

## Strategic Procurement's Impact on East African Public Enterprise Performance

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#### **Abstract**

**Aim:** The aim of this study was to determine the level of strategic procurement adoption by East African businesses.

**Methods:** Both primary and secondary data were employed in the investigation. Secondary data from study proposals, the internet, journals, and books were combined with primary data using a semi-structured questionnaire to collect data. Correctly completed questionnaires were coded, and descriptive statistics were used to evaluate the data after entering it into a social sciences statistical tool.

**Results:** The study found that strategic procurement improves the performance of public companies by lowering costs and raising the caliber of the organization's products and services.

**Conclusion:** Corruption and a lack of coordination during implementation are significant barriers to strategic procurement impact on East Africa public enterprise performance.

**Recommendation:** The study recommend strategic procurement to be viewed as crucial to the success of a business. To plan the future of the procurement function, organizations should make sure they have qualified personnel in both strategic management and procurement.

**Keywords**: Enterprises, strategic procurement, East Africa



#### 1.0 INTRODUCTION

The evolution of procurement dates back to between 2400 and 2800 B.C. (Thai, 2001), with a procurement order of fifty (50) containers of oil (Coe, 1989). Other historical evidence of procurement activities was the development of the silk trade that involved China and Greek in 800 B.C. (Thai, 2001) Indeed, globally, estimates of the financial activities of government procurement managers are believed to be in the order of 10% - 30% of GNP (Calender & Mathews, 2012). In the United States, the public sector procures between \$1.4 and \$1.6 trillion annually. The Federal government alone procured \$231.08 billion and made 33.19 million procurement actions in fiscal year 2012. According to the Procurement Executives Council (2011), the federal government made a purchase card payment every .31 seconds, and issued a standard form 281 every .77 second and a standard form 279 every 13.91 seconds per each working day.

Public procurement was being practiced in East Africa prior to the establishment of the Public Procurement and Disposal Act of 2005. According to Mulei (2000), the government's three-tiered procurement structure was first described in the Supplies Manual of 1978, which was later expanded by circulars that the Treasury periodically issued. A 1999 analysis of the country's public procurement systems found that there is no one procurement system for the whole public sector. As a result, between 2001 and 2004, the Public Procurement and Disposal Bill was written and altered several times, and numerous requirements were not fully followed (Bukhala, 2003; Shiundu & Rotich, 2014). After being assented to by the president, it became the Public Procurement and Disposal Act of 2005. This Act contains the Regulations that are meant to effectively ensure that the procurement process is fair and just. The Rules and Regulations, herein known as the Public Procurement Regulations of 2005, became operational on 1 January 2007, (Public Procurement Oversight Authority, 2007).

The Act established the Public Procurement Oversight Authority (PPOA) as an independent body to oversee and regulate public procurement generally. In addition to monitoring the public procurement system, creating public procurement policy, making amendments to this Act, and performing any other duties outlined by this Act, the PPOA was charged with seeing that the procurement procedures established by this Act are adhered to. Another important aspect is the establishment of the Administrative and Complaints Board (AAB) to consider complaints from parties that have reason to think due procedures were not followed during procurement. Finally, the Act also provides for the establishment of procurement units (departments) in individual Enterprises to handle the procurement process so as to ensure that procurement decisions are made in a systematic and structured way.

The three main vantage points from which strategic procurement may be approached are development and management of significant suppliers, internal operation of the procurement function and coordination of purchasing with other corporate operations, and attempts to meet or exceed consumer expectations. One of the most crucial organizational tasks, it may, among other things, save costs, enhance operational performance, give access to trustworthy suppliers, and raise the caliber of products and services (Magnus, 2006). The effectiveness of organizational functioning is impacted by several strategic buying techniques. However, the primary strategies covered in this study are strategy formulation, expenditure analysis, supplier relationship management, measurement plan, and technology use (Australian CIPS, 2010).

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The capacity of an organization to carry out its mission via effective management, solid governance, and a consistent commitment to attaining outcomes is known as organizational performance (Parasuraman2002). Additionally, the author argues that businesses that have implemented strategic procurement are able to deliver their products and (for this study), services. A wide range of possible organizational performance indicators should be considered when determining organizational performance. In this study, organizational performance is considered in terms of quality, productivity, and service delivery, as well as waste reduction, cost-cutting, and public (customer) satisfaction.

