

**PURCHASER-SUPPLIER RELATIONSHIP AND THE PERFORMANCE
OF THE PURCHASING DEPARTMENT**

**CASE STUDY: KENAFRIC INDUSTRIES LTD (Ki) BASED IN
NAIROBI TOWN**

75%

*Good analysis and good
BY attempt to review and
analysis the
available literature*

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**A PROJECT PROPOSAL SUBMITTED TO THE SCHOOL OF BUSINESS AND
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DECLARATION

I hereby declare that this research project entitled “Purchaser-Supplier Relationship and the Performance of the Purchasing Department”, a case study of Kenafric Industries ltd (Ki)- Nairobi, Kenya is my original work carried out solely and has never been submitted in any academic institution for examination.

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This project report has been submitted for examination and marking with my approval as the research project supervisor.

Signature.......... Date.....26.04.07.....

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(Supervisor)

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DEDICATION

Foremost, I sincerely dedicate this project to God the Almighty who despite my heavy working schedules and demands of academic environment provided me with strength, courage and endurance to overcome the many obstacles that came along the way.

This project is dedicated to my Late Dad Mr. E Gathere and my Mum A Gathere who have always been my number one source of inspiration.

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DEFINITION OF CONCEPTS

The following were given operational meaning for the purpose of the study:-

- (i) Purchaser: This is the person who is in-charge of buying activities in the organizations.
- (ii) Purchasing Department: This refers to the section in the organization which is obligated to buy on behalf of all other sections or functions.
- (iii) Suppliers: This is the person or organization which provides the requirement of another organization through a proper contractual means.
- (iv) Purchaser-Supplier relationship: This is the strategy which calls for the partnering of the purchasing department of the buying organization and selling departments of the selling firm to have mutual understanding in their transactions.
- (v) Quality assurance: This is the technique of ensuring that the incoming materials are of the right performance characteristics.
- (vi) Lead time: This is the duration taken from the time need is realized to the time needed material reaches the buyer's storehouse.
- (vii) Specification: It refers to the determination of needs to ensure they are responsive to the intended use.
- (viii) Profit leverage: This is the ability of a department to contribute in the maximization of gains of the organization.

ABSTRACT

This study was set to determine the contribution of Purchaser-Supplier relationship to the effective performance of the Purchasing Department.

The Study looked specifically to the contribution of this relationship to requirement specification, profit leverage, quality assurance and better deliveries and lead time reduction.

The study used a survey approach in research design. Data was gathered using questionnaires. The questions were also used as interview questions where questionnaire was not applicable. The questionnaires were validated using results of the piloting and reliability calculation.

A number of section heads in the purchasing department from the organization were used as targeted population. These were from Kenafric Industries Ltd (ki).

The data was presented and analyzed using frequencies and percentages where the findings were analyzed immediately.

The following are some of the findings:-

1. It was found out that the organization, Kenafric Industries Ltd- Nairobi, Kenya had purchasing department which is placed in a strategic and tactical level. This enabled them in easy implementation of purchaser-supplier relationship.
2. It was also established that the organization use financial strength, past performance, equipment capacity, pricing system and management strength in selecting suppliers to contract with. This enabled them to select the best supplier.
3. It was also found out that the organization is using the following measurement in evaluating the supplier performance; quality performance, delivery performance, pricing policy and quantity performance. This enabled them to realize the contribution of purchaser-supplier relationship to those areas of purchasing functions.
4. The research established that purchaser-supplier relationship contributes to purchasing department performance through the following indicators: accurate specification of requirement, high quality of incoming raw materials, profit leverage through economical pricing and prompt deliveries and reduction of lead time.

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CHAPTER ONE

1.0 Introduction

This chapter gives the introduction to the topic of study and the background information on the case study. It also provides the statement of the problem and the significance/objectives of the study.

1.1 Background of the Study

The role and contribution of purchasing department has increased quite steadily over the *second half of twentieth century, with a dramatic upsurge in interest in the activities taking place in the last few years. (Bailey,1993).*

It is one of the most important departments in the business organizations purchasing is widely recognized as the most effective profit leverage area in an organization and is also one of the critical pathways to promote right quality material bought.

The work of purchasing department tends to become more strategic in emphasis, concentrating more on such activities as negotiating longer term relationship with the suppliers, supplier development and cost reduction. Most organizations have found it important not to concentrate in the administration activities, but to concentrate more in developing and establishing appropriate relationship with the major suppliers.

When two organizations are contracting, the nature of their relationship plays a major role in the ultimate value and customer satisfaction. This will be achieved since the supplier will tend to share the most important information which will be to the benefit of both organizations. For instance, the supplier will offer information about substitutes during specification and also deliver at the time of need.

According to Leeder and Fearon, (1993), purchasing is not only engaging in the exchange of money for goods and services, but also the management of the buyer-seller relationship. Therefore, the effectiveness of purchasing department is based on how well it can achieve its objectives and goals: right quality, right quantity, right place, right price and right time. The purchaser-supplier relationship is seen as one of the strategies that may lead to the achievement of the above objectives hence the need for the study.

1.2 Statement of the Problem

Purchaser-supplier relationship is seen as the major factor affecting the effectiveness of the purchasing department. The relationship will lead to the acquisition of the right quality of incoming materials and reduction in specification cost since the supplier will be involved in the design stage to render useful information concerning availability of materials and substitutes.

The relationship also helps in case of emergency demand or shortage of materials in the supply market since supplier will give positive and favorable responses to the buyer who he is closely related to.

Most organizations still operate in a win-loss or adversarial transactions with the suppliers denying them the benefits of reduction in cost of specification, profit leverage, high quality materials and prompt deliveries. Therefore it is important to study the contributions of purchaser-supplier relationship to the effectiveness of purchasing department performance.

1.3 Purpose of the Study

The basic purpose of this study was to determine how purchaser – supplier relationship contributes to performance of purchasing department.

The study specifically looked at the contribution of the purchaser-supplier relationship to the specification of requirement and the profit leverage in the purchasing department

The study also looked at the benefits gained by the purchasing department which have employed purchaser-supplier relationship.

The study further looked how purchaser-supplier relationship contributes to quality assurance of the incoming materials and the deliveries in the buyer's premises at the right time.

1.4 Objective of the Study

This study had the following objectives:

- To determine the contribution of purchaser-supplier relationship in requirement specification and quality of incoming materials.

- To evaluate how purchaser-supplier relationship contributes to better deliveries and reduction of lead time.
- To explore the benefits gained by the purchasing department as a result of the purchaser-supplier relationship and contribution to profit leverage.

1.5 Research Questions

The study considered the following research questions:

- (i) How does purchaser-supplier relationship contributes to proper and adequate specification of requirement?
- (ii) How does purchaser-supplier relationship contributes to profitability of the organization?
- (iii) How do purchaser-supplier relationships contributes to good quality of the incoming materials and delivery at the right time and place?
- (vi) What are the benefits gained by the purchasing departments which use purchaser-supplier relationship?

1.6 Scope

The following are the scope of the study:-

There was no attempt to study top level management and bottom level management, only the middle level management from Kenafric Industries (ki) was included in the study. It was felt that the study would be too wide by including them, making the researcher to spend a lot of time acquiring and collecting the data for the research development.

Only one organization was included for the research. This organization was Kenafric Industries ltd (ki). The research was only to be done in Nairobi town. This was because it was costly to acquire data from other towns in terms of transport and accommodations although the researcher has recommended further research in other towns.

1.7 Significance of the Study

The finding of the study may help serving managers in re-examining their performance in the purchasing and suppliers management.

The finding will also help the purchasing department personnel to realize the importance of involving the suppliers during the specification stage to avoid the unnecessary costs

arising due to poor forecasting of the needed materials, introduction of substitutes and avoidance of quality related costs such as inspections.

This study also realized the contribution of suppliers to the information which they will provide in product development in both the stages in the product life cycle and analysis. The study also help in implementing of such purchasing techniques such as *JUST-IN-TIME* and *MRP I & II* which need close relationship between the buyer and the seller.

The research is of great benefit to the researcher himself since it will make him to gain much skill in data collection, improve on research abilities that will be of great help in the future.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this section, related literatures were considered on the relationship between the purchasers and supplier. The aim was to determine how other authors have understood the relationship and even the importance according to their perspective of understanding. According to Jessop and Jones (1998), purchasing principles management 8th edition originally written by Bailey and Farmer, termed this relationship as partnership and they defined it as, a commitment by customers and suppliers regardless of their sizes, to a long term relationship based on clear mutually agreed objectives to strive for world class capacity and competitiveness.

According to Lysons and Gillingham (2003) Supplier relationship is inter alia defined as 'a connection or association'. Relationships apply when individuals, organizations and groups within an organization interact. Apart from the field of industrial sociology concerned with the study of group interaction within a workplace environment, the application of the study of relationships to business began with the concept of relationship marketing. As currently used, relationship marketing describes a long- term marketing strategy in which the emphasis is on building and maintaining long- term relationship with customers rather than on 'one sale at a time' approaches. On a business to- business level, relationship marketing applies to the management of a range of purchasing- supplier relationships in the context of a broader network of interconnected purchaser, supplier and competitor organizations.

Since purchasing is the mirror image of marketing, relationship purchasing aims to achieve strong, lasting relationships with suppliers with a view to securing mutual benefits, added value or competitive advantages for both parties.

They also summarized this relationship as to bring about a fundamental change in companies philosophy leading to the widespread knowledge, understanding and implementation of partnership sourcing. The following principal must be achieved. There must be top level management, openness and trust, involvement of all relevant

disciplines, flexibility, working together, total quality management, long term relationship and clear joint objectives.

Lyson (1989) in his book, purchasing handbook, referred purchaser-supplier relationship as supplier development. He pointed out that the aim of this relationship is to extend the resources of large company to small vendors who demonstrate willingness and capability to meet the buyers' requirement; such support may take several forms such as:

- (i) Financial support such as loans for purchase of equipment;
- (ii) Management such as advice on production control;
- (iii) Share facilities such as inspection equipment and
- (iv) Purchasing assistance such as placing the purchasing facilities of the buyer at the disposal of the supplier.

To him offering the above support to the supplier will lead to the benefit realized by both the organizations; buyer and the seller.

Partnership is also defined as collaborative relationship between a buyer and seller which recognizes some degree of interdependence and cooperation on a specific project for a specific purchasing agreement. (Burt and Dobbler), (1996). To them this relationship call for the sharing of forecasted demand and cost data, and must contain an element of trust and respect between the parties. They further concluded that this long term agreements encourage suppliers to invest research and development dollars in order to propose technologically current, cost effective, and high quality solutions to the buying firm's needs. Properly priced life-of-product agreements encourage suppliers to invest in the equipment, training and appropriate management systems required to be an efficient, low-cost producer. Hence the buyer will benefit from such an agreement in many ways: low total cost, a dependable source of supply and partner familiar with his or her needs.

To them, this partnership is a major departure from the more traditional and frequently quasi-adversarial relationships with suppliers. The buying firm must be open about its needs such as technology, quantity and schedules. The buyer must also agree to protect the supplier from changes which might leave the supplier with unusable raw materials or finished goods.

