committing totally to one supplier; enhanced keener competition for all suppliers; assurance of supply should one source fail and avoidance of supplier dependence on the organization with consequent threat to its survival if orders are not forthcoming (Farmer and Weele, 1995).

According to Weele (1994), single sourcing is a sourcing method under which a purchasing product family is obtained only from one individual supplier. With time, the trend of single sourcing has become widespread among profit making organizations. This is confirmed by Spekman (1988); Pilling and Zhang, (1992) who indicate that many producing companies are shrinking their supplier base per item and ordering the majority of total unit required from a single source. Mohr and Spekman (1994) contend that single-sourcing performance benefits outweigh the benefit of a price centric multiple-sourcing strategy.

Partnership sourcing is commitment by customers/suppliers, regardless of size, to a long – term relationship based on clear mutually agreed objectives to strive for world-class capability and competitiveness (Baily et.al 1998). Experience from the Xerox supplier partnership initiatives (Baily et.al 1998) just like that of the Ford Motor Company has shown that partnership sourcing is one very powerful sourcing method that enhances benefits in terms of continuity of supply; quality; cost reductions and flexibility (responsiveness) to partners Dobler and Burt (1996). However, there is a downside to partnerships may lead to problems of supplier domination, lack of confidentiality, complacency and inflexibility during times of recession. Dobler and Burt (1996) on their part cite a study, which reveals that 58% partnerships studied in America, failed their expectations, 34% met them while only 8% surpassed their expectations.

### **2.1.3 Organizational Performance**

Organizational performance was measured by purchasing efficiency in the current study. For purchasing efficiency to be measured there must be concrete and dependable purchasing efficiency indicators. There seems to be agreeably uniform indicators of efficiency. However, several writers seem to agree that among the indicators of purchasing efficiency should be the prices paid and the costs of the purchasing process. Many scholars define efficiency in many different ways. It is out of this purchasing efficiency is actually a direct import of this definitions. For instance according to the Oxford Dictionary of Business efficiency measures how successfully the inputs have been transformed into outputs. Secondly, Horngren et al (2002) efficiency refers to the degree to which inputs are used in relation to a given level outputs.

Horngren et al (2002) further said that efficiency can be measured by comparing actual outputs achieved with inputs or by using price variance and usage variance. They define Price variance as the difference between actual input prices and standard input prices. They also define usage Variance (Quantity variance or efficiency variance) as the difference between the quantity of inputs actually used and the quantity of inputs that should have been used to achieve the quantity output multiplied by the expected price of the input.

Cohen and Agrawal (1999) find that while supply managers intend to develop long term relationships, they often engage in short term contracting to fulfill its demand for products. Ultimately, supply managers for profit maximizing firms must gauge which sources will provide the best value for the purchase cost decreases relative to the corresponding base cases because the firm no longer sources from the lowest cost supplier.

Inbound logistics costs are cited as one measure of purchasing efficiency Porter (1985). Porter argues that Procurement activities in large part support a firm's inbound logistics and are vital to value creation. This in the long run contributes to that firm's efficiency. He further says supply disruption results in excessive downtime of production resources; upstream and downstream supply chain repercussions, and eventually a loss in the market value of the firm.

Christopher (1992) price is an indicator purchasing efficiency, as it is a paramount influencer of the purchase decision Baily *et al* (1998). Westing and fine (1965) purchasing efficiency can be measured in terms of monetary benefits in the form of cost savings on purchased material or

continuity of production at minimum investment costs and by further suggesting other cost reductions programs such as Value analysis.

According to Saunders (1997) suppliers' efficiency leads to the buyers' organization efficiency for it demonstrates the feasibility by the organization in achieving both high quality and high productivity at a minimum cost. This argument is supported by Dobler and Burt (1996) who argue that a good supplier is an invaluable resource to the organization requiring its products or service. Such suppliers make direct contribution to a firm's success. They can assist their customers with product development, value analysis and timely delivery of the desired level of quality. Good buyer-seller relations facilitate the buyer's efforts to gain superior performance, extra service, cooperation on cost reduction programs, and a willingness to share in new processes and procedures.