Procurement is increasingly regarded as the most important aspect of service delivery in both industrialized and developing nations, and it represents a sizable amount of overall spending. Governments, including Kenya, have committed significant resources to implementing various strategies to improve organizational performance in Government agencies in order to make them efficient, effective, accountable, and transparent due to the enormous amount of money involved in government procurement and the fact that such money comes from the public. However, as Leni et al. (2012) point out, there is rising concern among the populace and governments alike that organizational performance in public companies is still declining despite the deployment of such measures. For a case in Kenya, Kenya Power Company Limited has not been able to adequately distribute electricity services to the public and this can be attributed to lack of proper strategic procurement.

The general objective was to investigating the effect of strategic procurement on the performance of East African state enterprises was the study's overarching goal. The specific objectives that guided this study were; to determine the level of strategic procurement used by Kenya Power Company Limited, to examine how adoption of strategic procurement has influenced the performance of companies in East Africa and to analyze the difficulties businesses had adopting strategic procurement.

#### 2.0 LITERATURE REVIEW

#### 2.1 Theoretical Review

#### **2.1.1 Institutional Theory**

Scott (2004) contends that institutions are made up of cultural-cognitive and regulative components that, when combined with related activities and resources, give life its purpose. The regulatory, normative, and cultural cognitive foundations of institutions are further defined by him. The regulatory pillar emphasizes the use of rules, laws and sanctions as enforcement mechanism, with expedience as basis for compliance. The normative pillar refers to norms (how things should be done) and values (preferred or desirable), social obligation being the basis of compliance. The cultural-cognitive pillar rests on shared understanding (common beliefs, symbols, and shared understanding). This theory is very important when it comes to the implementation of strategic procurement policy and practices in organizations that serve the public. This is a matter of organizational culture and the degree to which the prevailing climate in an organization is supportive of strategy and changes in general. In other respects, this dimension includes the extent to which there is support for strategic procurement at senior levels in an organization and the degree to which organizational processes and structures support, or retard, the development of strategic procurement (Brammer & Walker, 2007).



## 2.1.2 Socio-economic Theory

The socio-economic theory of compliance was developed by Sutinen and Kuperan (1999) by fusing economic theory with theories from psychology and sociology to account for moral duty and social influence as factors influencing people's decisions to comply. Lisa (2010) asserts that psychological viewpoints serve as a foundation for the accomplishment or failure of organizational compliance. Additionally, Wilmshurst and Frost (2000) note that socioeconomic theory holds that an organization must explain its activities to all relevant parties, including the general public, and demonstrate how it fits within societal norms. This theory offers an adequate and better lens for analyzing the government procurement system because it focuses on the link and interaction between an organization and society (Huietal, 2011). From this theory we can understand the policy, planning and strategic procurement practices in public institutions and their influence on service delivery to the society.

## 2.1.3 Systems Theory

Before making its way into management in the late 1950s, this idea was initially used in the scientific and engineering disciplines. The founders of systems theory include psychologist Gestalt and Kurt Lewin, whose "field theory" of group dynamics highlighted that the whole is more than the sum of its parts, as well as other individuals (Nwabuzor, 2005). This idea sees an organization as a collection of pieces that are closely connected and dependent on one another. When making choices, managers that are systems-oriented always consider the overall mission and key goals of the entire system. An company needs the components to improve performance overall. Valuebased management requires that procurement individuals perform processes that go beyond traditional "buying" processes and obtain relevant information from the external environment or their customers and transmit it to the appropriate individuals (Nwabuzor, 2005). The relevance of this argument in this study is that, an organization receives inputs from the outside world which it then transforms, (the process known as throughputs) into output and takes it back to the world for use as consumables. An organization will need suppliers to provide the input it requires. The inputs could either be materials, information or even human capital. The systems approach is very useful in strategic procurement decision making. By understanding that the organization must obtain inputs from suppliers, the procurement managers will be better placed to ensure that supplier selection is done thoroughly. The result will be a highly efficient procurement function that serves the organization leading to high performance.

