

# ROLE OF PROCUREMENT STRATEGIES ON ORGANIZATIONAL PERFORMANCE OF STATE AGENCIES: A CASE OF KENYA NAVY

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**Abstract:** Procurement is the most significant function but costly business function for an organization. This is because of the fact that organizations devote a big portion of the income and working budget on acquiring resources for the operation. The cost of procurement goes up to 70%. Procurement is the procedure of obtaining materials as well as engaging suppliers to deliver their services at a cost (Hornby, 2005). In General this research seeks to find out the role played by procurement strategies on the performance of organization of state agencies focusing on the Kenyan navy. Specifically the research aims at finding out the impact of: Centralized procurement restricted tendering, buyer-supplier relationship, E-procurement all on the performance of state agencies. A research design which was descriptive was used in the study. And a population of 500 from four departments which are largely involved with procurement namely, Technical, Logistics and stores, Seamanship and communication in Kenya Navy in Mombasa County was involved and a sample of 150 respondents were selected with the help of Stratified sampling and simple random sampling techniques. In the analysis of data, both qualitative and quantitative employed, where by Likert scale used to measure quantitative data as a way of making analysis easier. Descriptive statistic method was used to analyze collected data as it help in describing data and also give the scale of response to the respondent for each element. The SPSS version 23.0 software was used for data analysis. The result by Multiple linear regression shows that four independents are responsible for 60.5% change in organizational performance namely: centralized procurement strategy, restrictive procurement, close buyer supplier relationship and electronic procurement. The study found out that centralized procurement strategy, restrictive procurement, close buyer supplier relationship and electronic procurement have a positive and significant role on performance of organization.

**Keywords:** Procurement, procurement strategy, Procurement Planning and Supplier Relationship.

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## 1. INTRODUCTION

Public Procurement and Assets Disposal Act (2015) "Procurement" refers process of obtaining any type of goods, service, works or supplies or any blend of them by any legal means. Procurement covers the entire process of obtaining property or services. The process of procurement starts with the entity identifying the need and making decision on method of acquisition. The process build up to assessment of risk, looking for and evaluation for solutions, award of contract, making payment where relevant, carrying the management of the project and making consideration on the available options of the contract. The process of procurement also encompasses the final disposal of the property upon serving it useful life (Waters, 2004). A study by Roodhooft & Abbeele (2006) revealed that the budget of government institutions, procurement takes the larger part of it. Mahmood, (2010) further revealed that in world's GDP, public procurement represents 18.42%.

**Statement of the Problem:**

Even with enactment PPDA, 2015 and the fact that several regulations are operational with the aim of improving performance of procurement functions in Kenya. Kenyan procurement system is tarnished with scandals where billions of shillings get lost. KACC Perception Survey (2015) revealed that public procurement accounts for over 80 percent of corrupt practices in Kenya. Some of the case where public procurement malpractices have been cited as cause of corruption includes: Anglo Leasing, NSSF civil servant's medical cover scheme, the NSSF Tassia estate scandal, the standard gauge railway. According to Mars Group (2011) the scandals by corruption cost the country over KSh.700 billion (USD 8.24 bn). According to Makabira, and Waiganjo (2014) also revealed that a lot of billions of shillings of public funds were lost in a military procurement activity involving purchase of 520 Hyundai motor vehicles and that over US\$ 10 million were spend on the supply that never took place.

According to Transparency International Report (2013) Kenya Navy is among the top institution in the country leading in corruption and that several stall procurement project stall due to corrupt process of procurement. The world report (2012) also cited that a high tech procurement was to be for Directorate of Criminal Investigation did not materialize due as a result irregularities in procurement process. In Kenya many provision have been put to ensure that long term objectives geared toward improving quality of life amongst citizens. Substantial amount of resources have been dedicated to ensure that quality service is offered to the citizens. However, Kenya Navy has been unable to provide considerable security to the citizen and this is attributed to poor procurement management (Makabira, & Waiganjo, 2014). The experience I have with the Navy is that there is inadequate transport facilities and lack of modern equipment which can enhance efficiency in performance of duties. According to ROK Report (2011) most stations lack proper lighting, water, ventilation, housing, policing equipment which forms important components. To the best of researcher's knowledge, no study has specifically addressed the role of procurement strategies on performance of Kenya military under the Kenya Navy. It is from this background that the present research work intended to fill the gap left by literature through exploration of the role procurement strategies plays in the performance of Kenya Navy in Mombasa County.

