

# Effects of Public Procurement Processes on Organization Performance

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**Abstract-** The general objective of this study was to analyze the effects of public procurement processes on organization performance. It determined and analyzed the gaps in public procurement in county assemblies using county assembly of Mombasa as a case study. This was guided by three specific objectives: to establish the effects of human resource skill level in the procurement department, to identify the influence of stakeholder integration on the performance of the organization and to determine the effects of supplier management on the performance of the organization. There are numerous cases of exaggerated prices, and behind the schedule projects which is contrary to the public procurement and disposal Act 2005. The Public sector for instant has lost billions of shillings out of procurement decisions made by accounting officers who are not necessarily procurement professional. A stratified random sampling technique was used to select the sample; the strata's were derived from the various categories of stakeholders that are involved in the public procurement process directly or indirectly. The study used a proportion of 30% from each stratum to select 111 respondents. The study relied on primary as well as secondary data. Primary data was collected through questionnaires to meet the objectives of the study. The questions were both open ended and closed ended. Secondary data was collected from relevant literature review, business magazines, journals, internet and other relevant material. Responses in the questionnaires were tabulated, coded and processed by the use of a computer statistical package for social science (S.P.S.S) version 20 to analyze the data descriptive statistics such as mean and standard deviation. Tables were used to present responses and facilitated comparison. The study revealed the impact of public procurement process on the organization performance. The research was limited to a public entity and thus the researcher recommend further study in the topic of public procurement process among the parastatals and analysis of the challenges experienced. The study showed a high correlation between stake holder integration and organizational performance as well as a high correlation between human resource skill level and organizational performance. It however showed a weak correlation between suppliers' management and organizational performance. The M.C.A and other County assemblies should also enhance stakeholder involvement in their procurement processes by allowing for more public participation in the process.

**Index Terms-** public procurement, public procurement in county government, supplier management, stakeholder integration, human resource skill

## I. INTRODUCTION

Effectiveness of procurement is a new challenge in the field of purchasing. In many organizations the effects of purchasing have not been determined or evaluated. The procurement effectiveness reporting tool will produce information on the effects of procurement that can be then used in developing the purchasing activities in an organization, (Eyaa&Oluka, 2011).

Public procurement operates in an environment of increasingly intense scrutiny driven by technology, program reviews, and public and political expectations for service improvements (Bolton, 2006). Currently, in Africa, procurement is of particular significance in the public sector and has been used as a policy tool due to the discriminatory and high level of corruption in the country (Bolton, 2006).

Procurement is central to the government service delivery system, and promotes aims which are, arguably, secondary to the primary aim of procurement such as using procurement to promote social, industrial or environmental policies (Cane, 2007). Prior to 2002, public procurement in Kenya was geared towards large and established contractors. It was difficult for new contractors to participate in government procurement procedures. However, public procurement in countries such as South Africa has been granted constitutional status and is recognized as a means of addressing past discriminatory policies and practices (Bolton, 2006).

### Statement of the problem

The public procurement decisions made by different heads of public entities are of great concern. This is due to the tax payers losing huge amounts of money out of such poor decisions. The services rendered out of the procurement activities are of poor quality. There are also numerous cases of exaggerated prices, and behind the schedule projects which is contrary to the public procurement and disposal Act 2005, (Kayode, 2007). The public sector for instant has lost billions of shillings out of procurement decisions made by accounting officers who are not necessarily procurement professional. (Abdilkadiret *et al*, 2013). Instances of this include the Ministry of Transport which has issues in relation to the Kshs 447 billion Standard gauge railway project, Ministry of education in relation to the laptop project which was wrongly awarded and is worth Ksh 24.5 billion and finally, the I.E.B.C awarding a tender to a firm that did not meet the technical threshold required in the specification, which made the whole process of electronic voting to be reversed back to manual systems sending everybody involved in the process into confusion, (E.A.C 2014). Surprisingly all this happens in the helpless eyes of PPOA, which

is put in place to oversight irregular procurement activities. The country governments have also been engaged in endless blame between the leaders and the country assembly members on how some procurement procedures are undertaken. Moreover, threats of impeachment and sabotage have been noticed in recent days, Abdulkadiret *et al.*, 2013).

