

Procurement Practices' Influence on Business Performance: An Analysis of Buyer-Supplier Relationships of Small and Medium Enterprises (SMEs) in Uasin Gishu County

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Abstract

The study of procurement practices' influence on business performance sparked interest among many researchers during the last two decades. However, very little literature deals directly with how firms' procurement practices influence business performance. Also, most of the reviewed articles on procurement practices are conceptual rather than empirical in nature. As a result, many firms continue to struggle attempting to devise bespoke procurement practices link to overall business performance. It is against this back drop that this research sought to fill this void by examining the relationship between procurement practices, buyer - supplier relationships and business performance of Small and Medium Enterprises (SMEs) in Uasin Gishu County. SMEs contribute significantly to the Kenya's National GDP and employ over 90% of the non - farming population. A cross - sectional study design was used. Collected data were analyzed using zero order correlations to determine the magnitude of the relationship between the variables and the multiple regression models to determine the variance in business performance predicted by buyer - supplier relationships and procurement practices. The targeted respondents for this study comprised of SMEs operators mainly drawn from services and manufacturing industries (within Uasin Gishu County) with direct or in-direct involvement or responsibilities with buyer and supplier procurement activities. A total of 112 respondents, participated in the surveys that lasted between 30 and 35 minutes per respondent. The research findings revealed that procurement practices and buyer - supplier relationships were significant predictors accounting for 29.6% of the variance in business performance of SMEs. These findings raise implications for owners / managers of SMEs as well as policy makers such as putting in place systems to support buyer - supplier relationships and improve procurement practices to ensure professionalism in order to improve business performance in terms of timely deliveries, flexibility and customer satisfaction.

Keywords: Procurement, Practices, Business Performance, Buyer-Supplier Relationships, SMEs

Introduction

The need to be competitive, flexible and efficient has forced most companies to enter into mutual relationships with suppliers and buyers (Hines *et al.*, 2000). This has been necessitated by today's highly competitive business situations where competitive battles are fought along a network of cooperating companies. These competitive battles are fought along buyer - supplier chains, implying that a company is as strong as its weakest supply chain partner (Maloni & Benton, 1997). This buyer - supplier chains competition has started to take over enterprise-enterprise competition, although in developing economies, enterprises competition still exists on a widespread scale. The enterprises today are dynamic; there have mutual relationships between suppliers, buyers and even with competitors and share information and knowledge aiming to create a mutual supply chain.

Mutual cooperation is a value adding resource for organizations seeking to reduce cost, increase their agility and provide satisfaction for their clients (Spekman *et al.*, 1994). Mutual cooperation relationships revitalize information flows which contribute to the lowering of enterprise operational cost and partners to proactively adjust their operations to the market trends thereby helping to mitigate losses and increase supply chain agility.

Sketchy evidence from Kenya reveals that public and private institutions tend to suffer from mutual constraints, unprofessional procurement practices, and inaccessibility of information technology inaccessibility (Ndiwa, 2010). This has led to high transaction and order processing costs, inadequate access to vital information, ineffective logistics and production support, which has negatively affected their ability to grow, attain economies of scale and minimize cost, which is much needed in supply chain performance. A study carried out on purchasing practices by Msimangira (2003) established that the purchasing and supply chain function in some organizations is not regarded as a profession and as a result purchasing activities are done by various departments with no purchasing policy manuals.

Although previous attempts have been made to predict supply chain performance, no single study has developed a comprehensive model that relates collaborative relationships. According to Hines (2006), procurement practices manifest a combination of a firm's commercial principles and values. A supplier is defined in this study as a firm or organization that supplies goods and services to other

businesses (Cox & Brittain, 1993). Different types of suppliers include manufacturers and primary producers, wholesalers and distributors, importers and agents (Kotler, 2000).

According to Bailey and Farmer's (1985) philosophy of five rights of purchasing, the integral function and critical operational performance objectives expected of a simple procurement function is to ensure the business delivery of the right goods and services; of the right quality; in the right quantity required by the business; from the right source at the right price. Behind Bailey and Farmer's Five rights of purchasing model is further five procurement performance objectives: quality, speed, dependability, flexibility and cost. Furthermore, previous researches show that firms strive to achieve one two or even more of these critical elements to successful procurement practices. As such, the level of firm's procurement sophistication is essentially influenced by the number of elements pursued as critical to the firm's business operations. Further, according to Van Weele and Rietveld's (2000) procurement maturity model, the level of purchasing sophistication will determine the importance of procurement practices to a firm.

