

**EFFECTS OF PROCUREMENT PLANNING ON PROCUREMENT
PERFORMANCE: A CASE STUDY OF AGRICULTURAL DEVELOPMENT
CORPORATION, NAIROBI**

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ABSTRACT

This paper presents the influence of procurement portfolio management on procurement performance, effects of logistics management on procurement performance and the impacts of adherence to procurement plans on procurement performance on public corporations. The study found out that there existed a strong relationship between procurement planning and procurement performance, therefore the study concludes that the presence of a procurement portfolio, efficient logistics management and adherence to procurement plans positively affects procurement performance in institutions. The purpose of procurement planning therefore is to be able to utilize the available resources to achieve the overall procurement objectives

Key words: *procurement planning, procurement performance, efficiency and lead time*

1. BACKGROUND OF THE STUDY

The planning function encompasses defining an organization's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate the activities (Robbins, 2001). Planning both as a concept and function is probably one of the extensively talked about concepts in the management literature. It is a function that forms the foundation for the rest of management functions. When planning is properly conceived and implemented, it can serve as an important mechanism for extracting, distributing and allocating resources (James, 2004). Planning generally enhances the gathering, evaluating and interpreting of essential data and information in order to produce knowledge relevant to good policy making

Procurement activities, aim at anticipating requirements, sourcing and obtaining supplies, moving supplies into the organization, and monitoring the status of supplies as a current asset (Leenders & Lisa, 2000). According to Saunders (1997), the contribution of procurement planning is perceived in terms of quality, delivery, cost and flexibility, which has an impact on the competitive capability of the firm to meet customer requirements.

The management of public procurement process is one of the functions that have probably a wider implication in ensuring good governance because all government departments charged with providing services are dependant on this process. Reforming and strengthening systems of public procurement must be given a high priority in the efforts to improve systems of governance in the African Countries (Kabaj,2003)

Industry Manual, (2008) counsels that a procurement plan is an instrument for implementation of the budget and should be prepared by the user departments with a view to avoiding or minimizing excess votes in the entities' budgets and to ensure that procurements do not proceed unless there are funds to pay for them. This implies that all procurement plans must be well integrated into the budget process based on the indicative budget as appropriate and in compliance with the procurement law.

Procurement planning is the process used by companies or institutions to plan purchasing activities for a specific period of time, this is commonly completed during the budgeting process, and the primary concept of procurement planning is that advance planning will result in cost savings, more efficient business operations, and therefore increased profitability. Planning is a process that consists of many steps and the bottom line is that planning is not concerned with future decisions but rather with the future impact of decisions made today (Thai, 2004)

Mamiro (2010), in his findings underscores these facts and concludes that one of the major setbacks in public procurement is poor procurement planning and management of the procurement process which include needs that are not well identified and estimated, unrealistic budgets and inadequacy of skills of procurement staff responsible for procurement. Similarly, Kakwezi and Nyeko (2010), argue that procurement performance is not usually measured in most Public entities as compared with the human resource and finance functions. They conclude in their findings that failure to establish performance of the procurement function can lead to irregular and biased decisions that have costly consequences to any public procuring entity. Procurement planning is the primary function that sets the stage for subsequent procurement activities; it fuels and then ignites the engine of the procurement process. It is the process of determining the procurement needs of an entity, their funding and timing of their acquisition such that operations are met as required in an efficient manner, Arrowsmith & Hartley (2002).

Procurement must take a thoroughly professional view of its role in business as a whole and that must include planning (Bailey, Farmer, Jessop & Jones, 1998). Any such procurement begins with the planning decision to make the purchase and this will involve in the first place, deciding whether there is a need for the particular goods or services, ensuring that the purchaser has the legal powers to undertake the transaction, obtaining any relevant approvals within the government hierarchy and arranging the necessary funding (Arrowsmith, Linarelli & Wallace, 2000)

In a departure from the past dispensation, the government has recognized the need for procurement planning in the public institutions. According to the Public Procurement and Disposal Act (2005), section 26, all procurements shall be within the approved budget of the procuring entity concerned through an annual procurement plan, all procurements undertaken by a procuring entity should be as per the threshold matrix set in the regulations as well as procurement should be handled by different offices in respect of procurement initiation, processing and receipt of goods works and services.

