



Journal of Co-operative and Business Studies (JCBS)
Vol. 6, Issue 2, November 2021 ISSN: (Online) 2714-2043, (Print) 0856-9037
Full Issue and Text Available at: <http://www.mocu.ac.tz>

BUYER-SUPPLIER RELATIONSHIPS AND ITS INFLUENCE ON THE PROCUREMENT PERFORMANCE: INSIGHTS FROM EMPIRICAL ANALYSIS

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ABSTRACT

Procurement plays a key role in the economic and social development of nations since its emergence as a significant driver of organisational performance. Procurement accounts for approximately 18.42% of the global Gross Domestic Product (GDP) and 70% of organisational expenditures. Tanzania confronts challenges that have direct impact on procurement performance, despite strong buyer-supplier relationships defined by trust, commitment, and communication among big manufacturing firms. In this article we examined the link between trust, commitment, and communication, as well as their impact on procurement performance to advance the argument on the influence of the buyer-supplier relationship on procurement performance, a systematic qualitative synthesis utilising homothetic content analysis is utilised to examine data. According to the findings of the study, trust serves as a motivator for buyers and suppliers to focus on the long-term advantages of relationships, therefore improving performance outcomes. Commitment is recognised as a major motivator in long-term relationships; hence, buyers and suppliers should prioritise the virtue in order to obtain long-term competitive advantage and, as a result, procurement performance. Moreover, communication is useful in establishing trust and commitment in buyer-supplier relationships in order to ensure procurement performance.

Keywords: Procurement performance, Communication, Commitment, Trust & Buyer-supplier Relationship

1.0 INTRODUCTION

Procurement performance is termed as a yard stick for determining the amount to which the procurement function is capable of achieving specified goals (Van Weele, 2010). Organisational change geared towards greater focus and viability demands that procurement performance is regarded as critical in improving service quality, while its absence may lead to organizational performance decline (Amaratunga & Baldry, 2002).

The factors that influence procurement performance include; cost, timely delivery and accuracy; buying firms determine the said performance through their ability to promptly acquire quality goods in sufficient amount and appropriate cost (Lysons & Farrington, 2012). According to Loice (2015) buyer-supplier relationships are positively linked to procurement performance in reference to quality and cost reduction in Kenyan firms. In Tanzania, buyer-supplier integration has been rendered a block to logistics performance (Salema & Buvik, 2016). Logistics

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performance is determined by; delivery time, order filling capacity (Salema & Buvik, 2016) and although it is considered an integral part of procurement performance, and objectives vary to some extent.

Large manufacturing firms of Tanzania require procurement systems that enhance prompt delivery of the required quantity of manufacturing materials contrary to what is prevailing now (Wilium, 2016). Oyando, Kibet and Musiega (2014) analysed cost reduction, price and reliability and recommended that scholars should study other procurement performance parameters including delivery speed. Therefore, time and quantity, considered major procurement indicators, should be widely explored to determine their contribution to the affected performance amidst solid buyer-supplier relationships. Moreover, other scholars recommended the exploration of delivery time and quantity materials as indicators of procurement performance. Other studies have drawn conclusions that buyer-supplier relationships significantly influence procurement performance in other contexts (Kamau, 2013; Loice, 2015; Salema & Buvik, 2016). With such a background therefore; the empirical analysis of the influence of buyer-supplier relationships on procurement performance, specifically delivery time of materials and delivered quantity of materials in Tanzania firms is of paramount importance.

2.0 METHODOLOGY

Systematic review principles, using multiple methods were applied to critically review relevant literature. Electronic databases, including Web of Science (Clarivate Analytics), Scopus (Elsevier's abstract and citation database) and Google Scholar, were used to find clear definitions of the terms "buyer-supplier relationship", "procurement performance", "communication", "trust", and "commitment. In addition, reference and citation tracking snowballing backwards and forwards (Wholin, 2014) were used to identify relevant articles and those the authors are already familiar with. Backward snowballing involves reviewing the reference list of identified literature by tracing cited references whereas forward snowballing employs built-in database tools that enable the identification of publications citing known studies (Buyer-supplier relationship). Additional relevant material where identified from relevant research groups and institutions, data was extracted from this literature and its implications discussed among the authors, it was then organized and described in four themes of observed relationships.