**Objectives:**

- a) To find out the role of Centralized Procurement strategy on the performance of state agencies in Kenya
- b) To find out the role of Restrictive Procurement on the performance of state agencies in Kenya.
- c) To find out the role of Close buyer supplier relationship on the performance of state agencies in Kenya.
- d) To find out the role of Electronic procurement on the on the performance of state agencies in Kenya

**2. THEORETICAL REVIEW****Resource Based Theory:**

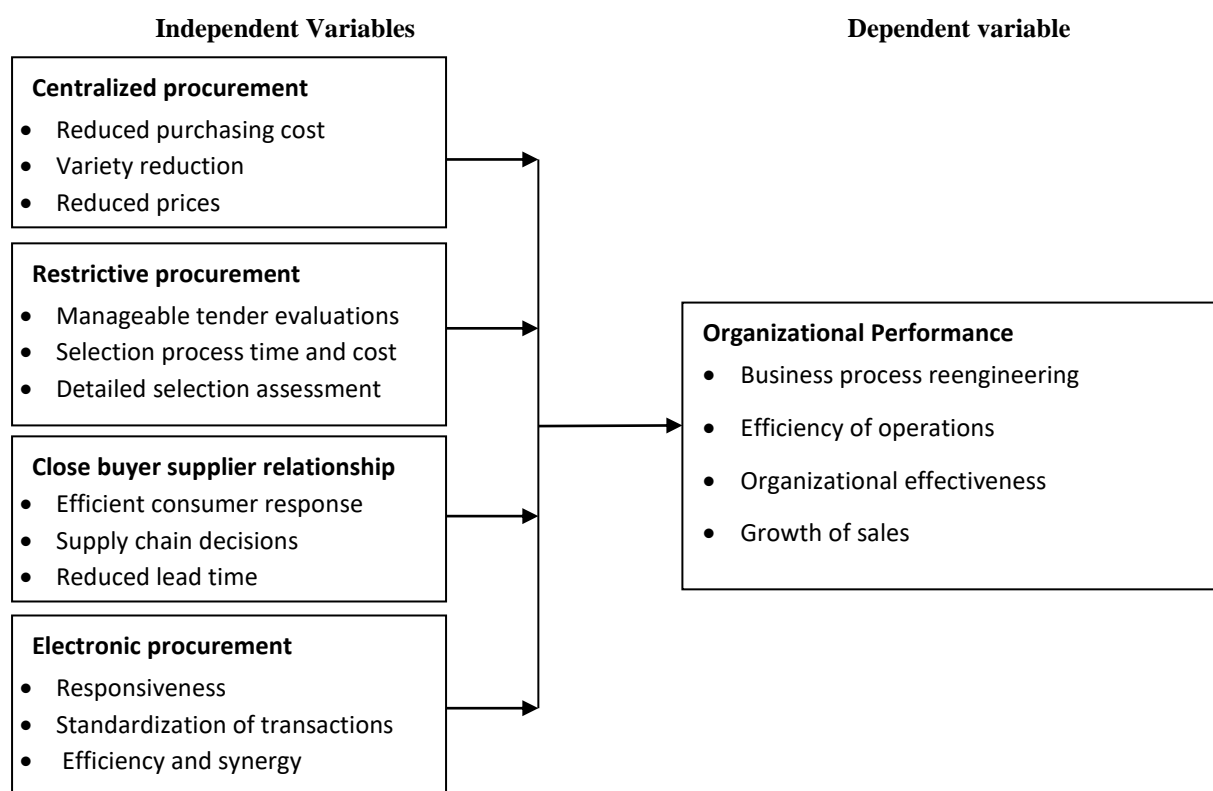
Penrose (2009) recognized resource based theory that argues that organizations acquire resource to enable them have competitive advantage over other and to be able to achieve effective performance its operations in long term. He added that high valued and scarce resources can bring about competitive advantage. The advantage of have valued material can be sustained for long period to the extent that the firm is able to protect resource, transfer or substitution (Christine, 2010). Information system resources have a lot of influence on dynamism of the firms' capabilities on rapid change on the environment. Information resources have ability to give the firm competitive advantage and this may be critical to a firm in long run when environment is unstable (Wade and Hulland, 2014).