On whether there is spend for attention to the procurement process, the procurement process is fundamental to the success of a dredging project. Ultimately, procurement will determine the allocation of tasks, as well as the allocation of responsibilities and risks amongst those involved in the project. If the procurement is successful, the contractor, client and possibly consultant will, in collaboration, define the risks involved in delays, determine whether to "pull the plug" if the project is not proceeding properly, and decide how and when to adjust course. And last but not least, a serious procurement process guarantees the best value for the client's money – which is not necessarily the lowest price (Handfield & Nichols, 1999). The question why a good procurement process necessary? A good procurement process provides management, leadership and policy direction, and supports the Management of financial activities. According to Dobler and David (2001), a good procurement process effectively manages the tendering process. It helps clients get what they need at fair and reasonable prices and in a timely fashion, using the best methods and tools with adherence to high standards of professional integrity. To continue to improve the procurement process, clients should anticipate their evolving needs, especially the need for contract management.

SMEs are increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation. In more developed economies, the dynamic arguments for the existence of SMEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms. SMEs also act as a vital driving force in economic activity by providing the required downstream support to the large-scale industrial sector. In view of the fact that the success of small business has a direct impact on the national economy, this paper seeks to add to the body of knowledge by providing new data and empirical insights into the relationship between buyer-supplier relationships, procurement practices and business performance of SMEs operating in Kenya.

Statement of problem

Small and Medium Enterprises (SMEs) are starting to understand the importance of procurement as a strategic function of the organization – this tendency can be seen both in the business world and the increasing amount of academic articles, investigating the procurement field. As the competition is increasing, different ways of creating competitive advantages are being researched, evaluated and implemented. In the case of supply chain and particularly procurement, the benefits of optimization are mostly clear. Hacker *et al.* (1999) notices that the financial situation of the company can be improved through the procurement function by locating and exploiting the potential for increased profit and reduced procurement expenditures. Moreover, the way managers design the procurement has a major effect on company's performance in both short and long run (Gooding, 2003).

While there is a growing acceptance and utilization of procurement practices commonly used in business operations, some unanswered questions remain, for instance, the choice of scope used in measuring different procurement practices remain a major challenge for most firms particularly SMEs. It is not clear as to which dimensions are appropriate and how they might be related to a more comprehensive theory. What is exactly meant by procurement practices in different firms particularly SMEs? How could or should we measure the importance and performance of procurement practices? Theory in procurement practices alone does not provide prescriptions or procedures for measurement, leading Ramsay (1996) to conclude that these concepts are —actually made up of a number of vague concepts without operational dimensions.

However, although procurement is gaining more and more important role, some significant issues still remain unsolved. Whilst emphasis has been on the need to improve quality, shorten delivery times and foster innovation in controlling purchases and making a contribution to corporate performance,

the importance of buyer - supplier relationships and business performance of Small and Medium Enterprises cannot be neglected. There are unanswered questions, addressing scope used in measuring different procurement practices. An investigative is needed to address the gap between theoretical problems and practical solutions, identifying and describing commonly used procurement practices and their effect on performance: analysis of buyer - supplier relationships of small and medium enterprises (SMES) in Uasin Gishu County, Kenya. This study, therefore, sought to investigate the relationship between procurement practices and business performance: study of buyer - supplier relationships in selected SMEs within Uasin Gishu County, Kenya.

Hypothesis of the study

H 1: Buyer - supplier relationships have a positive relationship on business performance

H 2: Procurement practices improve business performance

Materials and Methods

The study was conducted in Uasin Gishu County, Kenya. A cross – sectional study design was used. Data from the respondents were collected using self – administered questionnaires that were distributed to 112 SMEs operating in the Uasin Gishu County. There is no consensus on the definition of SME, as variations exist between countries, sectors and even different governmental agencies within the same country (Yusof & Aspinwall, 2000). In line with small business research, this study adopted the World Bank SME definition for SMEs as the number of employees as the base for the definition of SME. An SME is identified as one that employs fewer than 250 staff. The minimum of at least ten employees was also chosen in order to exclude micro firms that would not be suitable for the purposes of this study.

The sample was selected randomly from the database at the Kenya Central Bureau of Statistics and listing of firms from the Eldoret municipality Revenue reports. The databases include a total of 1885 registered SMEs operators mainly drawn from services and manufacturing industries (within Eldoret Municipality). From the total population (sample frame) of the SMEs, a sample of 112 firms was selected to represent the small and medium enterprises. The selection is consistent with Krejcie and Morgan (1970). According to the Krejcie and Morgan (1970) table for determining sample sizes, a sample size of 379 is appropriate for a population of 30,000 and 375 is appropriate for a population of 15,000. Therefore given a population of 1885 registered SMEs in Uasin Gishu County, a sample size of 112 was selected for the study. The sample was selected using simple random sampling and the unit of analysis was a firm.