Mombasa County assembly is one of the county Assemblies currently involved in the procurement struggles between the country executive and the County assembly. Besides, being one of the three Cities including Nairobi County and Kisumu County, the County has more challenges as well as the decline in the tourism sector which is the backbone of the Country's economy. For these reasons Mombasa County assembly is ideal for a study to determine the effect of the procurement practices on performance of the functions of the county assembly.

## II. LITERATURE REVIEW

### 2.1 Theoretical review

#### 2.1.1 Agency Theory

The theory puts a principal-agent relationship between the state Citizens and the County government officers and employees. This arises from the fact that the County government officials and employees are holding resources in trust for the citizens and more specifically the residents of the County and perform all their transactions for and on behalf of these citizens. The theory thus puts it that it is in the best interest of the county government offices to discharge all their duties owing transparency and accountability to their principals who are the residents and citizens, (Thai, 2006).

Moreover, procurement can be viewed as involving at least two parts with different goals, a buyer and one or more vendors competing for the contract. However in addition to the agency relationship between buyer and competing vendors, there may be a number of internal stakeholders possibly with conflicting goals, adding complexity to the procurement process. These groups of internal stakeholders may include the political leaders, the citizens, the interest groups operating with the County, central government, services recipients and the business interest within the County, (Gull, 2010).

The other aspect where agency theory applies is the agency relationship between the procurement department and the user departments such as the assembly, the speaker's chambers, the county representative offices, the secretariat, the County assemble committees as well as other departments within the County assembly. The procurement department does the purchases on behalf of these departments and sections who then are the principals. There is however a conflict in that the user departments have their specifications and desires which at times are not easily met within the public procurement rules, (G.O.K 2005).

#### 2.1.2 Contingency Theory

Unlike agency theory, the contingency theory is more concerned with organizational structure which entails both the formal and the informal organization of hierarchical and information as well as decision making structures within an organization. (Otieno, 2009). The contingency approach to

management has its roots in general systems theory and the open systems perspective. The open systems perspective views the complex organization as a set of interdependent parts that, together, constitute a whole which, in turn, it interdependent with the larger environment. The interactive nature of the elements within the organization and between the organization and the environment result in at least two open system characteristics that is central to the contingency approach. The principle of adaptation asserts that the elements within the system adapt to one another to preserve the basic character of the system. In addition, the principle of equifinality holds that a system can reach the same final state from differing initial conditions and by a variety of paths (Hahn, 2007).

The theory also holds that there are different levels of fit such as technological, human capital quality management and decision making structures each with different performance levels. This then holds that an organization can move from one level of fit to the other gradually by laying out a strategic map which gives guidelines for the gradual change until it gets its optimum level of fit which is the equal performance of all the fit points of the organization. This is the format used by ISO to measure organizational performance and efficiency. This is the aspect adapted in public procurement to determine the level of fit attained by integrating various players in the procurement process, (Demeester&Grahovac, 2005).

Snow et al (2006) argue that as much as an organization may not attain full fit, it can attain a quasi-fit, that is, a structure that only partially fits the contingencies. The assertion is that this quasi-fit status may still increase performance sufficient to produce some expansion in the contingencies. Thus an organization that is in misfit by being below the fit line can follow a growth path of increasing its organizational size and structure by moving into quasi-fit, rather than full fit. For such an organization in misfit, it may increase its structure sufficiently to move up onto the quasi-fit line. This level of fit produces an increase in the performance of the organization, though less than would be produced if the organization had moved into fill fit. Nevertheless, this quasi-fit produces a sufficient increase in performance that the organization has new surplus resources that allow it to grow. This increment of growth propels the organization forward into a new state of misfit, which again can be resolved by the organization increasing its structural level sufficient to attain move back onto the quasi-fit line.