### 2.2 Empirical Review

Spend analysis, according to Moore (2004), focuses specifically on the money spent to enable management to make adjustments as necessary. Spend analysis is described as "an examination of expenditures along dimensions such as kind of commodity or service and suppliers, number of contracts and expenditures, and other factors demonstrating how current money is spent on products and services performance" in more detail. Data for expenditure analysis can come from a variety of sources and take on many different shapes. Spend data can be any money spent on the purchase of products or services, or even on regular business operations, as shown by the definitions above (Porter, 1985). The author also claims that information might be gleaned from top management's personal spending records, financial reports of While it is unrealistic to imply that all business-related expenses can be foreseen, and therefore, planned for, by utilizing this technique, organizations are able to identify and improve their purchasing processes in areas where

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the greatest benefit can be realized—where exactly the change occurs depends on the particular company and their long-range goals, (Moore et al., 2004 cited in Irvine 2005). Nevertheless, knowing what to buy and when to buy it is critical in efficient allocation of resources and may be the basis for decision to be made on what need to purchased centrally and what to decentralize (Mohamood, 2010).

A strategic procurement strategy should include measurement strategies, according to Hendricks and Ruch (1998). Measurements should be planned to give a consistent indication of the advancement achieved toward implementing tactics and strategies that support objectives and aims. They also contend that it's crucial to allocate responsibility for strategies and tactics, assign metrics to gauge performance, and provide frequent updates on progress in order to make sure the plan is implemented and used to accomplish the desired goals. When making progress, it may be possible to reinforce or raise the focus on particular tactics, but failing to accomplish objectives may point to the need for changes. Strategic procurement, including the design and implementation of sourcing plans, should be measured in terms of the benefits that they have delivered compared with what they were expected to deliver as set out in the original procurement plan. This might take the form of a post-contract audit perhaps one year after the contract had been let. The findings should be reported to and discussed by the purchasing and supply management professional(s) and their Sourcing Board in order to learn from experiences and build on current commercial arrangements (CIPS, 2010).

According to (Mac Neil, 2002), the relationship between a supplier and a buyer is moving away from the discreteness that serves as the foundation for business transactions and toward a relational exchange as the roles of the two parties are no longer solely defined in terms of the straightforward transfer of product ownership. By emphasizing relational interaction, which includes collaborative rather than competitive activities (Heide, 2003). The prerequisites for effective cooperation, according to Zohar and Zenkatraman (2004), Simatupang and Sridharan (2003) include shared objectives, integrated policies, group decision-making, access to information, and sharing of gains and losses. While Moorman and Deshpande (2002) define buyer-supplier commitment as an ongoing desire to preserve a valued connection, Dion et al. (2004) define buyer/supplier commitment as the idea that trade partners are willing to invest efforts to preserving the relationship. Through commitment partners dedicate resources to sustain and further the goals of the collaboration.

According to Aberdeen Group (2006), an effective technology platform, which includes a strong database management component, is essential to providing accurate and reliable expenditure information for spend analysis and management, as opposed to faxed purchase orders and the use of Excel spreadsheets. A crucial component of successful strategic procurement planning is an integrated ERP system with a strong Procurement / e-procurement suite. It is sufficient to mention that technology is widely used to assist procurement; results unmistakably demonstrate that new technologies, such as Electronic Data Interchange (EDI), boost the efficiency of procurement and enhance overall business performance. However, adoption of technologies in organization operations is occurring at a slower pace than expected and such delays will make an organization to miss opportunities and expose them to unfavorable competition (Barney, 2008).



#### 3.0 METHODOLOGY

In order to gather and analyze data to address the research questions or the research hypothesis, a researcher would employ a research design. The research used a descriptive survey methodology. Three businesses were chosen for the research: British American Tobacco in Uganda, Swali Oil and Gas Company in Tanzania, and Kenya Power Company Limited in Kenya. The study's target population, which totaled 110 employees across the three organizations, was made up of these individuals (110). A sample item was chosen from each stratum after the population was divided into a number of strata. Stratification attempts to lower standard error by giving some variance control. The researcher used a sample of fifty -five (55) employees which constituted 50% of the whole population under the study which is one hundred and ten (110) employees. A questionnaire was used in this research. In this study, the researcher adopted two kinds of validity: content validity and face validity. The data was analyzed by applying descriptive statistics which included frequencies, percentages and graphs through thematic discussions of issues and themes for the study. Graphs were generated by use of statistical package for social sciences (SPSS) which gave figures which were interpreted.