Time has also been seen a competitive tool that is an indicator of purchasing efficiency. According to Horngren et al (2002), companies increasingly view time as a driver of strategy, doing necessary things correctly, quickly help increase revenue, and decrease costs. These writers name United Van Lines, General Electric, AT K& T and Wal-Mart, as companies, which have experienced this. These writers attribute time not only to higher revenues but also to lower costs of doing things faster and on time. They for example cite the need to carry fewer inventories because of their ability to respond rapidly to customer demands. According to these writers, fast response to customers is strategic importance to many industries. Some companies such as Boeing had to pay penalties to compensate their airline customers for lost revenues and profit by being unable to schedule flights as a result of delays in delivering airplanes to them on time.

Employee morale is another indicator of efficiency as indicated by Westing and fine (1965). They say a concomitant result of the evaluation of purchasing performance is the likelihood of improved morale and increase efficiency of the purchasing personnel. They further went on to concede that employee do better and take a greater interest in their jobs if they know that the results of their efforts will come to the attention of their superiors.

The sourcing strategy used in an organization depends on the value attached to it by the organization concerned. This value might override the efficiency objectives depending on the

organization's mission. A keen assessment of the literature covered reveals that quite a number of the strategies immensely contribute to the efficiency of organization. For instance, the Ford and Xerox experiences show that partnership sourcing brings about several benefits in terms of continuity of supply; quality; cost reductions and flexibility (responsiveness) to partners (Baily et. al, 1998 and Dobler and Burt, 1996). All these benefits are a proof that such a strategy actually enhances purchasing efficiency. On the other hand research evidence indicates that partnership sourcing strategy has its own problems, which may necessitate various costs which over time erodes the efficiency gains made (Lysons and Gillilnham 2003; Dobler and Burt, 1996).

Another very good example on how a sourcing strategy used can be a contributor of purchasing efficiency and at the same time affects the efficiency so far achieved is the open sourcing strategy. Dobler and Burt (1996), open competitive sourcing usually results in the lowest price and is the most efficient strategy of source selection. However, open sourcing has several limitations, which undue the efficiency gains. Gosta Westring (1989) asserts that the strategy is gradually being replaced by several sets of procurement procedures because of such weaknesses.

## **2.2 Empirical Literature Review**

### **2.2.1. Open sourcing and organizational performance**

Narasimhan and Das (1999) investigated the influence of strategic sourcing and advanced manufacturing technologies on specific manufacturing flexibilities. The findings suggest that strategic sourcing can assist in the achievement of modification flexibilities. Strategic sourcing can be used to target specific manufacturing flexibilities.

Das and Narasimhan (2000) developed purchasing competence as a valid construct and explore its relationship with different manufacturing priorities. An empirical study is conducted among purchasing professionals in manufacturing firms. The results of the research indicate that purchasing competence is found to have a positive impact on manufacturing cost, quality, and delivery, as well as new product introduction and customization performance. Purchasing integration, a component of purchasing competence, is found to relate to all dimensions of manufacturing performance.

Gartner (2003) reported that satisfaction with the benefits from outsourcing contracts fell from 86 percent in 2001 to 50 percent in 2002 among board level executives in Western Europe. He noted that European countries wasted 6 billion Euros due poor deal structures and poorly managed relationships with IT outsourcing companies in 2002. Frayer *et al* (2010) however suggested that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firms overall competitive position. The increasing use of outsourcing arrangements, as well as the unfamiliar complexity, suggest the need to know more about how to effectively utilize this strategy.

