

THE IMPACT OF PURCHASING STRATEGIES TOWARDS MANUFACTURING
PERFORMANCE IN MALAYSIAN FOOD AND BEVERAGE
MANUFACTURERS

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in my/our opinion that this thesis is adequate in terms of scope and quality which
fulfill the requirements for the award of Bachelor of Technology Management
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This thesis is submitted in partial fulfillment of the requirements for the award of
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DECLARATION

“I admit that this report is the result of my own, except certain explanations and passages where every of it is cited with sources clearly.”

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DEDICATION

I would like to express my sincere appreciation to my beloved families, lecturers and friends for their guidance and support.

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ABSTRACT

Purchasing is viewed as a strategic resource for helping a company to reach high quality levels of products or services, fast deliveries and cost reductions. The purchasing strategies have become more importance in the future and act as a strategic weapon to enable a company to compete with others. This research aimed to investigate the impact of purchasing strategies towards manufacturing performance and thus achieve organizational goals. The type of method used in this study is data collection by using questionnaire. A sample of 134 Malaysian Food and Beverage (F&B) manufacturing companies was used for investigation, with one respondent from each company. The result of the analysis showed that cost management strategy, supply base management strategy, buyer-supplier relationship strategy and negotiation strategy are significant influence the manufacturing performance. In the conclusion, discussion proved that the research objectives had been achieved. This research can increase the awareness of manufacturers about those purchasing strategies and keep them remain competitive in business.

Keyword: Purchasing, purchasing strategies, manufacturing performance, Malaysian Food and Beverage (F&B) manufacturing companies

ABSTRAK

Pemerolehan adalah salah satu cara untuk membantu syarikat untuk mencapai produk atau perkhidmatan yang bertahap tinggi, masa penghantaran yang cepat dan pengurangan kos. Strategi pemerolehan telah menjadi lebih penting pada masa akan datang dan bertindak sebagai senjata strategik untuk membolehkan syarikat tersebut mampu bersaing dengan orang lain. Kajian ini dijalankan untuk mengkaji kesan pemerolehan strategi ke arah prestasi perkilangan dan dengan itu mencapai matlamat organisasi. Jenis kaedah yang digunakan dalam kajian ini adalah pengumpulan data dengan menggunakan soal selidik. Sampel kajian terdiri daripada 134 syarikat-syarikat pembuatan makanan dan minuman di Malaysia telah digunakan untuk siasatan, dengan satu responden bagi setiap syarikat. Keputusan analisis menunjukkan bahawa strategi pengurusan kos, strategi pengurusan pangkalan bekalan, strategi hubungan antara pembeli dan pembekal dan strategi rundingan mempunyai hubungan positif terhadap prestasi pembuatan. Kesimpulannya, perbincangan menjelaskan objektif kajian telah dicapai. Kajian ini dapat meningkatkan kesedaran pengeluar tentang strategi pemerolehan dan memastikan mereka kekal berdaya saing dalam perniagaan.

Kata Kunci: Pemerolehan, strategi pemerolehan, prestasi pembuatan, syarikat pembuatan makanan dan minuman di Malaysia

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LIST OF ABBREVIATIONS

ABBREVIATION	MEANING
BRS	Buyer-supplier Relationship Strategy
CMS	Cost Management Strategy
F&B	Food and Beverage
H ₀	Null hypothesis
H ₁	Alternative hypothesis
MRO	Maintenance, Repair and Operating
NS	Negotiation Strategy
PO	Purchase Order
SBMS	Supply Base Management Strategy
SPSS	Statistical Package for the Social Science

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CHAPTER 1

INTRODUCTION

1.1 Introduction

In this era of globalization, each manufacturing company will think about any opportunities that can help to gain competitive advantage. Companies have viewed purchasing as a strategic resource for reaching high-quality levels of products or services, fast deliveries and cost reductions (Carr and Pearson, 2002). Purchasing is the management of the company's external resources that supply all the goods, services and knowledge which are necessary for maintaining, running and managing the supportive and primary activities of a company under the most favorable condition (Van Weele, 2010).

In traditionally, most companies thought that purchasing acts as a clerical function (Leenders, Johnson, Flynn and Fearon, 2010). It also can be proved by Michael Portal's value chain that classified purchasing as supporting activities. Some people believe that the purchasing history was started after the 1850s. Charles Babbage's book which published in 1832s about the economy of machinery and manufacturers has mentioned about the importance of purchasing function to become a major contributor to the performance of an organization (Monczka, Handfield, Giunipero and Patterson, 2011).

According to Monczka et al. (2011), the purchasing became important of its role for the procurement of vital war materials during World War 1. Furthermore, the number of colleges and membership of the National Association of Purchasing Agents has been increased from the 1940s to 1946s. During the 19th century, purchasing started to involve in inventory management, warehouses, maintenance of supplier relationship and management of the flow of materials to end customers (Monczka et al., 2011).

The development of strategic planning and just-in-time purchasing let purchasing plays a more important business role for helping achieve an organizational cost, quality, technology and time goals (Magloff, n.d). Some companies such as General Motors, General Electric and Black & Decker were successful to become competitive than others through a better management of their purchasing activities (Spekman, 1988). Development of purchasing will bring excellent performance in manufacturing cost, delivery and innovation besides new product development or redesign (Das and Narasimhan, 2000). Therefore, manufacturers should consider the purchasing strategies that can influence manufacturing performance and thus achieve business goals.

