



Best procurement practices and procurement performance of SMEs in Nairobi County, Kenya

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ABSTRACT

Purpose: This paper analyses the procurement practices and performance of SMEs in Nairobi County, Kenya. To accomplish this, the study set out two specific objectives which included: (i) To establish the extent to which procurement best practices are adopted by SMEs in Nairobi County and (ii) To determine the relationship between procurement best practices and procurement performance of SMEs in Nairobi County.

Design/ Methodology/Approach: The study adopted a descriptive research design of a cross sectional type approach and sampled forty-five (45) SMEs out of the total number of four hundred and fifty (450) SMEs in Nairobi operating in CBD through random sampling method to take part in the research. Linear regression was used to draw inferences.

Findings: Regression analysis findings revealed that procurement best practices has a positive effect on procurement performance with all the independent variables (Green Purchasing, Supplier Partnering, Adoption of Information Technology and Purchasing Ethics) hence all these variables had a statistically significant effect on procurement performance.

Contribution to policy and practice: The study recommends that procurement management of SMEs in Kenya to ensure that there is an appropriate focus on procurement best practices in order to meet long term procurement performance in SME's.

Originality/Value: The study contributes to the academic understanding of how procurement practices might improve or hinder procurement effectiveness. As such, the present research may assist scholars to move beyond a simple dyadic context and toward examining complete supply networks.

Background

Purchasing practices are imperative; enhances firms 'ability to offer more effective and efficient goods and service delivery to clients. It supports effective goods and service delivery as the needed inputs of production or consumption will be availed on time (Mburu, 2011). Procurement best practices can enable SMEs to operate on optimal level. This translates to noteworthy procurement cost savings that in turn improves on firm's procurement performance. Whereas poor procurement practices result to poor procurement performance in firms; as a result, customers are dissatisfied, and market share lost. Modern day firms, strive to attain more efficiency, procurement cost effectiveness and accountability by

undertaking to adopt vigorous and well-articulated procurement best practices ([Shalle & Njagi, 2016](#)). The adoption of procurement best practices by firms/SMEs is meant to reduce the number of overall discrepancies realized because of contract awards, enhance optimal identification of suppliers' opportunities and improve relationships with current firm suppliers. Procurement department undertakes to coordinate the purchasing and supplies of products and services with the intention of enhancing both cost savings and quality procurement that are always conflicting ([Wanyonyi & Muturi, 2010](#)).

Globally the failure by many SMEs to establish procurement best practices will give rise to biased and irregular assessments which are procurement costly to a business. The adoption of procurement best practices by SMEs globally that entail; the precise definition of actual business needs, thorough analysis and understanding of industry economics and business because of switching suppliers. This leads to firm capabilities to properly put their business requirements thus improve on procurement performance ([Cousins & Spekman, 2009](#)). Competition in the operating environment has called on organization to rethink all functions and see how they can exploit them for sustainable competitiveness. Procurement is important in firms' terms of accuracy and completeness in order processing, cost minimization through market survey for goods and services and flexibility in delivery of quality supplies however, dependent on various factors for instance; green purchasing, supplier partnering, adoption of information technology and purchasing ethics.

Procurement best practices have seen a lot of growth in many firms in Kenya in goods and service delivery to customers ([Arachi, 2013](#)). Procurement performance is important to SMEs that wants to succeed in today's competitive business world. In Kenya SMEs have not been able to successfully operationalize their procurement best practices, for longer time, the operations of SME's were limited to a few selected market sectors and were largely confined in Kenya. Therefore, there is a need for further study on procurement best practices and procurement performance in SMEs. There are some SMEs in Kenya that have embraced procurement best practices however they are still facing various challenges as they try to propel economic growth. Procurement challenges are not the same in all SMEs, but they vary depending on firm's procurement practices, though several challenges ranging from economic, technological and environmental tend to affect the SMEs efficiency and effectiveness in procurement function (Njuki, 2013).

Many researchers have argued in numerous context and agreed generally that most SMEs fails due to poor adoptability of procurement best practices which include; Green Purchasing that; reduce environmental risk, increase market share ,enhance reputation and reduce supplier generated wastes, poor supplier partnering that leads to; delays in delivery times, poor storage capacity and insecurity, short-term relationship and non-application of Information Technology that leads to; service dependability, Information sharing, coordination of business processes and finally poor customer service quality ([Kakwezi, 2010](#)). This leads to closure of most SMEs which do not operationalize their procurement best practices effectively and efficiently to meet customer needs on time hence remain competitive in the market. Therefore, to curb this menace there is urgent need for further research on procurement best practices and procurement performance in SMEs to come up with solutions to be used by many firms.

