

INFLUENCE OF BUYER-SUPPLIER TRUST ON PERFORMANCE OF FOREIGN BASED DEVELOPMENT AGENCIES IN KENYA

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Abstract

Buyer-supplier trust is critical for supply chain performance. Geographically distanced firms like foreign based development agencies just like multinationals that operate in diverse markets need to build trust with possible business partners for their benefit. Using data obtained from 111 employees who included senior managers, procurement officers and accountants from 37 foreign based development agencies in Kenya, this study obtained positive moderately weak relationship between buyer-supplier trust and firm performance. The study concludes that a strong bond between buyers and suppliers has a positive influence on firm performance. The study recommends that organizations should aim to grow their bonds of trust while weakening asymmetries between the buyer and the supplier.

Keywords: Buyer-Supplier Trust, Performance, Foreign Based Development Agencies

INTRODUCTION

Operations in diverse host countries present many sourcing and supplies challenges especially for a foreign based firm (Staritz, 2011). Foreign based agencies such as nongovernmental organizations, embassies and development agencies have to source for inputs from diverse foreign markets and they have to provide services in diverse countries and regions. Establishing the right source of their inputs and building robust relationships with mutual benefits is essential for their performance. In their article on *building long-term buyer-supplier relations*, Cannon, Doney, Mullen and Peterson (2011) indicate that development and strengthening relationships that have mutual benefit to both buyer and supplier is essential for supply chain performance. For an organization to experience breakthrough in its supply chain function; building multiple, long-term, sourcing networks through appropriate alliances with key suppliers is critical.

The evolving societal needs which the foreign based agencies seek to solve calls for supply chain frameworks that enhance their ability to perform. Gualandris and Kalchschmidt (2016) posit that foreign based entities have to identify and build trust with suppliers. Buyer-supplier trust can be attained when the parties involved operate with courtesy, honesty and fairness with single goal to benefit relevant parties in their supply chain. When there is mutual trust, Cannon *et al.* (2011) argue that members can freely communicate their needs which helps the parties in a supply chain to better address the challenges that would affect their overall performance. The question that begs is whether and how buyer-supplier relationship influences performance of a firm.

LITERATURE REVIEW

The three common variants of trust as envisaged in buyer supplier trust literature includes calculative trust, cognitive trust and trustworthiness. Cohen (2014) defines calculative trust as the act of taking a calculated risk to choose suppliers and relinquish a great deal of costly evaluations thereafter by believing that supply chain frameworks can meet the needs of the their members. This variant emphasizes that members to a supply chain framework aim to minimize supply chain risk by trusting the members in the chain. The second variant of trust is cognitive trust which according to Washington (2013) is the individual's belief in members regarding whether they can trust their reliability, dependability and competence. In his paper, Smeltzer (1997) defined the third variant of trust – trustworthiness, as acting in a selfless manner, accurate disclosure of relevant information when asked, not changing the supply specification and acting in general ethical manner.

Anchored on trust theory, this study sought to determine the influence of buyer-supplier trust on performance of foreign based agencies using data from 37 foreign based agencies

operating in Kenya as at June 31st 2017. Mayer, Davis and Schoorman (1995) indicate that organizations have to calculatedly and cognitively source for suppliers while Castelfranchi and Falcone (2010) opine that organizations can benefit most if they manage to obtain trustworthy, reliable, dependable and competent suppliers. Consistent with trust theory, the members for example buyers (trustors) in a supply chain framework abandon costly control issues and allow the concerned members such as suppliers (trustees) to control the issues under consideration (Mayer, Davis & Schoorman, 1995).

The three variants of trust in a supply chain context point to one thing: selflessness and desire to maximize benefits for all members. Such strong buyer supplier bond of trust can only be built through interactions over many years (Chen, 2015). As organizations interact and meet each other's mutual needs over time a trust is developed. According to Cohen and Dienhart (2013) both the buyer and supplier have to be consistent for the other parties to trust them. Good morals from employees in the organizations such that they act in selfless manner, accurately disclose relevant information when asked, not changing the supply specification and acting in a general ethical manner.

