

AN ASSESSMENT OF STRATEGIC PROCUREMENT CAPABILITY ON ORGANISATION'S PERFORMANCE: A CASE OF INTERNATIONAL NON-GOVERNMENT ORGANISATIONS IN NAIROBI, KENYA

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Abstract: Strategic procurement capability is the resources, skills, competence, and knowledge that support the goals of an organisation by acquiring and managing resources strategically so as to achieve institutional goals. Strategic procurement is responsible for ensuring organisations' goals are achieved in certifying the requirements of the business are met. The scope of study scope touched on the International NGOs in Nairobi where the main objective was to explore on specific strategic procurement capabilities that contribute to organisation performance. The structural issues such as accountability, governance, and participation of International Non-Government organisations in the social arena has raised questions on how effective their procurement policies are carried out within the organisations hence the rationale of the study. The research focused on four main capabilities which include supplier relationship, Supply chain risk management, supplier relationships and technology capability. The study adopted a descriptive research design where a population of 121 International NGOs as listed by the NGO coordination board was used. The study settled on a 10% sample size which settles to 12 International NGOs. The response rate of the study was 91.66% which adequate for analysis. The research showed that supplier relationship, supply chain risk management, supplier relationships and technology are capabilities that are adopted in achieving performance of INGOs through the procurement function. The study gave various recommendations in measuring organization performances such as price/cost of products and service, availability of suppliers, innovation of the supply markets, workforce and also the aspect of employee development.

Keywords: Total Quality Management, Supply Chain, risk management, supplier relationships and technology capability.

Introduction

The research explores how strategic procurement capability affects the Non-Governmental organisations in their performance. Strategic procurement is responsible for ensuring that organisations' goals are achieved and that the requirements of the business are met by ensuring that the sourcing process is done at the right time, place, buying from the right source and most importantly to right specification that meet consumer's needs. Non-Governmental organisations (INGOs) play an important role in the Kenyan economy in bridging the gap and in meeting the social needs of the society. The aspect of strategic procurement capability comes in handy to validate how funds in NGOs are used in the sourcing process.

Procurement capabilities if well exploited align performance to the organisations' goals and objectives. The scope of the study touched on the international NGOs in Nairobi where the main objective was to explore on specific strategic procurement capabilities that contribute to organisation performance and the factors that contribute in achieving strategic procurement capabilities.

The Statement of the Problem

The focus towards lack of accountability and transparency, directly linked to procurement among NGOs has received major concerns among stakeholders (Brandmeir, 2010). There has been an outcry globally on this issue from three main parties which include the beneficiaries, donors and the host Government (Warah, 2015). The lack of transforming the supply chain to create sustainable value for all stakeholders that support INGOs is in question in the Kenyan context (Warah, 2015). The concerns can be evidenced in the way tenders are awarded, low quality supply of goods and many other related procurement activities. It is important therefore, for International Non-Government Organisations to develop strategic procurement policies that are sustainable to the organisation in the long run. Hence the researchers' desire to carry out this study.

Research Objectives

This study was guided by the following objectives

- 1) To establish whether INGOs have embraced various strategic procurement capabilities that contributes to performance.
- 2) To identify the major effects of adopting strategic procurement capabilities on performance in INGO's
- 3) To determine the factors that contribute to achieving strategic procurement capabilities in INGO's

Literature Review

Howard and Miemczyk (2014) state that purchasing, Supply Chain Management and procurement are terms that are used interchangeably amongst people. Johnsen et. al., (2014) define purchasing as a process of acquiring goods and services for a nominated supplier while Supply Chain Management includes the planning and management of all activities involved in sourcing (Esteves & Barclay, 2011). Procurement is increasingly seen as a powerful policy tool to bring about major corporate benefits (Roose, 2012). The Chartered Institute of Purchasing and Supply, (2012) procurement all the activities and processes that implements the organization's strategies towards the obtaining of its inputs as and most importantly working with partnership to facilitate cost efficiency and set standards.

Globally, the supply market has continually become more complex hence contributing to increasing competition that has led to organisations offering more quality products at low costs (Lee, Pasari, & Danping, 2014). A study carried out by Klynveld Peat Marwick Goerdeler (K.P.M.G) international showed that the United Kingdom (U.K) has effectively highlighted that the variations in procurement practice in organisations is costing the UK economy several hundreds of millions of pounds each year hence the need to adopt procurement capabilities that can bring about cost cutting strategies. This brings the need of balancing tactical and operational procurement to strategic procurement. Tactical procurement capability involves the capacity to effectively plan, establish and maintain significant supply arrangements that deliver value for money. Operational capability on the other hand focuses on the skills needed for preserving the agency's procurement systems and procedures to purchase supplies and services (Morichovites, 2012)

According to (Abellie, 2003) procurement in the African context is in question. This is because of the ratings in which only 48 % of the countries in Africa are ranked (3-4) out of five in the ranking index of countries that have sound procurement frameworks in Africa. This then brings out the need to define what procurement capabilities are and how organisations can adopt them to achieve performance in the long run.