## 4.0 DATA ANALYSIS, FINDINGS AND DISCUSSION

## **4.1 Demographic Characteristics**

Out of the 55 questionnaires sent, 45 were dully filled and returned which translated to 82%, response rate while 10 questionnaires were not filled representing 18% of the respondents. Majority of the respondents, 53.3% indicated that they were male while, 46.7% said that they were female. On age distribution, the majority of the respondents (44.44%) were in the age bracket of 31-40 years. Another 24.44% of the respondents were between 18 - 30 years of age, while 20% were aged between 41 and 50. A minority (11.11%) were aged above 50 years. Majority (38%) were College level graduates while 31% indicated that they had attained university degree in their respective areas of specialization. The study further indicated that 26% of the respondents were Secondary certificate holders while minority (5%) had attained postgraduate qualifications, which included masters and postgraduate diplomas. Majority (49%) of the respondents had over 10 years of experience while 32% had between 6-10 years. Another 12% of the respondents had an experience of 1-5 years while 7% had an experience of less than 1 year.

### **4.2 Descriptive Analysis**

## 4.2.1 Adoption of strategic procurement

The study sought to establish whether the East African companies had adopted strategic procurement. The findings are presented in the table 1.

Table 1: Adoption of strategic procurement in Kenya Power Company in Kenya

Statement	Frequency	Percentage (%)
Yes	30	66.67
No	15	33.33
Total	45	100



Majority of the respondents (66.67%) indicated that the company had adopted strategic procurement while 33.33% of the respondents said that company had not adopted strategic procurement. This indicates that majority of the respondents are in agreement that strategic procurement has been adopted in implementing procurement decisions in Kenya Power Company Limited. This is agrees with Magnus (2006), who argued that strategic procurement is one of the critical functions of an organization with the potential to; save cost, improve operational efficiency, access to trusted suppliers, and improve in quality of product or service, and sharing of best practices among others.

## **4.2.2** Extent of Strategic Procurement Adoption

The study sought to establish the extent to which strategic procurement had been adopted at Swali Oil and Gas Company in Tanzania. The participants were guided in giving their answers by the use of various statements that depicted different strategic procurement activities. The findings are presented in table 2.

**Table 2: Extent of strategic procurement adoption** 

Statement		ry Great Extent	Gre	eat Extent	No	ot Sure	Sma	ll Extent	•	Small tent
	F	%	F	%	F	%	$\mathbf{F}$	%	F	%
The company has developed procurement strategies	29	64.44	16	35.56	-	-	-	-	-	-
The firm conducts spend analysis	26	57.78	11	24.44	7	15.56	1	2.22	-	-
The organization supplier relations management in place	30	66.66	9	20	3	6.66	3	6.67	-	-
The company conducts procurement measures regularly	9	20	12	26.66	23	51.11	-	-	-	-
The firm has adopted the use of ICT in her procurement transactions	35	77.78	10	22.22	-	-	-	-	-	-

From the findings, majority of the respondents indicated that development of strategies, spend analysis and supplier relationship management have been adopted to a very great extent as indicated by 64.44%, 57.78%, 66.66% of the respondents. The study also found that utilization of technology was adopted by the firm to a great extent as indicated by 77.78% of the respondents. However, when asked whether the firm conducts measurement in their procurement functions, there was a sharp difference in opinion where the majority (51.11%) of the participants was not sure whether the activity took place. This can be attributed to failure of communication within the



management. Nevertheless, there was general consensus that, despite some challenges, strategic procurement is instrumental in an organization's performance. This is in line with Arawati, (2011) who contends that strategic procurement for supplies management are identified across many high performing organizations.

## 4.2.3 Strategic procurement and Organizational Performance

For a strategy to be important and sustainable, it has to give the implementing organization an edge in terms of productivity, competitiveness or performance (Kiplagat, 2012). Respondents were required to rate their level of agreement on the effect of strategic procurement on Kenya Power Company's performance. The respondents were guided to respond through various statements which depict various strategic procurement practices as shown in table 3.