**Technology Diffusion Theory:**

The theory of Technology diffusion is viewed as common lens since most theorists use it to come up with new ideas. Diffusion refers to the process where innovation is assumed and then gain popularity by the individuals or members of a community through popular acceptance. This theory comprises of number of complex sub-theories which jointly study the processes of adoption. The most renowned account of diffusion research by Rogers, (2014) where the description of diffusion encompasses of four elements which are defined as; Innovation: an idea, here policies or object that is viewed as new by individuals or group of adopted. Communication channels: is ways by which by innovation is transferred from one individual(s) to the next. Time: the period through the diffusion place at a given interval. The events; comprise "innovation diffusion process, comparative span of time for the individual or group to adopt the innovation and social system: a set of correlated units that are employed in solving problem together to achieve set objectives" (Rogers, 2014).

**The Contingency Theory:**

Contingency theory is classified as behavioral theory which argues that no absolute method for organizing a corporation, for leading organization, and for making decision. As an alternative, the ideal option depends on internal as well as external factors. Varied occurrence techniques were developed at the same time within the late Nineteen Sixties. Historically, contingency theory has wanted to border comprehensive generalities regarding the formal structures that are unit generally connected with or best work the utilization of numerous technologies. The perception came up with the originals work of Joan Woodward (1958), World Health Organization declared that technologies has direct influence in such structure attributes as level of management, consolidation of authorities, also as systematization of rules and techniques.

**Conceptual Framework:****Figure 2.1: Conceptual Framework****Critique of the Existing Literature:**

The theoretical and also the empirical literature establish that, obtainable literature on implementation of effective procurement performance isn't elaborative in Africa and in Republic of Kenya especially. Many studies in regard to implementation of effective Public procurement performance are mostly found in developed nations like Europe, America and North American country. As explained by studies of (Bovaird, (2007), Ryall, (2001), Murray, (2009) and Stonebraker, (2007)).

In acquisition method, e-procurement ought to be regarded a technique that create acquisition a lot of economical in terms of value, time, and accomplishment useful for cash. Wherever existing acquisition performance and procedures might controvert the aims of the new initiative, re-engineering of existing getting method is critical for the implementation of e-procurement (KPMG, 2001). The workers ought to adapt with amendments in acquisition functions because the roles and responsibilities may change well with the new method, (Birks et al. 2001)

According to the Stenning and Associates Report (2003), explicit that, with the implementation of e-procurement, existing processes of acquisition would like revision since e-procurement initiative is said to changes created by the re-engineering.

The suggestion by Birks et al. (2001) is that reengineering method ought to be objective in addressing provider relationship and also the affected internal parties within the acquisition instead of method alone (Soeters, et al., 2014). The dominating goal of a state's public acquisition system is to confirm potency and provision useful for cash use of public funds, while obeying existing policies and laws. Performance activity is regarding searching for to answer the vital question of whether or not the acquisition system and operations eventually deliver in as per explicit objectives (Rasheed, 2004).