On page 221 of the book, the author quoted an example of Ford Motor Company how they have invested on better tools, and equipment, better methods and more training than

under the previous short-term adversarial relationships. As a result, high quality, cost reduction and flexibility leading to timely deliveries have increased the profitability drastically at the Ford Motor Company.

According to Bailey, (1982), Purchasing and Supply management, quoted Brehmann (1970) who found that manufacturers in Australia have demanded of their qualities; they have insisted on prompt deliveries and have helped reduce delays; they have helped in the construction of the supplier's plants and equipment layout.

He further quoted Mark and Spencer Company as does invest very substantially in their suppliers in terms of technical support, management advice and through educational process operation. This long term relationship have led to high quality raw materials, prompt deliveries and increased profitability.

According to Lysons and Gillingham (2003) Supplier relationship is *inter alia* defined as 'a connection or association'. Relationships apply when individuals, organizations and groups within an organization interact. Apart from the field of industrial sociology concerned with the study of group interaction within a workplace environment, the application of the study of relationships to business began with the concept of relationship marketing. As currently used, relationship marketing describes a long- term marketing strategy in which the emphasis is on building and maintaining long- term relationship with customers rather than on 'one sale at a time' approaches. On a business to- business level, relationship marketing applies to the management of a range of purchasing- supplier relationships in the context of a broader network of interconnected purchaser, supplier and competitor organizations.

Since purchasing is the mirror image of marketing, relationship purchasing aims to achieve strong, lasting relationships with suppliers with a view to securing mutual benefits, added value or competitive advantages for both parties hence the organization will realize its profitability target.

2.1 Relationship Formation

The process of relationship formation is well described by Holmlund as analyses interaction between two or more firms as taking place at five aggregation levels: actions, episodes, sequence, relationship and partner base. At each level, interactions comprise

processors and outcomes, i.e. what is done and the consequences of what is done. Thus interactions at lower level are able to affect interactions at higher level in the relationship, and vice versa. By focusing on either the process or the outcome, a different perspective on a particular relationship can be obtained.

- *Actions* are ‘individual by focal firms’ such as a telephone call or a supplier visit and may relate to products, information, money or social contracts.
- *Episodes* are groups of interrelated actions such as a negotiation or shipping process comprising a number of actions.
- *Sequence* is larger and more extensive entities of interactions, e.g. a contract, product campaign or project. Holmlund further points out that:

-a sequence may also be related to the presence of a significant human actor in either of the organizations.

-the completion of sequence is a vulnerable time in which the relationship is evaluated by both parties and, possibly leads to the termination of the relationship.

- *Relationships* comprise all the sequence which in turn comprise all the related episodes and actions involved in one particular relationship between two firms.
- *The partner base* refers to the relationship portfolio of a particular firm.

2.2 Forms of Supplier Relationship

According to Monczka (etal), 2002, the traditional approach to purchaser- supplier relationships, which dates back to the 1920s for most industries, relies on using multiple suppliers for most purchased items. A purchaser might take three bids then play one supplier against another to get the lowest price. This approach also feature the use of short- term contracts where purchasers are unwilling to commit to a supplier over an extended period of time. This approach, while sometimes encouraging competition between suppliers, provides little incentive for a supplier to invest in longer-term productivity or quality improvements. Short-term contracts encourage profit maximization as quickly as possible. Minimal commitment and trust exists between purchaser and supplier, which further limits joint innovation and performance improvement.

Supplier relationships may be classified in several ways, such as competitive/collaborative, adversarial/allied, tactical /strategic, short/long. Bensaou, in a study of 11 Japanese and 3 US automobile manufacturers suggests four purchaser-supplier relationship profiles:

- Market exchange
- Captive buyer
- Captive supplier
- Strategic partnership

For each profile he identifies distinguishing product, market and supplier characteristics.

Bensaou also states three management variables for each category, namely:

- ❖ Information-sharing practices
- ❖ Characteristics of 'boundary spanner's jobs'
- ❖ The social climate within the particular relationship.

Finally, he suggests that the four profiles can be arranged in a matrix to indicate whether buyer and supplier tangible and intangible investments in the relationship are high or low. Tangible investments in this context are buildings, tooling and equipment. Intangible investments are people, time and effort spent in learning supplier-purchaser business practices and procedures and information sharing.

The Industrial Marketing and Purchasing Group (IMP) formed in 1970s by researchers from the Universities of Uppsala, Bath, ESC Lyon and Ludwig Maximilians University (Munich) and now considerably extended, developed a dynamic interaction model of buyer supplier relationships in industrial markets. The basic approach of the IMP group is that in industrial markets buying and selling cannot be understood as a series of disembodied and serially independent transactions but rather as a series of episodes in frequently long-standing, complex relationships between suppliers and purchasers which when studied over a long period are dynamic rather than stable. In the IMP model the marketing and purchasing of industrial goods is seen as an interaction process between two parties within a specific environment. The model analyses industrial marketing and purchasing under the four basic elements each of which are subdivided.

2.2.1 *Interaction process*

This involves the analysis of two factors: episodes and relationships. An *episode*, as stated earlier, is a group of inter-related actions involved in a process such as placing an order. In an industrial market relationship episodes involve the exchange of products or suppliers and purchasers. Episodes, especially social exchange episodes, are critical in the establishment of longer-term supplier-purchaser relationships. The building of relationships may involve adaptation to products' financial arrangements, information routines or social relations on the part of either party. The exchange of information or communication may also involve contacts patterns between persons filling different roles or functions. Over a period of time the exchange of products or services, money information and social relations leads to clear expectations in both parties in the roles and relationships of their opposite numbers which eventually become institutionalized so that they are unquestioned by either party.

2.2.2 *Interacting parties*

In addition to episodes and relationships the process of inter-organizational interaction will be influenced by the characteristic of both the organization themselves and the person who represent them. Organizational factor include the position of an undertaking in the market as manufacturer, wholesaler etc. the product of the selling company, the production and the application of the two parties and their respective relative expertise. Individual factor are the persons, e.g. salesperson and the buyer or group of individuals (e.g. representatives of design, selling, transport etc.), involved in inter-organizational interactions. The exchange of information and relationships lead to the creation of social bonds between the individual concerned which, in turn, influence the decision of each enterprise involved in the business relationship. The varied personalities, experience, expertise and motivations of the individual representing each enterprise will result in varied ways in dealing with episodes, which will, in turn affect the development of a long term inter-organization relationships. Individual experience may also result in preconceptions concerning customers or suppliers which affect attitudes on the part of those affected. The experie

ce gained in individual episodes aggregates to a total experience. The experience of a single episode e.g. incivility or delayed delivery on the part of the supplier or slow payment by a buyer can radically change attitude which may then persist over a long period.

2.2.3 *Interaction environment*

Inter-organization interaction takes place in an environmental context that includes the market structure, the degree of dynamics within the market and relationship, internationalism, the position of the relationship in the supply chain and the wider social system.

2.2.4 *Interaction` atmosphere*

This relates to the power dependence which exists between supplies and purchasers and such relationship variables as conflict, cooperation, closeness or distance and also the mutual expectations of the respective parties. This closer interaction between suppliers and purchasers will result in reduced cost or higher profits for one or both organizations. Another aspect of atmosphere is the ability of either party to control the other which derives from the perception of the power exercised by the other party in the relationship. The IMP interaction model can be conceptualized as shown below:

- The short- and long-term aspects of the ‘interaction process’ between supplier and purchasing organization. Short-term ‘exchange episodes’ involves products or services, information, money and social exchange. Longer term processes are those of ‘adaptation’ and ‘institutionalization’.
- The two circles (A and B) indicate that both the short- and long-term aspects of the interaction are influenced by the characteristics of the respective organizations and the individuals involved.
- Additionally, interaction takes place within an ‘environment’ consisting of the vertical and horizontal market structure and general social influences.

- Finally as inter-organizational relationships develop so their perceptions of their relative power and the resultant ‘atmosphere’ of cooperation/conflict or cooperation/dependence will change.

The extent to which the model below shows that the party taking the initiative in trying to set up a partnership is implemented partly in the hands of the other party. Steps to promote and develop the relationship, together with the negotiation approaches employed, need to be adapted to the responses of the other party which will lead to the realization of their profitability.

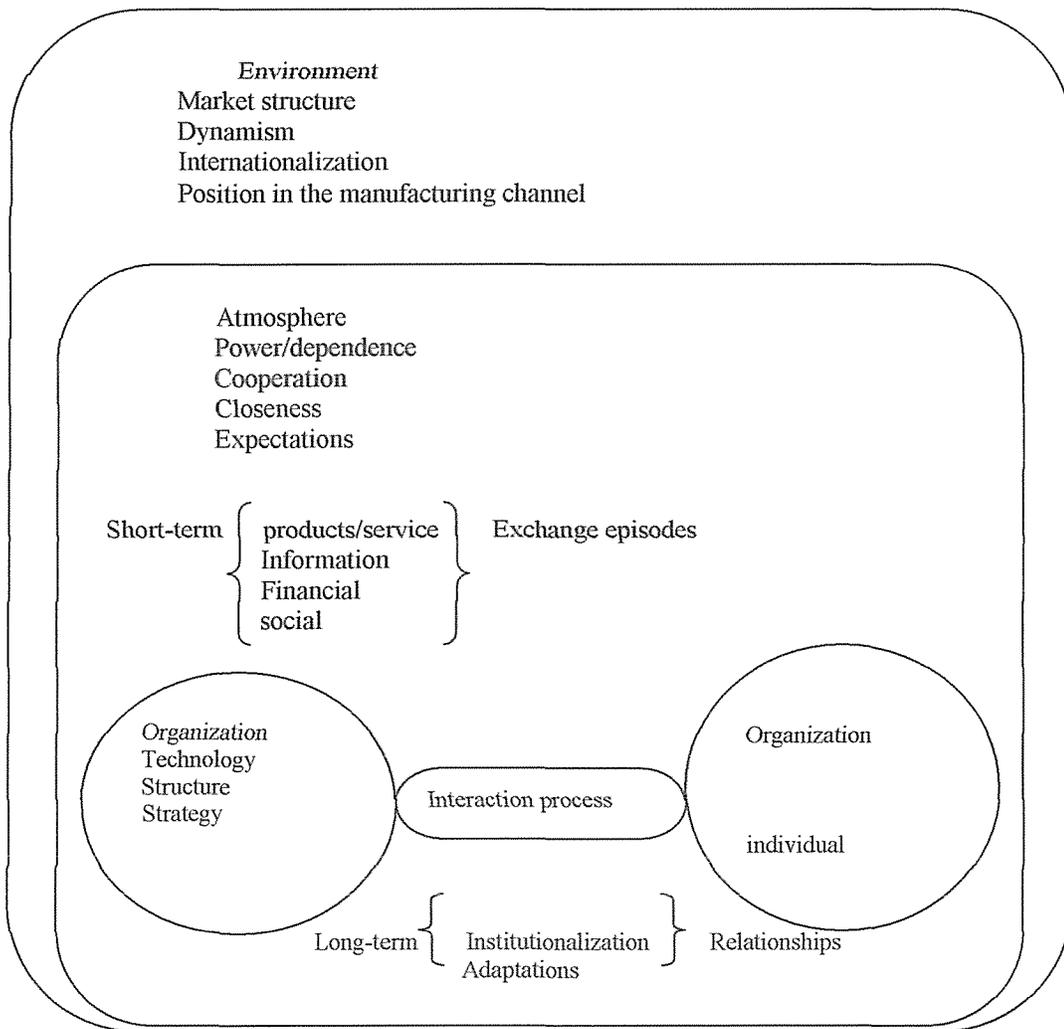


Figure I. Interaction model

The importance of the interaction model is that it can provide both marketing and purchasing practitioner with the ability to identify and solve problems, which might otherwise be neglected.