In consonance to the above regulations, according to section 34 of the same Act, the procuring entity should prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and complete description of what is to be procured and that allow fair and open competition among those who wish to participate in the procurement proceedings, (PPOA 2005)

In line with the ongoing public sector reforms in Kenya, government ministries, departments, agencies, and institutes are required to prepare a procurement plan for each financial year as

part of their annual budget preparation process. The annual procurement plan shall be integrated with the applicable budget process and based on an indicative or approved budget. Heads of department shall submit the plan to the accounting officer at least 30 days before closing of the financial year as well as strategic plans with the views of promoting prudence in resource mobilization, (PPOA 2005)

1.2 Statement of the Problem

Planning is a process that consists of many steps and the bottom line is that planning is not concerned with future decisions but rather with the future impact of decisions made today (Thai, 2004). Procurement is the process of obtaining goods or services in any way, including borrowing, leasing, and even force or pilferage. It also embraces clearing out unnecessary acquisitions either due to obsolescence or due to depreciation in their usefulness and value to an entity. Procurement planning is the primary function that sets the stage for subsequent procurement activities; it fuels and then ignites the engine of the procurement process. It is the process of determining the procurement needs of an entity, their funding and timing of their acquisition such that operations are met as required in an efficient manner, Arrowsmith & Hartley (2002).

In developing countries, public procurement is increasingly recognized as essential in service delivery (Basheka and Bisangabasaija, 2010), and it accounts for a high proportion of total expenditure. Due to the colossal amount of money involved in government procurement and the fact that such money comes from the public, there is need for accountability and transparency, (Hui et al., 2011).

Consequently, various countries both in developed and least developed countries have instituted procurement reforms involving laws and regulations. The major obstacle however, has been inadequate regulatory compliance. De Boer and Telgen (1998) confirm that non-compliance problem affects not only the third world countries but also countries in the European Union. This position is further supported by Gelderman et al., (2006) who contend that compliance in public procurement is still a major issue. Hui et

al., (2011) while analyzing procurement issues in Malaysia established that procurement officers were blamed for malpractice and non-compliance to the procurement policies and procedures. Citing Yukl (1989), Gelderman et al., (2006) stipulate that compliance occurs when the target performs a requested action, but is apathetic about it, rather than enthusiastic, and puts in only a minimal or average effort. However, as an organizational outcome, compliance has traditionally been understood as conformity or obedience to regulations and legislation (Snell, 2004) cited in Lisa, (2010).

According to Kenya et al., (2011), Kenya has undergone significant development in the past three decades. From being a system with no regulations in the 1960s to a system regulated by Treasury Circulars in the 1970s, 1980s and 1990s, the introduction of the Procurement Regulations of 2006 brought new standards for public procurement in Kenya.

Many studies were carried out on procurement before the Public procurement and Disposal Regulations of 2006 to evaluate the efficiency of the procurement process in existence at the time, (Kipchilat, 2006). The major findings of the studies were that public procurement was not operating efficiently and that the state was losing a lot of money through shoddy deals.

PPOA as an oversight body; the development of a framework for contract administration and the new appeals mechanism were among those aspects of the procurement system rated as having been positively affected by the Regulations. In contrast, the existing institutional development capacity in procuring entities and functioning of the procurement market were assessed as being among the weakest aspects of the system. The report noted that although procedures supporting systematic procurement planning have been established, research showed that these are far from always being complied with

According to PPDA Regulations (2006), each user department should prepare a multi-annual rolling work plan for procurement based on the approved budget, which is submitted to the procurement and disposal unit to facilitate orderly execution of annual procurement activities, a procurement and disposal unit then uses the combined work plan to plan, organize, forecast and schedule the procuring and disposing entity's procurement activities for the financial year, however compliance levels continue to be low in public entities in Kenya despite efforts by the Public Procurement Oversight Authority (PPOA) to put in place measures to improve compliance (PPOA 2007).