Furthermore, a systematic qualitative synthesis using nomothetic-based content analysis was applied. In this case, common themes related to the fundamental elements were analysed. Evidence of the outcome resulting from present body of knowledge on the relationship between communication, commitment and trust were presented which provided an avenue to determine the effect of buyer supplier relationships in Organisations of different sizes and nature.

The literature review process was guided by the theoretical thinking of Transaction Cost Economics Theory and Resource Dependence Theory. Literature was skilfully gathered to gain understanding of the influence of buyer-supplier relationships on procurement performance. Thus, the Transaction Cost Economics Theory was used in market identification and hierarchies as two modes of organising and buyer-suppliers relationships emerge as the third alternative (Williamson, 2010). The theory advocates that "governance of relationships is foretold by the asset specificity and behavioural uncertainty of the transaction and hence the possibility aimed at opportunism" (Williamson, 1975). The theory specifies relationship-specific investments and reduced uncertainty as vital just before the success of the relationship to weaken opportunism risk (Williamson, 1975). The choice of this theory is based on the fact that buyer-supplier relationships help firms to improve procurement performance through communication, commitment and trust, thus reduced opportunism (Kaufman *et al.*, 2000). The theory suitably supports that the performance of the buyer-supplier relationship is a function of opportunism determined by management of trust, commitment as well as communication between the buyer and the supplier (Kamau, 2013; Loice, 2015; Makau & Muturi, 2015). Hence, the theory was suitable in explaining the use of uncertain behaviour as a transactional governance mechanism to study the influence of buyer-supplier relationship opportunistic attributes (trust, commitment and communication) on procurement performance.

Propounded by Pfeiffer and Salancik in 1978, the Resource Dependence Theory describes how external organizational resources relate to their performance. The Resource Dependence Theory stresses that resources are uneven therefore scarce and hence Organisations scramble for those outside their environment. The theory further asserts that for Organisations to thrive, they should ensure a guaranteed means of obtaining external resources. The theory further assumes that firms that uniquely merge resources flourish better (Dyer & Singh, 1998). The procurement bargaining power on external resources is imperative for strategic organizational management (Mwesigwa & Nondi, 2018). The Resource Dependence Theory has been commended for appropriately explaining

buyer-supplier relationships and performance in procurement, supply chain or the entire organization (Dolo, 2015; Salema & Buvik, 2016; Serem, Chepkwony, & Bor, 2015; Mwesigwa & Nondi, 2018).

The theory is best suited for this study since a healthy buyer-supplier relationship greatly depends on the presence of mutual trust with inter-dependency between buyers and suppliers, strong commitment, and communication aimed at attaining common goals (Adhaya, 2013). The relevance of this theory is further evidenced by the buyer-supplier relationship which is well documented as imperative in enhancing procurement performance through shared information and joint decision making (Shalle *et al.*, 2014). This therefore implies that the importance of supply chain collaboration cannot be overstated as it has a vital interaction effect on external resources access to the buying firm, which translates to better performance (Njagi & Shalle, 2016). Buyer-supplier relationships characterized by trust, commitment and communication improve performance in terms of delivering quality items at a lower cost (Loice, 2015).

Conclusively therefore, while the Transaction Cost Economics Theory holds that buyer-seller relationships are associated with fair and equal sensitive exchange of deals among counterparts, the Resource Dependence Theory advocates that opportunistic behaviour can be subsidized by devising a mechanism in which both parties are strongly reliant on one another and thus enhancing performance. Moreover, the Transaction Cost Economics Theory advocates that opportunism weakens inter-firm relationships immensely that the prior length of relationships is short-lived. However, when a dependency relationship significantly affects a business and both parties learn from each another, such opportunistic exploitations tend to diminish. Therefore, it is against this knowledge that, this paper aimed at analysing the role of dependency of both parties through the management of determinants of opportunism, that is trust, commitment, and communication of buyer-supplier relationship using the Transaction Cost Economics and Resource Dependence Theories so as to explore performance outcomes in terms of delivery time and delivered quantity of materials to manufacturing firms in Tanzania.