Jiang *et al*, (2006) studied the effects of outsourcing on the firm level performance measures of 51 large US firms based on audited accounting data in a period from 1990-2002. They derived the exact dates of the outsourcing events by searching the press for outsourcing announcements and measured the cost efficiency, productivity, and profitability of the firms involved within one year after the outsourcing, based on quarterly accounting data. Observing the absolute change of the performance measures and the development relative to a control group without outsourcing they found improved cost efficiency but no change in the productivity and profitability of the outsourcing firms. The authors concluded that the firms need to invest freed resources to further improve core competencies. Firms additionally needed to utilize the cost savings to lower prices at the cost of higher profits to gain competitiveness in the market.

### **2.2.2. Single sourcing and organizational performance**

Tracey and Tan (2001) employed confirmatory factor analysis and path analysis to examine empirically the relationship among supplier selection criteria, supplier involvement, each of the four dimensions of customer satisfaction (competitive pricing, product quality, product variety, and delivery service), and overall firm performance. This research confirms that higher levels of customer satisfaction and firm performance result from selecting and evaluating suppliers based on their ability to provide quality components and subassemblies, reliable delivery, and product performance. It finds no evidence that selecting suppliers based on unit price has a positive impact on customer satisfaction or firm performance.



Watts and Hahn (1993) showed the importance of formal supplier evaluation to the supplier development process. The survey results of 81 usable responses show quality related supplier capabilities received the highest ratings from respondents, followed in order by cost, delivery, and technical related capabilities.

Hanley *et al.*, (2004) analyzed the effects of outsourcing, measured by total bought inputs over value add in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. Distinguishing service outsourcing and material outsourcing, they found that only large plants profit from material outsourcing while they can derive no clear-cut results for service outsourcing. Gilley and Rasheed (2000) analyses the influence of the outsourcing of core and peripheral functions on firm performance considering the moderating effects of firm strategy and environmental dynamism. They collected subjective data on firm performance relative to peers and outsourcing intensity from 94 manufacturing firms. The results of this study showed no direct impact of outsourcing on firm performance. However, outsourcing was found to be positively related to the performance of firms which pursue cost leadership and innovation differentiation strategies.

### **2.2.3. Multiple sourcing and organizational performance**

Tan, Lyman, and Wisner (2002) stated that many leading firms in the USA have adopted an integrated strategic approach to purchasing and logistics management known as supply chain management. Supply chain management has become a significant strategic tool for firms striving to improve quality, customer service and competitive success. This article surveyed senior managers in various industries to study the prevalent supply chain management and supplier evaluation practices. The study reduced these practices to a smaller set of constructs and related the constructs to firm performance. The results show that many constructs were correlated with firm performance.

In the research conducted by Carr and Pearson (1999), a structural model of strategic purchasing and its influences on supplier evaluation systems, buyer-supplier relationships, and firm's financial performance are examined by collecting data from a variety of industries in NAPM database, including manufacturing firms and non-manufacturing firms. Based on the findings of

this study, strategic purchasing is important to the success of the firm. Increased emphasis on strategic purchasing and supplier evaluation systems are critical for firms seeking to establish long-term relationships with their suppliers. Strategically managed long-term relationships with key supplier can have a positive impact on the firm's financial performance.

Carr and Smeltzer (2000) presented a regression model of the relationships among purchasing skills and strategic purchasing, a firm's performance, and supplier responsiveness to test three hypotheses to determine if purchasing skills are related to strategic purchasing, a firm's financial performance, and supplier responsiveness. A regression analysis of sample of 85 surveys indicates that purchasing skills are related to strategic purchasing, a firm's financial performance, and supplier responsiveness

In another study, Carr and Pearson (2002) offered a model of the hypothesized relationships concerning purchasing/supplier involvement, strategic purchasing and firm's financial performance. The model is tested using a survey method and random sample of purchasing executives across various industries which are included in the National Association of Purchasing Management (NAPM) membership database. The model is empirically tested using structural equation modeling and the findings reveal that the hypotheses tested in the model are supported. Strategic purchasing has a positive impact on firm's financial performance.

