



Effect of Strategic Sourcing On Operational
Performance of Organization: In Case of
Bahirdar Textile Share Company

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Abstract

The study targeted to analyze the effect of Strategic Sourcing on Operational Performance in Bahirdar textile Share Company. The rationale behind conducting this study was that Strategic sourcing and procurement is a critical challenge faced by many firms involved in the supply chain management. So, the study was aimed to analyze the effect of strategic sourcing such as effective procurement plan, buyer supplier relationship, contract management and rationalization of supply base on operational performance of Bahirdar textile Share Company and the study was employed Descriptive research design and also the study used mixed research approaches. To collect questionnaire quantitative approach were used and to collect interview questions qualitative approach were engaged. Furthermore, the data was collected from both open and close ended questionnaires

and the data would be analyzed by SPSS software and multinomial regression model.

The analysis shows that strategic sourcing has positive effect on operational performance. So, the researcher was recommended to the organization in order to implement strategic sourcing practices wisely to achieve operational performance.

Key words: *buyer supplier relationship, procurement plan, contract management, operational performance*

Background of the Study

Sourcing refers to process of identifying and working with appropriate suppliers (Mangan, 2008) and then, Strategic sourcing is extensive range of activities namely creating an overall strategy for sourcing, evaluating and selecting suppliers, procuring, managing supplier relationships and contracts (Anderson & Katz, 1998)

The current global business arena has become highly competitive and competitiveness has become a major

focus area of firms and companies across the globe. In addition to these, business organizations across the world are under increasing pressure than ever to stay dynamic and responsive in all their competitive frontiers. Hence, many companies have realized the need for elevating traditional procurement function to modern strategic sourcing for value addition across the supply chain (IMD, 2006).

Because, traditional sourcing method has had its celebrated failures such as cost over runs, contract disputes and poor customer satisfaction due to inflexibility of the sourcing contract, which cannot easily be changed to respond to market pressures and business requirements (Quayle, 2002).

Nonetheless, according to (Presutti, 2003) 70 per cent of an organization's sales revenues or total manufacturing costs is spent on purchasing raw materials but, strategic sourcing can reduce cost and boost earnings.

Similarly, the nature of the textile and apparel industry and the increased pressures from unpredictable consumers and uncertain business environment are making more and more firms to recognize the strategic role that sourcing can play in achieving

sustainable competitive advantage (Bruce and Daly, 2011) and so, increasing attention over the last decade due to two important developments. First, textile and apparel firms have increasingly been competing in dynamic and complex world marketplace, considering continual changes and uncertainties in product availability, prices, and competition (McCarthy and Jayarathne et al., 2012) second, the prominence of effectively managing global textile and apparel supply chain has increased. Business managers are thinking of new strategies and implementing new practices to increase firm performance.

In developing countries, companies in Latin America, Asia, the Middle East and Africa are shifting from transactional-based purchasing and tactical sourcing to a strategic sourcing model but still now not on the way (Heathertowt, 2015). In contrast, in Ethiopia, Most procurements is by direct contracting (Contract implementation is not monitored efficiently) with negotiations focusing on price and not quality and delivery speed (ECPR, 2002). The researcher was interested to conduct this study because most firms' procurement system was to get cost advantage with tradeoff of quality,

delivery speed. Hence, this reduces the productivity of textile sector. Thus the researcher inspired to conduct this study to create awareness about strategic sourcing beyond cost reduction and also procurement system of firms were loosely coordinated and this leads to firms incur more cost as well disruption of supplies, hinders competitiveness in the textile or other industries

Statement of the problem

In most companies procurement operations are loosely coordinated, delayed deliveries, poor quality outputs due to faulty specifications or poor procurement plan, duplication of raw materials and continued threats of litigation by the suppliers due to delayed payments, is a common scenario among firms which experience poor relationship with their suppliers (Doug Smock et.al, 2006). But, Strategic sourcing has been proven to be affective and result in cost reduction, increases in productivity, quality improvement, return on investment, minimizing inventory, reducing shortages and expediting deliveries

Accordingly, it is a critical shift from managing supplies to managing suppliers.

