

INFLUENCE OF PROCUREMENT PRACTICES ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA, A CASE OF KENYA COMMERCIAL BANK

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Abstract: The purpose of this study was to determine the influence of procurement practices on the performance of commercial banks in Kenya. Four specific objectives formed the basis of study and these were: to determine the influence of technological advances on the performance of commercial banks in Kenya, to assess establish the influence of resources allocation on the on the performance of commercial banks in Kenya, to determine the influence of procurement policy on the on the performance of Kenya commercial banks in Kenya and finally to find out the influence of cost estimation on the on the performance of commercial banks in Kenya .The target population was considered to be 148 employees from Kenya Commercial Bank. However, the respondents were selected from different departments of procurement, finance, human resource management and corporate services. The sample size of the study was considered to be 115 employees within the KCB which was arrived at in reference to other scholar's provisions. Quantitative research design was adopted for the study. The questionnaire was used as the data collection instrument. Data analysis and interpretation was also performed based on descriptive statistics as well as inferential statistics mainly regression analysis, Pearson correlation and alpha Cronbach which were used to test reliability and validity of the instruments. The study concluded that technological advances had a significant and positive influence on the performance of commercial banks in Kenya. This implies that technological advances has positive impact on the performance of commercial banks in Kenya. The study also concluded that resources allocation had a significant and positive influence on the performance of commercial banks in Kenya. This study further concluded that procurement policy significantly and positively influenced on the performance of commercial banks in Kenya. The study finally concluded that procurement ethics had a significant and positive influence on the on the performance of commercial banks in Kenya. Therefore, we can conclude that there is strong positive relationship between compliance to procurement ethics and the performance of commercial banks in Kenya. The study recommends that management of Kenya Commercial Bank need to be aware of their procurement technology preferences and provide the tools and equipment to the procurement team as they can be more motivated. The study also recommends that management of Kenya Commercial Bank should rigorously monitor the resource available and their use to avoid misappropriation to ensure optimization of resources. The study further recommended that the management of Kenya Commercial Bank should continuously review the existing public procurement policies to bridge the gaps that impede performance of commercial banks in the country. The study finally recommends that management of Kenya Commercial Bank need to institute measures to curb unethical practices like unprofessional ethics to enhance effective compliance to public procurement rules and regulations in Kenya which in turn will enhance performance of commercial banks in the country.

Keywords: technological advances, resources allocation, procurement policy and procurement ethics.

1. INTRODUCTION

Poor procurement practices has been one of the major stumbling blocks to the economic development of Africa and it has been clear that a number of African countries have not paid adequate attention to the proper management of public resources (Basheka, 2004). An efficient public procurement system is vital to the advancement of African countries and is a concrete expression of the national commitment to making the best possible use of public resources (Kabaj, 2003). The

influence of new public management (NPM) philosophies in the functioning of the public sector has been embraced procedurally by government departments in a number of African Countries.

Procurement practices function encompasses defining an organization's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate the activities (Robbins, 2001). Planning both as a concept and function is probably one of the extensively talked about concepts in the management literature. It is a function that forms the foundation for the rest of management functions. When planning is properly conceived and implemented, it can serve as an important mechanism for extracting, distributing and allocating resources (James, 2004).

Statement of the problem

The relationship between procurement practices and commercial banks performance continue to be singled out as important in research and practice, given the perceived weakening of traditional sources of performance on one hand (Youndt et al. 2010), and the need for commercial banks to adapt to the highly dynamic and competitive business environment, in order to perform and remain relevant (Bryson, 2008). Equally, several works on synergy, configurations, and contingent factors reiterate the presumption that the interaction among a combination of factors can impact significantly on public sector performance (Barney, 2011). From the organizational context, it can be observed that people do not resist change but they resist to be changed (Northouse, 2004). A study by Mbogo (2003) established that 78% of the commercial banks experiences hiccups during strategic management practices. According to the Government of Kenya Sessional Paper (2014) on the reforms and performance efficiency of the commercial banks, it established that low adoption of procurement practices among public sector in Kenya has led to failure to realize effective firm's performance. Many commercial banks in Kenya have had many scandals. The scandals in these commercial banks have brought to the fore the issue of the stability, brand image, accountability, trust, ethics and reputation of the commercial banks (Safieddine, & Rabbath, 2008).