3.0 EMPIRICAL LITERATURE REVIEW

Procurement is gradually gaining significant recognition as an integral part of product delivery in developing countries (Basheka, 2008). There is evidence that in Africa, private sectors are grappling the set-up systems of procurement processes (Banda, 2009). Further evidence shows that the majority of procurement functions in developing countries have made a tremendous shift from non-strategic units to strategic ones. Strategic units have an upper hand in informed decision making and value addition (Facular di Economia, 2006; Knight *et al.*, 2007). Like it is the case with other African countries, poor procurement performance, amidst solid buyer-supplier relationships in Tanzania is well documented. For instance, manufacturing industries in Nigeria have similarly recorded poor performance amidst strong buyer-supplier relationships (Soderbom & Teal, 2002). Mugarura (2010) also concludes that successful buyer-supplier collaborations in terms of continuity is determined by adaptation, trust, and commitment in private Ugandan manufacturing firms. Diverse buyer-supplier relationships in Tanzania are characterized by uncertain trust, commitment and communication that calls for broader scientific re-evaluation, as recommended in one way or another by Philemon & Mboma (2015) and Mboghoima *et al.* (2014). It is also further noted that special devotion geared towards examining the antecedents of commitment because trust, which is among the most significant relationship factors in buyer-supplier relationships, does not seemingly play a chief role in relationship continuity.

Amidst cordial buyer-supplier relationships in many countries, a lot remains to be desired in regard to performance (Wilium, 2016). This might be linked to the level of trust, commitment, or Early Supplier Involvement (ESI) in terms of joint development of products or electronic information sharing (Serrão & Dalcol, 2010). Furthermore, effective buyer-supplier relationships play an important role in enhancing procurement performance (Lyson & Farrington, 2012) through the improvement of organizational operations, including prompt material delivery to buying firms (Hsu, Kannan, Keong Leong, & Tan, 2006). Serrão and Dalcol (2010) attempt to describe effective buyer-supplier relationships in the context of developed nations, leaving the developing ones unaddressed.

Some academics have sought to identify the effect of ineffective buyer-supplier relationships on procuring entities, and it has been found to negatively affect material delivery (Mwangi, 2006 as cited in Waithaka & Waiganjo, 2015). Also, Mwesigwa and Nondi (2018) supported that the existing unreliable supply of materials due to high cost, poor quality and the lack of timely delivery is highly attributed to the nature of supplier development. The commitments of the buyer-supplier relationships can be measured in terms of commitment that is, joint problem solving, and investment in relationships. A notable study that justifies this observation is that of Kamau (2013) conducted in

Kenya. As concluded in his study, for buyer-supplier relationships to enhance organizational performance, they should be characterized by trust, commitment, communication, mutual goals, and cooperation. All these elements are described as aspects for successful buyer-supplier relationships. Kamau's (2013) study is however not without limitation as its focus is on the entire organizational performance. In reality however, the performance of an entire organization is attributed to numerous functions. There is hence a need to explore the influence of buyer-supplier relationships on individual organizational functions, as was intended in the current study where the emphasis was vested on the procurement performance.

Generally, studies executed from different parts of the world are calling for the need to investigate the role of the major determinants of buyer-supplier relationships on the procurement performance in large manufacturing firms of Tanzania citing Chao and Kato (2014), Matevž and Maja (2013) and Kamau (2013). More to the point it is along with what prevails in other contexts, Kamau (2013) recommended for the replication of similar studies with reference to variations across nations.

4.0 FINDINGS AND DISCUSSION

4.1 Influence of Buyer- Supplier relationship on Procurement Performance

Sharma and Sheth (1997) as supported in one way or another by Kamau (2013), Loice (2015 and Msemwa *et al.* (2017) discovered that buyer-supplier relationship aspects including trust, commitment and communication are of essence.