Hahn (2007) suggests that contingency theory makes it possible to draw from other management theories. This suggestion conceptualizes a scenario where a firm is faced with decreasing profits and for solving the problem, the management is faced with three possible solutions from three different theoretical foundations such as use of time studies derived from the classical management theory to increase productivity of the workers, or the involvement of workers in improving work methods as given by the behavioral management theory, as well as the establishment of a team of sales and production personnel to coordinate sales and production as proposed for in the systems theory. He then asserts that, rather than doing all three, contingency theory stresses the need to first determine the true cause of the problem and select the action that will offer the best solution. In other words, the solution must fit the problem.

## 2.3 Conceptual Framework

### Independent Variable

### Dependent Variable

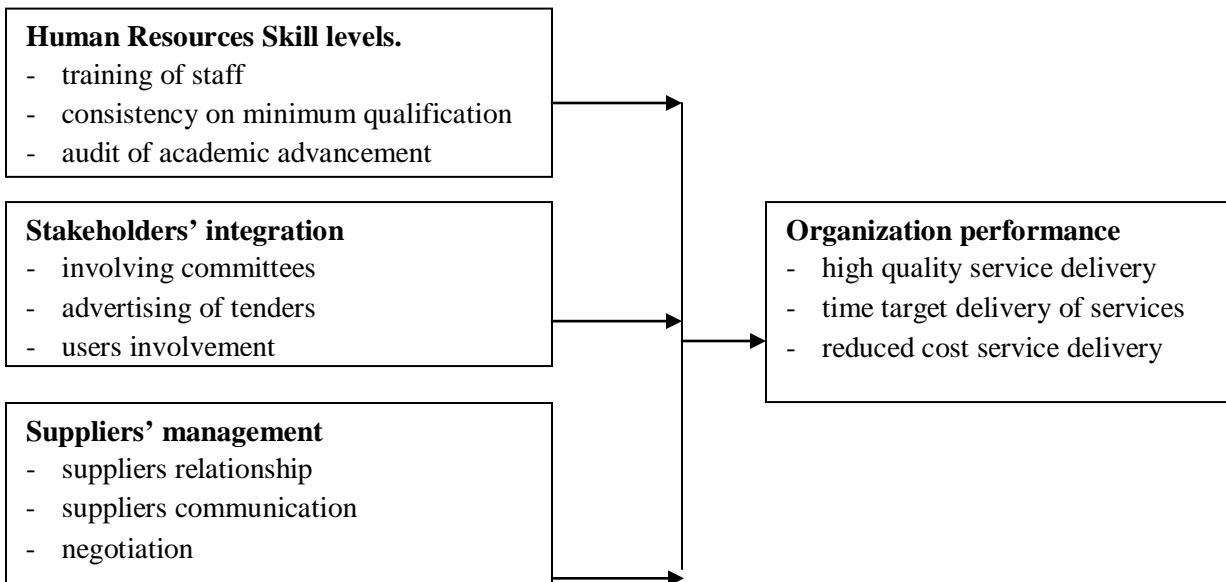


Figure 2.1 Conceptual framework

### 2.3.1 Human Resource skill level in the procurement department.

The human capital theory provides evidence which indicate that training and education raises the productivity of workers by imparting useful knowledge and skills, hence raising workers' future income by increasing their lifetime earnings. (Thai, 2006). According to Kayode (2007), training can solve a variety of manpower problems that slows down optimal productivity and performance. These problems include needs to increase productivity and efficiency, improve the quality and quantity of work boost employees' morale and organizational climate, implement new or change policies or regulations, ensure the survival and growth of the organization, develop new skills, knowledge, understanding and attitudes, provide for succession plan and ensure continuity of leadership, prevent skill obsolescence and cope with the new technological advancement, use correctly new tools, machines, processes, methods or modifications thereof, reduce waste, accidents, turnover, lateness, absenteeism, and other overhead costs and bring incumbents to that level of performance which meets [100 percent of the time] the standard of performance for the job.