However, Galbreath (2010) asserts that the conceptual links between procurement practices and performance of commercial banks have little or no empirical verification. Similarly, most theoretical and empirical researches that have been done focused the studies only on the relationships between strategic procurement practices and performance (Lee, 2008). The growth of performance of commercial banks has received a lot of attention from the government, the media and researchers but the reasons for the commercial banks performance still remain a dilemma. The Kenyan market environment has continued changing and becoming turbulent. Hence to maintain a steady corporate image, public sector need to determine and analyze environmental dimensions and establish performance of commercial banks to mitigate changing market needs (Wachira, 2014).

In view of the many challenges that commercial banks are exposed to, it is imperative for them, both profit and nonprofit organizations, to anticipate challenges, identify their strengths to meet anticipated challenges and take control of available opportunities to obtain maximum productivity Donaldson, (2006). Unfortunately, in most organizations, especially in the commercial banks, strategic plans are not carried out and implemented properly. Some commercial banks do not attach any importance to procurement practices and therefore do not have strategic plans for their organizations Bryson, (2013). This could be borne out of lack of appreciation and knowledge of the relevance of procurement practices to performance. In an attempt to address this unfortunate development, there is the need to critically assess the relevance of procurement practices on performance in the commercial banks to enable management appreciate its worth in gaining competitive advantage at the market place.

Objectives

- i. To determine the influence of technological advances on the performance of commercial banks in Kenya
- ii. To assess establish the influence of resources allocation on the on the performance of commercial banks in Kenya
- iii. To determine the influence of procurement policy on the on the performance of Kenya commercial banks in Kenya
- iv. To find out the influence of procurement ethics on the on the performance of commercial banks in Kenya

2. THEORETICAL REVIEW

Diffusion theory

According to Schneberger & Jost, (1994), diffusion is defined as the process by which an innovation is adopted and gains acceptance by members of a certain community. A number of factors interact to influence the diffusion of an innovation. The four major factors that influence the diffusion process is the innovation itself, how information about the innovation is communicated, time, and the nature of the social system into which the innovation is being introduced (Rogers, 1995). In a very real sense, the underlying causes of instructional technology's diffusion problem remain a mystery to the hospitality industry. There appear to be as many reasons for the manufacturing firm's employee's lack of utilization as there are instructional technologists. Some instructional technologists blame an intrinsic resistance to change as the primary causes of hospitality firm's technology's diffusion problem; others cite entrenched bureaucracies and inadequate funding (Schneberger and Jost, 1994).

Resource-Based View Theory

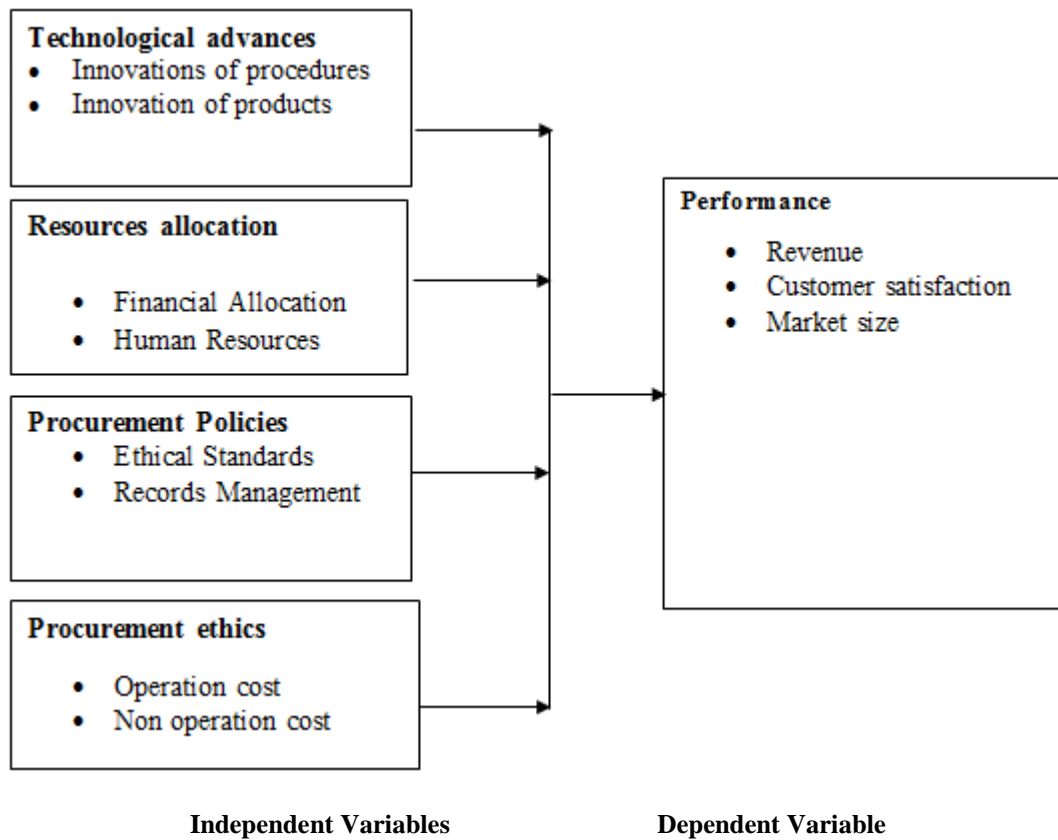
This theory was developed by Pfeffer and Salancik (1978). The Resource-Based View (RBV) is an economic tool used to determine the strategic resources available to a firm. The fundamental principle of the RBV was that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage, it required that these resources be heterogeneous in nature and not perfectly mobile. Effectively, this translated into valuable resources that are neither perfectly imitable nor substitutable without great effort (Hoopes, et al 2003). If these conditions hold, the firm's bundle of resources could assist the firm sustaining above average returns. The resource-based view suggested that a firm's unique resources and capabilities provided the basis for a strategy (Hoopes, at al 2003).

