

RELATIONSHIP BETWEEN CENTRALIZED PURCHASING AND THE PERFORMANCE OF THE HENRY JACKSON FOUNDATION IN KENYA

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Abstract: Non-Governmental Organisations play a crucial role in the development of Sub-Saharan Africa, which includes research, program evaluation, training, and advocacy roles, among others. Institutions incur expenses when sourcing workforce and other resources to support these functions. This research examined the relationship between centralized purchasing and the performance of Non-Governmental Organisations. The study adopted a descriptive research design with a population target of 189 employees of the Henry Jackson Foundation in Kenya. By use Wolontis (1952) sample size determination formula, the study obtained a sample of 80 respondents. A questionnaire was used to collect primary data. Collected data were coded and analysed using Statistical Package for Social Science Version 21.0. The study recommended that; NGOs should strive to adopt a centralized purchasing system. The study is of great significance because it contribute to more knowledge in the research field and that it open insight into the management of procurement risks.

Keywords: Centralized Purchasing, Procurement risk management.

1. INTRODUCTION

Procurement risk for an institution refers to a situation where provider market behaviour, and the institution's transactions with suppliers, create outcomes that harm company reputation, capability, operational integrity, and financial viability (Russill, 2008). It was identified that procurement risks such as a fellowship's dependence on a provider, unanticipated price excitability of raw material, supplier quality problems. In addition, supply chain break, unexpected price volatility through currency exchange rates, supplier bankruptcy, legal/regulatory return, and supplier dependency on a company. Risk in procurement management includes changes to behaviours, procedures, and controls that minimize procurement risks or reduce them to an acceptable level (Russill, 2008).

The risk management framework applied to procurement involves Endangerment of infection anticipation, Risk Monitoring, and Risk Mitigation. Effective risk management practice requires understanding the relationship between purchasing and supply and institutional objectives (Okonyo, Magutu & Nyaoga, 2016). Purchasing and supply performance is the central competency mechanism for meeting institutional goals. Instability is expected to remain high within procurement's environment shortly, affecting supply chain performance (Olsha, 2010). A ballooning number of providers are diving into monetary challenges due to ever-dropping orders, the rising cost of inputs, and unavailability or limited access to capital markets; hence purchasing needs to reduce related expenses. Still, conceivably, the greater job is the troubled suppliers and attempting to reduce the risk in some organizations.

Due to interlocking and widely dispersed supply chains, the risk of supply chain disruptions has increased significantly. As many as 69% of chief financial officers, including risk managers, consider supply chain risk a significant threat to revenue sources (Giannakis and Papadopoulos, 2016). The substantial risk reported by the top 1000 companies globally is the threat of disruptions. It is difficult to eliminate the threat of disruptions in procurement due to the inherent unpredictability of a need in businesses. The uncertainty of a need in business can lead to short lead times before operations get disrupted. By reviewing six months of data, Giannakis and Papadopoulos, 2016 noted that the JIT approach to procurement is the most responsive procurement approach at an average of 4.16 days.

Kaliti (2015) undertook a study on the impact of procurement risk on the performance of organizations in the tourism industry in Kenya. The research showed that evaluation of internal institutional environment and quality of response to risks was positively correlated to the performance of firms in the hospitality industry. The risk management practices adopted by various firms also accounted for the variance in the performance of this industry. The study recommends that firms in this industry focus their energy and resources on effective assessment of internal risks and develop ways to hedge themselves against such non-industry-related risks.

Seegerberg's (2011) study on procurement management sought to find out what high-performing procurement officers were doing and how they were benefitting at Accenture. The study involved more than 125 procurement officers. Findings indicated that 70% of the respondents felt that procurement risks had increased due to financial turmoil. The respondents were also faced with medium to elevated quality, price, and delivery risks. Other risks were due to the chosen procurement strategy, sourcing and management category, the relationship of supplier management, workforce institution, and technological challenges.

Kilonzo (2012) studied the best procurement and institutional performance practices at Cadbury's Kenya. The study mentioned that it directly influences the performance of the company. The practices help to achieve financial savings and improve efficiency in service delivery. The study further concluded that best procurement best practices used during the designing of company purchasing options are constructing supplier interaction, team-based models to supply chain, and right use of technology. The study recommends that resources be channelled to functions that enhance the best practices in procurement for profitability and growth in companies.

