

# FACTORS AFFECTING PROCUREMENT PERFORMANCE IN MOBILE TELECOMMUNICATIONS ORIGINAL EQUIPMENT MANUFACTURERS: A CASE STUDY OF ERICSSON KENYA LIMITED

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**Abstract:** The procurement performance can hardly be ignored in any manufacturing organization. Strategic, Middle level and Tactical buying decisions all relate to the management of costs in one way or another and commitment to spend money to purchase inputs is done by the Procurement staff after getting the most competitive prices in the market. This includes the production costs of making the item itself and Trade costs for managing the transport logistics from the time the goods are ready at the factory of Origin until they reach the final customer. The aim of this study will be to find out the factors that influence Procurement performance in Mobile Telecommunications Original Equipment Manufacturers, a case study of Ericsson Kenya Limited. The specific objectives will be to determine the influence of Logistics capacity, Product Tariff Engineering, Inventory Management and Internal control. The study included theories, namely Iceberg Theory, Tariff Theory, Inventory Theory and Internal Control Theory. It included Research design, target population, sample size, data collection tools and method of analysis. The study adopted a descriptive survey research with a target population of 150 respondents from Ericsson Limited. Stratified random sampling technique was applied to draw samples from each grade stratum where a sample of 60 Respondents will be drawn. The questionnaires were used as the main instrument to collect the primary data. Regression Analysis was used to determine the relationship between the independent and dependent variables. The quantitative and qualitative data was tabulated and presented by use of charts and graphs and recommendation will be done based on the findings. The study concluded that logistics capacity positively affects procurement performance. This implies that increasing levels of logistics capacity by a unit would increase the levels of procurement performance by a unit. Logistics capacity factors such as Logistics costs, logistics lead times, transparency in freight Quotes and Logistics Efficiency affect Procurement performance. The study also concluded that Product Tariff Engineering has a positive effect on the procurement performance. The study further concluded that inventory management positively affects procurement performance. The study finally concluded that Internal Control positively affects procurement performance. This implies that increasing levels of Internal Control by a unit would increase the levels of procurement performance by one unit. According to the study findings, internal control factors such as internal processes, legal compliance, and Procurement Audit and Control effectiveness affect Procurement performance. The study recommends that management of the Ericsson Kenya Limited should put in place the internal structure and systems that allow free and timely flow of information between individuals and departments to enhance the logistic capacity. The study also recommends that the priority of the product design decision should be to ensure that products are designed in such a way that assembly is enhanced. In particular designing products to reduce complexity and increase agility through postponement strategies should be the goal wherever possible which in turn enhances the procurement performance. The study further recommends the inclusion of inventory management in the strategic plans of the Ericsson Kenya Limited. Inventory management as evidenced in this study, of being capable to reducing costs of manufacturing, making sure there is full utilization of resources usage, reduces wastage of materials, improves quality of production, limits idleness in manufacturing plants, and improves customer service thus impacting positively on the procurement performance of the firms. Finally, it was recommended that for the organization to perform well, their internal control systems need to be improved, cultivated and implemented diligently.

**Keywords:** Internal Control, Inventory Management, Logistics Capacity, Procurement Performance.

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## 1. INTRODUCTION

The procurement performance can hardly be ignored in any manufacturing organization. Strategic, Middle level and Tactical buying decisions all relate to the management of costs in one way or another and commitment to spend money to purchase inputs is done by the Procurement staff after getting the most competitive prices in the market. This includes the production costs of making the item itself and Trade costs for managing the transport logistics from the time the goods are ready at the factory of Origin until they reach the final customer. The aim of this study will be to find out the factors that influence Procurement performance in Mobile Telecommunications Original Equipment Manufacturers, a case study of Ericsson Kenya Limited. The specific objectives will be to determine the influence of Logistics capacity, Product Tariff Engineering, Inventory Management and Internal control. The study will include theories, namely Iceberg Theory, Tariff Theory, Inventory Theory and Internal Control Theory. It will include Research design, target population, sample size, data collection tools and method of analysis. The study will adopt a descriptive survey research with a target population of 150 respondents from Ericsson Limited. Stratified random sampling technique will be applied to draw samples from each grade stratum where a sample of 60 Respondents will be drawn. The questionnaires will be used as the main instrument to collect the primary data. Regression Analysis will be used to determine the relationship between the independent and dependent variables. The quantitative and qualitative data will be tabulated and presented by use of charts and graphs and recommendation will be done based on the findings.