According to Lancioni et al., (2000) determined that precise nature of the acquisition method amendment remains unclear, even if, it's wide accepted that acquisition implementation practise can have cheap implication for the planning of the acquisition method. A recent study by Yen (2003) offer a helpful comparison of before and once e-commerce development of acquisition method performance on a case study regarding investigation of textile and attire offer chain electronic commerce implementation in city, though primarily fascinated by the e-commerce system roll-out processes. there's a valuable rationalization within the case study regarding changes to the acquisition method and supports the claims from previous literature that such changes deliver method efficiencies. a locality from 3 classes of potency on improvement mentioned higher than, the reduction in prices arising as a results of, digitizing catalogues, reducing errors so as transmission, reductions in inventory, and reductions suppliers promoting prices square measure highlighted. per Moszoro (2014) reducing purchase costs is catalysed by improved economies of management info improved economies of management info square measure thought-about to be a serious catalyst for reducing purchase costs (Moszoro, 2014)

#### **Research Gap:**

The role of the public authorities in effective supply has remained minimal despite the importance of public sector procurement as highlighted by the several studies. Studies by Thomson and Jackson (2007), DEFRA (2006) and Brulhart (2015) failed to address factors that influence the adoption of effective procurement in developing nation but instead put more emphasis on effective procurement in developed nations. Studies by Patrick (2012) and Edward (2011) did not offer viable solution on how government training institutions should embrace effective procurement even if in their studies attempted to explain the status of effective procurement performance in Kenya. A study by Talluri (2013) found that in United India and Malaysia many government organizations lack effective procurement policies for supporting effective implementation of procurement performance.

A study by Sobczak (2012) noted that there is success in effective procurement performance by many firms which apply Just-in-time in managing inventories in Japan. A study by Moses (2009) found that the key impediment to implementation of effective procurement is application of poor sourcing strategies in many government institutions in Kenya. A study by Simpson and Power (2007) revealed that most of training institution in Africa are yet to embrace effective procurement performance and as a result many African government institutions, many procurement managers are not trained on the same concept.

#### **Summary of Literature Review:**

In this chapter the role of procurement strategies on performance of organizational of state Agencies in Kenya have been highlighted based on available literature drawn by other researchers. The chapter covers the conceptual framework describing the connection which exist between independent variable, such as centralized procurement, restrictive procurement, electronic procurement, supplier relationship and the dependent variable; organizational performance. Moreover a number of criticisms have been drawn on the available literature on the performance of organization.

### **3. RESEARCH METHODOLOGY**

Cross-sectional survey research design has been embraced with main objective of collecting sufficient qualitative and quantitative data at a point in time to establish patterns of organizational performance is concerned. The study targeted Mtongwe base of Kenya Navy that has four departments that is Technical (150), Supply and Logistics (100) Seamanship (200) and Communications (50) totaling to 500 employees who are currently operating in Kenya navy in Mtongwe in Mombasa Kenya. In this case 150 of respondents represented 30% of the targeted population.. The study relied on primary data using a questionnaire, which will be administered on the drop and pick from selected respondent 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:**

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

Y = Represents the dependent variable, Organizational Performance

$\alpha$  = Constant

$\beta_1, \beta_2, \& \beta_3$  = Partial regression coefficient

$X_1$  = Centralized procurement

$X_2$  = Restrictive procurement

$X_3$  = Close buyer Supplier Relationship management

$X_4$  = Electronic procurement

$\varepsilon$  = error term or stochastic term

**4. REGRESSION RESULTS****Table 4.1: Regression coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
	B	Std. Error			
(Constant)	.881	1.234		.714	.148
Centralized Procurement	.054	.330	.038	.164	.027
Restrictive Procurement	.292	.421	.286	.694	.019
Close Buyer Supplier Relationship	.269	.289	.229	.930	.000
Electronic Procurement	.752	.660	.632	1.139	.001

a. Dependent Variable: organizational performance

The results from table shown above are found by regression coefficient for multiple linear equations ( $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ ) which by supplying the coefficients becomes:

$$Y = 0.881 + 0.054X_1 + 0.292X_2 + 0.269X_3 + 0.752X_4$$

Where

Y = Organizational performance

$X_1$  = Centralized procurement

$X_2$  = Restrictive procurement

$X_3$  = Close buyer supplier relationship

$X_4$  = Electronic procurement

As per equation of regression equation developed, organization performance will be 0.881 when all independent factors constant (*Ceteris paribus*) are put together. When all other factors are combined together to be constant, the one unit increase in centralized purchasing will result to 0.054 improvement in performance of organization as per regressive equation; a unit change in restrictive procurement causes increase of 0.292 in performance of organization; an increase of a unit close buyer-supplier relationship will bring about 0.269 increase in performance of organization and a unit increase in electronic procurement will cause 0.752 increase in performance of organizational.