Several studies have been done in Kenya. For instance, [Wambui \(2008\)](#) did a research in effects of ICT in purchasing process in the Tandem Limited. The findings established that lack of finances, administrative manager's failure to allocate capital towards implementing of

ICT in procurement and incompetence by ICT employees affected the implementation of ICT greatly. [Moses \(2012\)](#) concluded that e-procurement adoption affect performance of procurement positively. Therefore, many researchers concurrently agree that procurement plays an important role in any firm's operations and is measured in terms of procurement performance which entails; quality and amount of goods obtained, timely delivery of goods and services, procurement cost minimization, accuracy and completeness in order processing, speed, flexibility, and supplier profiling. The question is why do SMEs fail in procurement function? The general objective of this paper is to identify best practices that lead to high levels of procurement performance of Small and Medium Enterprises in Nairobi County. The present paper studies the extent to which SMEs in Nairobi County have adopted best procurement practices and the extent to which they have influenced the procurement performance.

After testing and correcting the selection and self-report bias, the study found that green purchasing, supplier partnering, information technology purchasing ethics are widely practiced among the SMEs in Nairobi County. The variables had a statistically significant effect on procurement performance in terms of lowering of information search cost for suppliers, lead time delivery of goods and services to customer, professionalism in procurement of quality goods and services and flexibility in recycling of products procured.

Literature Review

Procurement Best Practices

Procurement is significant in the market where firms are able to deliver goods and services on time in order for customers to meet their needs. Therefore, effective and efficient procurement best practices are essential in firm's procurement performance in terms of accuracy and completeness in order processing, cost minimization through market survey for goods and services and flexibility in delivery of quality supplies to customers ([Kihara, 2012](#)). Firm's procurement performance is achieved through the development of procurement best practices which is a blueprint that may be applied to all firms/SMEs, irrespective of the contexts in which they operate, however, this has been quite a challenge. Indeed, no such conclusive blue print may claim to be applicable in all environments or organizational procurement contexts. This is because of the existence of a myriad of 'objective realities' and conceptual lenses from which different observers may perceive their own realities, even on issues that may rely on hard or empirical data ([Erridge, 2001](#)). As Turner (2011) posits, the adoption of procurement best practice is shift away from traditional procurement practices and must therefore be approached from a 'value opportunity' standpoint rather than a process standpoint. There must a shift away from the rudimentary procurement practices to procurement best practices. Procurement best practices its continuous and rapid movement as well as benchmarking, where firms measures itself against other 'best-in-class' organizations (Guth, 2010). However, several characteristics of procurement best practices are identified across many high procurement performing firms. They include: green purchasing; supplier partnering, adoption of information technology and purchasing ethics (Arawati, 2011).

Green procurement involves purchasing environmentally goods and services which are fit for human consumption. Such goods and services include those which contain recycled content to minimize waste(Ochoa & Erdmenger, 2003). Many firms have adopted green purchasing activities that creates value through increased products and service cost efficiency that has increased good market penetration and good public image that retains customers in buying goods and services. Firms that have adopted accrue economic gains

through reduction of supplier procurement wastes (Holt & Kockelbergh, 2003). The most efficient purchasing of goods and services is through the application of use of procurement conducive technologies that minimizes waste (Holt & Kockelbergh, 2003). It is achieved through suppliers and consumers working together in order to find best procurement solutions. Many firms acquire good customer service reputation by going green (Khiewnavawongsa & Schmidt, 2008).

Supply partnering promotes procurement planning and solving procurement problems (Ragatz et al., 1997). Supplier partnering enhances suppliers and firms to conduct procurement related activities effectively and efficiently in terms of coordination of goods supplied on time to respective users. The firm uses integrated technology with suppliers and is able to share information pertaining goods and services. An effective supplier partnering is important component in the whole supply chain function (Harvey, 2012). The supplier partnering enables the firm to integrate its procurement activities and to collaborate and coordinate to its suppliers (Griffith, 2009). He stated that the parties involved in procurement, implements purchasing system that it is able to coordinate procurement operations. This can only be done through adoption of information technology enhances procurement performance (Grant, 2011).

As firms seek to improve the efficiency in procurement best practices and procurement performance by application of IT that aids in effective and efficient procurement processes. That is it reduces information searching time of goods and services (Mouritsen, et al., 2003). Similarly, the impact of ICT can be demonstrated through flexibility of processing of quotations and order processing of requisitions of goods and services. This in the long run enhances procurement performance in firms. The many dimensions in which procurement best practices and procurement performance can be demonstrated in dynamic way on IT. That is from integration of all procurement processes in the supply chain and its control from accountability perspective. The application of IT in procurement process it aids in coordination of procurement processes internally and externally of the firm (Johnson & Leenders, 2004). Procurement officers procurement managers and store clerks gains a lot of advantages attributed to It, from lead time order process and accountability in processing of requisitions (Flynn, 2003).