Table 3: Strategic procurement and quality of goods and services

Response	Frequency	Percent%		
Strongly agree	28	62		
Agree	17	38		
Total	45	100		

Table 3 above indicates that 62% of the respondents agreed and another 38% strongly agreed that strategic procurement leads to quality goods and services which are offered by suppliers. Since strategic procurement is one of the primary functions of procurement process, it implies that there is need for adoption of strategic procurement in public enterprises in order to acquire quality goods and services Basheka (2004).

Table 4: Strategic procurement and efficient delivery of services

Response	Frequency	Percent		
Strongly agree	22	48.8		
Agree	20	46.66		
Not sure	3	4.44		
Total	45	100		

Table 4 shows that the highest percentage 48.88% and 46.66% of the respondents strongly agreed and agreed respectively that strategic procurement facilitates efficient service delivery by an organization to the public. Only 3% were not sure about this assessment. This implies that with a good strategic procurement plan, East African Companies can efficiently and effectively enjoy improved delivery of services to its citizens and hence improve her organizational performance. This agrees with Wogube (2011), in his study on procurement planning and Performance in public Enterprise in Uganda. The small number of respondents represented by 4.44% can be 46 attributed probably to ineffective communication of the company's policies to all its employees.



## 4.2.4 Employee Competency (training) and Organizational Performance

Rogers (2005) has defined employee competence as the ability to perform tasks and duties to the expected standard in employment. The author further explains that, staff competency comes from employee training, which is part of a wider procurement strategy and is an essential ingredient for a positive and continuous growth of every organization. He says that training include; staff development, management courses, and skills on procurement performance.

Table 5: Employee competency and organizational performance

Response	Frequency	Percentage		
Strongly agree	24	53.3		
Agree	13	28.9		
Not sure	2	4.4		
Disagree	6	13.3		
Total	45	100		

The study sought to determine the extent to which employee competency influence organizational performance at British American Tobacco in Uganda. Majority (53.3%) of the participants felt that employee competency influenced organizational performance. Another 28.9% agreed that their competence influenced their performance. However, 4.4% of the respondents were not sure, while 13.3%, strongly disagreed with the statement. This can be attributed to some older employees who see training as a change agent and have to resist training because of wanting to retain the status quo.

Table 6: Strategic procurement and maximum value for money in expenditure

Response	Frequency	Percent
Strongly agree	23	51.11
Agree	18	40
Not sure	4	8.89
Total	45	100

From table 6, 51.11% and 40% of the respondents strongly agreed and agreed respectively that strategic Procurement helps to achieve the maximum value for expenditures on services to be delivered. Only 4 respondents (8.89%) were not sure whether procurement planning helps to achieve the maximum value for expenditures on services to be delivered. Basing on the highest percentage of respondents, it implies that a strategic procurement enables the entities to achieve maximum value for their expenditures. This is exactly what Bauld and Guinnes (2006) found out in "Value for money, summit buyers". They argued that strategic procurement eliminates or minimizes wastage and gives the procurement unit maximum value for money.



Table 7: Integration of ICT in strategic procurement and organizational performance

Response	Frequency	Percentage		
Strongly agree	27	60.0		
Agree	10	22.22		
Not sure	7	15.56		
Disagree	1	2.22		
Total	45	100		

Majority of the respondents (60%), strongly greed that the integration of ICT in strategic procurement influences organizational performance. Another 22.22%, of the respondents agreed that the integration of ICT in procurement practices and functions influence organizational performance. However, there were a sizable number of respondents represented by 7% who were not sure of what influence integration of ICT in procurement functions had on organizational performance. A negligible percent of 1% of 49 respondents disagreed with the view that ICT integration in procurement functions indeed had an influence on organizational performance at British American Tobacco Company in Uganda.

Table 8: Correlation between strategic procurement and organizational performance

Response	Frequency	Percentage		
Strongly agree	24	53.3		
Agree	16	35.56		
Not sure	5	11.11		
Total	45	100		

As per the response above, it is indeed a confirmation that strategic procurement practices have a correlation with organizational performance. This was demonstrated by majority (53.33%) of the respondents who strongly agreed that there is a relationship between 50 strategic procurement and organizational performance. Another 38% of the respondent was in agreement with the statement, while 5% respondents representing 11.11%, of the respondents were not sure whether strategic procurement had any relationship with organization performance in British American Tobacco Company in Uganda. Hence, the study concludes that there was a relationship between strategic procurement and organizational performance.

