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INFLUENCE OF SUPPLIER FINANCIAL CONDITION ON PERFORMANCE OF PROCUREMENT FUNCTION: A CASE STUDY OF COUNTY GOVERNMENT OF BOMET, KENYA

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Abstract*: Supplier selection is becoming the most significant role in procurement functions and supply chain managers. Supplier selection virtually impacts on the firm leverage. A huge chunk of the organization's capital resources is spent on inventory; hence it suffices to say; supply chain managers are expected to contract with suppliers who provide value for their money. Given the advent of long term supplier relationships that are viewed as business partnerships, it is also paramount to select suppliers who match the organization's managerial alignment as they contribute to the overall performance of an organization. The general objective of the study was to establish the influence of supplier selection practices on performance of procurement function, with specific objective to find out the influence of supplier financial condition on performance of procurement function in Bomet County, Kenya. The study findings indicate that supplier financial condition is one of the major ways organization invests in the marketplace for greater return today and even in the foreseeable future and an organization that does not make it unique to maintain performance of procurement function.*

Keywords*: supplier selection, procurement function, financial condition*

I. INTRODUCTION

Supplier selection is unit of procurement function which has elementary roles executed by procurement managers. This is because it virtually impacts on the organizations leverage. The Kenyan economy is experiencing growth in both public and private sectors. This growth is brought by various projects stimulating socioeconomic activities. Despite that there is increased growth in the public sector especially in the county governments, there are millions of tax payers money lost through improper bidder selection or purchase of sub-standard goods and services. It is noted that procurement managers do not adhere to the procurement rules and regulations.

Dobos et al., (2012) noted that supplier selection is on the management functions with primary purpose of getting information to evaluate supplier relationship as well as supplier situations. The supplier selection process entail simultaneous consideration of different critical bidder/ suppliers elements such as quality, price, and delivery lead time (Narasimhan et al., 2001). The benefits of supplier selection is considered to have an impact on the general organization performance and especially, on new product development, cost, quality, design among other effects (Handfield et. Al., 2009).

Apparently, there is increased adoption of government regulations, this has necessitated rapid transformation of the supply chain process in the dynamic environment (Nordling et al., 2010). The traditional methods applied in selecting suppliers considered multiple suppliers and one main supplier criterion was the price. Gallego et al., (2011) argued that the market had transformed to contracting a single bidder who is selected by the means of multiple criteria. The trend makes the benefits of supplier selection higher due to ling term supplier strategy, this is not beneficial to the organization development and profitability; but it is key to the overall organization business strategy (Nordling et al., 2010).

A supplier in the current market often needs to fulfill requirements other than just those concerning material and service, such as requirements that prove the supplier's capability and suitability to live up to a company's long-term requirements and needs. It is vital to assure that the supplier can guarantee sustained continuity of supply and to be aware of its performance, strengths and weaknesses. Through implementing a structured approach gathering data of supplier performance strict agreements can be negotiated about improving reject rates, reducing total lead time and contributing to cost reduction (Nordling et al., 2010). According to Lysons et al., (2008), what to appraise is related to the needs of a particular purchase. Lysons, however, identifies eight major common supplier evaluation criteria including: finance, production capacity, human resource, quality, performance, environmental and ethical considerations, and organizational structure.

Supplier evaluation is a field that continues to attract significant focus in supply chain management literature with effective evaluation and selection of suppliers considered to be one of the critical roles of procurement officers (Narasimhan et al., 2001). A number of parameters exist for the evaluation and selection of suppliers which include: quality, price, and on-time delivery (Ning Pi et al., 2005). According to Lysons et al., (2008) suppliers can be appraised on eight areas, namely: finance, production capacity, human resource, quality, performance, environmental and ethical considerations, and organizational structure. The appraisal criteria is summarized by Carter as the 'seven Cs' which represent: competency, capacity, commitment, control systems, cash resources and financial stability, cost commensurate with quality and service and consistency (CIPS, 2012). The performance of suppliers substantially impacts on the efficiency and effectiveness of the buying firm and is of great importance (Fredriksson et al., 2011).

According to Handfield et al., (2009), one reason for supplier selection is that of product development process, meaning that as the product development cycle reduces suppliers are also required to reduce the delivery cycle or else competent ones will be sought for and those that do not meet the criteria set by firms are supposed to be weeded out (Trevelen 1987). Dwyer (1993) is in agreement with Trevelen. He argues that the goal of supplier evaluation is to secure valued resources and technologies of the selected suppliers in situations that preclude the option of vertical integration due to resource limitations and managerial constraints. Apart from being able to harness the strengths and skills of suppliers to their advantage firms that conduct supplier evaluation also benefit from improved quality and process performance and continuous cost reductions (Newman, 1988).