### Statement of the Problem:

According to Bhagwat and Sharma (2009), analysis of Procurement performance is among the main challenges faced by today's companies. Procurement performance is a measure of identifying the extent to which the procurement function is able to reach the objectives and goals with minimum costs (Van Weele, 2002). Customers demand for cheaper products/services of higher quality coupled by stakeholders' higher expectations on returns for their investments, have forced firms all over the world to leverage on supply chain practices as a competitive tool (Gattorna, 2003). Gaps in Logistics administration of procedures in transport at ports and Customs process leads to high transport costs of imported goods. Logistics capacity has a significant potential to reduce procurement trade costs with estimate a cost reduction potential of around 40 % of overall cost (Moise et al. 2011). Ericsson has suffered major losses recently. In year 2015 the Company's Branch in Gabon purchased equipment for Airtel Gabon Mobile Company worth Usd 100,000 however they were penalized Usd 35,000 in duty taxes instead of Usd 10,000 due to non compliance with local customs and legal process. In year 2016 Ericsson Tanzania suffered port storage penalties worth Usd 50,000 in liquidated damaged due to overstay of goods at the Ocean Container Depot. In year 2012 Ericsson Kenya Company suffered Customs penalties amounting Usd 23,000 caused by incorrect classification of parts of a Mobile phone, a problem caused by internal control issues. In light of the foregoing and incidences it is evident that procurement performance has been diminishing. It is important for long term sustainability the factors on procurement performance on mobile telecoms OEM be determined. It is against this backdrop that this study will be important in enabling Procurement staff to contribute to optimization procurement costs and improve management of expenditure of an organization.

### Objectives:

- 1) To determine the effect of Logistics Capacity on Procurement performance
- 2) To determine the effect of Product Tariff Engineering on Procurement performance
- 3) To determine the effect of Inventory Management on Procurement performance
- 4) To determine the effect of Internal Control on Procurement performance

## 2. THEORETICAL REVIEW

### Theoretical Framework:

#### Iceberg Theory:

This was modeled by Samuelson (Samuelson, 1954). Inefficient Logistics procedures increase the cost of trade and drive a wedge between the price received by the producer of the good and the price paid by the consumer. Efficient Logistics aims to reduce overall transport costs, which in their broadest definition include all costs, apart from the cost of production, incurred in getting a good from a producer to a final consumer (Krugman, 1979). This represents a pure loss deadweight loss akin to the part of the iceberg's mass that is melted away as it moves through the ocean. Improvement through the process will simultaneously reduce the price paid by domestic consumers for imports and increases the price received by foreign exporters.

**Economic Theory of Tariffs:**

The theory was advanced by Harry Johnson (1951). The history of Tariff Engineering dates back to the 19<sup>th</sup> century. In 1881 in the United States of America the tariff code provided different duty tax rates depending on the grade and colour of Sugar. A tariff is a charge levied on goods by Customs as they enter a country by crossing the national customs frontier, usually their general purpose is to reduce the volumes of imports, (Lipsey, 1960). Nevertheless, governments often decide to impose tariff measures in order to balance the budget or to retaliate against protectionist trade policy of their trade partners. The objective of Logistics Customs Tariff is to collect revenue in the form of taxes from the foreign trade.

**Inventory Theory:**

Inventories occupy the most strategic position in the structure of working capital of most business enterprises (Schradly, 1967). It constitutes the largest component of current assets in business enterprises. Inventory means aggregate of those items which are held for sale in ordinary course of business. Therefore, it is absolutely imperative to manage inventories efficiently and effectively in order to avoid unnecessary investment in them. An undertaking of neglecting the management of inventories will be jeopardizing the firm's long run profitability (Pandey, 2010). Inventory models are used in predicting the demands on inventories and are classified as either deterministic or stochastic (Zappone, 2006).