Nyeko (2004), in his studies on Procurement Processes and Performance: Efficiency and Effectiveness of the Procurement Function, however, argues that procurement performance is not usually measured in most PEs as compared with the human resource and finance functions. He asserts that failure to establish performance of the procurement function can lead to irregular and biased decisions that have costly consequences to any public procuring entity

Rotich (2011), in his studies on Influence of Planning on Procurement Performance in the Kenya Public Financial Sector, contends that the evaluation or measurement of procurement performance has always been a vexing problem for procurement professionals. He asserts that traditionally, firms concentrate on analyzing their own internal trends, which does not portray the true picture on how they compare well with competitors. Whereas the above studies dwelled on procurement processes, public reforms and the influence of planning, none of them addressed on performance indicators to gauge whether institutions have complied with the established procurement plans in delivering service to the public. This is what this research study seeks to achieve, as well as to recommend performance indicators in which public corporations can establish in order to guarantee effective service delivery improvement.

1.3 Research Design

The study adopted descriptive research design in order to provide a framework to examine the characteristics of the independent variables (procurement portfolio, logistics management and adherence to procurement plans). This was appropriate to obtain information concerning the status of the phenomenon, to describe what the current situation is with respect to the variable of the study. Ghauri and Gronhaug (2005) asserts that in descriptive design the problem is structured and well understood a fact that Mugenda and Mugenda (2003) agrees that descriptive design is most preferred because it gives a report on things as they actually are.

1.3.1 Research Population

The research population for this study was the staff in ADC that engage in procurement activities based on allocated funds and estimated budgets where the target population for this study was the personnel in ADC that contribute to the preparation of plans as well as personnel responsible for allocation of funds for the various activities in Nairobi only.

1.3.2 Sample and Sampling Technique

This research study used stratified random sampling of staff by cadre, because it enabled the generalization of a larger sample size of percentage of the total population. A sample size of 40 respondents was drawn from the sample frame using simple stratified random sampling by cadre to promote the needs for efficiency and representativeness. This was justifiable by what Kothari (2004) stated that a representative sample could be 30% of target population

1.3.3 Data Collection Procedure

The questionnaire was administered using a drop and pick later method. The respondents in the questionnaire were 40 employees. The questionnaire was both open and closed ended questions in order to enable effective data collection filled in the questionnaire.

1.3.4 Data Analysis and Presentations

Sekaram, (2003) asserts that there are three objectives in data analysis; getting a feel for the data, testing the goodness of the data, and answering the research question. He notes that establishing the goodness of data lends credibility to all subsequent analysis and findings because it measures the reliability and the validity of the measures used in the study. The study used descriptive statistics and integrated both qualitative and quantitative techniques in the data analysis. By the use of pie charts and graphs or tables, the data was presented diagrammatically. This type of presentation was efficient in that it was easy to depict data more accurately

2. RESULTS AND DISCUSSION

2.1 Effects of Procurement Portfolio on Procurement Performance

The study sought to find out whether ADC managed its procurement through the use of a procurement portfolio. The results revealed that 74% of the respondents indicated that they aware of the significance of a procurement portfolio, while 26% indicated that they were not aware of the presence of a procurement portfolio that ADC relied on.

These findings reveal that procurement planning is the primary function that sets the stage for subsequent procurement activities; it fuels and then ignites the engine of the procurement process. It is the process of determining the procurement needs of an entity, their funding and timing of their acquisition such that operations are met as required in an efficient manner Arrowsmith & Hartley (2002).

2.2 Effects of Adherence on Procurement Performance

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The study sought to find out whether the adherence to procurement plans facilitated the identification and appointment of reliable and responsive suppliers. The results revealed that 35% of the respondents disagreed that ADC identified reliable and responsive suppliers, 53% of the respondents agreed, while 12 % of the respondents strongly agreed that the adherence to procurement plans enabled ADC to identify and appoint reliable and responsive suppliers. This findings agrees that the preparation of procurement plans and the establishment of procurement portfolio enables the identification and appointment of reliable and responsive suppliers

2.3 Effects of Logistics Management on Procurement Performance

The study sought to find out whether the management of logistics facilitated adequate demand planning in ADC. The results revealed that 68% of the respondents agreed that logistics management would promote demand planning, while 32 % of the respondents strongly agreed that a well coordinated logistics management facilitated adequate demand planning therefore reducing possible chances of demand and supply errors.