## 4.2.5 Challenges in Implementing Strategic Procurement

An organization is usually faced with certain impediments in its endeavor towards strategy development and implementation. The shortcomings may be peculiar to the organization or may be general to all the industry and the environment the organization is operating in. The study sought to establish the challenges faced by the three companies; Kenya Power Company, Swali Oil and Gas Company in Tanzania and British American Tobacco Company in Uganda, in implementing strategic procurement in its activities. Respondents were required to confirm or disagree to indicate challenges, and analysis was through percentages. Results are presented in the table 9.



Table 9: Challenges facing strategic procurement implementation

Statement		Yes		No	
	F	%	F	%	
Internal and external forces	42	93.30	3	6.70	
Our strategic planning is usually affected by insufficient finance to implement the plans formulated	13	28.88	32	71.11	
Lack of management commitment to strategic plans	28	62.22	17	37.77	
Corruption and political interference hinder procurement activities	40	88.88	5	11.11	
Misalignment of the strategic plans with the company culture	35	77.77	10	22.22	
Lack of cooperation and teamwork during implementation which hinders success of organizational plans	8	17.80	37	82.22	
Non-alignment of the strategic plans to management	36	80	9	20	
Volatility of information and communication technology	33	73.33	12	26.67	
Employees not having the requisite skills in strategic planning	30	67	15	33.33	

Analysis of the results in table 9 above indicates that the major challenges that have been faced by the three companies in its strategic procurement process include internal and external 52 forces (93.3%) and Volatility of information and communication technology (73.33%.), These results agree with the findings of Kakwezi and Sony (2010), who in their study of the factors affecting procurement performance; notes that, the ability of any organization to realize procurement goals is influenced by both internal and external forces.

The same sentiments are echoed by Cox et al. (2006), whose study established that the environment in which companies and their procurement department trade in has changed dramatically in recent years. They further observed that globalization has opened new markets both for sales and for purchasing companies and they now have access to suppliers outside their traditional domestic markets and their growing global enterprises require suppliers that have global coverage. The author counsels that information and communication technologies are also helping to increase the leverage of procurement organizations by allowing companies to track purchases across their entire enterprise and consolidate purchases. Other setbacks include corruption and political interference (88.88%), lack of management commitment to strategic plans (60%) and employees not having the requisite skills in strategic planning (67 %). This result negates what Wu et al. (2004) found to be the major pillar of an effective procurement strategy together with its



implementation and review. Other challenges which impeded strategic procurement as mentioned included, misalignment of the strategic plans with the company culture (77.77%) non-alignment of the strategic plans to management (80 %), and lack of management commitment to strategic plans (62.22%) This finding concurs with Murray (2009) who found out in a study involving procurement in government agencies that, it is not for public procurement managers but political leaders who make the choice regarding the government's specific objectives, though it is public procurement managers' professional duty to develop and present options.

#### 5.0 CONCLUSIONS AND RECOMMENDATIONS

#### **5.1 Conclusion**

From the study, it has been found that the companies had adopted strategic procurement in their procurement activities and this has brought positive impacts such as reduced costs, competition among suppliers thus making them provide the best product or service to the organization, Strategic procurement at companies has also promoted improvements in quality outcomes through provider innovation and configuration and has stimulated coordination of the sourcing and other departments of the organization. However, strategic procurement at companies on the other hand has been linked to corruption in the procurement process thus lowering efficiency.

#### **5.2 Recommendations**

From the study it is recommended that procurement should always be considered as a strategic player in the value chain as it usually represents one of the largest expense items in a firm's cost structure especially government agencies. Organizations should ensure they have competent employees in procurement and strategic management to chart a way forward for the procurement function. In addition, the organization should analyze how effective its staff development plan is at increasing the professional competence and standing of the supplies management function. Further, urgent measures are still needed to cope with the corruption in developing nations. When procurement becomes costly, it may be a sign of corruption in the system. Some of the key impacts of corruption on procurement include a financial impact and an economic impact.

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#### **Conflict of Interest**

The authors declare no conflict of interest.

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