4.1.1 Buyer-supplier relationship's trust in procurement performance

Diverse perspectives regarding the influence of trust in the buyer-supplier relationship on procurement performance have been documented. Trust guides buyers' and suppliers' focus on the long-term advantages of the relationship and eventually enhances the performance outcomes (Capaldo & Rippa, 2009, Serrão & Dalcol, 2010). Trust in the buyer-supplier relationship is measured by the creation of mutual goals (Inayatullah *et al.*, 2012), geographical proximity of the buyer's firm to the supplier's (Sung & Kang, 2013), supplier reliability (Oyando & Musiega, 2014), interpersonal trust (Zaheer *et al.*, 1998), inter-organisational trust (Gulati & Nickerson, 2008; Krishnan *et al.*, 2006), as well as the idea that the relationship is selfless and Important (Dyer & Chu, 2000). Apart from mutual goals, the geographical proximity between buyer and supplier has been referred as one of the determinants of trust in the success of the buyer-supplier relationship in terms of sales (Sung & Kang, 2013). It is, therefore, emphasized that goals that are aligned to each other will enable parties to achieve stipulated objectives, such as delivery time and delivered quantity of materials in a user-friendly manner whilst both parties rip mutual advantages of the relationship.

Supplier reliability has been identified as a trust aspect in the buyer-supplier relationship, commonly used as criteria for evaluating supplier performance prior to order placement (Lysons & Farrington, 2012). However, evidence from developing countries show that there is no relationship between supplier's reliability and trustworthiness of the provider in the buyer-supplier relationship, and performance (Stuart *et al.*, 2012). Conversely, supplier's reliability has been observed to influence procurement performance in one of the developing countries (Oyando & Musiega, 2014).

Trust is broadly classified as inter-personal and inter-organizational trust. Moreover, Matevž and Maja (2013) assessed the influence of each category as a resource advantage serving as relational and transactional drivers of competitiveness in business relationships. It was revealed that inter-personal trust is crucial in buyer-supplier relationship's performance while the reverse prevails for inter-organisational trust. Furthermore, the nature of procurement cycle involves different factors such as procurement, stores and transport personnel from both buying and supplying Organisations (Lysons & Farrington, 2012). Therefore, due to the involvement of various personnel with different trust traits such as knowledge skills, and ethics (Lysons & Farrington, 2012), the study still called for the need to study the influence of both interpersonal and inter-organizational trust of buyer-supplier relationships on the procurement performance of sizable manufacturing firms. Also, perceived buyer's confidence in the importance of the relationship is regarded as one of the trust elements of buyer-supplier relationships that influence performance (O'Toole & Donaldson, 2002). Chao and Kato (2014) investigate buyer confidence in buyer-supplier relationships and realized that perceived buyer's confidence significantly determines buyer-supplier relationship performance, though specific resulting outcomes were not highlighted.

Furthermore, it has been suggested that the spectrum of performance realised from buyer-supplier relationship should be broadened (Chao & Kato, 2014). It has also been observed that buyer-supplier relationships of sizable manufacturing firms are challenged by delay in delivery of the required quantity of materials (Wilium, 2016). Since the need to explore procurement performance in view of prompt delivery of adequate materials is evident, there is also need to study trust aspects (mutual goals, geographical proximity, supplier's reliability, inter-personal trust, inter-organizational trust, perceived buyer's confidence) of buyer-supplier relationships in large manufacturing firm's context.

4.1.2 Commitment to buyer-supplier relationship and procurement performance

The commitment between purchasers and suppliers brings the aspiration to develop stable relationships. Also, commitment is described as a key driver to long-term relationships and both buyers and suppliers need to develop high levels of commitment to achieve sustainable competitive advantage thus improving procurement performance (Gefen, 2000). Loice (2015) found that commitment to the buyer-supplier relationship strongly influences the procurement performance of firms, contrary to Kamau's (2013) findings. It has also been revealed that when Organisations sort definite investments, the adaptation is interconnected to commitment and satisfaction (Jonsson & Zineldin, 2003).