**Theory of Internal Control:**

According to Millichamp 1993, Internal Control is defined as the whole system of controls, financial, policies and procedures and otherwise, established by the management of an entity to assist in achieving their objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of frauds and errors, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information. A procurement system is based on the principles of openness and transparency, fair competition, impartiality, and Integrity (Robert, 2003). A Manager's purpose as going beyond implementation of policy and adhere to institutional norms (Bennington and More, 2010).

**Conceptual framework**

According to Kothari (2004) a conceptual framework is a diagrammatic representation of variables deemed important in a study. In this study the certain factors are expected to influence Procurement performance outlook. The conceptual framework below serves as guiding concept in this study.

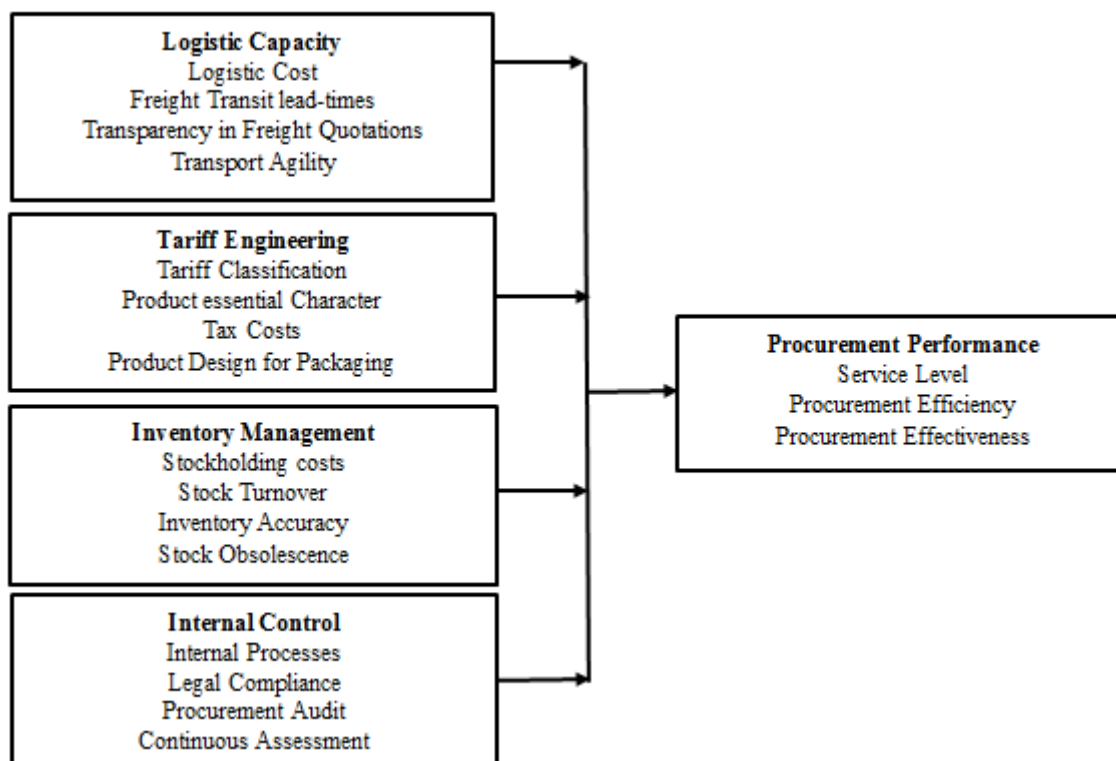


Figure 2.1 Conceptual framework

### 3. RESEARCH METHODOLOGY

A case study research design will be used in this study. The choice of this design is appropriate since it allows an in-depth understanding of the behavior pattern of the concerned unit. It also forms a framework that guides the collection and analysis of data. The study population of this study comprised of the Staff in various department at Ericsson Kenya Limited of 150 respondents. The sample for this study was 40% of the employees which translates to a sample size of sixty employees. A sample of sixty employees was systematically selected to participate in this study. Open and closed-ended questionnaires were prepared and administered for the officials and members respectively. The study relied on primary data using a questionnaire, which was administered on the drop and pick from selected respondents in Sacco members and management. In this study, the quantitative data was collected and analyzed by calculating response rate with descriptive statistics such as mean, median, standard deviation and proportions using Statistical Package for Social Sciences (SPSS) version 24 and Microsoft Excel.