From the purchasing perspective, the key problems are the development of an appropriate supplier structure and the efficient management of supplier-purchaser relationships. Suppliers, for example, may be regarded as an external resource complementing the resources of the purchasing organization in such ways as designing and producing a special product or supplying a standardized product at a low cost.

2.3 An alternative classification of purchasing relationship

The model below shows different types of relationship that an organization can adapt when taking into consideration long term and short term relationship.

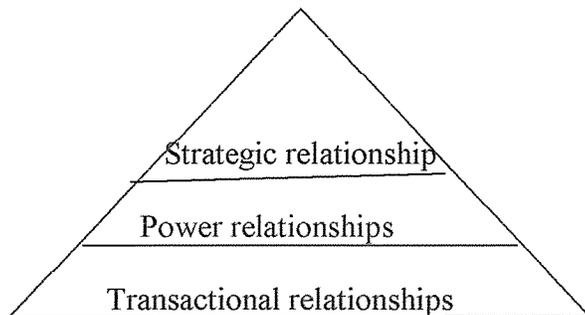


Figure II. A pyramid of purchaser supplier relationship

2.3.1 Transactional relationships

Transactional relationship has been defined as:

A straight forward relationship between buyer and seller whereby the two parties do not get closely involved with each other, but simply exchange goods or services for payment.

Transactional relationship may be one-off or continuing transactions.

- *One-off transactions* are for a particular item for a particular purpose which is not, at least in the foreseeable future, expected to be repeated, e.g. purchase of an item of second hand capital equipment. It is not always the case that long term relationships are profitable.
- *Continuing transactions* are similar to Bensaou's 'market exchange' category. Purchasers who are satisfied with the products and services of a given supplier

may continue to use that source so that a strong informal relationship develops that enhances both supplier and purchaser goodwill. Goodwill was defined by Lord Eldon as the probability that the old customers will resort to the old place. A regular purchaser can build up supplier goodwill which may result in the latter making special efforts to meet the requirements of the former, particularly in critical circumstances.

2.3.2 Power relationships

Power relationships are those which give one party a bargaining advantage over the other. Power relationships can derive from such factors as size, volume of business, environmental conditions (e.g. buyers' or sellers' market) and the possession by one party of some asset not available to the other. Bensaou's captive buyer and captive supplier relationship fall into this category.

2.3.4 Strategic relationships

Strategic relationships in the present context may be non-partnership, partnership and supra-partnership.

- *Non-partnership strategic relationships* are those derived from long term decisions based expediency rather than a desire to enter into a closer associations. Examples include reciprocal training, some global purchasing, and buying from local suppliers purely for logistical considerations.
- *Partnerships relationships* are those in which two or more organizations link together on a regular basis to share knowledge and experience in an open and corporative manner.
- *Supra-partnerships* are those in which there is more than a sharing of knowledge and experience. Such partnerships extend the concept of collaboration to mutual investment and risk taking.

2.4 Co-destiny and co-maker ship

Co-destiny is where: the future of all the participating organizations depend to a greater or lesser on the success of a partnership relationship in which each organization has made

an investment. Co-maker ship may be defined as close corporation between buyer and seller relationships in respect o product development manufacture or supply.

2.5 Factors in co-destiny and co-maker ship

According to Lysons and Gillingham (2003) described some of the most important factors that can be summarized as the six T's namely: top management vision, trust, transparency, technology utilization, teams and training.

2.5.1 Top management vision

Top management vision plays a critical role in creating the climate in which the concept of co-destiny and co-makership are understood and implemented. Often this involved from competitive to collaborative altitude and cultures.

2.5.2 Trust

Trust has been defined as stake holder expectations of how a business will behave in the future. Such expectations generally derive from stake holders' experience of an organization and, in new relationships, will develop overtime. Since the future uncertain, trust implies that both parties will:

- a) keep their commitments
- b) resort to neither exploitation nor cohesion
- c) communicate openly and in a timely manner

Trust requires that partners perceive each other to be trust worthy with regard to character, motives, competence and judgment.

2.5.3 Transparency

Transparency implies 'accessibility of information, responsiveness, realistic time scale for consultation and freedom from built-in buyers', and is both an aim and a consequence of information sharing. The information shared may be strategic or tactical and vary from information about logistical activities to that concerning customers and general market conditions. While operational partners such as manufacturers and retailers may share only

information regarding stocks and product requirements, strategic partners will also share design, cost and market knowledge. Open book costing and cost transparency considered below are important aspects of information sharing.

2.5.4 Technology utilization

According to Lysons and Gillingham, (2003), he points out that strategic partnership success is often based on improving supply chain performance through IT applications such as EDI, bar coding, scanning, advance shipment notices and sales forecasting. It may also lead to a greater reliance on time-based strategies along with more transparent logistics, organizational structures and an increased emphasis on performance measurement.

Technology utilization may also extend to shared production technology where one partner is better equipped to manufacture components for final assembly. Thus, as stated earlier, the relationship between the final assembler and a first-tier supplier may become more akin to a strategic joint venture than to a purchasing link, especially where the assembler requires first-tier suppliers to integrate diverse technologies not possessed by one organization.

2.5.5 Teams

Strategic decisions in co-destiny or co-ownership relationships will almost always require a team approach since one organization is so dependent on the partnership that it cannot consider developing strategy without the other. Co-destiny and co-ownership will therefore require each partner to participate in inter-firm strategic teams.

2.5.6 Training

Joint inter-firm internal training, possibly through supplier associations, will normally be required in order to develop an understanding by both parties of strategic and tactical issues relating to co-destiny and co-ownership relationships.

2.6 Advantages of Closer Buyer-Seller Relationships

A firm can gain many advantages by pursuing closer relationships with suppliers. The first is the development of mutual trust, which is the foundation of all strong relationships. While seemingly intangible, trust refers to the belief in the character, ability, strength, or truth of another party. Trust makes it possible, for example, for the seller to share cost data with a buyer, which result in a joint effort to reduce a supplier's cost through a mutual sharing of ideas. Trust can also result in a supplier working with a purchaser early in the design of a new product.

Another advantage of closer buyer-seller relationships is the opportunity to evaluate which supplier should receive longer-term contracts. A long-term contract provides an incentive for a supplier to invest in new plants and equipments. This investment can make a supplier more efficient and result in lower costs to the purchaser. Longer term contracts can also lead to the joint development of technology, risk sharing, and supplier capabilities.

The following example provided by a purchasing manager from Honey-well Micro switch, who described the advantages of working closely with suppliers:

“Customers came to us with a product quality problem, and eventually we traced it back to the supplier. We had problems with the supplier’s product, and we identified as occurring because their process had shifted. Initially, we went to the process quality assurance with the problem, and confronted them. At first, the supplier refused to believe that it was their fault, and claimed that we were not using the material correctly. Our group leader for the product team found it difficult to coordinate with the supplier, and therefore requested an in-house person from their facility to work with us. The problem was resolved through many teleconferences, meeting at their facility, checking their processes, supplier teams coming to our plant, and many exchanges on specifications via e-mail, fax etc. They identified the problem in their process, and since then they are performing very well. Their was clearly a learning phase in transitioning form a traditional relationship, but resolving this problem clearly showed how to strengthen together our relationship.”

2.7 Relying On Buyer-Supplier Relationship for Supply Chain Improvement

Professional purchasers are starting to focus their cost-cutting and quality improvement goals with suppliers past their first tier. Reaching second- and third- tier suppliers are a challenging issue that requires a higher level of trust with suppliers throughout a firm's supply chain. Increasingly, purchasers are looking to first tier suppliers to exert leadership further down the supply chain. Often, manufacturers expect first tier suppliers to provide highly engineered systems that interact with other systems in a final product. Faster product development is a major goal as suppliers provide design engineering and prototypes earlier in the product development process. First tier suppliers become more dependent on their supply base as they assume these new responsibilities.

2.8 Obstacles to Closer Buyer- Seller Relationships

A number of obstacles can prevent the development of closer relationships between a purchaser and a seller. A firm must evaluate whether these obstacles are present and identify ways to overcome them if the goal is to pursue closer interfirm cooperation.

2.8.1 Confidentiality: The need for confidentiality regarding financial, product, and process information is the most frequently cited reason for not developing closer purchaser-supplier relationships. Confidentiality is a concern for at least three reasons. Purchasing managers are sometimes reluctant to share critical information with suppliers who may also sell to competitors. There is also the possibility that supplier is a direct competitor, or may become one in the future. Finally, a purchaser and a seller may simply not trust one another. Each party may believe it has more to lose than to gain by providing or sharing information.

2.8.2 Limited Interest by Suppliers: closer interests may not interest all suppliers. A supplier may have some leverage or power in some relationships, particularly when they are in a monopolistic or oligopolistic industry position. In such cases the purchaser may be unable to pursue a closer relationship simply because of the relative size or power position of the two firms. Consider, for example, a small manufacturer of molded plastic injected parts who purchases specialty in chemicals from Dow Chemical or Dow

Chemical or DuPont. The purchaser is not the predominant party in this relationship, and the supplier may simply not see advantages in a closer relationship. The type of relationship pursued can be a function of what the supplier wants it to be. The buyer may offer too few dollars to even be of interest to the supplier.

2.8.3 Legal Barriers: In some industries, legal anti trust concerns may act as a barrier or obstacle to closer purchaser-supplier relationship.

2.8.4 Traditional approach to Managing Supplier: Entire generations of purchasing professionals grew up using an arm's-length approach. A shift toward a more trusting approach is not easy. Resistance to change is powerful force that takes time, patience, and training to overcome. One purchasing executive at a high-tech firm commented, "We can't simply wipe out an entire generation of buyers; they'll need to be retrained. If we have grown up maintaining an arm's-length relationship with suppliers, well, that time is gone; one could say that it [the arm's-length approach] didn't make much of performance difference in the past." Also, firms that practice traditional supply chain management may not have the skills or knowledge in their work force to evolve to closer supplier relationship.

2.8.5 Avoidance of Suppliers who are not Technology or Product Leaders: A purchaser should avoid those who are not capable of providing technology or product leadership. It makes little sense to pursue longer-term involvement if a supplier is not capable (currently or in the near future) of meeting performance requirements, especially in high-tech industries where product life cycles are very short. The choice of a supplier who cannot follow through on technology promises can effectively cause a purchaser to be completely "locked out" of a potential market opportunity. The movement toward closer interfirm relationships has been gradual and difficult. Purchasing must develop new supplier management techniques and work with suppliers who are capable of world-class performance improvement is more likely through a collaborative rather than a traditional, arm's-length approach to supplier management.