Some scholars agree that commitment enhances stable relationships by encouraging investments that boost partners' loyalty to the relationship (O'Toole & Donaldson, 2002). More specifically, loyalty, that is the willingness to invest resources as a commitment feature of the buyer-supplier relationship has been observed to positively influence procurement performance to an extent (Matevž & Maja, 2013). Conversely, despite being positive, investment of resources to the relationship is described as the least influencing factor of performance, in regard to the buyer-supplier relationships (Stuart *et al.*, 2012) necessitating the recommendation to explore the link between resources investment and firm performance (Stuart *et al.*, 2012).

Literature describes the buyer-supplier relationship as a long-lasting attachment therefore, problems are likely to persist thus; efforts should be geared towards solving the same (Monzcka, 2010; Lysons & Farrington, 2012). Normally, joint problem-solving efforts within the context of the buyer-supplier relationship can potentially remedy delivery problems and those associated to quality issues (Maritim & Ochiri, 2015). Matevž & Maja, (2013) viewed the performance of buyer-supplier relationships in the supplier's lens while recommending further studies to view the influence of efforts on joint problem solving of the buyer-supplier relationships on performance. Interestingly, exploring procurement performance implies accurate response to recommendations since logistics management positions procurement as the buying activity (Lysons & Farrington, 2012). Among others, commitment in terms of buyer loyalty to develop their suppliers through feedback on areas for future improvement is considered key for relationship management (Handfield, Guinipero, Patterson, Waters, & Monczka, 2000; Maritim & Ochiri, 2015). It has been recommended that studies on supplier development activities should be extended to identify how they affect performance (Ahmed & Hendry, 2012).

The duration of the buyer-supplier relationship is termed as an important aspect that one should use to measure the degree to which performance is attributed to commitment (Giannakis, 2007). It has been suggested that outcomes of the buyer-supplier relationship commitment is directly linked to the duration of the relationship. Therefore, the longer the relationship, the better the commitment (Little & Marandi, 2005). Contrary to that emphasis, most study findings have revealed that the duration of buyer-supplier relationship has a minimal impact on performance (Lusch & Brown, 2006; Ganesan, 2019).

4.1.3 Buyer-supplier communication and procurement performance

Communication is critical to the buyer-supplier relationship (Hsu, Kannan, Tan, & Keong, 2008; Waithaka & Waiganjo, 2015). Effective communication can potentially boost procurement performance (Goodman & Dion, 2001; Shahzad *et al.*, 2015). Communication of in the buyer-supplier relationship is measured using content, modality, frequency of communication, and communication direction (Damlin *et al.*, 2013). Also, in order to ensure effective performance of the buyer-supplier relationship, the ESI is encouraged as communication content (Momanyi & Paul, 2018).

The ESI is described as a vertical integration between supply chain actors where manufacturers value the supplier's availability during the development of new products (Van Weele, 2010; Maritim & Ochiri, 2015). The ESI and their

immense contribution to the supply chain are regarded as essential aspects for enhancing competitiveness (Cousineau, Lauer, & Peacock, 2004). Companies are currently encouraging ESI, especially in designing requirements to enhance lead time reduction (Bamford & Forrester, 2010). Petroni and Panciroli (2002) observed that inappropriate suppliers may consequently result to resources wastage in procurement. They urge suppliers to design highly customised specifications and require suppliers to perform beyond their technological competencies. Therefore, it is against this empirical review that this study analysed the influence of ESI on the development of specifications in the buyer-supplier relationship in terms of delivery time and delivered quantity of materials, to analyse if they reduce lead time and backorders.

Communication within the context of the buyer-supplier relationship is characterised by information sharing aimed at costs reduction (Paulraj *et al.*, 2008). Shalle *et al.* (2014) referred to information sharing as a key in the establishment of trust among buyer and suppliers, and consequently procurement performance both Shalle *et al.* (2014) and Serrão and Dalcol (2010) describe performance cost as an outcome. This study focused on the role of the same predictors on procurement performance in relation to the delivery time of the required quantity of materials. Also, willingness to pass information between buyers and suppliers is revealed to have an influence on procurement performance in supermarkets of developing countries (Makau & Muturi, 2015).