There are many strategic procurement capabilities that organisations can adopt so as to achieve desired performance in organisations. C.I.P.S (2012) states that the most important capability is supplier relationship where the organisations puts effort in how they relate with their suppliers. More to this, organisations are expected to minimize wastes at all cost by focusing on primary objectives. The other aspect is on organisations managing their sourcing processes by identifying the need and sourcing from low cost suppliers. Performance can be achieved through continuous improvement where organisations look for opportunities to increase value through out the organisation.

Strategic Procurement Capability

Strategic procurement capability are skills, resources, and management associated with the establishment, maintenance, and effective operation of the agency's total procurement function. The capacity for complex analysis of the agency's requirements and its major supply markets as well as how best to organize and resource procurement are required, along with the ability to guide the development of supply solutions that support the agency's business. For an organisation to achieve strategic procurement capabilities there is need for

sustainability at all sourcing levels. The triple bottom line concept hence supports the research as its conceptualization can lead to increased performance in the long run (Rossi, colicha, Cozzolino, & Christopher, 2013).

Performance Measurement

There are four types of performance measures (Parmenter, 2010): Key result indicators, result indicators, performance indicators and key performance indicators. Parmenter gives an onion analogy describe the relationship of the four measures.

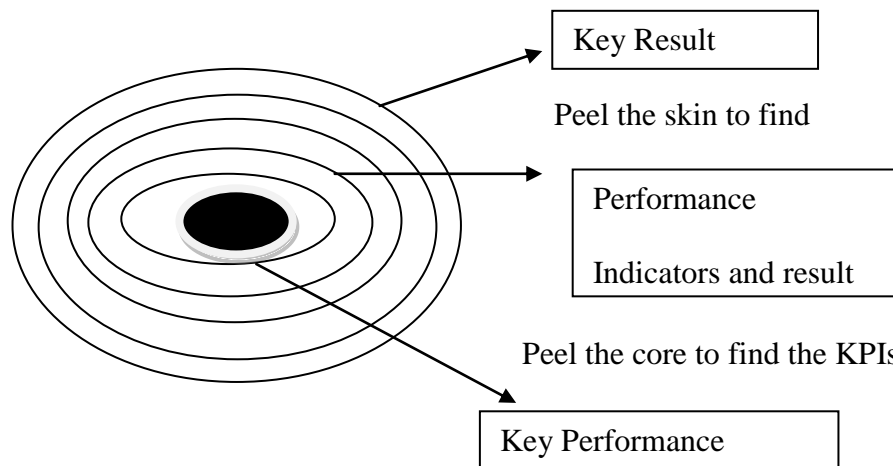


Figure: 1 The Onion analogy four types of performance measurement (Parmenter, 2010)

Key Result Indicators

They are the results achieved in the critical success factors which include customer satisfaction, profitability of customers, employee satisfaction and return on capital employed. KRIs gives a clear view on whether the organization is moving on the right track. They also give information to top management on how the organization is fairing in the long run.

Theoretical Frame Work

The study was informed by Resource Based Theory and Balance Score Card model.

The Resource Based Theory

The resource based theory states that the inputs of a firm production process can be classified in to three major categories which include physical capital, human capital and organisation capital. A capability is a capacity for a set of resources to perform a stretched task of activity. The resource-based theory (RBV) basis is that organisations are diverse with respect to their resources and capabilities. This resources and capabilities are seen as the basis of organisation growth and competitive advantage. The emphasis in the RBV theory is on how firms can create, maintain, and enhance these capabilities. The study used this theory to establish the capacity in which INGOs can exploit their resources in order to facilitate effective execution of procurement function. The resource-based view (RBV) is a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal.

A resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reduce its own weaknesses. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Among those who have denied this suggestion is (Ramsay, 2001). Barney, (2012) has argued that procurement can, "at least in some settings", be such a source.

Balance Score Card

Kaplan (2006) developed the balance score card model which aims to balance decision making by focusing on the relationship between the different competitive pressure facing the organization and motivating continuous improvement. Walker and Rowlinson, (2008) put more emphasis on the balance score card measuring performance in an organisation. The following are the main perspectives in the balance score card: (i) Financial perspective - whose aim is to measure the ultimate results the business provides to its' shareholders; (ii) Customer perspective - tends to deal with how the organisation achieves their goals by the way they are viewed by the customer; and (iii) Internal business process perspective - aims to measure the rate in which an organisation is able to develop and deliver products and services and how they offer after sale services.

Non-Governmental Organizations in Nairobi Kenya

Non-Governmental Coordination Act of Kenya (1990) defines Non-Governmental Organization as a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the benefit of the public at large and for the promotion of social welfare, development, charity or research in the areas inclusive of, but not restricted to, health, relief, agriculture, education, industry, and the supply of amenities and services. National Non-Governmental Organization is a Non-Governmental Organization which is registered exclusively in Kenya with authority to operate within or across two or more districts in Kenya.

