Influence of Supplier Diversification on Performance of Manufacturing SMEs in Nakuru County, Kenya

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Abstract

This study aimed to evaluate the influence of supplier diversification on the performance of manufacturing SMEs in Nakuru County, Kenya. This study used a correlational research design. The target population was 304 respondents, including Supply Chain, Operations, Procurement Managers, and Accountants from 76 registered manufacturing SMEs in Nakuru County. A sample of 172 respondents was selected through stratified random sampling to ensure representation of all key informants. SMEs were identified from the county's Department of Trade, Industrialization, and Cooperatives, and data were collected using structured questionnaires to ensure consistency and relevance to the study objectives. Descriptive analytics involving means and standard deviations were conducted. Pearson's correlation analysis and linear regression analysis were used to test the relationship between the variables. The findings confirmed that supplier diversification significantly enhances the performance of manufacturing SMEs in Nakuru County. Respondents indicated that engaging multiple suppliers reduces dependency, improves supply continuity, and strengthens resilience. Firms actively sought new suppliers, maintained strong relationships with existing ones, and leveraged certified supplier databases to ensure transparency and reliability. Diversifying across geographic locations and supplier tiers was also seen to enhance flexibility and risk mitigation. The study established a strong positive link between supplier diversification and firm performance, showing that diversified firms are better equipped to maintain stability and respond to disruptions. The study concluded that supplier diversification enhances production efficiency, revenue growth, and responsiveness to market demands. Strong relationships with multiple suppliers improve customer satisfaction and supply continuity, while sourcing from different geographic locations boosts market share and competitiveness. Additionally, using certified supplier databases supports consistent profit margins and operational stability. The study recommends that manufacturing SMEs in Nakuru County adopt deliberate supplier diversification by engaging multiple suppliers across product categories and regions to reduce reliance on single sources. Managers should build strong supplier relationships, use certified databases for transparent sourcing, and proactively identify new suppliers to enhance resilience, revenue growth, and competitiveness.

Keywords: *Supplier diversification, Supply chain resilience, Manufacturing SMEs, Performance, Nakuru County, Kenya*

1. Introduction

Manufacturing SMEs remain indispensable in driving structural transformation and inclusive growth, particularly in developing countries such as Kenya, where they act as engines of employment generation and regional industrialization (United Nations Economic Commission for Africa [UNECA], 2020). These enterprises produce goods through mechanical, chemical, or manual processes and are classified based on employee numbers, capital investment, and annual turnover. In Kenya, micro-enterprises employ 1-9 people, small enterprises 10-49, and medium enterprises 50-99 employees. They operate in diverse sectors, including food processing, furniture making, and textiles, playing a critical role in job creation and economic development (Koskei, 2023). Despite their importance, the performance of manufacturing SMEs remains a concern due to their heightened exposure to systemic vulnerabilities and operational disruptions. Unlike large manufacturing firms with robust and agile supply chains, SMEs often operate with constrained resources and fragmented networks, making them more susceptible to supply chain shocks (Kakai & Ndeke, 2024). As such, supply chain resilience emerges as a critical determinant for these firms to anticipate, absorb, adapt to, and recover from disruptions while maintaining financial and operational performance.

Globally, supplier diversification has played a crucial role in strengthening supplier diversification and enhancing SME performance. In France, supplier diversification alongside digitalized procurement and nearshoring has helped manufacturing SMEs secure continuity and reduce risks associated with overreliance on limited sources (Lefebvre, 2025). In contrast, limited supplier diversification constrains the performance of SMEs in Ethiopia, where overdependence on a few or imported suppliers exposes firms to disruptions and undermines resilience (Dusengemungu et al., 2023). In Kenya, some SMEs have localized procurement by diversifying into local suppliers, as seen with Melvin Marsh International's shift to local packaging suppliers, which reduced reliance on imports and strengthened supply continuity. However, many SMEs still struggle with weak diversification due to financing constraints, inconsistent raw material quality, and limited bargaining power, making them vulnerable to market and supply shocks (Kithembe, 2023; Karuku, 2023).