Narasimhan and Das (1999) investigated the influence of strategic sourcing and advanced manufacturing technologies on specific manufacturing flexibilities. The findings suggest that strategic sourcing can assist in the achievement of modification flexibilities. Strategic sourcing can be used to target specific manufacturing flexibilities. Das and Narasimhan (2000) developed purchasing competence as a valid construct and explore its relationship with different manufacturing priorities. An empirical study is conducted among purchasing professionals in manufacturing firms. The results of the research indicate that purchasing competence is found to have a positive impact on manufacturing cost, quality, and delivery, as well as new product introduction and customization performance. Purchasing integration, a component of purchasing competence, is found to relate to all dimensions of manufacturing performance.

#### **2.2.4 Partnership sourcing and organizational performance**

Tan, Lyman, and Wisner (2002) stated that many leading firms in the USA have adopted an integrated strategic approach to purchasing and logistics management known as supply chain management. Supply chain management has become a significant strategic tool for firms striving to improve quality, customer service and competitive success. This article surveyed senior managers in various industries to study the prevalent supply chain management and supplier evaluation practices. The study reduced these practices to a smaller set of constructs and related the constructs to firm performance. The results show that many constructs were correlated with firm performance.

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modeling and the findings reveal that the hypotheses tested in the model are supported. Strategic purchasing has a positive impact on firm's financial performance.

Benson and Littler (2002) compared the effects of outsourcing of core and support functions to other restructuring measures of large Australian organizations using a survey among 4500 firms in 1998. Out of the 1222 respondents, 649 firms reported recent workforce reductions. The authors found that the most important reason for outsourcing was a change in the business strategy, whereas this was not the trigger for other restructuring measures. The main objective of outsourcing was the reduction of labor costs and an increase in labor productivity, which was indeed achieved by outsourcing according to the responding managers. On the other hand, firms that reduced workforce for other reasons than outsourcing reported similar objectives and achievements. The authors concluded that outsourcing cannot deliver labor cost reductions in excess of those produced by other forms of restructuring.

### **2.3 Summary of Literature Review**

Good supplier sourcing helps to identify those who can meet the conditions of the purchase from all who claim to be able to supply. Time and money spent on careful source selection is a long – run investment because once a good choice has been made, succeeding orders can be placed economically and with confidence. It also helps in fostering good internal relationship between the procurement and the user departments. These writers further argue that a good supplier is an invaluable resource to the organization requiring its products or service. Such suppliers make direct contribution to a firm's success. They can assist their customers with product development, value analysis, and timely delivery of the desired level of quality.

Most have argued that careful sourcing creates room for the establishment of a good buyer supplier relationship. They further say that such good buyer-seller relations facilitate the buyer's efforts to gain superior performance, extra service, cooperation on cost reduction programs, and a willingness to share in new processes and procedures. Sourcing is an activity that involves much more than simply picking a supplier for each order in isolation. It involves continuing relationships, both with proffered sources, which are actually supplying the goods and services, and with potential sources, which may have been passed over for the present but are still in the

running. It also involves decisions about how to allocate the available business and what terms to do business on. Sourcing strategies adopted have both positive and negative consequences on the organizational performance. Most writers concur that partnership sourcing brings about several benefits in terms of continuity of supply; quality; cost reductions and flexibility (responsiveness) to partners. All these benefits are a proof that such a strategy actually enhances purchasing efficiency. On the other hand literature review evidence indicates that partnership sourcing strategy has its own problems, which may necessitate various costs which over time erodes the efficiency gains made. Another very good example on how a sourcing strategy used can be a contributor of purchasing efficiency and at the same time affects the efficiency so far achieved is the open sourcing strategy. Open sourcing usually results in the lowest price and is the most efficient strategy of source selection. However, open sourcing has several limitations, which undue the efficiency gains and most writers asserts that the strategy is gradually being replaced by several sets of procurement procedures because of such weaknesses.