2.9 Collaborative Buyer-Seller Relationship

Most purchasers and sellers now recognize a need for joint cooperation to achieve cost, quality, delivery, and time improvements. During the 1980s, progressive purchasers eliminated poor or marginal suppliers from their supply base. They then developed collaborative relationships or alliances with many of the remaining suppliers.

Collaboration is defined as the process by which two or more parties adopt a high level of purposeful cooperation to maintain a trading relationship over time. The relationship is bilateral; both parties have the power to shape its nature and future direction over time. Mutual commitment to the future and a balanced power relationship are essential to the process. While collaborative relationships are not devoid of conflict, they include mechanisms for managing conflict built into the relationship.

The following characteristics define a collaborative buyer-seller relationship:

- One or a limited number of suppliers for each purchased item or family of items: remaining suppliers often provide material under long term contracts with agreed upon performance improvement targets.
- A win-win approach to reward sharing
- Joint efforts to improve supplier performance across all critical performance areas.
- Joint efforts to solve disputes.
- Open exchange of information: This includes information about new products, supplier cost data, and production schedules and forecasts for purchased items.
- A credible commitment to work together during difficult times: In other words, a purchaser does not return to old practices at the first sign of trouble.
- A commitment to quality, defect-free products having design specifications that are manufacturable and that the supplier's process is capable of producing.

2.9.1 Factors That Make a Difference in Strengthening the Purchaser-Supplier Partnership

According to Judi Brownell and Dennis Reynolds found that trust and communication are key elements in developing a strong partnership between purchasers and suppliers.

Partnerships have come to be viewed as a competitive advantage for purchasers who are

looking for long-term economic success. Purchasers have to agreed that the most essential characteristic for establishing a strong relationship is trust. Trusted suppliers were described as communicating effectively, listening well, and demonstrating a willingness to work collaboratively to anticipate and solve problems. Also important to purchasers is the supplier's willingness to help solve the purchaser's problems in a timely and proactive manner. Communication is another important factor. Suppliers who communicate clearly and directly, and who listen well, are judged to be more effective than their peers. One intriguing finding is that a personal connection with the supplier's representative remains an important element of the purchaser-supplier relationship despite the increasing use of electronic communications of all kinds. Due to the importance of these personal relationships, turnover in supplier representatives continues to be one of the most troublesome challenges that purchasers face in cementing partnerships. When purchasers respond to an open-ended question asking them to *consider the attributes that make for a good supplier, they describe someone whom they could trust and someone who demonstrates business acumen by providing excellent service*-a factor purchasers judged to be more important than product price or brand. According to them, purchasers, will likely be dealing with reduced budgets and will need to carefully control costs. Turnover will also remain a key concern. In a time of constant change and increasing globalization, most purchasers expect that they will make increasing use of available communications technology. In spite of this transition, personal interaction will continue to be essential to building the strong partnerships that will define successful business practice in the decades ahead. In this regard, there is no doubt that suppliers' personal characteristics will influence the effectiveness of the purchaser-supplier relationship.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The researcher employed survey and evaluate methods so as to allow for supplier evaluation areas and methods carried out by the purchasing unit identified for this research. For this research to be effective research design, data collection and analysis was used to arrange the information in such a way that it enabled the researcher to come up with the reliable recommendations and conclusions. The following were the methodology employed starting with the research design, study population, sampling design, research instruments and data analysis.

3.1 Design of the Study

The research design was selected from various research designs after considering the type and nature of the study, the source list, the sampling frame and designed standards of accuracy.

The importance generated by the need for purchaser-supplier relationship and its effect in purchasing performance in an organization was greatly influenced by the area of study. Hence the choice of the study area was based on organizations having a purchaser-supplier relationship program in its purchasing department and the general importance to improving the department's performance.

The research therefore sought to determine the implementation of purchaser-supplier relationship in the purchasing department.

3.2 The Study Population

The study mainly focused on the staff of the Kenafric Industries ltd (ki). It included both managers of this organization, procurement department heads and other sub-ordinate staff of the organization. The organization was selected because of its convenience in accessibility, the financial resources available to the researcher and the researcher's familiarity to the organization.

The targeted population consisted of mainly the employees of the organization. The primary respondents for this research included the managers, procurement department heads and sub ordinates staff of the organization.

3.3 Sampling Design

A stratified random sampling technique was used in picking the employees on which the data was collected. The population was stratified into a number of strata and the sample of employees was selected from each stratum. Simple random sampling technique was used in selecting the employees to constitute the sample from each stratum. All the sampled employees were contacted personally to obtain answers.

3.4 Types of Data

The researcher used two types of data in the study. The primary data and secondary data. The primary data was obtained by the use of interviews, questionnaires and observation of the respondent.

The secondary involved the analysis of various related documents and reports in order to obtain the information and other supplier evaluation data that was necessary for the production of this research report. The documents included reports from procurement heads, current and previous departmental reports and the organizational regulations.

3.5 Data collection techniques

Both primary and secondary techniques were used. The primary techniques like questionnaires, interviews and observation were employed.

3.5.1 Methods used to collect data

a. Questionnaire technique

Data was collected by the use of structured questionnaires designed by the researcher. The questionnaires were sent to the department heads, their staff and other sub-ordinate staff. This technique was used because all the respondents were literate. The major advantage of this method includes; free from biased information and enough time for the respondent to consider his/her points carefully rather in an interview.

b. Interviewing method

Personal interviews were conducted by the researcher as a follow up of the questionnaires so that the interviewee could be aided in the areas of difficulty and seek an in depth discussion and explanation on matters missed on the questionnaires. The method had an advantage of immediate response, room for clarification and in depth information and collection of other complementary data.

c. Non participant observation method

Observation focused on both practical and detailed aspect of the normal carried out in the purchasing area. The advantage of this method is that it protects the confidentiality of information and better recommendations based on personal observation.

d. pilot survey

The main research instrument was a questionnaire. A pilot survey was conducted to ensure that the questions are easily understood by the respondents.

3.6 Data Analysis

Once the data was collected, it was analyzed by the researcher both qualitatively and quantitatively. The analysis involved the determination of the purchaser-supplier relationships in the organization. The data obtained was analyzed under the stated research design so as to answer the questions with the collected data. It's from this analysis and observation that the researcher came up with a comprehensive conclusion and recommendations on the effectiveness of the supplier evaluation on increasing purchasing performance.

3.7 Limitations of the Study

The researcher was faced with the following limitations in the process of this research:

Time allocated to carry out this research by the institution was not sufficient for the researcher to carry out extensive investigation in all departments of the organization.

Financial constraints due to inadequate resources to finance the research, however this remains confidential to the researcher.

The researcher was restricted on the side of collecting information which only covered Nairobi town and thus not far from the town.

The researcher was denied access to important organizational information due to confidentiality reasons.

CHAPTER FOUR

RESEARCH FINDING AND ANALYSIS

4.0 Introduction

This chapter presents the findings analysis and interpretation of data concerning the purchaser-supplier relationship and the purchasing department performance.

The findings of the investigation were reported in four sections. Section A presented the position of purchasing department in an organization to enable it formulate purchaser-supplier relationship. It shows the extent to which the performance of purchasing department in relation to purchaser-supplier relationship can be influenced by its position in the organization structure.

Part B of the finding was to assess the nature and manner in which the suppliers selected affected the contribution of purchaser-supplier relationship in the specification, profit leverage, quality assurance and deliveries.

Part C of the findings was to assess the existing of purchaser-supplier relationship and the way suppliers are chosen while part D of the findings was to find out how the purchaser-supplier relationship has affected the performance of purchasing department. Here the personnel opinions and responses were received concerning the purchaser-supplier relationship. In this section, both merit and demerits of purchaser-supplier relationship were exposed.

The data used were collected from one organization and thirty four respondents were given the questionnaires with twenty five of them fully completed the questionnaires. This presented the questionnaires return rate of 83.3333%.

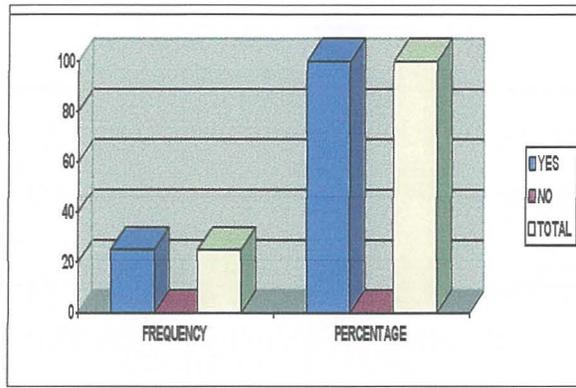
4.1 SECTION A

Data analyzed in this section was obtained from the section heads who were requested to give information concerning the position of the purchasing department. Frequencies and percentages were used to describe the findings.

Table 4.1.1: Existence of Purchasing Department and the Purchasing Department and the Purchasing Function

RESPONSES	FREQUENCY	PERCENTAGE
YES	25	100
NO	0	0
TOTAL	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

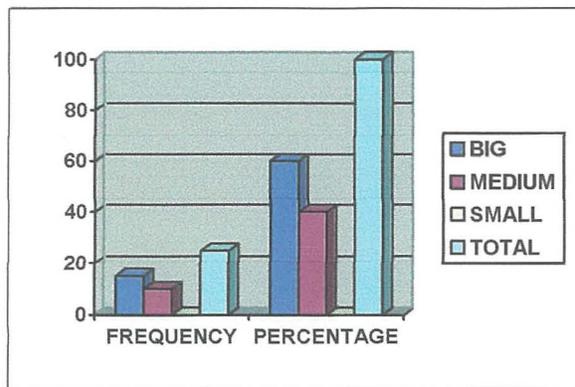
Graph 4.1.1: Showing the Existence of Purchasing Department and the Purchasing Department and the Purchasing Function

The finding revealed that the organization studied had Purchasing Department. This shows a frequency of 100% occurrence. This is likely to have enabled the organizations to realize the importance of allowing the purchasing department to implement having close relationship with their suppliers. This has enabled them to perform effectively since the department is assumed to be in a position to realize all the strategic areas to pursue to ensure that they succeed.