Institutional Theory

Institutional theory is a theory on the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior (Scott, 2005). According to Kraft's Public Policy (2007), Institutional Theory is a "Policy-making that emphasizes the formal and legal aspects of government structures." As such, Institutional theory is viewed as a theoretical framework for analyzing social (particularly organizational) phenomena, which views the social world as significantly comprised of institutions – enduring rules, practices, and structures that set conditions on action. Institutional Theory considers institutions as fundamental in explaining the social world because they are built into the social order, and direct the flow of social life. They are the constants that determine the rules of variation. Institutions condition action because departures from them are automatically counteracted by social controls that make deviation from the social order costly. These controls associate nonconformity with increased costs, through an increase in risk, greater cognitive demands, or a reduction in legitimacy and the resources that accompany it (Palthe, 2014; Scott, 2005).

Cost Economics Theory

Transaction cost economics (TCE) theory identifies and explains the conditions suitable for a firm to manage an economic exchange internally, and the conditions under which it should manage an economic exchange externally (Williamson, 1998). Transaction Cost Economics focuses on the organization of transactions that occur whenever a good or service is transferred from a provider to a user across a technologically separable interface. Heide and John, (1990) remarks that transaction cost analysis is useful in studies of relationships, because it provides insights into the circumstances that cause the development of a closer relationship between the buyers and suppliers. The transaction costs of buying the same good or service from an external provider can include the costs of source selection, contract management, performance measurement, and dispute resolution (Dahlman, 1979). Essentially this theory illustrates the make versus buy decision for companies. Thus, this theory is suitable in anchoring all aspects regarding cost estimation

Conceptual framework**Figure 2.1: Conceptual framework****Research gaps**

A number of studies relating to procurement practices and performance have been done. For instance, Mutai (2015) on his study on impact of procurement practices on supply chain performance of commercial banks in Kenya revealed that strategic procurement planning are applied to varying degrees by commercial banks in Kenya in enhancing its supply chain performance. Locally, Chemoiywo (2014), in her study on strategic procurement planning and supply chain performance asserted that on the extent of compliance with strategic procurement planning, improving the capabilities of service companies has been shown to booster successful reforms in public procurement, a principle that's also true for private security providers. A study by Kimani (2013) analyzed factors affecting implementation of strategic procurement planning in State corporations. The study was conducted in Nairobi City Water and Sewerage Company. A study by Kayaga (2008) examined strategic procurement planning of urban water services in Africa. The study was a case of the National Water and Sewerage Corporation (NWSC) based in Kampala, the capital of Uganda. It is clear that much research has been undertaken relate to the general aspects of strategic procurement planning from the general perspective. They have not focused on these four factors in this proposed study and also do not focus on the strategic procurement practices in the context of state corporations in Kenya. The aspect of performance in relation to procurement practices in commercial banks has been largely neglected therefore this study is intended to bridge the knowledge gap and seeks to determine how the two interrelates