A keen assessment of the literature covered reveals that quite a number of the strategies immensely contribute to the efficiency of organization. There seems to be agreeably uniform indicators of efficiency. However, several writers seem to agree that among the indicators of purchasing efficiency should be the prices paid and the costs of the purchasing process. Price is an indicator purchasing efficiency, as it is a paramount influencer of the purchase decision. Purchasing efficiency can be measured in terms of monetary benefits in the form of cost savings. Time has also been seen a competitive tool that is an indicator of purchasing efficiency and most companies increasingly view time as a driver of strategy, doing necessary things correctly, quickly help increase revenue, and decrease costs. They also say that a concomitant result of the evaluation of purchasing performance is the likelihood of improved morale and increase efficiency of the purchasing personnel.

## CHAPTER THREE: RESEARCH METHODOLOGY

This chapter highlights the techniques that were employed in the study. It focused on the research design, area of the study, population of the study, sample and sampling procedure, data and data collection methods, data collection instruments and procedures, Validity and reliability, data analysis and data presentation.

### 3.1 Research Design

The research design adopted was correlational. Correlation design simply aims to determine the relationship between two or more variables, as well as how strongly these variables relate to one another.

### 3.2 Area of the Study

The study was conducted in South Nyanza Sugar Company Limited. The company is located in Migori County south of Kisii and west of Homa bay counties.

### 3.3 Population of the study

The target population for the study was 120 employees of South Nyanza Sugar Company selected purposively as: top management, Divisional heads and all staff of the 3 sections of the procurement division. This was done according to the company Bio Data given in the table 3.1.

**Table 3.1: Target Population**

<b>S/NO</b>	<b>Rank Positions</b>	<b>NUMBER</b>
1.	Top Management (MD, Com. Secretary and Depart. Managers)	8
2.	Divisional Heads	28
3.	Procurement Division (stores, Warehouse and Purchasing)	84
	<b>TOTAL</b>	<b>120</b>

Source: (Sony Sugar, 2017)

### 3.4 Sample and Sampling Procedure

Since the population was very small, the researcher adopted a census survey of all the 120 employees.

### 3.5 Data and Data Collection Methods

#### 3.5.1 Data Collection Instruments and Procedures

Primary data was obtained using self-administered questionnaires. The researcher used questionnaires, as they are the most common instruments and they help keep the respondents' confidentiality.

#### 3.5.2 Validity and Reliability of Instruments

The questionnaire was piloted to determine its validity where areas with ambiguities were eliminated after criticism of the research supervisor. The piloting was done where 10 employees were given the questionnaires to respond by filling. Test retest results gave an  $r=0.84$  indicating high levels of consistencies.

### 3.6 Data Analysis

Data was analyzed using quantitative techniques to establish the answers to the study. Multiple linear regression was used in establishing key relationships between the variables. Regression model below was adopted for the analysis:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Y- Organizational performance

$\beta_0 \beta_1 \beta_2 \beta_3 \beta_4$ - are the constants to be determined representing the level of influence of the various supplier sourcing strategies on the performance

$X_1$ - Open sourcing

$X_2$ - Single sourcing

$X_3$ - Multiple sourcing

$X_4$  – Partnership sourcing

## CHAPTER FOUR: RESULTS AND DISCUSSIONS

This chapter presents the results and discussions of the findings.

### 4.1 Descriptive Statistics

**Table 4.1:** Descriptive Statistics of the Study Variables

	N	Minimum	Maximum	Mean	Std. Deviation
PERF	120	3.00	5.00	3.9750	.64120
OS	120	3.00	5.00	3.9333	.70691
SS	120	2.00	4.00	3.3583	.75366
MS	120	2.00	4.00	3.4833	.63489
PS	120	2.00	5.00	3.5583	.61897
Valid N (Listwise)	120				

*Source: Research data, 2017*

The mean of all the variables were all above 3 meaning most of the respondents felt that their level of agreement were to the average extent for single sourcing and multiple sourcing while to great extent for performance, open sourcing and partnership sourcing.