It's vital for firm's which have adopted procurement practices to deliver services with due diligence in terms of accountability and in honest manner. This creates good public image of the firm and enhances value for money for customers and investors (Saeed & Telgen, 2007). Transparency ensures that many firms have adopted best procurement practices and are able to deliver value to its esteemed customers in goods and service delivery. Purchasing ethics is enhanced by adoption of good procurement stem that enhances procurement performance that promotes accountability in procurement transaction related activities. This is influenced by adoption of ICT and firms cultural procurement standards. Most ethical compete in the market effectively and efficiently through delivery of quality goods and services (Thai, 2011).

Procurement Performance

According to Schiele (2007), procurement performance entails how well firm's procurement objectives have been attained. This entails two major aspects; efficiency and effectiveness. Effectiveness in procurement takes into consideration various indicators for instance; cost involved in information search of goods and service, procurement of quality goods and services, flexibility of order recycle time and lead-time delivery of goods and services. According to Deva raj (2008), effective procurement performance measurement aids

managers to make better procurement decisions needed to improve on performance and accountability. It enhances optimal allocation of resources more as well as evaluation of alternative approaches to procurement to allow for increased operational flexibilities. According to Shalle et al. (2014), deduced that procurement performance can be assessed by focusing on lead time delivery, flexibility, quality and cost. Optimal procurement performance attainment is dependent on how current suppliers' relationships are managed to ensure constant availability of needed quality supplies at the firm. This will ensure that sourced materials are indeed procured during the right time and at a reasonable cost. Procurement performance strives to enable improvements in the procurement process at the organization to improve on quality delivery of firm products and services at least possible time and cost.

Relationship between Procurement Best Practices and Procurement Performance

Most findings had shown positive relationship; some have shown negative relationship. According to Mugo (2011) procurement best practices and procurement performance vary depending on various activities undertaken by SMEs. Some firms have a positive relationship from the following practices include: Green Purchasing, Supplier Partnering and Adoption of Information Technology, where the accomplishment of a given procurement best practice is measured against in terms of accuracy, completeness, cost, speed, flexibility, quality of supplies, and supplier profile among many others. Therefore, the positive response will be satisfied customers making more requisition of goods and service. While on the negative part, on-application of procurement best practices results to short term supplier partnering in terms of outsourcing products, poor customer service quality, poor information sharing and poor-quality products delivered to customers that are not fit for consumption.

Procurement best practice includes Green Purchasing; compliance with green procurement policies to procurement performance, recycling of the products procured, procured material composition, procurement process efficiency, timeliness in green purchasing process, procurement process effectiveness and procurement of the environmentally friendly products (Holt & Kockelbergh, 2003). Supplier Partnering; supplier's relationship aid firms in adoption of cost-effective procurement design choices, suppliers, promotes collaboration in products procured, supplier performance improves firm's procurement best practices, promotes rapid procurement integration in the firm, reduction in lead time delivery of goods and services, promote partnership in market and mutual procurement planning and problem-solving efforts (Harvey, 2012).

Materials and Methods

The study adopted a descriptive research design of a cross sectional type approach and sampled forty-five (45) SMEs out of the total number of four hundred and fifty (450) SMEs in Nairobi operating in CBD through random sampling method to take part in the research. Semi-structured questionnaires was used to gather primary data from respondents; procurement managers, procurement officers and stores clerks in these SMEs in Trade, Manufacturing, Construction and Service sector operating in Nairobi County and secondary data from other researchers. Correlation analysis and linear regression was used to draw inferences.

Results

Correlation Analysis

Correlation analysis matrix (Table 1) was used to determine both the significance and degree of association of the variables and also predict the level of variation in the dependent variable caused by the independent variables.

Table 1 Correlation Results

Variables	1	2	3	4	5
1.Procurement Performance	1				
2. Green Purchasing	.658**	1			
3. Supplier partnership	.642**	.590**	1		
4.Information Technology	.869**	.580**	.446**	1	
5. Purchasing ethics	.737**	.642**	.663**	.656**	1

** Correlation is significant at the 0.05 level (2-tailed).

Table 1 indicates that the associations between each of the independent variables and the dependent variable were all significant at the 95% confidence level. The correlation between green purchasing and procurement performance was significantly strong and positive ($r=0.658$, $P=0.001<0.05$). This implied that when the firm decided to go along with green procurement activities tangible benefits are experienced. The findings also show that supplier partnering and procurement performance was significantly strong and positive ($r=0.642$, $P=0.001<0.05$). This clearly indicated that procurement performance was high when good supplier partnering relations are maintained. There is also a strong relationship between adoption of information technology and procurement performance in the firm, ($r=-0.869$, $P=0.002 <0.05$). This implied that information technology improves the firm's procurement performance. This is in line with Coulthard, (2004) who stated that procurement best practice will seek to lead to improvement in procurement in quality goods and services, cost reduction in procurement process, customer responsiveness to lead time delivery of goods and services and flexibility in efficient order processing of goods and services procurement performance in SMEs.