These findings agree with Lambert (1998) that logistics management is concerned with balancing the requirements of internal and external customers with supply chain capabilities; this includes forecasting demand, synchronizing supply and demand, increasing flexibility, reducing the variability of demand by means of standardization and the control of inventory

2.4 Procurement Performance

As tested by chi-square, different variables were used to determine if there was any relationship of procurement planning on procurement performance, the presence of a procurement portfolio to manage the number of suppliers was tested, the chi square 0.000 was the result, indicating that there was a strong relationship, therefore the existence of procurement planning reduces supplier dependency, enables adherence to procurement portfolio and the categorization of needs therefore impacting positively on procurement performance.

Adherence to procurement plans facilitates the identification and appointment of reliable and responsive suppliers, this is denoted by the chi square results of 0.000, therefore the existence of procurement planning enables transparency and accountability, enhanced participation and commitment among procurement personnel and timely allocation of resources therefore impacting positively on procurement performance.

The study also tested whether logistics management had an influence on procurement performance, the chi square results of 0.000 indicated that well coordinated logistics reduced delays, enabled early requisitions, procurement in bulk, adequate demand and facilitated order tracking and tracing therefore portraying the presence of a relationship between logistics management and procurement performance

3. CONCLUSIONS

The study concludes that the presence of procurement portfolio, logistics management and adherence to procurement plans positively affectes procurement performance in institutions. The purpose of planning is to be able to utilize the available resources to achieve the overall objectives

The study further concludes that preparation of annual procurement plans, frequency of formulation of procurement plans and the evaluation of the same contributes to the corporations procurement performance. Therefore good plans result to effectiveness and efficiency in attaining projected results. Mamiro (2010) agrees with these findings and concludes that one of the major setbacks in public

procurement is poor planning and management of the procurement process which include needs that are not well identified and estimated, unrealistic budgets, inadequacy of the skills of staff responsible for procurement, and lack of adherence to procurement plans

3.1 Recommendations

This study established that planning positively affects procurement performance to a large extent. The study recommends that plans are not static and that preparation of annual procurement plans should be participatory, frequently reviewed so as to improve on the corporations procurement performance. Equally, management of the procurement process should be administered by qualified, competent and experienced procurement professionals. This will not only help maintain good procurement standards but also will help achieve high levels of efficiency and effectiveness. In addition, to avoid delays in supply and provision of services, timelines have to be respected since most projects would have overruns.

3.2 Recommendations for Further Research

This study looked at three independent variables (purchasing portfolios, adherence to procurement plans and logistics management). The researcher recommends further research to investigate the other factors that affect procurement performance. Equally, further research should be carried out in other private entities to ascertain whether these findings are universal

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Table 1 Number of supplier base per each category or quadrant

Rating	Frequency	Percent	Valid Percent	Cumulative Percent
1-5	3	8.8	5.9	5.9
5-10	24	70.6	23.5	29.4
10-15	3	8.8	70.6	100.0
More than 20	4	11.8	11.8	100.0
Total	34	100.0	100.0	

Table 2 Identification and Appointment of Reliable and Responsive Suppliers

Rating	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	12	35.3	35.3	35.3
Agree	18	52.9	52.9	88.2
Strongly agree	4	11.8	11.8	100.0
Total	34	100.0	100.0	

Table 3 Reduction in Delays

Rating	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	23	67.6	67.6	67.6
Strongly agree	11	32.4	32.4	100.0
Total	34	100.0	100.0	

Table 4 Reduced Supplier Dependence

Rating	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	8	23.5	23.5	23.5
Agree	24	70.6	70.6	94.1
Strongly agree	2	5.9	5.9	100.0
Total	34	100.0	100.0	

Table 5 Improved Procurement Efficiency and Effectiveness

Rating	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	4	11.8	11.8	11.8
Agree	22	64.7	64.7	76.5
Strongly agree	8	23.5	23.5	100.0
Total	34	100.0	100.0	