Table 4.1.2: The Size of Purchasing Department In Relation To Its Performance

(Source: Data Survey 2007)

SIZE	FREQUENCY	PERCENTAGE
BIG	15	60
MEDIUM	10	40
SMALL	0	0
TOTAL	25	100



(Source: Data Analysis 2007)

Graph 4.1.2: Showing the Size of Purchasing Department in Relation to Its Performance

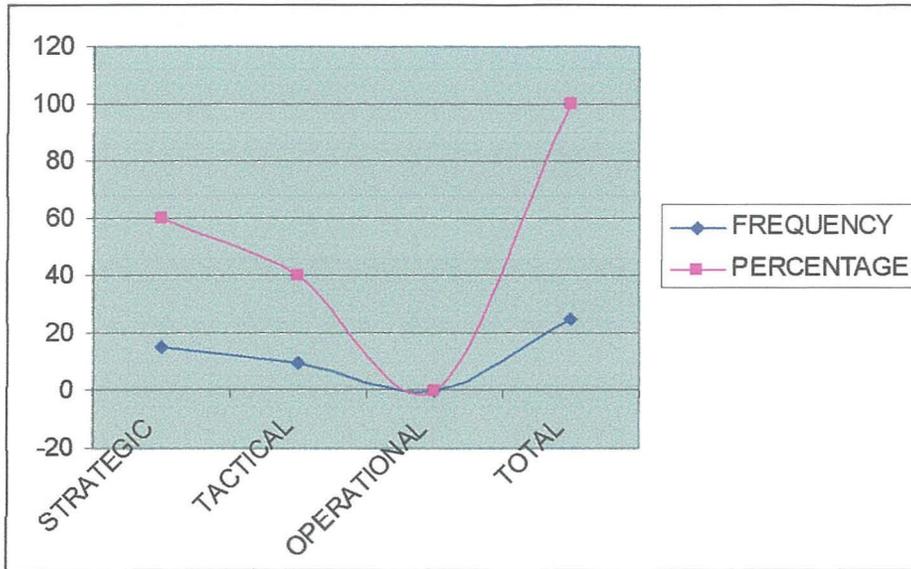
The above graph shows the relationship of the purchasing performance and the size. It reveals that 15 (60%) of the respondents said that they have a big purchasing department while 10 (40%) respondents said they have medium size purchasing department.

The above result revealed that the organization represented by 60% response is likely to be in a position to formulate and implement purchaser-supplier relationship since they are operating in a large scale allowing them to be keener on the strategies that may lead to effective performance. On the other hand, 40% response revealed that the organization represented the response is likely to have low possibility to enact and implement purchaser-supplier relationship.

Table 4.1.3: The Position Of Purchasing Department In The Organization Structure

POSITION	FREQUENCY	PERCENTAGE
STRATEGIC	15	60
TACTICAL	10	40
OPERATIONAL	0	0
TOTAL	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.1.3: Showing the Position of Purchasing Department in the Organization Structure

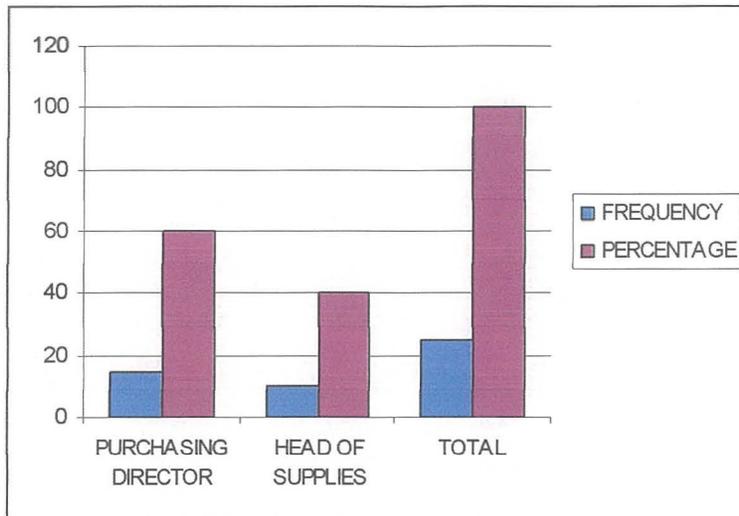
Graph 4.1.3 that shows that 15 (60%) respondents revealed that they operated in a strategic level in the organization structure while 10 (40%) respondents noted that they operated in a tactical level in the organization structure. None was found to be operating in an operational level in the organization structure.

The result revealed the position of the possibility of organization represented by 60% response to formulate and implement purchaser-supplier relationship since they are operating in a long term planning system where it is possible for them to realize the effects of purchaser-supplier relationship to the achievement of purchasing department objectives. These will enhance the performance in terms of quality assurance, accurate and less costly specification, profitability and timely deliveries of requirements.

Table 4.1.4: The Title of the Head of Purchasing Department

POSITION	FREQUENCY	PERCENTAGE
PURCHASING DIRECTOR	15	60
HEAD OF SUPPLIES	10	40
TOTAL	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.1.4: Showing the Title of the Head of Purchasing Department

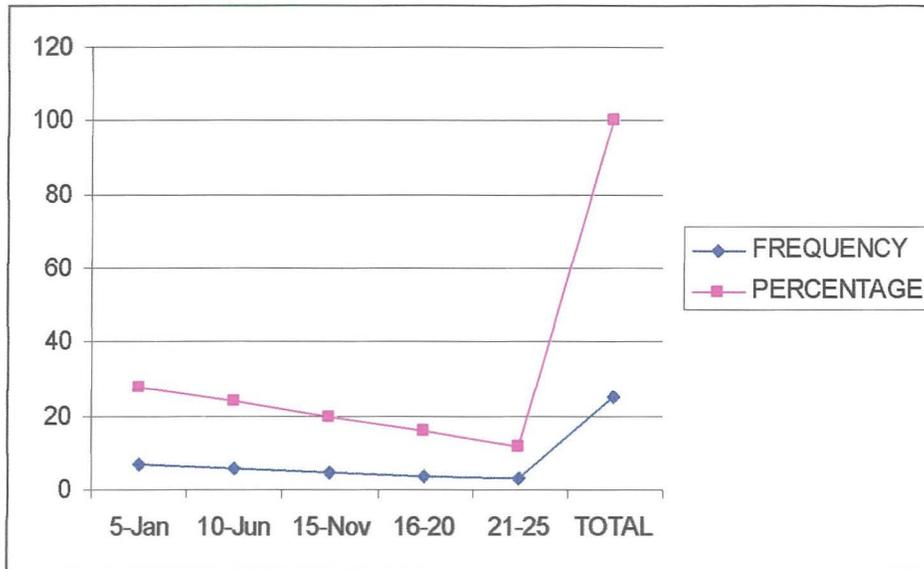
In the above graph it is revealed that 15 (60%) of the respondents have the head of purchasing departments with a title of purchasing director while 10 (40%) of the respondents revealed that they have purchasing head with a title of head of supplies. This is just a section head under another function such as accounts.

From the above result, it was found out that when the department is headed by a person with authoritative position, the department will likely to be in a position to implement and realize the benefits of purchaser-supplier relationship which will boost the organizational performance. The other shows that the purchasing officer is only given a minor position which can not enabled he/her to implement effectively the relationship to realize its effects to the performance of the department.

Table 4.1.5: Number of Suppliers and the Departments Performance

NUMBER OF SUPPLIERS	FREQUENCY	PERCENTAGE
1-5	7	28
6-10	6	24
11-15	5	20
16-20	4	16
21-25	3	12
TOTAL	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

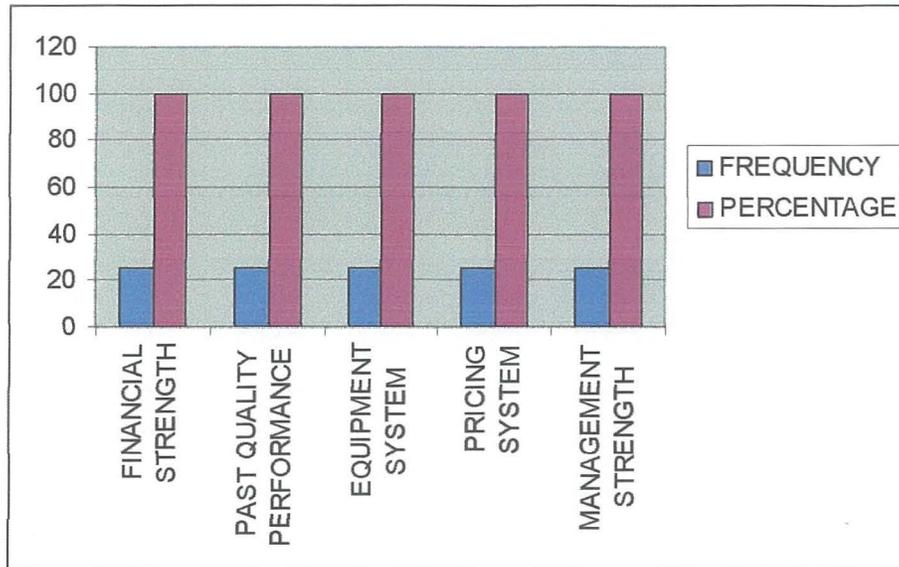
Graph 4.1.5: showing the Number of Suppliers and the Departments Performance

In the above graph it was found that there is a sequence of responses towards the number of suppliers a section of purchasing department may maintain. It was found that 7 (28%) respondents were for the 1 – 15 suppliers while the other end 3 (12%) respondents were for 21-25 suppliers. This shows that having close relationship with the suppliers may have led to reduction of suppliers from many to few. If there are few suppliers, the department will benefit from having reduction of time and cost during the specification time. The quality of the requirements is also likely to be high since the suppliers will be customer conscious in the production line to try their best to maintain the customer in their business.

Table 4.1.6: Criteria Used In Supplier Selection and the Performance of the Purchasing Department

	FREQUENCY	PERCENTAGE
FINANCIAL STRENGTH	25	100
PAST QUALITY PERFORMANCE	25	100
EQUIPMENT SYSTEM	25	100
PRICING SYSTEM	25	100
MANAGEMENT STRENGTH	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.1.6: showing the Criteria Used in Supplier Selection and the Performance of the Purchasing Department

From the above table it was realized that all the respondents opted for the criteria of checking the financial strength of the supplier, past quality performance, equipment and facilities capability, pricing system and management strength. The argument was because these are the purchasing department strategies which determine the compatibility of the supplier. These factors have helped in the selection of a supplier who is able to operate in a long term relationship transaction hence enhancing the enactment and implementation of purchaser-supplier relationship.