No study was conducted related to the effect of strategic sourcing on operational

performance in case of Bahirdar textile Share Company. Therefore, the researcher filled the gap by conducting the effect of strategic sourcing on operational performance in case Bahirdar textile SC. In any case, the preliminary investigation shows that Bahirdar textile Share Company has limitations in sourcing such as corruption due to unclear procurement plan, the supplier occasionally does not deliver the required amount, clash between purchased materials and the required materials from production department, suppliers' refusal to supply in their agreement, delaying, the organizations delay to make payment on time to suppliers, quality problem, lack of sustainable buying strategy and nonexistence of best suppliers this leads to poor operational performance(company report,2017). As well as there is knowledge gap, that is companies manage supplies other than suppliers. Thus, the researcher tried to fill knowledge gap from managing supplies to managing suppliers.

Objectives of the study

General Objectives of the Study

The general objective of this study is to examine the effect of strategic sourcing on operational performance within Bahirdar textile SC

Specific Objective

1. To investigate the impact of effective procurement plan on operational performance in your organization
2. To establish the influence of contract management in operational performance of Bahirdar textile share company in sourcing.
3. To determine the influence of Supplier relationship management when sourcing on operational performance of Bahirdar textile share company
4. To establish the influence of rationalization of supply base of sourcing in operational performance of Bahirdar textile share company.

Scope of the Study

The study was focused on strategic sourcing variables such, supplier relationship management, supply base rationalization, contract management and effective procurement plan which involves the effects on operational performance of Bahirdar textile Share .the study focused only the buyer side not includes the suppliers for collecting data in order to narrow the scope to manage and conduct quality study.

Primary data had been collected from Purchasing, finance and production department of the organization. And the methodological scope was delimited in descriptive research design.

Research Questions

The research objectives can be expressed in the following research questions:

1. How does effective procurement plan has the impact operational performance in the organization?
2. How does suppliers' contract management enhance operational performance at Bahirdar textile SC?
3. How does supplier relationship management enhance operational performance at Bahirdar textile Share Company?
4. How does rationalization of supply base enhance operational performance in Bahirdar textile Share Company?

I. Review of related literature

A supply chain consists of all parties involved, directly or indirectly, in fulfilling a customer request. The supply chain includes not only the manufacturer and suppliers, but

also transporters, warehouses, retailers, and even customers themselves. Within each organization, such as a manufacturer, the supply chain includes all functions involved in receiving and filling a customer request. These functions include, but are not limited to, new product development, marketing, operations, distribution, finance, and customer service (Ullrich, 2004). While, supply chain management is used to manage activities and integrate with down-streams, up-streams and internal supply chain operations (Ross, 1998) **Purchasing** is the transactional function or activity of buying needed goods or services.(Yusen, Walter Wallace et.,al, 2014).

Procurement is the management of a broad range of processes that are associated with an organization's desire to obtain the necessary goods and services needed for manufacturing a product, transforming inputs to outputs, or indirectly operating the organization.

But, Strategic sourcing is a broader, more transformational process, performed at a higher organizational level. Strategic sourcing takes the procurement process further, examining the whole supply network, its linkages, and how they impact procurement and purchasing decisions. The

focus is more on the first level supply network, value creation, risk, and uncertainty in the supply chain and the overall responsiveness and resilience of the supply chain

Determinants of strategic sourcing

The first is buyer supplier relationship- in order to manage suppliers as assets and integrate suppliers into the supply chain, buying firms need to make considerable effort to develop beneficial buyer-supplier relationship. The second determinant of strategic sourcing is rationalization of supply chain base- Supply base reduction enables organizations to audit their suppliers and reviews them prior to entering into partnerships. Thirdly, Contract

Management- Describes contract management is the process of monitoring whether the contract parties are complying and performing as per the agreement and lastly, Effective procurement plan

It is considerably more expensive and extravagant to procure items in an organization without a procurement plan and therefore many public institutions are abiding by the public procurement and oversight authority rules and regulations to

improve on performance in terms of procurement planning. This means the entity will reduce overstocking, saves on cost achieved through economies of scale and procurement of quality works, goods and services achieved through quality specifications

Operational performance

Operational Performance broadly refers to short-term goals whose attainment is deemed to move an organization towards attaining its strategic or long-term goals. They can also be viewed in a base to tactical objectives. Broadly organizational stakeholder objectives forms a framework for strategic operations but the day to day operations needs more detailed defined objectives