Conversely, significance level at 5% and confidence of 95% level of confidence Centralized Procurement, Restrictive Procurement, Close Buyer Supplier Relationship and Electronic Procurement have a significance influence (P-value < 0.05) on performance of organization with p-values of 0.027, 0.019, 0.000 and 0.001 in that order and hence, their coefficients should be reserved in the final model.

The finding shows further that when all variable are considered in this research, electronic procurement is high contributor to organizational performance with restrictive procurement taking second position followed by Close Buyer Supplier Relationship as implicated by their larger coefficients.

## 5. CONCLUSION

According to the finding of this research it is reasonable to make conclusion that centralized procurement is of great importance to the performance of the organization. The ultimate authority for purchasing of goods and services in an organization is with one unit in a centralized procurement system. Under this system requisition are collected from all other units for scrutiny, adjustments and consolidation to. The aim of consolidating requisition is to reduce cost of purchase, avoid duplication of items and to achieve cordial association between buyer and seller.

Restrictive procurement has a significant role on organizational performance. Restrictive procurement restricts the number of organizations invited to tender and thus making the tender evaluation more manageable. Further, this procurement strategy enable detailed selection assessment in the stage one of the procedure. Additionally, the method helps in improvement of quality of biddings since there are increased chances bidders to be successful as the contracting firm only engages prequalified suppliers for competition.

The findings indicate that close buyer supplier relationship has a positive and significant role on organizational performance. Sensitive procurement calls for good supplier relationship since a lot of secrecy is involved. A trustworthy supplier is needed in such acquisitions since contrary can be detrimental. Good supplier relationship ensures timely deliveries and gives the procuring organization competitive advantage. Good rapport with suppliers also reduces operations costs and minimizes lead-time. Generally close buyer supplier relationship brings about efficiency, effectiveness, and thus smooth flow of organizational operations.

Lastly, was established that electronic procurement has great positive impact on the performance of organization. The approach has ability for consolidating supply chain function at one point leading to efficiency as well satisfaction with aim of improving organizational performance. The main objective of any firm is to reduce cost, enhance service, develop loyalty of the customer increase profitability as well as return on capital and expansions. To enhance commination between buyer and seller where valuable information such as demand signal, price quotations, inventory forecasts and transportation, application integrated systems and a process is vital to ensure these are achieved.

## 6. RECOMMENDATIONS

Centralized procurement should be well structured since it help organization with one unit where power to buy is consolidated. Central procurement covers bigger part of corporate procurement strategies. However, in this approach, users have limited power in purchasing decision on the product to be purchased. Basically, the main benefit of centralized procurement ensures achievement favorable cost of purchasing through consolidation of small orders to one voluminous order. It is unfortunate that the firm has to actualize ordering process, when centralized system of purchasing is adopted, rather that centralizing just part of purchasing with suppliers.

In restrictive procurement where completion is limited for few prequalified firm is also refer to as Limited Bidding and Selective Tendering. For this procurement to be successful, this study recommends that all the policies and procedures that govern the procurement practice be followed to the latter.

It is recommended that firms should establish good rapport and dynamic supply chain which is adaptable to changes in layout, establishment of quick set-up by enhancing good relationship with suppliers to ensure faster response. Electronic communication with regards to matters such as; stock availability, ordering and delivery, came with introduction of internet, an invention which served business from extra cost associated with Electronic Data Interchange.

The whole process of supply change requires an overhaul when e-procurement is adopted by organization. Employment of electronic procurement requires an overhaul of the whole supply chain process. The electronic procurement encompasses procurement process automation for need identification, sourcing, tendering, paying for supplies, recording transactions and developing supplier management association.



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