Supplier diversification is a key strategy for enhancing supply chain resilience and operational performance in manufacturing SMEs. It involves sourcing raw materials, components, or services from multiple suppliers across different regions or with varying capabilities, thereby reducing dependency on a single supplier and mitigating risks such as delays, shortages, or sudden price fluctuations (Kusnirova & Durisova, 2022). SMEs can preserve business continuity even in the event of disruptions to individual suppliers by distributing procurement risk, which helps to stabilize production cycles and increase delivery dependability. Supplier diversification enhances risk management, bargaining power, and competitiveness by fostering price competitiveness, quality, and innovation (Chacha et al., 2024). For SMEs, it provides access to specialized inputs and technology, improving product quality and responsiveness. Managing diverse suppliers boosts efficiency and reduces downtime (Mogere et al., 2023). In Kenyan manufacturing SMEs, it mitigates supply fluctuations and infrastructural challenges, enhancing overall performance.

Organizational performance refers to the extent an entity achieves its strategic and operational goals across financial and non-financial dimensions (Mio et al., 2022). Using the Balanced Scorecard framework, performance is measured through financial outcomes, customer satisfaction, internal processes, and learning and growth (Kiriri, 2022). In manufacturing SMEs, financial performance is often reflected in profitability and returns on assets (ROA), indicating operational efficiency and effective supply chain management (Negi, 2021). Non-financial indicators include market share growth, product quality, delivery reliability, employee retention, and business expansion, all of which signal long-term competitiveness and operational stability (Anaja & Bagobiri, 2022).

Manufacturing SMEs are crucial to Kenya's industrial growth, contributing 33.8% of GDP and employing over 80% of the workforce, particularly in light manufacturing sectors such as food processing, furniture, metalwork, textiles, and construction materials (Gichuru et al., 2024; KIPPRA, 2023). Nakuru County hosts around 76 SMEs in urban centers like Nakuru City, Naivasha, Gilgil, and Molo, with industrial hubs including the Egerton Agro-Industrial Park. The region's strategic location, rich agricultural base, and infrastructural connectivity have driven growth in agro-processing, food and beverage, construction materials, and light engineering (KNBS, 2023).

Despite their economic significance, many manufacturing SMEs in Nakuru County face performance challenges, with financial and operational difficulties common in the early months. Issues include limited access to finance, poor liquidity, and low profitability (Kakai & Ndeke, 2024; Lagat, 2023). Weak supply chain risk management exposes firms to disruptions such as fluctuating input costs and unreliable suppliers (Kiprotich et al., 2024). While strategies like risk mitigation and technology integration can enhance supply chain resilience, their adoption among SMEs is inconsistent (Nyamete et al., 2023). Existing research shows supply chain strategies and diversification in Kenyan manufacturing but often focuses on large firms, leaving a gap regarding supplier diversification in Nakuru SMEs. This study addresses this gap by examining how supplier diversification influences the performance of manufacturing SMEs in Nakuru County, Kenya.

2. Literature Review

2.1 Theoretical Review

Contingency Theory was developed by Fiedler (1964) and Lawrence et al. (1967). It posits that there is no single best way to structure or manage an organization; instead, effectiveness depends on aligning organizational strategies, structures, and processes with both internal and external environmental conditions, such as technology, market dynamics, and organizational structure. The theory stresses flexibility and adaptability in management approaches to achieve organizational success. Researchers have applied this theory across various sectors to understand how contextual factors influence performance. Donaldson (2001) examined how environmental uncertainties require tailored organizational structures, Otley (2016) showed the need for management control systems to fit specific contexts, and Mwaniki (2022) demonstrated that adapting supply chain strategies to local conditions improves operational outcomes in Kenyan SMEs.