### 4.2 Results of Regression Analysis

To determine the effect of supplier sourcing strategies on organizational performance in South Nyanza Sugar Company Limited, Kenya multiple regression analysis was conducted. As shown from the ANOVA table presented in Table 4.2, the F-test was not significant ( $F_{0.05; 4, 115}=1.691$ ,  $p>0.05$ ). This indicates that the hypothesized multiple regression model was statistically adequate though not significant.

**Table 4.2:** ANOVA Results of the Suitability of the Proposed Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.718	4	.680	1.691	.157 <sup>b</sup>
	Residual	46.207	115	.402		
	Total	48.925	119			

a. Dependent Variable: PERF

b. Predictors: (Constant), PS, MS, OS, SS

*Source: Research data, 2017*



Results presented in Table 4.3 which displays the model summary show that the four sourcing strategies: open sourcing, single sourcing, multiple sourcing and partnership sourcing together explained 2.3% of the variance in performance (Adj.  $R^2=.023$ ) with standard error of the estimate at 0.63388.

**Table 4.3:** Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.236 <sup>a</sup>	.056	.023	.63388

Predictors: (Constant), PS, MS, OS, SS

Source: Research data, 2017

#### 4.3: Results of the Regression of Performance on sourcing strategies.

**Table 4.4:** Presents results of the regression analysis in which performance was regressed on the four sourcing strategies.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.508	.604		5.807	.000
	OS	-.062	.083	-.068	-.747	.457
	SS	-.050	.080	-.059	-.625	.533
	MS	.205	.094	.203	2.180	.031
	PS	.046	.095	.044	.481	.631

Dependent Variable: PERF

Source: Research data, 2017

Table 4.4 indicates that the open sourcing and single sourcing were negative predictors of performance though not significant: Open sourcing ( $\beta_1 = -0.068$ ,  $p>0.05$ ) and single sourcing ( $\beta_2=-0.059$ ,  $p>0.05$ ). On the other hand multiple sourcing and partnership sourcing were found to be positive predictors of performance with multiple sourcing being significant predictor while partnership sourcing not a significant predictor. This implies that a unit increase in multiple sourcing and partnership sourcing will result to an increase in performance with a correlation coefficient of ( $\beta_3= 0.203$ , and ( $\beta_4= 0.044$ ) respectively.

Objective one sought to establish the level of influence of Open sourcing on organizational performance of South Nyanza Sugar Company it was established that open sourcing negatively influences organizational performance ( $\beta_1 = -0.068$ ,  $p > 0.05$ ). This means that a unit standard increase in open sourcing would lead to a decline in organizational performance by 0.068. This implies that whenever South Nyanza Sugar Company embraces open sourcing as a strategy, the overall result on organizational performance is a negligible decline.

This finding contradicts those of Das and Narasimhan (2000) who indicated that purchasing competence is found to have a positive impact on manufacturing cost, quality, and delivery, as well as new product introduction and customization performance. It further disagree with the findings of Narasimhan and Das (1999) who investigated the influence of strategic sourcing and advanced manufacturing technologies on specific manufacturing flexibilities and found that strategic sourcing can assist in the achievement of modification flexibilities. The finding supports those of Gartner (2003) who reported that satisfaction with the benefits from outsourcing contracts fell from 86 percent in 2001 to 50 percent in 2002 among board level executives in Western Europe. Finally the study supports the findings of Jiang *et al.*, (2006) who studied the effects of outsourcing on the firm level and found improved cost efficiency but no change in the productivity and profitability of the outsourcing firms.

Objective two sought to determine the level of influence of single sourcing on organizational performance of South Nyanza Sugar Company. The results revealed that single sourcing had negative influence on organizational performance ( $\beta_2 = -0.059$ ,  $p > 0.05$ ). This means that a unit standard increase in single sourcing would lead to organizational decline by 0.059. This implies that whenever the Company invested in single sourcing, there would be a negligible decline in its performance.