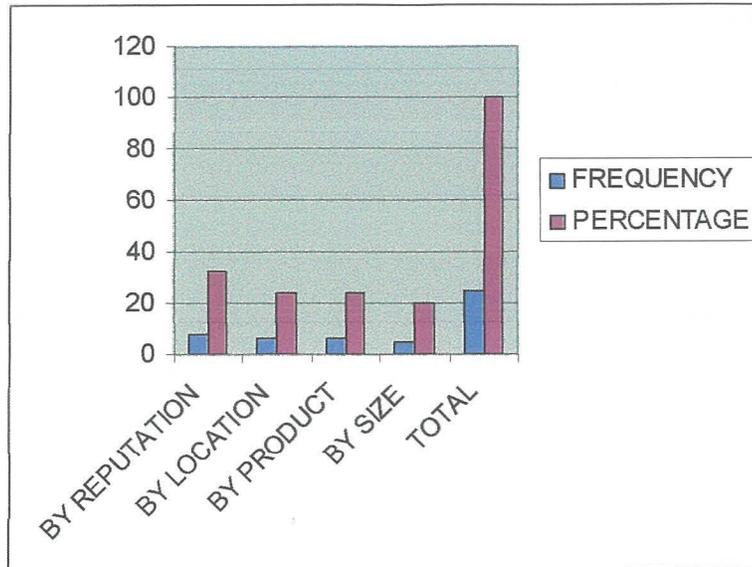
4.2

SECTION B

Table 4.2.1 Supplier Grouping Criteria

CRITERIA	FREQUENCY	PERCENTAGE
BY REPUTATION	8	32
BY LOCATION	6	24
BY PRODUCT	6	24
BY SIZE	5	20
TOTAL	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

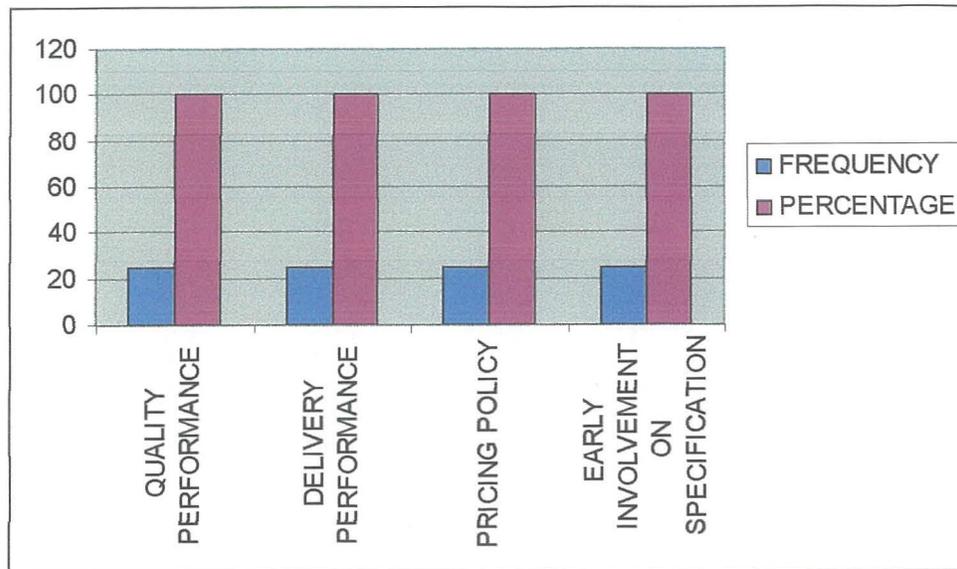
Graph 4.2.1: Showing the Supplier Grouping Criteria

In studying the criteria used by the section heads in purchasing department in the two organizations, it was found that 8 (32%) respondents used reputation of the supplier in the past transaction to group them for partnering while other factors were found to be non-performance for example the size of the supplier might not be the best criteria since not all small sized suppliers can fail to performance expectedly.

Table 4.2.2: Supplier Measurement and the Implementation of Purchaser-Supplier Relationship

MEASUREMENT	FREQUENCY	PERCENTAGE
QUALITY PERFORMANCE	25	100
DELIVERY PERFORMANCE	25	100
PRICING POLICY	25	100
EARLY INVOLVEMENT ON SPECIFICATION	25	100

(Source: Data Survey 2007)



Graph 4.2.2: Showing the Supplier Measurement and the Implementation of Purchaser-Supplier Relationship

From the graph, all the respondents gave the following measurements criteria in how they measure the performance of their supplier whom they hope to have a close relationship. The four factors are the most effective purchasing area that suppliers need to be 100% compliant. The finding showed that for the organization to have effective purchasing department, the purchasing staff must have a lose relationship with the suppliers to enable them identify these are of concern.

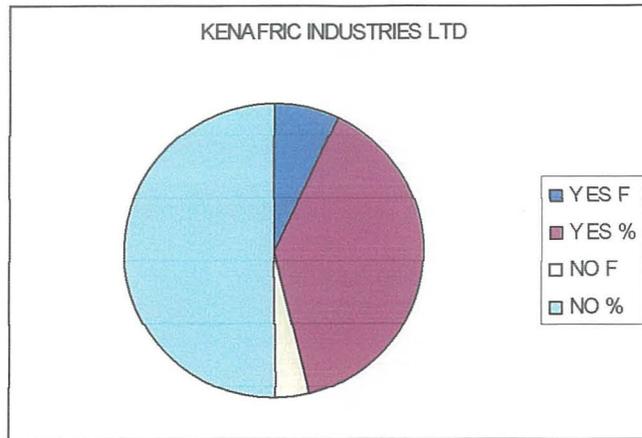
4.3 SECTION C

This section of the study was meant to study whether the organizations had purchaser-supplier relationship, the criteria used to select the suppliers. The researcher further looked at the problems experienced by the purchasing department when implementing this relationship. Lastly the benefit of this relationship the department was studied.

Table 4.3.1: Existence of Purchaser-Supplier Relationship and the Purchasing Department

ORGANIZATION	YES		NO	
	F	%	F	%
KENAFRIC INDUSTRIES LTD	10	55.56	5	71.42

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.3.1: Showing the Existence of Purchaser-Supplier Relationship and the Purchasing Department.

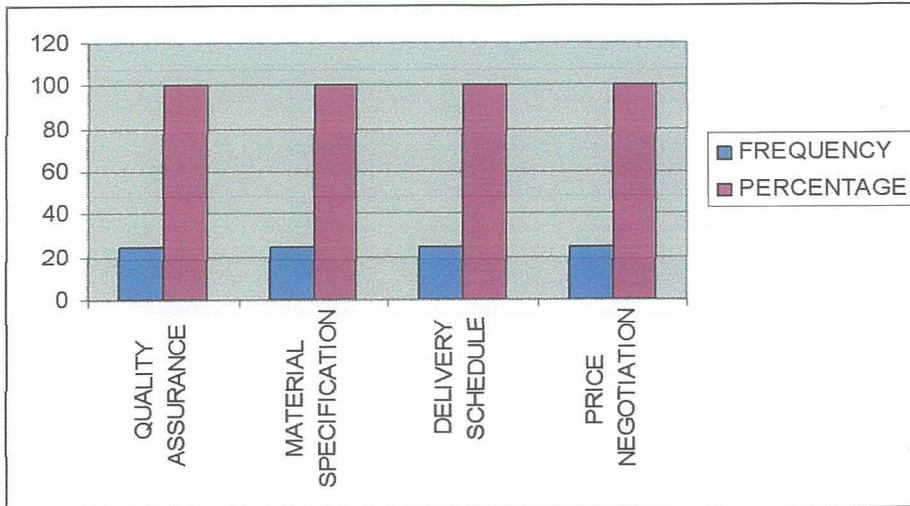
The finding revealed that the organization studied, 10 respondents revealed that they use purchaser-supplier relationship while only 5 respondents revealed that they utilize this relationship.

The result may have been because of the size and corporate objectives of the different heads concerning their performance. Some of buyers from the highly demanded products are likely to have been realized the benefit of purchaser-supplier relationship.

Table 4.3.2: Purchasing Area and the Purchaser-Supplier Relationship

RESPONSE	FREQUENCY	PERCENTAGE
QUALITY ASSURANCE	25	100
MATERIAL SPECIFICATION	25	100
DELIVERY SCHEDULE	25	100
PRICE NEGOTIATION	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.3.2: Showing the Purchasing Area and the Purchaser-Supplier Relationship

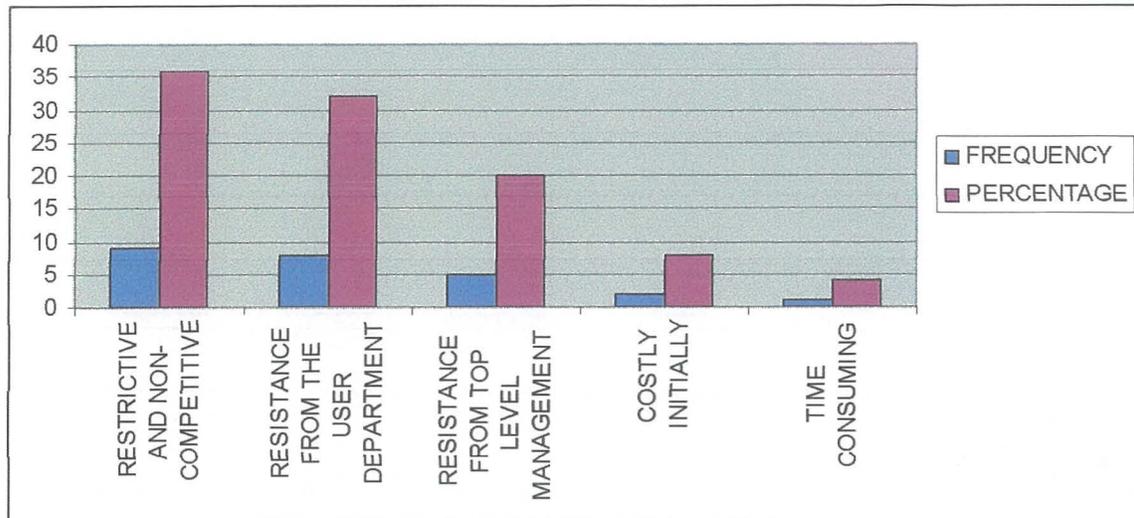
The finding revealed that the organization based their relationship in terms of quality assurance, material specification, delivery schedule, and pricing negotiation. All these responses were 25 (100%).

The result may be due to the fact that for a purchasing department to work or perform effectively, it must examine the quality of the incoming materials from the supplier. The department must also ensure that there is mutual understanding of specification to both purchasers and the supplier.

The other important elements in purchasing performance are the timely deliveries and price which must be considered accordingly to ensure that the purchasing department work perfectly.

Table 4.3.3: Problems Encountered When Implementing Purchaser-Supplier Relationship (Source: Data Survey 2007)

PROBLEM	FREQUENCY	PERCENTAGE
RESTRICTIVE AND NON-COMPETITIVE	9	36
RESISTANCE FROM THE USER DEPARTMENT	8	32
RESISTANCE FROM TOP LEVEL MANAGEMENT	5	20
COSTLY INITIALLY	2	8
TIME CONSUMING	1	4



(Source: Data Analysis 2007)

Graph 4.3.3: Showing the Problems Encountered When Implementing Purchaser-Supplier Relationship

The graph shows that 9 (36%) response quoted that they got the difficult when implementing the relationship due its tendency of restricting the buyers to one supplier. The problem can be solved by having a responsive and conformance supplier who will supply are economical as possible.