1.1. Statement of the Problem

Henry Jackson Foundation is currently implementing e-procurement to a limited extent; the institution has not formulated how the new development integrates with existing procurement practices for the institution (Foundation, 2016). With this in mind, it is imperative to evaluate existing procurement practices and identify procurement risks and their potential effect on performance. Second, Henry Jackson Foundation in Kenya has different departments that process supply needs differently. The semi-autonomy of departments at the institution can heighten procurement risks as each different segment categorizes differently institutional needs falling under its jurisdiction. The procurement risks arising from this scenario are partly due to a lack of aggregate procurement, collaboration, and lack of systems-wide integration in the institution. In the long run, shortcomings and procurement risks in each department will impact the overall ability of the institution to manage the supply chain risk. In other words, the risks propagated in one department affect the whole procurement profile of Henry Jackson Foundation- Kenya and its performance. Therefore, the study sought to determine the relationship between centralized purchasing and the performance of the Henry Jackson Foundation in Kenya.

2. REVIEW OF RELATED LITERATURE

Due to interlocking and widely dispersed supply chains, the risk of supply chain disruptions has increased significantly. As many as 69% of chief financial officers, including risk managers, consider supply chain risk a significant threat to revenue sources (Nexus, 2016). The substantial risk reported by top 1000 companies globally is the threat of disruptions (Nexus, 2016). It is difficult to eliminate the threat of disruptions in procurement due to the inherent unpredictability of a need in businesses. The uncertainty of a need in business can lead to short lead times before operations get disrupted. By reviewing six months of data, Nexus (2016) noted that the JIT approach to procurement is the most responsive procurement approach when at an average of 4.16 days.

In addition, Tumuhairwe and Ahimbisibwe's (2016) study indicates that procurement shortcomings will impact overall institution performance. Procurement risk can also arise from supply chain accounting for agreement and accounts

administration. From the Tumuhairwe & Ahimbisibwe (2016) findings, proper procurement records management is critical in recognizing and addressing procurement risks. The use of an inappropriate evaluation process in procurement is a risk that implies that subsequent procedures will be utilizing incomplete or misleading results (Tumuhairwe & Ahimbisibwe, 2016). The institution will not also attain optimal value. Lastly, another risk arises due to unacceptable terms and conditions to potential suppliers, leading to few bids, thus narrowing the supply of an institution.

Centralized purchasing is an approach whereby different business units forego creating separate specifications and procuring similar items separately. Instead, the business units agree to create common purchasing specifications for the shared category of expenditure, enabling uniform management of the risk of similar items to be procured in an institution. Expenditure aggregation and adopting common standards are critical in addressing procurement risk (Sanderson, Lonsdale, Mannion & Matharu, 2016).

According to Weele *et al* (2010), a centralized procurement structure puts the purchasing department in a central and tactical position to mitigate procurement risks. In this study, procurement centralization includes a form of agreement for the use in the institution by defining a contract period. The agreement is made especially for centralized procurement, which clarifies the terms and conditions relating to suppliers' price, quantity, and quality compliance. Acquiring goods and services for use in the business is the vital essence of establishing a venture. Centralized purchasing is a process of acquiring goods and services from one central point, where all the processes are determined from one point, even though the use of such may be extended to areas outside the central procurement point. The centralized purchase takes advantage of the prevailing economies of large scale by reducing the costs of expenses that may directly affect the business's operations. Lysson and Farrington (2012) and Karjalaines (2009) argue that centralized purchasing plays a dominant role in strengthening business acumen in a competitive and fast-moving world.

Weele *et al.* (2014) summarized the description merits and demerits centralizing purchasing in an organization used to establish a cornerstone form for the working of purchasing in the organization. As argued by Weele (2014), an organization that centralizes its purchasing activities will have a strong power to negotiate with the supplier and has the upper hand in identifying a competitive supplier. It, therefore, implies that an institution will easily acquire resource and economic upper hand over other organizations. A centralized purchasing activity makes a business obtain benefits due to expansion and therefore referred to internal and external economies of scale (OECD, 2000). It makes organizations obtain supplies provided at negotiated prices. This, therefore, competes with other businesses that are using a decentralized type of purchasing.