Contingency theory is important to this research as it stresses that the effectiveness of supplier diversification strategies depends on their alignment with specific challenges faced by SMEs, such as market volatility, resource constraints, and infrastructural limitations. Using this

perspective, the study investigated how SMEs adapt their supplier management techniques to changing external conditions to improve performance. The theory shows that, while supplier diversification might give resilience and competitive advantage in some situations, it can also present additional complexity or costs in others, necessitating a contingency approach to assessing its influence.

2.2 Empirical Review

Budiarto et al. (2022) examined how diversification strategies affect SME sustainability in Yogyakarta Province, Indonesia. Using data from 180 SME owners analyzed through ANOVA, the study found that linear diversification into related products or services led to higher profitability and sustainability compared to non-linear diversification. Successful SMEs also had stronger governance and decision-making structures. However, the study revealed a conceptual gap by focusing broadly on diversification strategies without specifically addressing supplier diversification and its direct influence on manufacturing SMEs' performance.

Chelimo and Ndeto (2023) investigated the effect of supplier diversity on the performance of Kenyan state corporations, emphasizing the mediating role of IT adoption and strategic partnerships. Using a descriptive design with 272 managerial employees sampled from 187 corporations, the study found that IT adoption significantly enhanced supply chain coordination and performance. While insightful, it presented a contextual gap by concentrating on state corporations in Nairobi, overlooking manufacturing SMEs whose operational conditions differ and remain underexplored in supplier diversification research.

Nsawir et al. (2024) explored how supplier optimization and risk management affect SME supply chain outcomes in Bamenda City, Cameroon. Using descriptive and causal designs with data analyzed through PLS-SEM, the study showed that supplier optimization had only a marginal, insignificant impact on performance. This highlighted an empirical gap, as the study offered limited evidence on how supplier diversification specifically contributes to the success of manufacturing SMEs.

3. Methodology

This study adopted a correlational research design, which is suitable for examining the direction and strength of associations among variables, thereby helping to identify patterns of co-variation that may indicate meaningful linkages. The target population consisted of 304 respondents drawn from supply chain managers, operations managers, procurement managers, and accountants working in the 76 registered manufacturing SMEs in Nakuru County (Kenya National Bureau of Statistics, 2023). Nakuru County was selected as the study area because of its growing manufacturing sector and the performance challenges experienced by SMEs in dynamic supply chain environments. A sample size of 172 respondents was determined and selected using stratified random sampling to ensure adequate representation of all key informants. To identify the SMEs, a list of registered manufacturing SMEs in Nakuru County was obtained from the Department of Trade, Industrialization, and Cooperatives. Data was collected using structured questionnaires, which provided consistency in responses and ensured that the information gathered was relevant to the study objectives. Data was analyzed using descriptive statistics and inferential statistics. Descriptive statistics entailed means, frequencies and standard deviations. Inferential statistics entailed Pearsons's correlation analysis and OLS regression analysis to determine the relationship between supplier diversification on

performance of manufacturing SMEs in Nakuru County, Kenya. The analysis was conducted using SPSS version 28.

4. Results and Discussion

4.1 Response Rate

A total of one hundred and seventy-two questionnaires (172) were handed out to the sample respondents. They were distributed in physical form and electronically as Google Forms. Table 1 indicates the response rate. As illustrated, out of the 172 questionnaires administered both in physical form and electronically through Google Forms, 161 were duly completed and submitted. This reflects a response rate of 93.60%. The remaining 11 questionnaires, equivalent to 6.40%, were either not filled out or never returned. The achieved response rate of 93.60% demonstrates strong participation from the targeted respondents, which provided robustness of the dataset collected on the study variables. According to Njagi and Muli (2020) level of response exceeding 70% is considered adequate for generalizing findings in empirical studies, and thus, the response rate of 93.60% was deemed suitable for the study.