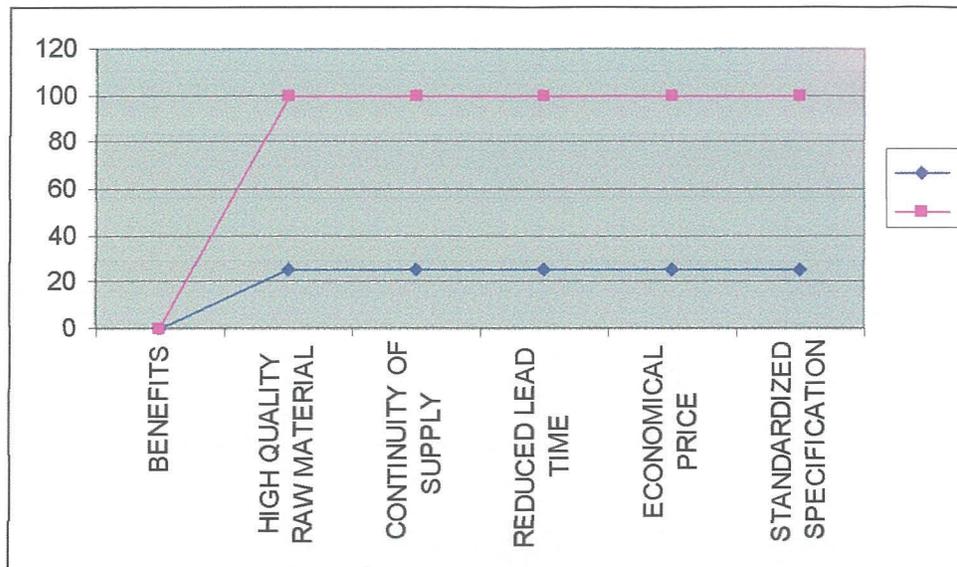
The other findings were; resistance from the user department 8 (32%), resistance from the top management 5 (20%), costly initially 2 (8%) and time consuming 1 (4%).

These problems was can be countered by effective implementation of the purchaser-supplier relationship.

Table 4.3.4 Benefits Gained By the Department Due To Purchaser-Supplier Relationship

BENEFITS	FREQUENCY	PERCENTAGE
HIGH QUALITY RAW MATERIAL	25	100
CONTINUITY OF SUPPLY	25	100
REDUCED LEAD TIME	25	100
ECONOMICAL PRICE	25	100
STANDARDIZED SPECIFICATION	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.3.4: Showing the Benefits Gained By the Department Due To Purchaser-Supplier Relationship

The findings in the graph shows that all the sections heads on the organization Studied agreed that proper implementation of purchaser-supplier relationship will result in effective purchasing department performance. They gave the following benefits gained by their departments:

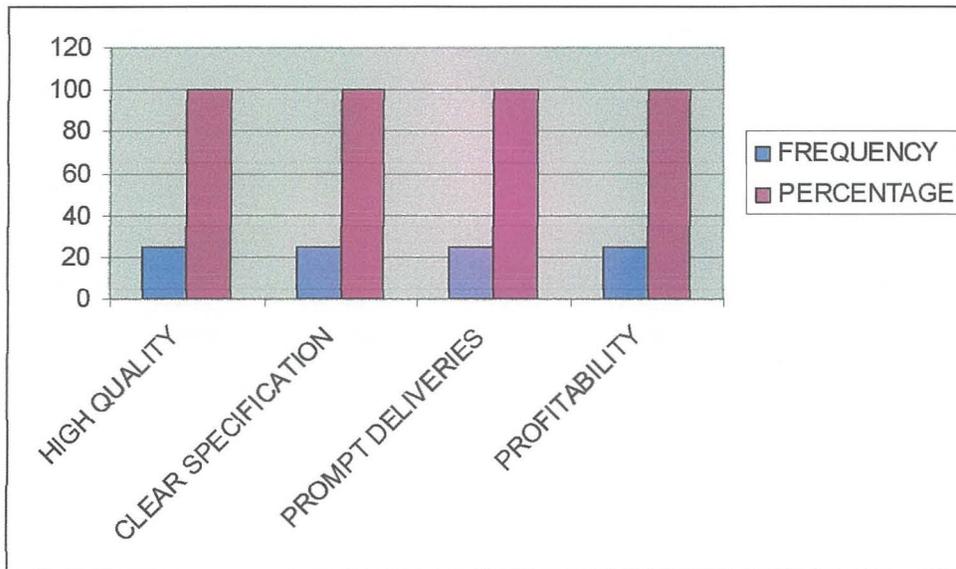
- (i) High quality raw material and finished goods.
- (ii) It leads to continuity of supply even during the time of short supply.
- (iii) It leads to standardization of specification process of requirement.
- (iv) It leads reduction in lead time.
- (v) It leads to economic price, which lead to profitability.

The result revealed the significance of having a good purchaser-supplier relationship since before it is implemented, the mentioned benefits are considered as the main factors which lead to purchasing department performance.

Table 4.3.5: The Indicators of Purchaser-Supplier Relationship to the Organization

RESPONSE	FREQUENCY	PERCENTAGE
HIGH QUALITY	25	100
CLEAR SPECIFICATION	25	100
PROMPT DELIVERIES	25	100
PROFITABILITY	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.3.5: Showing the Indicators of Purchaser-Supplier Relationship to the Organization.

The graph shows all the respondents agreed in their responses that the Indicators of the effectiveness of purchaser-supplier relationship have been realized by the high quality of incoming materials, clear specification of requirements, prompt deliveries and profitability due to economical pricing gained from the suppliers.

The results were positive because of the purchasing department to be considered effective in its performance, it must have a good quality assurance system, the specification of requirements must clear, the deliveries must be at the right time and the prices must be economical to levy for the profitability of the organization.

4.4 SECTION D

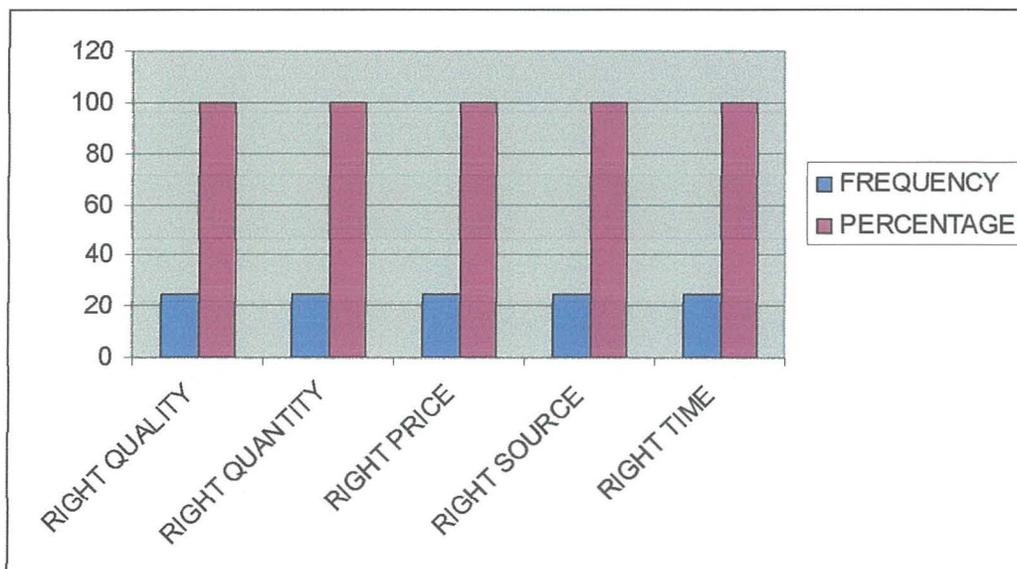
This section was meant to give the section heads opportunity to give their opinion concerning the implementation of purchaser-supplier relation in the purchasing department.

Table 4.4.1: Purchaser-Supplier Relationship and the Purchasing Objectives

Achievement

OBJECTIVES	FREQUENCY	PERCENTAGE
RIGHT QUALITY	25	100
RIGHT QUANTITY	25	100
RIGHT PRICE	25	100
RIGHT SOURCE	25	100
RIGHT TIME	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.4.1: Showing the Purchaser-Supplier Relationship and the Purchasing Objectives Achievement

The graph revealed that the implementation of purchaser-supplier relationship has led to the increase of purchasing department performance. This was realized by the 100% responses of all the section heads towards the contribution of the relationship to the

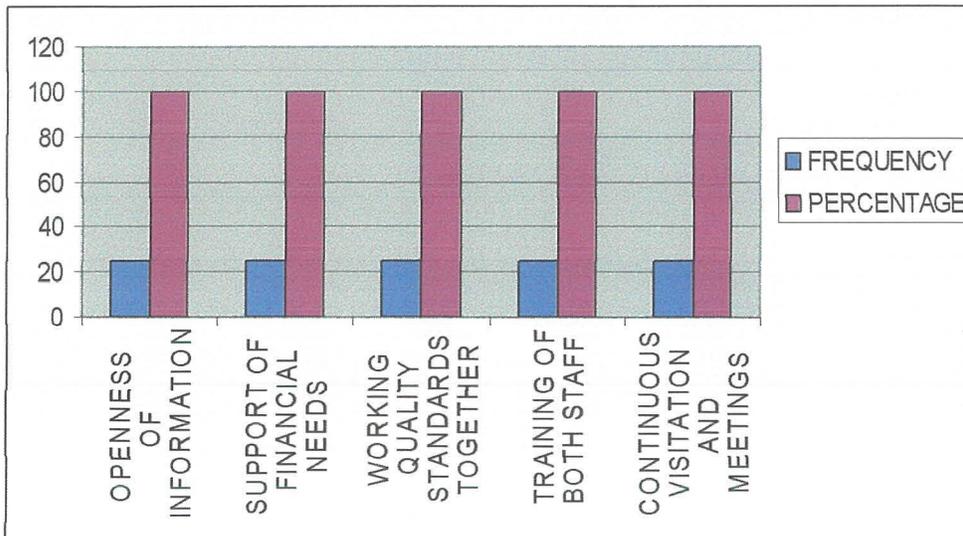
purchasing department objectives of right quality, right quantity, right source, right time and right price.

The result is due to the fact that purchasers and suppliers will work in unison to ensure that all the objectives of both the organizations are incorporated hence to avoid any unbecoming such as poor quality, late deliveries, high price charged and shortage in supply of requirement

Table 4.4.2: Tactics of Remaining In the Relationship

TACTICS	FREQUENCY	PERCENTAGE
OPENNESS OF INFORMATION	25	100
SUPPORT OF FINANCIAL NEEDS	25	100
WORKING QUALITY STANDARDS TOGETHER	25	100
TRAINING OF BOTH STAFF	25	100
CONTINUOUS VISITATION AND MEETINGS	25	100

(Source: Data Survey 2007)



(Source: Data Analysis 2007)

Graph 4.4.2: Showing the Tactics of Remaining in the Relationship

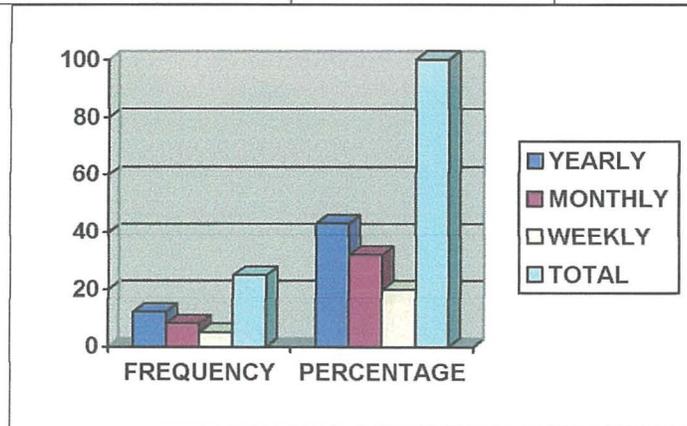
The findings shows that all the section heads use the tactics stated on the table in ensuring their relationship with their suppliers.