Regression Analysis

Multivariate regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. Table 2 shows the model summary.

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892 ^a	.795	.784	.112

a) Predictors: (Constant), Green Purchasing, Supplier Partnering, Adoption of Information Technology and Purchasing Ethics

b) Dependent Variable: procurement performance

Table 2 show that R is the square root of R-Squared which correlate with observed and projected values of dependent variable suggesting that there was association of 0.892 between procurement performance and procurement best practices in firms. Adjusted R

squared show the procurement performance varied with difference in procurement best practices in the firm which includes green purchasing, supplier partnering, adoption of information technology and purchasing ethics. The value of adjusted R-Squared (0.784) indicating a variation of 78.4% in procurement best practices in the firm and procurement performance at a confidence level of 95%. This clearly indicated green purchasing, supplier partnering, adoption of information technology and purchasing ethics improved the firm's procurement performance. Table 3 presents the Analysis of Variance results which indicates that independent variables are significant predictors of procurement performance (F statistics = 143.696, $p=0.000 < 0.05$). Table 4 shows the regression results.

Table 3 ANOVA Results

Model		Sum Squares	of df	Mean Square	F	Sig.
1	Regression	7.21	4	1.803	143.696	.000 ^b
	Residual	2.183	174	0.013		
	Total	9.393	178			

- a) Predictors: (Constant), Green Purchasing, Supplier Partnering, Adoption of Information Technology and Purchasing Ethics
 b) Dependent Variable: procurement performance

Table 4 Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.713	0.216		3.298	0.001
	Green purchasing	0.755	0.109	0.436	6.926606	0.0001
	Supplier partnering	0.828	0.279	0.372	2.967742	0.002
	Adoption of information technology	0.747	0.142	0.746	5.260563	0.003
	Purchasing ethics	0.752	0.146	0.286	5.150685	0.02

- a) Predictors: (Constant), Green Purchasing, Supplier Partnering, Adoption of Information Technology and Purchasing Ethics
 b) Dependent Variable: procurement performance

The findings in Table 4 indicated that procurement performance would be at 0.713 holding procurement best practices which are green purchasing, supplier partnering, adoption of information technology and purchasing ethics constant at zero. The study established that effort by the management to support the green purchasing improves the firm's procurement performance ($r=.755$, $p=0.001 < 0.05$). The study found that good supplier partnering would significantly increase procurement performance ($r=0.828$, $p=0.002 < 0.05$). Technology which significantly increased firm's procurement performance ($r=0.747$, $p=0.003 < 0.05$). From the regression results in Table 4.18 the study found that effort to enhance purchasing ethics significantly increased procurement performance of the firm ($r=0.752$, $p=0.004 < 0.05$). This clearly indicated that improved green purchasing, good supplier partnering, adoption of information technology and purchasing ethics; procurement best practices increased procurement performance. This is in line with Coulthard, (2004) who stated that procurement performance will be measured by determining information search

cost for suppliers, lead time delivery of goods and services to customers, professionalism in procurement of quality goods and services and flexibility in recycling of products procured.

Conclusion

From the findings in adoption of procurement best practices, many SME's in trade sector, manufacturing sector, construction sector and service sector are seeking to improve procurement performance in firms that's is through adoption of green purchasing, use of information technology in procurement, supplier partnering and purchasing ethics. Therefore, through adoption of procurement best practices in SME's, the firms are able to attain procurement performance from low cost of information search for suppliers, lead time delivery of goods and services to customers, professionalism in procurement of quality goods and services and flexibility in recycling of products procured. The relationship between procurement best practices and procurement performance had a positive correlation. This indicated that model formed had a good fit therefore the firm was significant at $P= 0.01 < 0.05$

Areas for Further Research and recommendations

The study recommends that firms should adopt procurement best practices that influences procurement performance in serving internal and external customers effectively and efficiently. The study recommends that procurement managers, procurement officers and stores clerks should be prepared to participate in technology advancement to enhance accountability in procurement activities and also enhance supplier partnering. Ethical levels of behavior of procurement and stores staff must be applied effectively in serving the internal and external customers. Finally, the study recommends that SMEs to fully operationalize best procurement practices that will enhance long term procurement performance of firms in order to remain competitive in goods and service delivery to customers.

Declaration of Interests

The author declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Author Statement

The authors declare that all of us have seen and approved the final version of the manuscript being submitted. They warrant that the article is the authors' original work, hasn't received prior publication and isn't under consideration for publication elsewhere.

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