Table 1: Response Rate

Questionnaires	Frequency	Percentage
Filled and reverted	161	93.60%
Not returned or not filled	11	6.40%
Total	172	100.00%

4.2 Descriptive Results

4.2.1 Descriptive Results for Supplier Diversification

The objective of the study was to evaluate the influence of supplier diversification on performance of manufacturing SMEs in Nakuru County, Kenya. Participants of the research were supposed to indicate their agreement with statements provided concerning the supplier diversification in their manufacturing SMEs. Table 2 shows the results. The analysis revealed that 96.27% of the respondents affirmed that their organizations engage a variety of suppliers for different products and services, while only 0.62% expressed dissent and 3.11% remained neutral. The mean score of 4.30 and a low standard deviation of 0.56 suggest broad consensus on this practice, indicating a strong inclination towards supplier variation in sourcing strategies. These findings align with the argument by Budiarto et al. (2022) that sourcing from a broad supplier base minimizes operational risk and promotes continuity in manufacturing organizations. In terms of actively identifying additional suppliers for raw materials, 93.79% of the participants responded positively. Those who opposed this statement stood at 1.24%, while 4.97% were non-committal. The high mean value of 4.44 and a standard deviation of 0.65 imply that most firms have adopted forward-looking supplier identification practices to enhance supply resilience.

When asked whether their firms maintain strong relationships with multiple suppliers to support supply continuity, 88.82% of respondents indicated agreement, 7.45% disagreed, and 3.73% were neutral. The resulting mean of 4.19 and standard deviation of 0.82 show consistent supplier relationships among the majority of the manufacturing SMEs. This supports the assertion by Chelimo and Ndeto (2023) that collaborative relationships with suppliers improve reliability and reduce lead times in supply chains.

As for working with suppliers located in different geographic areas, 87.58% of the respondents indicated positive affirmation, 9.94% refuted the statement, and 2.48% remained impartial. A mean score of 4.37 coupled with a standard deviation of 0.98 shows a strong appreciation of geographical diversification, though with slightly more variation in the responses, potentially reflecting differences in market reach or logistical capacity among firms. The use of supplier diversity databases and certification bodies attracted agreement from 85.09% of the respondents, 11.18% opposed the practice, and 3.73% were neutral. With a mean of 4.19, the results reflect moderate adoption of formal supplier vetting tools, although variations depicted by the SD of 1.18 suggest differing levels of familiarity or institutional emphasis on certified supplier sourcing. As per Nsawir et al. (2024), firms that use certified supplier databases are more likely to benefit from transparency, regulatory compliance, and innovation through diverse supplier networks.

When asked whether their firms source materials from suppliers across different tiers, 75.15% supported the statement, 13.04% disagreed, and 11.80% remained neutral. The mean score of 3.96 and a standard deviation of 1.04 points to fairly strong engagement in tier-based supplier sourcing, though the relatively higher variation implies that not all firms apply this approach. Mogere et al. (2023) observed that tier diversification supports visibility and risk management across the supply chain network. On average, the supplier diversification construct yielded a mean of 4.24 and a standard deviation of 0.86. This reflects a high overall level of supplier diversification among the surveyed SMEs, with firms showing strong commitment to variety, proactivity, geographic spread, and formal sourcing structures. These practices enhance supply chain resilience by reducing overreliance on single sources and improving adaptability in the face of disruptions.

Table 2: Supplier Diversification

	SD	D	N	A	SA	Mean	SD
We have a variety of suppliers for different products and services	0.00%	0.62%	3.11%	62.11%	34.16%	4.3	0.56
We are proactive in identifying more potential suppliers for raw materials	0.00%	1.24%	4.97%	42.24%	51.55%	4.44	0.65
We maintain strong relationships with multiple suppliers to encourage supply continuity.	0.00%	7.45%	3.73%	51.55%	37.27%	4.19	0.82
We work with suppliers from different geographic locations.	1.24%	8.70%	2.48%	26.71%	60.87%	4.37	0.98
We utilize supplier diversity databases and certification bodies to get suppliers	4.35%	6.83%	3.73%	35.40%	49.69%	4.19	1.08
Our organization sources materials from a supplier of different tiers	1.86%	11.18%	11.80%	39.75%	35.40%	3.96	1.04
Average						4.24	0.86