This finding supports those of Tracey and Tan (2001) who found no evidence that selecting suppliers based on unit price has a positive impact on customer satisfaction or firm performance. The findings contradicts those of Hanley *et al.*, (2004) who found that only large plants profit from material outsourcing while they can derive no clear-cut results for service outsourcing. The results support Gilley and Rasheed (2000) who showed no direct impact of outsourcing on firm performance.

Objective three sought to find out the level of influence of multiple sourcing on organizational performance of South Nyanza Sugar Company. The results revealed that multiple sourcing had a positive influence on organizational performance ( $\beta_3 = 0.203$ ,  $p < 0.05$ ). This means that a unit standard increase in multiple sourcing would increase performance by 0.203. This implies that whenever the Company increases the ability to multi source, then the overall performance would increase.

The findings agrees with those of Tan, Lyman, and Wisner (2002) who showed that many purchasing sourcing constructs were correlated with firm performance. The findings support those of Carr and Pearson (1999), who argued strategic purchasing, is important to the success of the firm. The finding support those of Carr and Smeltzer (2000) who indicated that purchasing skills are related to strategic purchasing, a firm's financial performance, and supplier responsiveness. It concurs with Carr and Pearson (2002) who found that Strategic purchasing has a positive impact on firm's financial performance.

Objective four sought to examine the level of influence of Partnership sourcing on organizational performance of South Nyanza Sugar Company. It was established that Partnership sourcing had a positive influence on organizational performance ( $\beta_4 = 0.044$ ,  $p > 0.05$ ). This means that a unit standard increase in partnership sourcing would lead to an increase in organizational performance by 0.044. This implies that whenever the Company invested in partnership sourcing, there would be an overall increase in performance.

This finding is in tandem with those of Tan, Lyman, and Wisner (2002) who showed that many constructs selected were correlated with firm performance. It further supports those of Carr and Pearson (1999), who argued that strategically managed long-term relationships with key supplier can have a positive impact on the firm's financial performance. The findings agree with those of Carr and Pearson (2002) who found that strategic purchasing has a positive impact on firm's financial performance. The result contradict those of Benson and Littler (2002) who argued that outsourcing cannot deliver labor cost reductions in excess of those produced by other forms of restructuring.

## **CHAPTER FIVE : SUMMARY, CONCLUSION AND RECOMENDATION**

This chapter provides the summary, conclusion and recommendations of the study.

### **5.1 Summary of Findings**

The purpose of this study was to determine the effect of supplier sourcing strategies on organizational performance in South Nyanza Sugar Company Limited, Kenya. The summary of findings therefore focuses on the following objectives of the study.

Objective one sought to establish the level of influence of open sourcing on organizational performance of South Nyanza Sugar Company. It was established that open sourcing negatively influences organizational performance though the influence is not significant.

Objective two sought to determine the level of influence of single sourcing on organizational performance of South Nyanza Sugar Company. The results revealed that single sourcing had insignificant negative influence on organizational performance.

Objective three sought to find out the level of influence of multiple sourcing on organizational performance of South Nyanza Sugar Company. The results revealed that multiple sourcing had a significant positive influence on organizational performance.

Objective four sought to examine the level of influence of partnership sourcing on organizational performance of South Nyanza Sugar Company. It was established that partnership sourcing had insignificant positive influence on organizational performance.

### **5.2 Conclusion**

Based on the summary of objective one that open sourcing negatively influences organizational performance though the influence is not significant, the null hypothesis was accepted and it was concluded that open sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

Based on the summary of objective two that single sourcing had insignificant negative influence on organizational performance, the null hypothesis was accepted and the study concluded that

single sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

Based on the summary of objective three that multiple sourcing had a significant positive influence on organizational performance, the null hypothesis was not accepted and the study concluded that multiple sourcing has a significant influence on organizational performance of South Nyanza Sugar Company

Based on the summary of objective four that partnership sourcing had insignificant positive influence on organizational performance, the null hypothesis was accepted and the study concluded that partnership sourcing has no significant influence on organizational performance of South Nyanza Sugar Company

### **5.3 Recommendations of the Study**

Based on the conclusion of objective one that open sourcing has no significant influence on organizational performance of South Nyanza Sugar Company, the study recommends that Companies should not invest much on open sourcing since it has negative influence on the overall performance.