NGOs activities are now spread in every part of Kenya and cover almost every aspect of the economy. There are currently over 5000 registered INGOs. It was estimated at the end of 2012 that the wider not for profit sector (including NGOs, self-help groups, women and youth groups) encompassed over 220,000 organizations. It is estimated that the annual income of NGOs is \$1 billion, approximately 3% GDP. The Government now regards NGOs as true partners in development. Some NGOs are nationally-based that is they operate across the country while others only operate in one or more districts ,the latter category includes Community Based Organizations (CBOs). The International Non-Government Organisation (INGO) is the main focus of the research paper. International NGOs were started in 1900's and have increased substantively. The INGOs has a presence of 4000 over the last decade. INGO's have played a big role as change catalysts by persuading and mediating between various stakeholders (Mbote, 2002). The main purpose of the INGOs is to ensure that they explain their main beliefs and principles, raise funds for their causes, engage volunteer and publicized their campaigns outcome and raise awareness through advocacy campaigns to the public.

Research Methodology

The study used descriptive research design since it intends to gather qualitative and quantitative data that describes the nature and characteristics that contribute to the performance of international NGOs by adopting strategic procurement capabilities. The population of interest in this study comprised of 121 International Non-Government organisation based in Nairobi as listed by the National coordination board of Kenya. The study targeted 605 respondents. Stratified random sampling design was used to select a 10% of 605 respondents. Questionnaires were used to collect data and were also pretested for reliability. Statistical Package for Social Sciences (SPSS version 20) was used to analyse data.

Discussions

Out of the 60 questionnaires, 55 questionnaires were administered, filled and returned. The response rate was 91.66%. According to Babbie (2012), any response of 50% and above is adequate for analysis. Thus 91.66% was very good and representative to the target population.

From the finding, majority of respondents 30 out of 55 had between 5 to 10 years working experience, and this gave the researchers confidence when dealing with them for they had wealth of knowledge on all the operation there firm undertakes. Majority of the respondent had bachelors degree with representation of 52%, this means most of the INGO's have fully competent employees.

Most of the INGO's views supplier relationship management as a strategic component with majority of the respondents 65%. This has enabled them to reduce the supplier base with aim of reducing the administration cost. The Chartered Institute of Procurement and Supply (2012) state that, supplier based rationalization is important in supplier relationship management

Majority (97%) of the INGO's have automated their procurement process and 56% of the respondent strongly agrees that automation of the procurement process improves organization performance. This agrees

with the Dong, Liao, & Maedler, (2011) who urges that implications of adoption of technology in procurement processes impacts the organization performance by reducing lead times and long process in procurement process and also promotes internal integration in the organization by removing complexities and information asymmetries.

Different INGO`s uses different strategies on their operation when dealing with suppliers, Majority uses strategic supplier alliances with 45% representation. Again when selecting the suppliers they consider the geographical distance as the most key issue with 56.38 representation and compatibility of suppliers as the list factor. Non government organisations focus should be on how to use this model as it helps to discover the indicators of profit impact, supply risk and most importantly the business performance impact. The indicators of business performance is seen on the return on investment, profit as a percentage of sales and net income before tax (Paik, 2014).

According the research done by Zheng et al, (2004), to decrease the total costs spent on purchasing process, internet technologies are used and e-Procurement has become popular to implement in the latest era by both governments and enterprises. In our finding in order to determine organisation performance, 50% of the respondents indicated that buyer-supplier relationship determine organisation performance, 25% of the respondents indicated that use of technology determine organisation performance while 20% felt that training determine organisation performance. Therefore use of technology determines organisation performance to great extent.

According to Kaplan and Norton (2006) developed the balanced score card is used as a performance measurement framework to add strategic non-financial performance measures to the traditional financial metrics to give managers and executives a more “balanced” view of organizational performance. Looking at different perspectives respondents indicated that, 30% of the stakeholder satisfaction determines performance, 20% of the employee satisfaction determines performance.

Conclusion

The crux of this study was to explore the effectiveness of Strategic Procurement Capability on organisation performance in INGO`s in Kenya. Based on previous studies strategic supplier alliance have been tested to be a key element which support the organisation performance in several INGO`s. Proper supplier selection plays a very critical role in enhancing performance. Though there are several risk associated with procurement performance, the supply risk among others needs to be given proper attention when managing the risks. The output given from the findings indicate that there is a significant positive relationship between the elements of organisation performance namely; Risk management, Supplier relationship Management, Strategic sourcing, Technology.

Recommendations

The study recommends that the organisations should consider integrating with suppliers through approaches such as electronic data interchange with suppliers. Where suppliers do not have the capacity and financial capabilities to implement the technology, the organisations should consider supplier development as a way of helping the suppliers for mutual benefit.

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