#### Model:

Analysis of data used multiple regressions to test the research questions

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where,

$Y$  = Effects of Procurement Performance

$\beta_0$  = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$  = Beta coefficients

$X_1$  = Logistics Capacity

$X_2$  = Product Tariff Engineering

$X_3$  = Inventory Management

$X_4$  = Internal Control

$\varepsilon$  = Error term

### 4. REGRESSION RESULTS

Table 4.1: Significance of Independent Variables

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
(Constant)	.789	.139		4.785	.000
Logistics capacity	.762	.154	.582	4.957	.002
Product Tariff Engineering	.865	.097	.790	8.937	.001
Inventory management	.821	.118	.708	6.948	.000
Internal Control	.711	.207	.444	3.437	.001

The results in Table 4.1 indicate that logistics capacity significantly and positively influenced procurement performance. This implies that increasing levels of logistics capacity by a unit would increase the levels of procurement performance by a unit. Logistics capacity factors such as Logistics costs, logistics lead times, transparency in freight Quotes and Logistics Efficiency affect Procurement performance.

Further, Product Tariff Engineering has a significant and a positive effect on procurement performance. This implies that increasing levels of Product Tariff Engineering by a unit would increase the levels of procurement performance. Product Tariff Engineering factors such as Tariff classification, Essential character, Tax costs and Product design affect Procurement performance.

Inventory Management had significant and a positive effect on procurement performance. This implies that increasing levels of inventory management by a unit would increase the levels of procurement performance. According to the study findings, inventory management factors such as stockholding costs, Stock turnover, Inventory Accuracy and Stock obsolescence level affect Procurement performance.

Internal Control had a significant and positive effect on the procurement performance. This implies that increasing levels of Internal Control by a unit would increase the levels of procurement performance by one unit. According to the study findings, internal control factors such as internal processes, legal compliance, and Procurement Audit and Control effectiveness affect Procurement performance.

## 5. CONCLUSION

The study concluded that logistics capacity positively affects procurement performance. This implies that increasing levels of logistics capacity by a unit would increase the levels of procurement performance by a unit. The study also concluded that Product Tariff Engineering has a positive effect of the procurement performance. This implies that increasing levels of Product Tariff Engineering by a unit would increase the levels of procurement performance. Product Tariff Engineering factors such as Tariff classification, Essential character, Tax costs and Product design affect Procurement performance. The study further concluded that that inventory management positively affect procurement performance. This implies that increasing levels of inventory management by a unit would increase the levels of procurement performance. The study finally concluded that Internal Control positively affect procurement performance. This implies that increasing levels of Internal Control by a unit would increase the levels of procurement performance by one unit. According to the study findings, internal control factors such as internal processes, legal compliance, and Procurement Audit and Control effectiveness affect Procurement performance.

## 6. RECOMMENDATIONS

The study recommends that management of the Ericsson Kenya Limited should put in place the internal structure and systems that allow free and timely flow of information between individuals and departments to enhance the logistic capacity. The study also recommends that the priority of the product design decision should be to ensure that products are designed in such a way that assembly is enhanced. In particular designing products to reduce complexity and increase agility through postponement strategies should be the goal wherever possible which in turn enhances the procurement performance. The further study therefore recommends the inclusion of inventory management in the strategic plans of the Ericsson Kenya Limited. Inventory management as evidenced in this study, of being capable to reducing costs of manufacturing, making sure there is full utilization of resources usage, reduces wastage of materials, improves quality of production, limits idleness in manufacturing plants, and improves customer service thus impacting positively on the procurement performance of the firms. Finally, it was recommended that for the organization to perform well, their internal control systems need to be improved, cultivated and implemented diligently. The organization should develop effective internal control policies, procedures, and rules that should be followed in the procurement department. It should be noted that a system of strong internal control can help to ensure that the goals and objectives of an organization will be met, that it will achieve long-term targets and maintain reliable financial and managerial reporting.

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