### 2.3.2 Stakeholder integration.

Various studies have shown that procurement and revenue management form the core functions of public financial management; particularly within the Medium term Expenditure Framework (MTEF). The main objectives of the MTEF include linking policy, planning, budgeting; achieving fiscal discipline through a realistic macro economic framework; resources allocation, efficiency in line with strategic priorities and operational efficiency through delivery of quality managerial

services. Public procurement within the MTEF is also closely linked to the export market development as well as foreign direct investment into the country (KIPPRA 2007). Within the public sector, the core objectives are set by politicians (Hill, 2011; Osborne and Gaebler, 2008; Lyne, 2007); they make political choices regarding the prioritization and allocation scarce resources. Theoretically, those choices should set the objectives of the procurement strategy, yet of little comparative analysis of politicians and procurement managers' priorities, Murray (2011) demonstrated a lack of correlation.

Besides, participation of stakeholder is also considered part of the corporate social responsibility requirement. This demands that the end user of the product be fully involved in the procurement of products related to that process. The end users would include all the user departments within the assembly, members of the County assembly as well as the general public. (Uyarra& Flanagan, 2009).

### 2.3.3 Suppliers' management.

SQM is seen in terms of the managerial efforts necessary for creating an operating environment in which a manufacturer can integrate its supplier capabilities into its operational processes. These managerial efforts can be clustered into several components, namely management responsibility, supplier selection, supplier development, supplier integration, quality measurement and conducting supplier audits. (Arrowsmith, 2010) state that supplier selection, supplier development and supplier integration can be regarded a forming an SQM system, with management responsibility seen as the driver of the system.

Measuring supplier performance is an important means of modifying managerial behavior, and aligning the relationship with the strategic and operational goals of the buyer firm (Paul *et al*, 2008). Performance measures provide the information necessary for decision makers to plan, control and direct the activities of the organization. They also allow managers to measure performance, to signal and educate suppliers on the important dimensions of performance, and to direct improvement activities by identifying deviations from standards. Many well-known frameworks have been developed to aid in these goals, including the balanced scorecard (Kaplan and Norton, 2009).

**2.4 Critique of the literature review**

Public procurement process is understood to benefit citizens from getting value for their money, provision of quality services and on time provision of the same items and services. (Public Procurement and disposal act, 2005). These benefits have been evaluated in a number of studies however the mere adoption of public procurement process does not ensure superior performance of such organizations because of various challenges of translating public procurement process into a collaborative and integrative process capability (Ellram, 2011).

This affirms that most public entities adopting public procurement process may even suffer from delayed delivery of materials due to the tedious public procurement process. Leenders, (2009) has analyzed why some public entities successfully adopt public procurement process while others fail. Achieving public procurement process fit relies on planned choice and market characteristics. However, more research should be conducted on public procurement process and success on organization performance.

**III. RESEARCH METHODOLOGY**

**3.1 Research Design**

This study adopted a descriptive research design. It is appropriate because it is considered suitable for gathering qualitative information and generating appropriate conclusions with respect to research questions. (Mugenda and Mugenda, 2008). A multiple regression study which involves determination of magnitude and direction of relationship between

the aspects or procurement process and the performance of the County assembly as seen from the service delivery was considered as recommended by Mugenda and Mugenda (2008) for studies focusing on specific variables that need quantitative relationships to be determined.

**3.2 Sample Size and Sampling Technique**

For purpose of manageability, the study was not able to use all the employees in the procurement department of Mombasa County assembly as well as staff from other departments, members of County assembly and suppliers. As a result, the study used a selected representative sample of 10% of the target population as recommended by Mugenda&Mugenda (2008). This was obtained as shown in the table below.