4.2.2 Performance of Manufacturing SMEs

The study further sought respondents' perspectives on their manufacturing SME performance. Similarly, a Likert scale of 1-5 was applied. The analysis in percentages, means, and SD are as indicated in Table 3. The findings presented that 88.19% of respondents confirmed that their firms meet production targets with minimal delays and wastage. Only 3.73% dismissed this view, while 8.07% remained neutral. The high mean of 4.15 and a low standard deviation of 0.72 reflect a shared and consistent experience among the firms, pointing to well-structured production processes and efficient operational planning. This aligns with Yadegaridehkordi et al. (2023), who showed that efficient production control significantly enhances resource utilization and minimizes process inefficiencies. When asked about profitability trends over the past three years, 67.70% affirmed that their organizations have either sustained or improved their profit margins. A total of 23.00% expressed reservations, while 9.32% took a neutral stance. The mean score of 3.70 alongside a relatively higher standard deviation of 1.17 indicates moderate consensus but also shows variability among firms. It shows that some of the manufacturing firms have not consistently reaped profitability over the last three years.

Additionally, 65.21% acknowledged a growth in revenue streams over the last three years. However, 26.08% disagreed, and 8.70% were neutral. The mean score of 3.62 and a standard deviation of 1.41 reveal significant variation in financial outcomes across firms. This suggests that while revenue growth has been realized by many, other firms have faced constraints in revenue generation. Similarly, 67.08% of the respondents reported growth in market share, 25.47% refuted this claim, and 7.45% were neutral. The mean of 3.67 and standard deviation of 1.35 again show variability, suggesting that not all the manufacturing SMES have been successful in expanding their market presence. Customer satisfaction was rated positively by 75.77% of the participants. Dissent was expressed by 17.40%, while 6.83% remained indifferent. A mean score of 3.84 and a standard deviation of 1.09 suggest that most SMEs in the sample consistently deliver products or services that meet customer expectations. In terms of market responsiveness, 85.71% agreed that their organizations have become more adaptable in the past three years. Only 2.48% disagreed, and 11.80% were neutral. The mean of 3.96 and a low standard deviation of 0.62 demonstrate strong consensus on the capacity of these firms to react quickly to market changes. Generally, the constructs analyzed yielded an average of 3.82 and a standard deviation of 1.06. These findings demonstrate that many of the manufacturing SMEs have made measurable progress in key performance dimensions, although some continue to face performance gaps.

Table 3: Firm Performance

	SD	D	N	A	SA	Mean	SD
We meet our production targets with minimal delays and wastage.	0.00%	3.73%	8.07%	57.76%	30.43%	4.15	0.72
The organization has consistently maintained or increased its profit margin for the last three years	3.11%	19.88%	9.32%	39.13%	28.57%	3.7	1.17
Our revenue streams have increased over the last three years	12.42%	13.66%	8.70%	29.81%	35.40%	3.62	1.41
We have experienced growth in market share over the past three years.	9.32%	16.15%	7.45%	32.30%	34.78%	3.67	1.35
We have consistently received high customer satisfaction scores	3.11%	14.29%	6.83%	47.20%	28.57%	3.84	1.09
Our market responsiveness has improved over the last three years	0.62%	1.86%	11.80%	72.67%	13.04%	3.96	0.62
Average						3.82	1.06

4.3 Correlation Analysis

This section presents the results of the Pearson's correlation analysis conducted to determine the characteristics and magnitude of the relationship between supplier diversification and performance of manufacturing SMEs in Nakuru County, Kenya. Findings are shown in Table 4.

A strong and meaningful positive relationship was observed between supplier diversification and performance ($r = 0.828$, $p = 0.000 < 0.01$). This relationship implies that manufacturing SMEs that engage multiple suppliers across regions or product categories are more likely to enhance their operational continuity and reduce supply risk, thereby improving performance. These results support the observations of Budiarto et al. (2022), who showed that broadening supplier networks strengthens resilience and guarantees uninterrupted production.