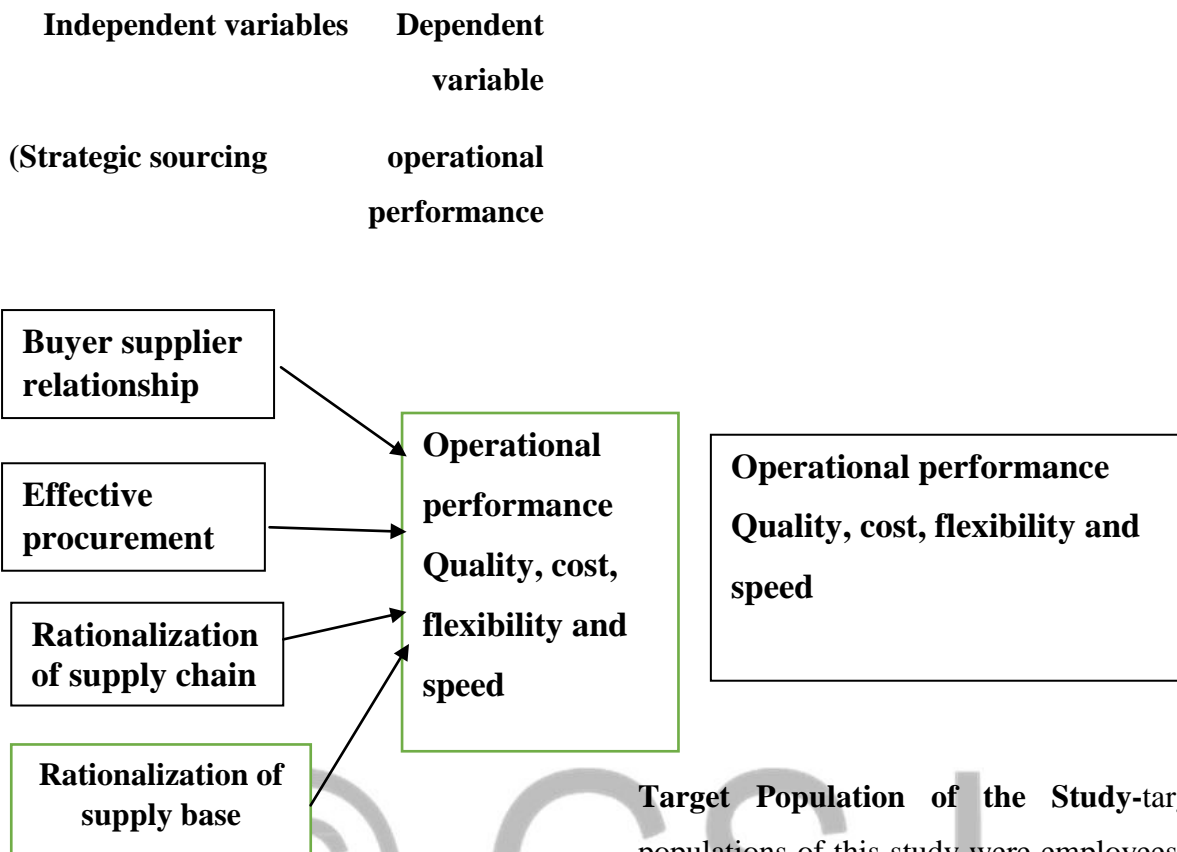
Empirical Literature Review in strategic sourcing

The study conducted by (Carren Chepng'etich, n.d) point out that, strategic sourcing results in increased profitability reduce the cost, to improve our product quality, had contributed to the competitive advantage of the firm and increase customers satisfaction. Monczka and Trent (1991), through a combination of interviews with and surveys of executive level managers, concluded that the need to lower

transaction costs is a major motivation to reduce the number of suppliers.(Mohammed, A.S, 2008), Also sought to establish the effects of performance contracting on banking industry's operational performance. The study reveals a positive relationship between the two variables. Admasu, (2017) The Role of Strategic Sourcing in Operational Performance the Case of Ethiopian Airlines and the study revealed that strategic sourcing has role in operational performance. And he concluded that strategic sourcing has positive effect on operational performance of the organization

Conceptual Frame work

(Mugenda & Mugenda, 2003), defined a conceptual framework as a hypothesized model identifying the model under study and the relationship between the dependent and independent variables



Target Population of the Study-target populations of this study were employees of some purposively selected departments that have better understanding about sourcing and operational performance these are Purchasing and Property administration department, finance department and production department. And also, the researcher was used Purposive sampling to tackle respondents those who have direct relationship with the issue at hand. And the next to this the formula of (carvalho, 1984) would apply to this study. Hence, in large sample size 125 the total sample selected was 159. The study relied on both primary and secondary data. Primary data was collected with the use of questionnaires and

II. Methods and Materials

Research design-In order to accurately describe the effect & relationships between the independent variables and the dependent variable Descriptive research studies are employed (Kothari, 2004). Thus, the researcher also used descriptive research design to describe the relationship between strategic sourcing and operational performance and qualitative and quantitative research approaches applied to this study.

interviews and secondary Data had been gathered from files and unpublished articles, websites, journals, books and from different related studies. The purpose of sourcing for secondary data was help to the formation of problems, literature review and construction of questionnaire.