**3.3 Data Collection**

The study used primary data which was obtained using structured and semi structured questionnaires seeking information from the respondents. This allowed for specific direction of response to the structured questions as well as a degree of freedom of response to the semi structured questions. The questionnaire used was based on five point Likert scale for easier analysis. This design of questionnaire is preferred by Kothari (2008) due to its objectivity and precision thus accuracy in analysis. The study used drop and pick method where the questionnaires were collected after three days from all respondents this allowed them time and privacy while responding to the questionnaire.

**IV. FINDINGS AND DISCUSSIONS**

**4.1 Findings**

The study used a standard multiple regression analysis to determine the quantitative relationship between each of the independent variables and the dependent variable. This was expressed using the multiple regression model  $Y = \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \theta$ .

The results were presented in tables below.

**Table 4.1 Model summary**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.942	.938a	.936	.0063

From the model summary given in table 4.1 above it is clear that the adjacent  $R^2$  was 0.936 indicating that a combination of stakeholder integration, human resource skill level and suppliers management explained 93.6% of variations in public procurement processes. This is however; a model summary and more clarifications for each of the variables are given in anova and coefficient results in the following tables.



**Table 4.2 Anova**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.95172E2	97	5.5745E2	42.276	.009a
Residual	6.132E3	6	4365.225		
<b>Total</b>	<b>1.364E3</b>	<b>103</b>			

Table 4.2 above clarifies that the regression used 97 degrees of freedom and 6 residuals to come up with the multiple r figures given in table 4.7. The table also gives the significance of 0.009 which is lower than the required 0.05.

**Table 4.3 Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1	Beta	Std. Error	Beta		
(Constant)	0.76	0.27		14.06	0.03
Stake holder integration	0.64	0.01	0.65	1.58	0.03
Human resource skill level	0.51	0.03	0.53	0.93	0.08
Suppliers management	0.43	0.03	0.43	2.32	0.05
<b>Public procurement processes</b>	<b>0.66</b>	<b>0.02</b>	<b>0.67</b>	<b>1.61</b>	<b>0.09</b>

Table 4.3 above shows that there is a high effect of integration on organizational performance as well as a high effect of human resource skill level on organizational performance. The study however shows a weak effect of suppliers' management on organizational performance.

Based on multiple regression model of;  $Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \Theta$ . This now translates to  $Y = 0.75 + 0.64 x_1 + 0.51 x_2 + 0.43 x_3$  based on the table 4.3 above.

## V. CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusion

The studies reviewed showed various aspects of the procurement process that would impact on the performance of the assembly such as the quality and skills of manpower, supplier management and stakeholder involvement. However, the studies did not give specific quantitative effects of these on the organizational performance. The study thus gave the quantitative relationship between these aspects and organizational performance.

The study showed that stakeholder integration, skill level of the human resource and supplier management have direct correlation with organizational performance such that organizational performance increase with each increment in the effectiveness of the factors. The study being quantitative also allowed for an internal comparison of the correlation of each independent variable with the others.

The study thus shows that stake holder integration in the procurement process has the highest correlation with organizational performance and should be encouraged across all organizations. It also shows that the skill level of the human resource is also a vital contributor to organizational performance thus organizations are encouraged to recruit high skilled human power and further invest in providing additional training.

### 5.2 Recommendations

M.C.A and other County assemblies as well as public institutions should first and foremost streamline their human resource procurement procedures and rules to have high skilled personnel recruited by adhering strictly to the recommended minimum qualifications during recruitments. Training of the workforce should therefore be used to add more skills to the already skilled human resource and align their skills to the jobs at hand.

The M.C.A and other County assemblies should also enhance stakeholder involvement in their procurement processes by allowing for more public participation in the process. The current system includes a lot of vital stake holders but increasing the public participation will ensure integration of all stake holders. This should be done noting that stake holder integration has the highest correlation to organizational performance.

Basing on the findings of this study, future scholars are advised to conduct the following studies:

A study should be conducted to determine the unique features of procurement in County assemblies that make supplier management have a weak correlation to organizational performance of the County assemblies while it has a strong correlation with organizational

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