Table 4: Correlation Analysis

		Performance	Supplier Diversification
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Supplier Diversification	Pearson Correlation	.828**	1
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

4.4 Regression Analysis

This section displays regression analysis outcomes undertaken to examine the extent to which supplier diversification predicts the performance of manufacturing SMEs in Nakuru County, Kenya.

Table 5: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.828	0.686	0.672	0.30411

a Predictors: (Constant), Supplier Diversification

As shown in Table 5, the model summary indicates that supplier diversification has a strong positive relationship with firm performance among manufacturing SMEs in Nakuru County. The correlation coefficient (R) was 0.828, confirming a strong association between supplier diversification and performance. The coefficient of determination (R^2) was 0.686, suggesting that 68.6% of the variation in performance can be explained by supplier diversification practices.

From the regression results presented in Table 6, the intercept value of 0.144 denotes the level of performance when supplier diversification is held constant. The findings showed that the regression coefficient (beta coefficient) for supplier diversification was 0.475 with a p-value of 0.000 ($\beta = 0.475$, $p = 0.000$). This reveals that supplier diversification has a strong and statistically significant positive influence on firm performance. A unit in supplier diversification practices leads to a 0.475 unit rise in performance. This finding affirms the conclusions drawn by Budiarto et al. (2022), who observed that organizations that cultivate varied supplier relationships tend to enhance supply continuity and operational stability, thus improving organizational performance.

The regression model output was formulated as:

Performance = 0.144 + 0.475(Supplier Diversification) + ε

Table 6: Regression coefficients for Supplier Diversification and Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.144	0.213		2.674	0.001
	Supplier Diversification	0.475	0.049	0.489	9.688	0.000

4.5 Discussion of Findings

The findings of the results confirmed that supplier diversification is paramount in enhancing the performance of manufacturing SMEs in Nakuru County. Most respondents agreed that engaging a wide range of suppliers enables firms to reduce dependency on single sources and improve supply continuity across different product categories. Firms were found to actively seek out new suppliers and foster strong relationships with existing ones, reflecting a proactive and strategic approach to sourcing. There was also a common view that working with suppliers from various geographic locations and different tiers supports flexibility and risk mitigation in the supply chain. Some participants noted that the use of certified supplier databases adds structure and transparency to supplier selection, especially when dealing with critical inputs. Although the extent of diversification varied among firms, the overall perception was that supplier diversification is a deliberate and effective strategy for improving resilience. The analysis established a strong positive association between supplier diversification and performance, suggesting that firms adopting this approach are better positioned to maintain operational stability and respond effectively to disruptions.

5. Conclusion

It was concluded that having a variety of suppliers for different products and services is associated with the achievement of production targets with minimal delays and wastage. Furthermore, it was concluded that proactively identifying more potential suppliers for raw materials correlates with improved revenue streams and greater responsiveness to market demands. A conclusion was made that maintaining strong relationships with multiple suppliers leads to increased customer satisfaction and continuity in supply. Additionally, it was concluded that working with suppliers from different geographic locations is associated with growth in market share and enhanced competitiveness. Moreover, utilizing supplier diversity databases and certification bodies to source suppliers is linked to consistent profit margins.

6. Recommendations

The study recommends that manufacturing SMEs in Nakuru County should adopt deliberate supplier diversification strategies to strengthen supply chain resilience and enhance performance. Managers should actively engage multiple suppliers across different product categories and geographic locations to reduce overreliance on single sources and improve flexibility in responding to market disruptions. Firms are encouraged to build and maintain strong relationships with diverse suppliers while leveraging certified supplier databases and certification bodies to promote transparency in sourcing. Proactively identifying and

onboarding new suppliers will not only safeguard operational stability but also support revenue growth and competitiveness in the dynamic manufacturing sector.

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