Based on the conclusion of objective two that single sourcing has no significant influence on organizational performance of South Nyanza Sugar Company, the study recommends that Companies should not invest much on single sourcing since it has negative influence on the overall performance.

Based on the conclusion of objective three that multiple sourcing has significant influence on organizational performance of South Nyanza Sugar Company, the study recommends that Companies should invest much on multiple sourcing since it has a significant positive influence on the overall performance.

Based on the conclusion of objective four that partnership sourcing has no significant influence on organizational performance of South Nyanza Sugar Company, the study recommends that Companies should invest much on partnership sourcing since it has positive influence on the overall performance even though the influence is not significant.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### Introduction

This questionnaire is meant to help in collecting data for the effect of supplier sourcing strategies on organizational performance in South Nyanza Sugar Company Limited, Migori County, Kenya. Consequently, you have been identified as a potential respondent for which you are kindly requested to complete the questionnaire and give any additional information you feel is crucial to the study. The information given is absolutely for academic purposes only, and shall be treated with the utmost confidentiality it deserves. Kindly respond to the best of your knowledge.

#### (a) General information: (Please (√) tick as appropriate)

1. Age of the respondent:

(a) 19 – 24 years

(b) 25 – 35 years

(c) 36 – 45 years

(d) 46 – 55 years

(e) More than 55 years

2. Gender (a) Male  (b) Female

3. How long have you worked in this organization?

(a) Less than one year

(b) 1 – 2 years

(c) 2 – 5 years

(d) More than 5 years

4. What is your academic qualification?

(a) O level certificate

(b) Diploma

(c) Degree

(d) Masters

**(b) SUPPLIER SOURCING STRATEGIES**

In your own opinion rate in a scale of 1-5 the level of implementation of the following supplier sourcing strategies in the Organization (1- not at all, 2-Low extent, 3- average extent, 4 great extent, 5- very great extent)

**i. EXTENT OF OPEN SOURCING IMPLEMENTATION**

	Very great extent <b>5</b>	Great extent <b>4</b>	Average extent <b>3</b>	Low extent <b>2</b>	No extent at all <b>1</b>
Involvement in open sourcing					
Product/service quality					
Lead time					
Price					
Employee morale					

**ii. EXTENT OF SINGLE SOURCING IMPLEMENTATION**

	Very great extent  <b>5</b>	Great extent  <b>4</b>	Average extent  <b>3</b>	Low extent  <b>2</b>	No extent at all  <b>1</b>
Involvement in single sourcing					
Product/service quality					
Lead time					
Price					
Employee morale					

**iii. EXTENT OF MULTIPLE SOURCING IMPLEMENTATION**

	Very great extent  <b>5</b>	Great extent  <b>4</b>	Average extent  <b>3</b>	Low extent  <b>2</b>	No extent at all  <b>1</b>
Involvement in multiple sourcing					
Product/service quality					
Lead time					
Price					
Employee morale					

**iv. EXTENT OF PARTERNERSHIP SOURCING IMPLEMENTATION**

	Very great extent  <b>5</b>	Great extent  <b>4</b>	Average extent  <b>3</b>	Low extent  <b>2</b>	No extent at all  <b>1</b>
Involvement in partnership sourcing					
Product/service quality					
Lead time					
Price					
Employee morale					

**v. EXTENT OF ORGANIZATIONAL PERFORMANCE**

	Very great extent  <b>5</b>	Great extent  <b>4</b>	Average extent  <b>3</b>	Low extent  <b>2</b>	No extent at all  <b>1</b>
Performance in Employee morale					
Performance in Lead time					
Performance in product /service quality					
Performance in price					

**THANK YOU FOR YOUR CO-OPERATION**