Purchasing centralization has several merits which may present, which may have bearable impacts on an organization. The character of the purchasing centralization is to operations control of an organization from a common dimension in a business, leading to requirements which are unsatisfied in a specific which reduces innovation and creativity. The compelling force is to make decisions, including supply, from a single point. The second limitation is the minor aspects related to independence in making decisions in a number of business functions. More often than not, purchase centralization gives a connection distant from the organization to the end-users leading to delinks among the business organization and customers. In conditions like this, as said by Weele (2014), centralization of purchasing function reduces the business function or department requirements since the last result is the procedure and process of supplying and acquiring goods and services instead of being the final output. The HJF performance on purchasing centralization implies that NGOs should benefit from purchasing goods used in the business. An organization should have the capacity to reduce expenditure on the purchase of raw materials or inputs which directly may not benefit the business in the realization of the organizational objectives which are set by the business. (Orina, 2018).

Okonjo, Magutu, and Nyaoga (2016) sought to appraise how the mobile telecommunication provider in Kenya implements supply chain management and risk management practices. The study found out that there is a critical connection between supply chain management, risk management practices and supply chain performance. The study found that practices used to minimize supply chain risk had a 64.6% variance of the ten independent procurement risk management practices evaluated. In other terms, implementing management practices to address procurement risks improves the performance of participating institutions. Some of the procurement risk to emerge was a failure to secure necessary conditions and the failure of offers to meet the institutional procurement needs.

3. RESEARCH DESIGN

A correlation research design was adopted in this research. Choosing a correlation research design was because the design helps assess the cause and effect relationship between the research variables in their natural state or without manipulating any variable (Kothari, 2008). In this case, the research design was deemed sufficient in assessing the relationship between centralized purchasing and performance of the Henry Jackson Foundation in Kenya.

The study was conducted in the Henry Jackson Foundation in Kenya which has branches in Nairobi, Kericho and Kisumu. The choice was informed by the declining performance in the foundation. The study population was 189 employees of the Henry Jackson Foundation in Kenya where a sample size of 80 was used. A structured questionnaire was adopted when collecting data from the selected participants.

4. FINDINGS

This study to establish the relationship between centralized purchasing and the organizational performance of the Henry Jackson Foundation. Respondents were asked to respond to the statement relating to centralized purchasing on the Likert scale according to their agreed level and the findings are presented in Table 1.

Table 1: Centralized purchasing and performance

Statement	Mean	S.D
Our department procures its own items that are not similar to those used by other departments in the institution	4.4571	0.7237
All departments create common purchasing specifications for the shared category of expenditure which is then shared with the management and reduces procurement costs	4.5570	0.5937
Funding partners are satisfied with our procurement decision-making process	4.1139	1.0375
The procurement terms and conditions adopted by Henry Jackson Foundation are at par with those of our department and the industry's recommended ones	4.3671	0.8347
The management maintains proper procurement records for all the departments in a central place	3.3924	1.1593
It costs less to procure goods as an organization than when specific departments procure items on their own	3.6078	1.2133

Source; Research data (2022)

The findings in Table 1 reveals that departments procured its own items that were not similar to those used by other departments in the institution, (mean of 4.4571 and a standard deviation of 0.7237). On whether the departments in Henry Jackson Foundation make purchases for their department. The majority of the respondents agreed that the department makes purchases that are not used in the entire organization. The mean of 4.215 and variation was high, as depicted by the standard deviation of 0.692. As to whether every department has a unified purchasing specification for the share category of spending, respondents agreed to the statement with a mean of 4.557, and variation was a low standard deviation of 0.594. Though the deviation was noticeable on the level of agreement on the level of satisfaction of the funding partners, the standard deviation of 1.038, the respondents agreed that the funding agencies are satisfied with how the procurement decisions are made in Henry Jackson Foundation. The majority of the respondents were in agreement that the Henry Jackson Foundation adopts procurement terms and conditions that are at par and comparable with those of other organizations in a similar industry and across the industries.