According to KIPPRA (2006) sound public procurement policies and practices are among the essential elements of good governance and accountability. Otieno (2004) notes that irregular procurement activities like poor supplier selection criteria and procedures in public institutions provide the biggest loophole through which public resources are misappropriated. Kipchilat (2006) quoting a Comesa report (2004) noted that procurement absorbs 60% of government expenditure. This therefore means that supplier selection process needs to be taken very seriously if at all stakeholders are to derive value for their money.

According to Bail & Ross (2009) stated that supplier selection practices have an impact on the firm and result to loses due to issues related to inventory adjustments, warranty costs, among other factors which can affect future sales. To mitigate such effects, it is important to have effective screening methods which facilitate identification of top notch suppliers before awarding of contracts. Stormy (2005) noted that from the onset it is beneficial that the background and traditions of bidders are evaluated and blend with the clients three Ps that is personnel, policies and procedures. In most instances, supplier organization and its client fail to agree on the working terms then definitely their relationship and contract can be terminated.

According to Odhiambo & Kamau (2011) stated that the extent of compliance rules and regulations is very low in the public entities in Kenya as compared to South Africa. This is despite the public procurement oversight authority establishing measures enhancing compliance. Eyaa & Oluka (2011) indicated that public procurement Disposable Act (PPDA) Capacity building strategy report (2011-2014) which showed that general compliance sections in both county and national government as well as procurement and disposal entities (PDEs) in growing the countries which score low in inventory management, contract management thus impacting either negatively or positively on performance of procurement function.

Furthermore, Mutava (2012) observed that despite landmark reforms following the enactment of the PPDA 2005 whose objective among others was to promote competition and to ensure that competitors are treated fairly, recent reports have established that procurement malpractices during supplier selection like overpricing (buying at inflated prices), unstructured authorization of expenditure levels and lack of fairness and transparency amongst bidders are still rampant leaving the masses decrying poor service delivery. Kariuki (2013) asserts that the obligation for invitation to tender requires procuring entities to uphold transparency of the procedures used in awarding contracts however, supplier canvassing, favoritism and corruption is rampant in Kenya’s public procurement (Anyona, 2011).

Public Procurement Reforms have occupied a centre stage in broad public sector reforms in Africa since the late 1990s (Ogot et al., 2009). The pressures to cut costs in public sector operations, the increased demand for accountability and transparency from the tax payers, the increased link between public procurement; trade and investment and the overall desire for efficiency among others combined to generate a renewed interest in the area of public procurement which inter twines with supplier selection. Hunja (2001) notes that in the previous years, many developing countries did not see public procurement as having a strategic importance in the management of public resources. It was largely treated as a process oriented ‘back office’ support function undertaken by non-professional staff of the buying agency. However, this has been changing recently in the face of shrinking budgets, the need to fight corruption and the realization that significant savings can be gained by a well-organized procurement system.

Supplier selection is becoming the most significant role in procurement functions and supply chain managers. Supplier selection virtually impacts on the firm leverage. A huge chunk of the organization’s capital resources is spent on inventory; hence it suffices to say; supply chain managers are expected to contract with suppliers who provide value for their money. Given the advent of long term supplier relationships that are viewed as business partnerships, it is also paramount to select suppliers who match the organization’s managerial alignment as they contribute to the overall performance of an organization. The general objective of the study was to establish the influence of supplier selection practices on performance of procurement function, with specific objective.

Statement of the Problem

Ogden et al., (2008) stated that the most significant responsibility of the procurement department is to source for the right suppliers at the right time. Various organizations are transforming from adversarial kind of transactions to the selection of qualified bidders with close relationships, improved quality, and shorter lead time and faster delivery cycles (Karlsson et al., 2011).

According to Ntayi (2009) stated that millions of dollars are wasted because of inefficient and ineffective organization procurement structures, which lead to failure to adhere to the procurement act and regulations, thus leading to poor procurement performance. Most of the empirical review discussed in Kenya considers supplier selection practices as a sub-function of the procurement procedure, but it is not discussed broadly.

Ngugi & Mugo (2007) did a study on the internal factors affecting the procurement process of bidders in the public sector. The research established that the high levels of discretion without adequate control lead to the increased avenues of malpractices such as corruption. Eyaa & Oluka (2011) carried out a study on non-compliance with public procurement in Uganda. The study established that public entities need to work as a unity to enhance procurement performance. These study findings did not highlight on how suppliers of public entities can improve procurement performance in county governments. In Bomet County governments, it was noted that some tenders were awarded to family allies, which is among other issues raised. The majority of the studies carried out locally do not focus on the influence of supplier selection practices towards enhancing the performance of procurement function in county governments. It is through this information that the study focused on establishing the influence of supplier selection practices on the performance of procurement function in Bomet County Government.