3. RESEARCH METHODOLOGY

This study adopted a descriptive and exploratory research design. The study targeted 148 employees of Kenya Commercial Bank from departments of Human Resource, Finance, Procurement and Corporate Services. Since the population constituted of the small size, the study used census method. The study used structured questionnaires to collect data from KCB respondents. The researcher introduced the objectives of the study to the target respondents. The target respondents was assured of the confidentiality of their information. The questionnaire was self-administered to the

respondents and was collected after three days. The questionnaires was pilot tested before the actual data collection. The researcher was interested in testing the reliability of the research instruments, the questionnaire hence validity of data collected. For this research both primary and secondary data collecting methods was used. The information gathered from the respondents was of a qualitative and quantitative nature. The data was summarized and then analyzed by the use of descriptive statistics comprising of tables, graphs and percentages. The MS Excel, statistical software was used to analyze the collected information. This is because the MS Excel provides simplified analysis that is easy to interpret and present.

Model

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

Where,

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

Y = Represents the dependent variable, performance

α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Partial regression coefficient

X_1 = Technological advances

X_2 = Resources allocation

X_3 = Procurement policy

X_4 = Procurement ethics

ε = error term or stochastic term

4. RESULTS

Regression results

Table 4.1: Significance of Independent Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.692	.033		.000	.001
1 Technological advances	.981	.040	.917	24.402	.003
Resources allocation	.737	.045	.837	16.252	.003
Procurement policy	.583	.052	.725	11.189	.002
Procurement ethics	.467	.055	.627	.000	.002

The results in Table 4.1 indicate that technological advances had a significant and positive influence on the performance of commercial banks in Kenya. This implies that technological advances has positive impact on the performance of commercial banks in Kenya. Technological advances enables organizations to effectively monitor and coordinate procurement procedures of all procurement projects because of computerized procurement procedures and this subjects much of procurement functions to automated operations which are fast and effective

Further, resources allocation had a significant and positive influence on the performance of commercial banks in Kenya. Adequate resource capacity provides the foundation for an organization to gauge its progress toward achieving its predetermined goals, determination of strong as well as weak areas and decision-making on projects of the future for the purpose of kicking off enhancements on performance.

Procurement policy significantly and positively influenced on the performance of commercial banks in Kenya. This implies that compliance with procurement policies plays a very important role in bringing forth improved organizational performance by bringing forth transparency and professionalism within the procurement process.

Procurement ethics had a significant and positive influence on the on the performance of commercial banks in Kenya. Therefore, we can conclude that there is strong positive relationship between compliance to procurement ethics and the performance of commercial banks in Kenya. From the findings, it was discovered that a significant number of unethical procurement practices are yet to be curbed which include unprofessional ethic

5. CONCLUSION

The study concluded that technological advances had a significant and positive influence on the performance of commercial banks in Kenya. This implies that technological advances has positive impact on the performance of commercial banks in Kenya. The study also concluded that resources allocation had a significant and positive influence on the performance of commercial banks in Kenya. Adequate resource capacity provides the foundation for an organization to gauge its progress toward achieving its predetermined goals, determination of strong as well as weak areas and decision-making on projects of the future for the purpose of kicking off enhancements on performance. This study further concluded that procurement policy significantly and positively influenced on the performance of commercial banks in Kenya. The study finally concluded that procurement ethics had a significant and positive influence on the on the performance of commercial banks in Kenya. Therefore, we can conclude that there is strong positive relationship between compliance to procurement ethics and the performance of commercial banks in Kenya. From the findings, it was discovered that a significant number of unethical procurement practices are yet to be curbed which include unprofessional ethics

Suggestions for Further Research

The study has identified the influence of procurement practices on the performance of commercial banks in Kenya. However, this study calls for a further investigation of each single factor to ensure that the issue of procurement practices is fully addressed not only in commercial banks but all across the financial institutions. Since this study concentrated on influence of procurement practices on the performance of commercial banks in Kenya with special reference to KCB further studies should be done in other sector for comparison purposes and allow for generalization of the findings. This study further recommends that since the study was limited to only four variables, a similar study could be conducted with additional variables. Different models besides regression could also be used on similar studies to get an in-depth understanding of the relationships between the variables being studied.

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