The level of agreement was high, mean of 4.367, and variation in the level of agreement was slightly noticeable, a standard deviation of 0.835. There was a mixed reaction to how management maintains records for the entire organization in a centralized place. The level of agreement was moderate, a mean of 3.392, and variation in the level of agreement was noticeable, a standard deviation of 1.159. Additionally, the questionnaire inquired on the cost of procuring goods and services as an entity and as a department, the respondents moderately agreed that it was cheaper to buy as an organization than as a department, a mean of 3.601, and the level of agreement was diverse with a noticeable variation, a standard deviation of 1.213. This study's findings support the findings established by the study conducted by Bosse and Philips (2014), which suggest that allowing every department or unit makes its own purchases poses risks to the procurement

process and leads to a low level of performance in the organization. They also agreed with Nexus's (2016) suggestion that the risk of the supply chain being disrupted significantly increases because of interlocking and widely spread supply chains.

4.1 Performance of Henry Jackson Foundation

This study also sought to investigate the level of organizational performance of the Henry Jackson Foundation. respondents were asked to respond to the statement relating to performance on the Likert scale according to the level they agreed and the findings are presented in Table 2.

Table 2: Performance of Henry Jackson Foundation

Statement	Mean	S.D
The community applauds and appreciates your input into the community wellbeing	4.3218	.82536
Your institution engages in projects that focus on improving community lives as opposed to making profits	4.1248	1.2580
Your institution has undertaken projects that have transformed the target community being targeted	3.8952	.85261
Whenever a project ceases to impact society, it is abandoned, and projects which have impacts on society are considered	3.6521	1.0254
Benefits from the projects undertaken by the organization are far much above the funds used in those projects	4.8521	.62152
HJF always conducts the cost and benefit analysis of every project before undertaking it	4.8621	.89574
HJF evaluates the efficiency of a project over its lifetime, which informs the need to call donors to put in funds.	4.2351	.68751
HJF abandons projects which were initially cost-effective on the ground that has changed and becomes costly	3.1124	1.78543

Source; Research data (2022)

According to Table 2, a vast majority of the respondents also agreed to the large extent that Henry Jackson Foundation has engaged in projects focused on the needs of the community welfare, a mean of 4.124, the variation was noticeable, a standard deviation of 1.258. The vast majority of the respondents agreed to the great extent that they have benefitted from the projects, a mean of 4.3218, and the variation was low, a standard deviation of 0.825. A moderate number of the respondents reasonably agreed that the institution's projects had transformed the community, a mean of 3.895 the variation in the level of agreement was low, as shown by the low standard deviation of 0.853.

There was a moderate agreement that projects are stopped immediately they cease to add value to the community, a mean of 3.652 and variation was noticeable, a standard deviation of 1.025. The respondents also strongly agreed with a low level of variation that the organization benefits that the community has received outweigh the cost invested by the entity, a mean of 4.852 and a standard deviation of 0.622. Henry Jackson Foundation also conducts cost-benefit analysis before undertaking a project as responded by the vast majority of the respondents, a mean of 4.862. The variation in the level of agreement was low, with a standard deviation of 0.895. Finally, the questionnaire sought to understand whether Henry Jackson Foundation has been abandoning projects which have over time reversed from being cost-effective and have become costly. There was a moderate agreement with a mean of 3.112. The variation in the level of agreement was noticeable, with a standard deviation of 1.785. Since all the means are between 3 and 4, it implies that the work of the Henry Jackson Foundation has performed well in the community, and the entity has received benefits.

5. CONCLUSION

The study concludes that departments make purchases for their department for items that are not used in the entire organization, every department has a unified purchasing specification for the share category of spending, the Foundation adopts procurement terms and conditions that are at par and comparable with those of other organizations in a similar industry and across the industries, the procurement department did not satisfy the funding partners as poor procurement records were maintained in a central place to ease access and that it is cheaper to buy as an organization than as a department.

Based on the conclusions, the study recommends that Henry Jackson Foundation strive to adopt a centralized purchasing system. It was established to be efficient for the organization and improve overall performance. A department in the organization should not be given outright authority to make its own purchase except for unique department items. The records management system should be set in place to aid in accession and auditing purpose.

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