Methods of Data Collection

The study used primary data that was collected through a self-administered five point Likert scale questionnaire that consisted of both open and closed ended questions that were designed to elicit specific responses for qualitative and quantitative analysis respectively

To analyze the data descriptive statistics was used to analyze the percentages, mean and standard deviation of the data with SPSS version 20 with multiple regressions to show cause and effect relationship between two or more than two independent variables and dependent variables. Moreover, the qualitative data gathered using the interview then interpreted and presented in a narrative form. The following model had been used to show the effect strategic sourcing on operational of performance

Where: Y= responsive variable (operational performance)

B_0 = the S intercept when x is zero; b_1 , b_2 , b_3 , b_4 are regression coefficients of the following variables respectively;

$$Y = B_0 + B_1x_1 + B_2x_2 + B_3x_3 + B_4x_4$$

x_1 = effective procurement plan; x_2 =supplier relationship management; x_3 = reduction of supply base; x_4 = contract management.

Instrument for validity and Reliability

Reliability of strategic sourcing and operational performance

Variable	Cronbachs; Alpha
Effective procurement plan	.707
Contract management	.621
Supplierrelationship management	.659
Rationalization of supply base	.729
Operational performance	.702

From the above table all variables are acceptable and reliable because according to Sekaran, (2003) alpha values above 0.50 are acceptable.

Ethical consideration

Table 4 demographic profile of respondents

Demographic characteristic		Frequency	Percentage
sex of the respondents	Male	107	72.3
	Female	41	27.7
	Total	148	100.0
age range of the respondents	18-25 years	32	21.6
	26-36years	58	39.2
	37-46 years	42	28.4
	Above 46years	16	10.4
	Total	148	100.0
Educational background	Grade 10 complete	3	2.0
	12 complete	30	20.3
	Diploma	83	56.1
	Degree	31	20.9
	Masters and above	1	0.7
	Total	148	100.0
Position of respondents	Production	115	77.7
	Purchasing and property administratio	13	8.8

	n		
	Finance	20	13.5
	Total	148	100.0
Work experience	Less than 5 years	69	46.6
	6-11 years	39	26.4
	11- 15 years	19	12.8
	Above 15 years	21	14.2
	Total	148	100.0

(Source, own survey, 2018)

As the above table shows, Gender frequency of the respondents shows that the numbers of male respondents were almost two times as female respondents. This is 72.3% of the respondents were male, while 27.7 % were female respondents this shows that the company dominated by male manpower. And also, the researcher divided the age of the respondents in to five categories, starting from 18- 25 years of age to above 46. In this study, the researcher can conclude that majority of the respondents of the respondents were found between 26-36 ages As the table shows, the highest education level attained by most of the respondents was college diploma holders which represents, 83 (56.1%) out of the

respondents and followed by first degree holders which accounts 31(20.9%), grade 12 complete 30(20.3%), grade 10 complete 3(2%) and lastly 1 (0.7) masters. from this study it is possible to understand that the company dominated by diploma holders and then first degree and grade twelve complete. The frequency distribution of respondents work experience, the largest of the respondents 46.6 % (69) have less than five (5) years of work experience. In the same case, 26.4% (39) of respondents have from 6-10 years of work experience and followed by above 15 years of experience, which accounts 14.2% and 12.8 % (19) respondents represents having 11-15 years of experience.

Descriptive analysis of study variables

The purpose of this section is to comprehend about strategic sourcing of Bahirdar Textile Factory Share Company and analyzing the effects of strategic sourcing on operational performance of the organization. To analyze the mean If the mean value is between (0 to 1.50) this implies the respondents strongly disagree, if the mean value is between (1.50 to 2.50) indicates the respondents disagreed, the mean value between 2.50 to 3.50) indicates the respondents neutral, the mean value between 3.5 0 to 4.5 implies that the

respondents agreed and mean value 4.50 and above implies that the respondents strongly agreed (Burns & Burns, 2008).