METHODOLOGY

This study sought to determine the influence of buyer-supplier trust on performance of the foreign-based development agencies. Using data obtained from 111 employees in 37 firms, that is 21 bilateral and 16 multilateral foreign based development agencies in Kenya the study tested the hypothesis that strong buyer-supplier bond enhances performance of firms in the relationship. The study followed descriptive research design and data was obtained through structured questionnaires where respondents were asked various questions to measure levels of calculative, cognitive and trustworthiness and how such factors influenced the performance of the organization. The issues were rated using a 5-point Likert scale and the data was obtained from senior managers, procurement officers and accountants in the 37 organizations. The obtained data was analyzed using SPSS.

ANALYSIS AND RESULTS

After the test for assumptions of regression analysis such as normality, homoscedasticity, multicollinearity and autocorrelation, the data was analysed using regression analysis. The regression analysis obtained correlation coefficient equal to 0.599 and coefficient of determination equal to 0.359 as shown in table 1 below. Those statistics indicate that there is a positive but moderately weak relationship between buyer-supplier relationship and performance. Also, the significant value corresponding to the buyer supplier trust is statistically significant

because it is less than the alpha value of 0.05. Therefore, at five percent significant level buyer-supplier trust positively influences performance of firms in a supply chain relationship.

Table 1: Findings from Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.599 ^a	0.359	0.323	0.1179	
a. Predictors: (Constant), Ln_Buyer					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.560	0.432		1.296	0.198
Ln_Buyer Supplier Trust	0.348	0.172	0.175	2.017	0.047
a. Dependent Variable: Ln_Supply chain performance					

DISCUSSION AND CONCLUSION

There is no doubt that strong buyer-supplier relationship can bring a host of benefits to the involved organizations. This study confirms the essence of trust between buyer and supplier to enhance the performance of the supply chain. The study extends the debate and adds that trust is built through consistency, reliability in delivery and product quality conformity. The study concurs with the findings of Jung-Seung and Liang (2016) who established a positive relationship between buyer-supplier trust and firm performance. However, Gualandris and Kalchschmidt (2016) argue that the trust should be mutual and selflessness is critical for firms to obtain benefits of trust. Opportunistic tendencies amongst some members may cause the less privileged firms to suffer losses. Therefore, buyer-supplier trust enhance strategic alliances and allow firms to draw benefits of coordinated sourcing while providing financial benefits through risk reductions, sharing of information for mutual supply chain performance.

In conclusion, strong bonds between the buyer and supplier enhance supply chain performance and bring a host of benefits to the involved organizations. Because of the trust between the parties involved, organizations in the supply chain framework put voluntary efforts to benefit the other parties who rely on them for supplies or for sales revenues. According to Jung-Seung and Liang (2016) an equal playing ground for all members in the supply chain framework is important. That is consistent with the arguments of Villena and Craighead (2017) who opine that it is not the strength of the relationship that is import, symmetry of members within the group is critical. Equal trust minimizes opportunistic tendencies amongst some

members. It is suggested that members with equal power can make better buyer-supplier relationships. Both the level of and symmetry of trust should be moderated amongst members.

LIMITATIONS TO THE STUDY

There were a number of anticipated limitations in the study. Some respondents were unwilling to cooperate in filling the questionnaire without authority from management or fear of intimidation from their supervisors or lack of knowledge about the subject; however, this was overcome by having a conversation with the respondents first. In addition, respondents took a long time to fill and complete the questionnaire. The significance of the study was to be articulated objectively to the prospective respondents during the piloting phase and the actual study. Respondents were assured of strict adherence to ethical standards throughout the research. They were assured of strict confidentiality where any information obtained from them was used solely for the purpose of the present study and no any other use whatsoever. The study sought and obtained informed consent from study participants before the commencement of data collection. Lack of the ability to explain or predict performance based on design or model associated with BRS descriptions and management prescriptions limited the study. In addition the inability to obtain consensus on BSR variables that best fit the relationship had effect on the study.

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