Organisations are increasingly exploiting information technology in the management of business relationship (Jap & Mohr, 2002; Leek *et al.*, 2003). Also, original equipment manufacturers are urged to use electronic software in sharing information between buyers and the suppliers (Batson, 2008). While Batson (2008) explores the implication of software application as communication means for supplier development, this study analyses the implication of communication in the buyer-supplier relationship in the context of procurement performance. This was viewed in reference to delivery time and delivered quantity of materials in Tanzania's large manufacturing firms.

Consequently, communication direction is viewed as crucial key performance index used to assess the buyer-supplier relationship and the two-way flow of information is highly recommended in reference to responsive feedback (Damlin *et al.*, 2013). Equal flow of information in both directions has been found to be a proactive way of identifying problems in the relationship and consequently resolving the same easily. It is suggested that responsive feedback matches supply with demand and increased profitability (Hsu *et al.*, 2008). Information sharing is also a communication aspect that significantly influences the performance of buyer-supplier relationships in maize markets (Msemwa *et al.*, 2017). However, both studies critically analyse the role of responsiveness in the communication in the buyer-supplier relationship which also is an important aspect of this study. Studies conducted by Hsu *et al.* (2008) and Msemwa *et al.* (2017) viewed the performance in monetary terms contrary to the focus in the current study. In situations with unequal power in relationships, the less powerful party has been observed to withhold information and feedback to their more powerful counterparts, significantly impacting procurement performance (Capaldo & Rippa, 2009).

Meetings have been regarded an appropriate measurement of the frequency of communication in many aspects. Specifically, it has been argued that regular meetings between actors of buyer-supplier relationships enhance performance (Gebert, 2012; Kohtamäki & Bourlakis, 2012), as supported by Cheet *et al.* (2008). In dispute however, other scholars found that only 11% of Organisations used the buyer-supplier relationship to discuss business prospects using regular meetings (Aretoulis, Kalfakakou, & Striagka, 2010).

Mboghoima (2014) recommends that there is need to create a system for reliable supply of manufacturing materials in Tanzania. Therefore, it is against the above empirical review that the researcher analysed the influence of communication in the buyer-supplier relationship, and more specifically; ESI in designing of specifications, electronic information sharing, communication direction, and buyer-supplier meetings on procurement performance in relation to the delivery time of the delivered quantity of materials to sizable manufacturing firms in Tanzania.

5.0 CONCLUDING REMARKS AND RECOMMENDATION

While literature review evidences that the influence of buyer-supplier relationships on performance is well documented, limited studies have attempted to establish the link between the buyer-supplier relationship and procurement performance in huge manufacturing Firms of Tanzania. It is upon such a background that the researcher explored the influence of the buyer-supplier relationship, particularly; trust, communication and commitment on procurement performance aspects of delivery time and delivered quantity of materials to manufacturing firms in Tanzania. Considering that sizable manufacturing firms in Tanzania are challenged by

unreliable material supply, it is recommended that future studies should focus on the influence of the buyer-supplier relationship on the performance of sizable manufacturing firms in Tanzania. This will inform policy makers in view of firm performance in Tanzania.

6.0 CONTRIBUTION OF THE PAPER

This study has revealed a positive link between buyer-supplier relationships and procurement performance. Buyer-supplier relationships of sizable manufacturing firms are also challenged by unreliable and inadequate material supply. The current buyer-supplier relationship framework should therefore be broadly studied as to identify the influence of trust, commitment and communication on procurement performance of huge manufacturing firms. Empirically, previous studies were conducted on the influence of buyer-supplier relationships on procurement performance in reference to quality and cost. Also, reviewed studies were either quantitative or qualitative in nature hence; it is recommended that mixed (sequential) method studies with representative sample sizes be conducted, as recommended by Loice (2015). Furthermore, reviewed studies mainly focused either on buyers or supplier's perspectives thus, it is recommended that future studies should focus on both. A critical review of literature suggests that the actual influence of buyer-supplier relationships on timely delivery of the adequate quantity of materials in huge manufacturing firms remains vague. This empirical analysis is a call in an attempt to fill this research gap.

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