Descriptive results of effective procurement plan

There are five items used to determine the extent of effective procurement plan of the case company. Accordingly, relatively to other items the high mean value was scored on sourcing receives aggregated annual needs of goods and services from requisite department the mean value of 3.43, the organization periodically reviews the existing procurement policies which is the mean value of 2.87, The business need is clearly defined by the responsible personnel in the unit or department 2.78.. In addition to this, the procurement plans linkage to the strategic plan of the organization is bad which the mean value of 2.43. This indicates that the respondents disagree about the goodness of the company procurement plan which is the mean value of 2.15

Descriptive results of contract management

Six items were used to evaluate the case company's contract management strategy with its suppliers. Accordingly, the item that is organizations Contract

management helps to achieve operational performance were the respondents were disagree to the question that is the mean value of 2.36. Besides to this, respondents disagree with questions that Key performance indicators (KPIs) were set to measure performance of suppliers with the mean value of 2.45 and also, respondents disagree questions that the organization controls and manages contract variations with the mean value of 2.46. In addition to this, Key performance indicators (KPIs) were not implemented in the organization to measure performance of suppliers and also the organization controls and manage contract variations. Respondents were neutral to the item the contractor undertakes his duties and fulfills his obligations in compliance with the contract with mean value of 3.25. Furthermore, respondents were neutral about the item that the contract is flexible or adaptable as conditions changed with the mean value of 3.07. Moreover, respondents were neutral that the organization uses appropriate procedures to resolve possible differences with the contractor the mean value of 3.06.

Descriptive results of Buyer supplier relationship- the relationship of the company with its supplier is not good. Respondents were neutral in the item that the organization is partnered with suppliers who supply the required items with the mean value of 3.13 this means the respondents does not guarantee the company's relationship with suppliers.. And also, respondents were neutral to the item that Good relationship with their suppliers enables them take advantage of the best available prices with the value of 2.78. In addition to this, respondents were neutral to the item that the organization can exchange information with suppliers to increase speed of supply with mean value of 2.83. Besides, respondents were neutral to the item that the organization has long term relationship with supplier with the mean value of 2.37. Finally, Supplier relationship management couldn't enhances in organizations operational performance with the mean value of 2.35

Descriptive results of supply base rationalization

Five items concentrate about rationalization of supply base. Accordingly, respondents were neutral that the organization ensures that suppliers meet its basic quality

requirements for consideration as potential suppliers with the mean value of 3.46. This indicates that the organization does not evaluate suppliers based on quality requirements rather than using more suppliers because when the supplier's base is more the quality will be questionable. Following to this, respondents were neutral to the item that the firm always identifies suppliers incapable of meeting purchase performance requirements now or in the future and targets them for immediate removal from the supply base with the mean value of 2.97. In addition to this, respondents were disagreeing that the organizations have better management of suppliers with mean value of 2.28. also, respondents were disagree the item state that, narrowing of supply base and dealing with selected suppliers enhance the efficiency of procurement function with the mean value of 2.40.

Operational performances of the organization-The respondents were disagreed on the questions that the organization could attain speed in procurement with mean value of 2.45 which is less than 3.50. And also, respondents disagree the organization could reduce the cost of supplies or raw materials with mean value of 2.49. and also incurs cost of supplies or raw materials due to weak

practice of strategic sourcing. Further, respondents were neutral that the organization could purchase improved supplies and could produce quality product with mean value of 2.87. Finally, the organization could not increase flexibility 2.86.

Correlational analysis of the study

A correlation coefficient has a value ranging from -1 to 1. Values that are closer to the absolute value of 1 indicate that there is a strong relationship between the variables being correlated whereas values closer to 0 indicates that there is little or no linear relationship. As described by Andy (2006), the correlation is a commonly used measure of the size of an effect: values of ± 0.1 represent a small effect, ± 0.3 is a medium effect and ± 0.5 is a large effect.

Operational performance and effective procurement plan:

Based on the analysis the researcher was knew that, there is moderate relationship between operational plan and effective procurement plan with the value of Pearson correlation coefficient is 0.458 ($r = 0.458$, $n = 148$, $P < 0.005$) **. The correlation is significant at the 0.01 level.

Operational performance and contract management

Based on the analysis the researcher was knew that, there is strong relationship between operational

performance and contract management with the value of Pearson correlation coefficient is 0.508($r = 0.508$, $n = 148$, $P < 0.005$) **. The correlation is significant at the 0.01 level

Operational performance and supplier relationship management Based on the analysis the researcher was knew that, there is moderate relationship between operational performance and supplier relationship management with the value of Pearson correlation coefficient is 0.587($r = 0.587$, $n = 148$, $P < 0.005$) **. The correlation is significant at the 0.01 level. s.