Study Objective

The general objective of the study was to establish the influence of supplier selection practices on performance of procurement function, with specific objective to find out the influence of supplier financial condition on performance of procurement function in Bomet County.

II. RESEARCH METHODOLOGY

Case study research design was used to undertake the study. This type of research design was adopted because it came up with the relevant data for analysis. It emphasized on quality in the collection and analysis of data and it was used when collecting data using open –ended questionnaires. This is in accordance to Mugenda and Mugenda (2008)**,** who assert that a case study type of research design is considered the most appropriate because it describes in quantitative terms the degree to which variables are related. The study applied purposive sampling to get eleven departments whereby stratified sampling was applied to get 161 respondents. In this study the collected data was analysed both qualitatively and quantitatively (Kombo & Tromp, 2003). After collecting data from the respondents, data was edited to determine variations and coded for further analysis.

III. RESULTS AND DISCUSSION

Part of the study was to get information on supplier financial condition. See results in Table 1 next page.

Table 1: Supplier Financial Condition

	SA		A		N		D		SD		Mean	StD
	C	P	C	P	C	P	C	P	C	P		
Financial stability is based on supplier selection.	25	15.8%	62	40.5%	11	7.0%	50	31.0%	9	5.7%	3.79	.84
Financial assessment is used in determining liquidity levels of a particular organization.	10	6.3%	66	41.1%	11	7.0%	55	34.2%	18	11.4%	3.06	.94
Special documents proofing the liquidity levels of the suppliers are attached during tender processing	6	3.8%	39	24.1%	13	8.2%	81	50.6%	21	13.3%	3.89	.84

From table 1 it is evident that majority of respondents at 56.3% agreed that it was their opinion that financial stability is based on supplier selection. Only 36.7% disagreed and only 7.0% were neutral. This implies that financial stability was highly considered during supplier selection.

When the respondents were asked whether financial assessment is used in determining liquidity levels of a particular organization, 47.4% agreed, 45.6% disagreed and 7.0% were undecided. This implies that liquidity levels had a positive effect on performance of procurement function.

However, when the respondents were asked if Special documents proofing the liquidity levels of the suppliers are attached during tender processing, 63.9% disagreed, 27.9% and 8.2%. This means that documents were vital in determining the liquidity levels of the supplies during selection.

When respondents were asked if the suppliers are informed on the need to have sound capital when participating in tenders, 57.6% disagreed, 38.6% agreed and 3.8% were undecided. This shows that suppliers participating in tendering had strong financial stability.

Correlation Analysis

As part of the analysis, Pearson's Correlation Analysis was done on the Independent Variables and the dependent variables. The results are as seen on Table 2 next page.

Table 2: Correlation Analysis

		Performance of procurement function	Supplier financial condition
Performance of procurement function	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	161	
Supplier financial condition	Pearson Correlation	.710**	1
	Sig. (2-tailed)	.001	
	N	161	161

Pearson correlation analysis was conducted to examine the relationship between the variables. The measures were constructed using summated scales from both the independent and dependent variables. As cited in Cooper and Schindler (2000) the correlation coefficient value *(r)* range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong. However, according to Field (2005), correlation coefficient should not go beyond 0.8, to avoid multi - collinearity. Since the highest correlation coefficient is 0.710 which is less than 0.8, there is no multi - collinearity problem in this research.

The independent variable had a positive correlation with the dependent variable having a correlation of (r=0.710, p< 0.01). This indicates that the variables are statistically significant at the 99% confidence interval level 2-tailed. This shows that the variable under consideration has a positive relationship with the dependent variable.

Summary of Findings

Supplier financial condition had a strong significance to performance to procurement function (B = .168) and was thus statistically significant. Supplier financial condition is one of the major ways organization invests in the marketplace for greater return today and even in the foreseeable future and an organization that does not make it unique to maintain performance of procurement function.

Suggestion for Further Research

There is need for further studies to be undertaken covering other organizations in Kenya to study the effectiveness of the procurement systems as well as the supplier selection and evaluation criteria used. A study also need to be undertaken to evaluate the best practices that effectively lead to best performance in the procurement performance in all public sector organizations in Kenya. Also, a study should be undertaken to investigate the supplier selection and procurement performance of the other government institutions.

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