The result is because being open to the supplier in matters affecting your contract, supporting them financially, working quality standards together, training staff from both buyer and seller organizations, and continuous visitations are some of the vital ingredients of maintaining purchaser-supplier relationship in the purchasing department.

Table 4.4.3: Duration of Updating Supplier Relationship List

(Source: Data Survey 2007)

DURATION	FREQUENCY	PERCENTAGE
YEARLY	12	43
MONTHLY	8	32
WEEKLY	5	20
TOTAL	25	100



(Source: Data Analysis 2007)

Graph 4.4.3: Showing the Duration of Updating Supplier Relationship List

The table shows the finding of the duration taken to update the supplier list. It was realized that 12 (43%) respondents revealed that they have yearly update of their suppliers while the end 5 (20%) respondents showed that they update their suppliers weekly.

The result may be because the longer you transact with the supplier in close relations the better you will know the strength and weakness of the supplier hence to evaluate his/her contribution to your purchasing department performance. This is why many section heads recommended longer time to update their supplier.

4.5 LIMITATIONS

The following were the limitations of the study:

- (i) The research was only done in one organization in Nairobi City leaving out other organizations within the city. These led to limited data for the complete analysis of the statement of the problem.
- (ii) Only section heads were used for data collection leaving top level management and bottom level management. This limited the data acquired since more information could have been realized if the top and bottom levels were included.
- (iii) Another limitation was the lack of time since the researcher was also studying for other subjects in preparation for end Examination.
- (iv) Lack of funds was also another problem to the researcher. The researcher lacked money to travel to other organizations and also to type and print the report, this has made him to restrict the pages to the minimum.
- (v) Another limitation was the negativity of the respondents, who were not open to given information fully in fear in public exposure, although the intention of the research was purely for academic.

4.6 HYPOTHESES

From the study objectives, the following hypotheses were stated:-

- H1. It was difficult to have proper specification of requirement without proper implementation of purchaser-supplier relationship.
- H2. Profitability can only be realized with effective and adequate relationship between purchasers and suppliers.
- H3. For right quality of incoming materials to be realized, the department must have good relationship with their suppliers.
- H4. The deliveries will be on time and in the right place when purchaser-supplier relationship is properly implemented.
- H5. The purchasing department will benefit the following due to implementation of purchaser-supplier relationship: Accurate specification, economical price hence high profit leverage, high quality of incoming materials and prompt deliveries of requirement.

4.7.

Conclusion of the Findings

Following the finding of this study, it has been realized that purchaser-supplier relationship is the major bridge to effective purchasing performance. This is because the relationship will contribute in the following way.

The relationship contributes to the specification of requirement due to the involvement of suppliers at the early stage of product design. The purchasing department will realize accurate specification, reduced cost in specification, providing information which is necessary for the raw materials to be included in the specification. The supplier will also provide advice such as for the substitutes available in the market.

The profit leverage will be realized by the purchasing department through the purchase of materials of the right price since the suppliers will tend to be customer conscious in his charge lest he loses customers. The other area of profit leverage will be through purchase of large volume of requirements hence gaining from low prices due to scale of economy and discounts.

The quality of the incoming materials will also be right since the supplier will work hand in hand with the buyers in the quality assurance programs and specification of requirement. Also the supplier will have quality mind due to the closeness of the buyer-supplier firms.

The deliveries have been realized to have reduced tremendously due to share of information concerning deliveries with the buyer and also will work to ensure that the contract is fulfilled with difficulties. Lead time will also be reduced since several times wasting procedure will be standardized.

Lastly the department will benefit the following through the proper implementation of purchaser-supplier relationship, accurate and less costly specification of requirement, profit leverage, high-quality of incoming materials, and prompt deliveries and reduced lead time.

Chapter Five

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0

Summary

The research was done to find out the contribution of purchaser-supplier relationship to the purchasing department performance.

The research was necessitated by the shift of attention paid to purchasing function from spending department to profit leverage area in the department. The work of purchasing department becomes more strategic in emphasis, concentrating more on such activities as negotiating longer term relationship with the supplier, supplier and development.

The research was carried out to find out the contribution of purchaser-supplier relationship to requirement specification, profit leverage, quality assurance of incoming material, contribution to deliveries and lead time reduction and benefits gained by the department over its implementation.

Data was collected from one organization that is Kenafric industries ltd (ki) in Nairobi city. This was done using interviews and questionnaires which were sent to the section heads of the organization. Thirty section heads were used for the research data collection.

The findings were presented and analyzed using frequency and percentages. The research found out that purchaser-supplier relationship has led to tremendous contribution to the effectiveness of the purchasing department in the organization.

It was realized that the relationship has led to accurate specification of requirement, high quality incoming materials, and increase in profit margin and decrease in lead time.

This has prevailed because of the awareness by the organization that purchasing function must be organized at strategic level to enable it work effectively.

However, there can be no doubt that a major shift in thinking, with regard to both the nature and the management of buyer- supplier relationship, has occurred in the last part of the 20th century. Changing world competitive conditions and the demand for enhanced standards of performance with respect to quality and delivery and cost of supply have led to visitors from the west traveling around the world in search of new ideas.

5.1

Conclusion

From the research it was established that the organization has purchasing departments which are placed in a strategic and tactical levels in the organization structure. This enabled them to implement the purchaser-supplier relationship. The level at which purchasing department operates places it in a better position to have a close relationship with the suppliers to ensure that specifications, assurance of quality, profit leverage and lead time reduction are achieved.

It was also found out that purchasing officer are highly placed as purchasing director which gave them the upper hand to manage the relationship between the purchasers and suppliers.

It was realized that the organization used criteria such as financial strength, past quality performance, equipment and facilities capability, pricing system and management strength of the supplier to select the best supplier to contract with in close range.

Suppliers were likely to perform well if all the above criteria were identified with the supplier.

It was learned that the organization dwelt so much on areas of quality assurance, material specification, pricing and delivery schedules when striking a close relationship with the supplier. These were the major areas which determined the performance of purchasing department. It can be concluded that for an organization to realize accurate specification of requirement, purchasing department must be in good and close relationship with the suppliers who will provide information concerning the availability of raw materials and substitutes which can be used alternatively.

The supplier will also help in ensuring that quality of incoming materials conforms to the specification. The relationship will contribute to economic price charge and timely deliveries of raw materials.

5.2

Recommendation

In the light of the findings and conclusions of the study, the following recommendations were deemed important for the improvement of purchasing department's performance.

- (i) The organization needs to have close relationship with its suppliers when making specification of its requirements. Early supplier involvement in specification will lead to reduction in unnecessary costs such as cost of rejection and remaking.
- (ii) The organization is also advised to implement purchaser-supplier relationship if it will need to achieve its corporate objective of profit maximization. This will be realized by effective performance of purchasing department in areas of pricing and contracting using the best purchasing techniques such as speculation and JIT.
- (iii) By the use of purchaser-supplier relationship, organization will realize 100% quality of the incoming materials. This will lead to customer good will and personnel morale in production line.
- (iv) Purchaser-supplier relationship is also recommended to the organization which needs to realize its contribution in prompt deliveries and lead time reduction. With close relationship with the supplier, the supplier will ensure that he/she supplies the requirement in time when they are needed by the buying firm.

5.3

Suggestion for Further Research

The research recommended the following for further studies.

- (i) That a research be carried out on the relationship between the supplier selection methods or criteria and the implementation of purchaser-supplier relationship.
- (ii) That a research be done on the relationship between the geographical placement of suppliers and the implementation of purchaser-supplier relationship.
- (iii) That the current study be done again using a wider population since the study only dealt with one organization in Nairobi city. The study should be enlarged to study other organizations within and outside Nairobi city such as in Eldoret and Nakuru.
- (iv)

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APPENDIX I

**TITLE: PURCHASER-SUPPLIER RELATIONSHIP AND THE
PERFORMANCE OF PURCHASING DEPARTMENT**

A CASE STUDY OF KENAFRIC INDUSTRIES LTD (ki) BASED IN NAIROBI

Primary data collection questionnaire.

PURCHASING DEPARTMENT

TO THE RESPONDENT

I'm Gathere John Mwangi, a student at Kampala International University. I'm conducting an academic research on Purchaser-Supplier relationship and the performance of the Purchasing Department in your organization. This research is being undertaken as partial fulfillment of the requirement of the award of Bachelor in Supplies and Procurement Management of Kampala International University. The questionnaire guide will assist in gathering and analyzing information on supplier-purchaser relationship and its effect in purchasing performance. I therefore request that you provide accurate information that will enable me the researcher to obtain quality data for analysis. All information gathered shall be treated with utmost confidence and shall not be used for any other purposes except for this research. (Fill in or tick as appropriate).

**FILL IN THE BLANK SPACES AND/OR TICK (✓) THE OPTION GIVEN
AFTER THE QUESTION.**

STATEMENT

1. What is the name of your organization? -----

2. Do you have purchasing Department? YES Or NO

3. What is the status of purchasing Department in your organization structure? -----

4. What is the title represented by the head of purchasing department? -----

5. How many major suppliers do you have? -----

6. What are the criteria used in selecting the suppliers? -----

7. How do you group your suppliers? -----

8. How do you categorize the suppliers? -----

9. How do you measure the performance of the suppliers? -----

10. Do you have purchaser-supplier relationship? YES Or NO

11. Which purchasing areas do you liaise on? -----

Thank you for your contribution

APPENDIX II



**KAMPALA
INTERNATIONAL
UNIVERSITY**

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E-mail: admin@kiu.ac.ug * Website: <http://www.kiu.ac.ug>

**OFFICE OF THE DEAN
SCHOOL OF BUSINESS AND MANAGEMENT**

Date: 27th March, 2007

THE HUMAN RESOURCE MANAGER,
KENAFRIC INDUSTRIES LTD,
P.O.BOX 39257-00507,
NAIROBI - KENYA.

Dear Sir/Madam,

RE: JOHN MWANGI GATHERE REG.NO.BSP/5138/32/DF

This is to confirm and inform you that the above referenced, is a bonafide student of Kampala International University pursuing a Bachelor of Supplies and Procurement Management Degree programme in the School of Business and Management of the University.

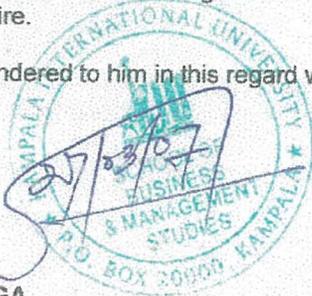
His title of the Research project is "PURCHASER-SUPPLIER RELATIONSHIP AND THE PERFORMANCE OF THE PURCHASE DEPARTMENT" KENAFRIC INDUSTRIES LTD,

As part of his studies (research work) he has to collect relevant information through questionnaires, interviews and reading materials from your place.

In this regard, I request that you kindly assist him by supplying/furnish him with the required information and data he might need for his research project and also by filling up the questionnaire.

Any assistance rendered to him in this regard will be highly appreciated.

Yours Sincerely,



**DR. Y.B. NYABOGA
ASSOCIATE DEAN – SCHOOL OF BUSINESS AND MANAGEMENT
TEL.NO.0752 843 919**

"Exploring the Heights"