Operational performance and rationalization of supply base Based on the analysis the researcher was knew that, there is moderate relationship between operational performance and supplier relationship management with the value of Pearson correlation coefficient is 0.674($r = 0.6874$, $n = 148$, $P < 0.005$) **. The correlation is significant at the 0.01 level.

Regression analysis of strategic sourcing and operational performances

Table 11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 ^a	.709	.701	1.682

a. Predictors: (Constant), Rationalization of supply base, Effective procurement plan, Contract management, Supplier relationship management
(source, own survey,2018)

The value of multiple correlation coefficients between strategic sourcing and operational performance with 0.842 indicates strong degree of correlation. The R^2 value indicates that, how much of the total variation in the dependent variable (outcome) explained by independent variable (predictor) or strategic sourcing can account for 70.9% of the variation in explaining operational performances

Table 12 Analysis of variance (ANOVA)

Model	Sum of Squares	Df	Mean square	F	Sig.
Regression	985.134	4	246.2	87.06	.000 ^b
Residual	404.508	14	83	5	
Total	1389.64	3	2.829		

	2	14			
		7			

The ANOVA table indicates that the overall model was a good fit since (F-Value=87.065) and P-Value=0.000<0.05) Hence, the regression model is overall statistically significant, meaning that it is a suitable prediction model for explain strategic sourcing such as effective procurement plan, contract management, buyer supplier relationships and rationalization of supply base and operational performance

CONCLUSION AND RECOMMENDATION

CONCLUSION

The broad research questions relating to the role of strategic sourcing in operational performance was conducted and the findings were analyzed so as to draw conclusions. The study found out that strategic sourcing has effect in operational of the performance. The study established that operational performance was affected by various factors which include effective procurement plan, contract management, supplier relationship management and rationalization of supply base.

The research concluded that Bahirdar textile Share Company does not effectively implement effective procurement plan.

More, the research concluded that Bahirdar textile share company practice of contract management were weak or not implemented properly.

The research concluded that supplier relationship management is not well performed activity in Bahirdar textile Share Finally, rationalization of supply base does not properly implemented in Bahirdar textile Share Company.

RECOMMENDATIONS

The researcher recommended to the organization preparing a multi- year procurement plans and integrated into the medium term budgetary expenditure framework. Because good planning helps the company better alignment of procurement activities to strategic objectives, improved quality analysis for recommending a course of action, testing that implementation is realistic and achievable, detecting the potential impacts and pitfalls before starting knowing the sustainability of service or product design and delivery.

Additionally, it is worthy to the organization use contract management practices to get

competitive advantage in this tied century to protect some of the causes include corruption, litigations, contract cancellations and substandard service or product delivery because the company faces delay in delivery of supplies, suppliers deliver below quality raw materials, cancellation of delivery if with inconceivable reason. Also the organization should be use key performance indicators to measure performance of suppliers so that they can actively monitor the performance of their suppliers

Furthermore, the organization will be advantageous if uses buyer supplier relationship practices towards manage suppliers rather than supplies because, if the supplier is good the supplies is inevitable to be good

Hence; it is superior for Bahirdar textile Share Company to develop a functional partnership with strategic supplier because buyer supplier relationships can be a base of competitive advantage. More, the procurement department better to visit suppliers, make payment on time because the organization has problems to pay purchase payment on time to suppliers as the analysis shows

And also, it is better to create long term relationship with suppliers to save cost,

time, quality, because if long term relationship supplier searching cost reduced, deliver on time, quality superiority will achieve.

Finally, Bahirdar textile Share Company suggested to adopt rationalization of supply base properly it is necessary as quality of suppliers is more important than the quantity of suppliers. It is significant to the organization reduce purchases from marginal or poor performing suppliers while increasing and concentrating purchases among their more desirable top performing suppliers. Rationalizing the supply base equally leads to buying from world class suppliers, reduction of supply base risks, use of full service suppliers and ability to pursue complex supply management strategies, enabling an organization to increase its potential to deliver real competitive advantage to its customers. Bahirdar textile Share Company commonly contracted with a huge number of suppliers and the traditional one. To recommended that the company use few qualified suppliers with close relationships to respond customers' demand for higher quality, wider range of products, shorter time to market and faster deliveries

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