1.2 Problem Statement

According to Hough (1996), normally companies will think of many methods to improve their sales revenue. Generally, general managers and shareholders are not satisfied with constant sales. Companies that are too concerned about a number of sales usually decline and eventually cease to exist. But too many times the concern about improving the sales figure is at the expense of other business functions. Purchasing management can take up the profit of 20 percent in purchasing cost reduction to equal the 20 times or more in additional sales revenue. The returns

would be significantly greater had the management spend more effort on purchasing. The purchasing department has become more dominant since many markets have changed from seller's market to buyer's market (Van Weele, 2010).

Manufacturing companies use purchasing functions indirectly to increase their profit (Hough, 1996). The purchasing strategies have become more importance in the future and act as a strategic weapon to let a company able to compete with others. However, only few research papers analyze the impact of the purchasing strategies towards manufacturing performance either in empirically or theoretically (Thruilogachantar and Zailani, 2011). For this reason, this research seeks to examine the impact of purchasing strategies towards manufacturing performance where the study is still in a lack.

1.3 Research Questions

Three research questions which investigate about the specific issues that fulfilling the aim of thesis have been formulated:

- 1) What are the purchasing strategies that can impact the manufacturing performance?
- 2) Which is the most impacting purchasing strategy towards manufacturing performance?
- 3) What is the relationship between the purchasing strategies and manufacturing performance?

1.4 Research Objectives

Purchasing has become more important towards the overall performance of a company. It is an essential for the marketers to study more about how purchasing and its strategies can help a company to achieve competitive advantage. The objectives of this research are stated as below:

- 1) To identify the purchasing strategies that can impact the manufacturing performance.
- 2) To determine the most impacting purchasing strategy towards manufacturing performance.
- 3) To analyze the relationship between the purchasing strategies and manufacturing performance.

1.5 Scope of the Study

This research focuses on the elements of purchasing strategies that affect the manufacturing performance. Moreover, it also examines which elements of purchasing strategies giving the most impact on the manufacturing performance. The researcher wants to find out the relationship between purchasing strategies and manufacturing performance through the view of employees that are involved in purchasing. This research does not examine other strategies that might influence the manufacturing performance.

Furthermore, this research only focuses on the Food and Beverage (F&B) manufacturing companies in Malaysia. Nowadays, the customers' demand for foods and beverages has been increasing due to the increase in number of world population. Therefore, the F&B manufacturing companies have been growing rapidly to fulfill

the customers' requirements. The researcher wants to know whether purchasing strategies will influence the manufacturing performance of Malaysian food and beverage companies.

1.6 Importance of the Study (Significance/Contribution)

1.6.1 Benefits to Academics

Through this research, researcher will more gain more knowledge as when they looking for their deeply in the area or field of their topic, they will read different types of paper. Besides that, researcher can practice to use all the theories that they have learned from university to apply into the research paper. Furthermore, this research is able to guide the researcher for further studies.

1.6.2 Benefits to Organizations

This research able to provide new insight into the purchasing strategies that can contribute to manufacturing performance. Other than that, it can help the manufacturing companies to increase the awareness about how important is the purchasing in helping to increase manufacturing performance. Therefore, the company will pay more attention towards purchasing strategies because they are useful in helping to achieve business goals.

1.7 Summary

The purchasing strategy is an effective strategy in helping a company to increase its manufacturing performance. In this research, researcher will find out the purchasing strategy that can affect the manufacturing performance of Malaysian Food and Beverage (F&B) manufacturing companies. This study is focused on finding the relationship between strategies of purchasing and food and beverage manufacturing performance. Hopefully, this study will bring great advantages to the academics and organizations. The literature review will be cover in Chapter 2 which focuses on the theoretical issues and framework.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Literature review is the understanding of researcher through searching of relevant written documents such as previous researches, journal articles, published books and others. This chapter covers the organizational performance, overview of purchasing, purchasing policies, purchasing strategies, Malaysian manufacturing companies and manufacturing performance. The theory of the purchasing strategies is explained in more details to provide a clearer understanding. A theoretical framework is developed and summary about overall of Chapter 2 is presented.

2.2 Organizational Performance

An organization is unable to survive or exist without interacting with few elements of external environment such as customers, suppliers and competitors. Organizational performance is about how effectively or efficiently an organization can do in order to achieve their organizational goals (Hur, 2007). An organizational performance is caused by three factors such as efficiency and process reliability,

innovation adoption and the human resource relation (Karamat, 2013).

The performance of an organizational is measured from the aspects of profitability, market share, sales growth, innovative propensity and competitive status (Karamat, 2013). Besides that, organizational performance is also linked to customer satisfaction. The company needs to work harder to satisfy the customers by getting known about their needs and wants. Organizational performance can be increased by tangible elements and intangible elements. Therefore, the next subsection will look into the types of elements in an organization.

2.2.1 Organizational Elements

There are two types of elements in an organization which are tangible elements and intangible elements. Both tangible and intangible value play important roles in increasing the organizational performance. The examples of tangible elements are facilities, equipment and raw materials.

According to Carmeli and Tishler (2004), the six intangible organizational elements are managerial capabilities, human capital, perceived organizational reputation, internal auditing, labor relations and organizational culture. A combination of capabilities such as human, technical and conceptual skills is needed to build a superior management team. Human capital focuses on the knowledge of employees that can help a company to achieve its goals. Perceived organizational reputation is one of the keys that help an organization to compete with others because the investors are more likely to make contracts and willing to pay a reasonable price for an organization that has a favorable reputation. Furthermore, internal audit takes responsibility to examine, evaluate and compare the organizational performance with previous ones. A labor relation is a relationship