The questionnaire was pre – tested to ensure appropriateness in wording, format and sequencing of questions. Responses were ranged on a four point scale ranging from 1 – “strongly disagree” to 4 – “strongly agree”. Out of the 112 questionnaires administered, 112 were returned, giving a response rate of 100%.

Based on literature, measures for the variables in this study were identified. Buyer - supplier relationships was measured using constructs of information sharing, incentive alignment and decision synchronization derived from the works of authors like Ellram (1990), Landers and Monczka (1989), and Heide and John (1990). Scales for procurement practices came from previous research conducted by Carr (1996) and Hendrick and Ellram (1993). Business performance measures were used to measure Business chain performance construct. Other items used for supply chain performance are from the works of Hendricks and Singhal (1997). The content validity was determined by multiple sources of information, chain of evidence and key informants review the report. The reliability of instrument was determined using the test-retest reliability techniques.

Results and Discussion

In order to establish the relationship between the variables, Spearman’s correlation was applied. Table 1 below shows the results of the correlation tests.

Table 1. Correlations			
	(a)	(b)	(c)
Procurement Practices (a)	1200	10 /100	120
Buyer - supplier Relationships (b)	685	10 /100	68
Business Performance (c)	2		2
TOTAL	1887		190

**** Correlation is significant at the 0.01 level (2-tailed).**

Results from the table 1 show that there are positive and significant relationships between procurement practices and business performance ($r = 0.339$, $p \text{ value} < 0.01$); between Buyer - supplier Relationships and business performance ($r = 0.535$, $p \text{ value} < 0.01$) and between procurement practices and buyer - supplier Relationships ($r = 0.450$, $p \text{ value} < 0.01$). The correlation of buyer - supplier

Relationships is higher than that of procurement practices, implying that the positive impact of buyer - supplier relationships is stronger than that of procurement practices as far as business performance of SMEs is concerned. These correlations imply that in Kenya, buyer - supplier relationships and procurement practices have positive effects on the business performance of SME.

Buyer - Supplier relationships and business performance

The finding on the relationship between Buyer - supplier relationships and SMEs business performance is consistent with Mentzer *et al.*, (2000) who asserts that mutual collaboration in buyer - supplier relationships has the ability to deliver some powerful advantages which improve business performance. Some of these benefits include elimination of excess inventory, decreased lead time, increased sales and better customer service, and reduced logistical service –related costs and reduction of the bullwhip effect (Stank *et al.*, 2001; Lummus *et al.*, 2003). Ellram (1990) also assert that integrated buyer - supplier relationships through mutual arrangements enable rapid response to market place changes, improving business performance. Our findings further shed some light on the works of McHugh *et al.*, (2003) who contend that developing mutual buyer - supplier collaboration is a challenging task for buyer – supplier chain members with many challenges / difficulties associated with it. A lot of time, finances and effort have to be invested if the buyer - supplier relationships are to work.

Procurement practices and business performance

The finding on the relationship is in agreement with findings on a study undertaken by Msimangira (2003) that established that the performance of a buyer - supplier chain would be improved if management of firms in the chains enhanced professionalism in the purchasing function. McMullan (1996) also asserts that the use of information technology is used to support procurement activities and practices, enhances communication, provides information and improves purchasing knowledge and skills, increases service levels and reduces operating costs. The costs of improving procurement practices like training may not be easy for firms in low developed countries to cover, hence failure to improve procurement practices.

Regression analysis

Regression analysis was performed to establish the extent to which the two independent variables, buyer - supplier relationships and procurement practices explain the variation in the performance of SME. The results of the analysis are shown in the table 2.

Table 2. Regression analysis

	Standardized Coefficients(Beta)	t	Sig.	R Square	Adjusted R Square	F	Sig. F
(Constant)	Beta	21.92	.000	0.298	0.296	117.299	0.000
Procurement Practices	.123	3.086	.002				
Buyer - Supplier relationships	.479	12.00	.000				

- Predictors: (Constant), Buyer - Supplier relationships, Procurement Practices
- Dependent Variable: Business Performance

From the above table, the independent and dependent variables have a linear relationship (F = 117.299, Sig. = 0.000). Buyer - supplier relationships (sig. = 0.000) and procurement practices (sig. = 0.002) are significant predictors of SME performance. Beta coefficients are significant at 0.01 levels. We can rely on these results at 99% confidence interval that procurement practices and buyer - supplier relationships affect business performance. A 100% change in procurement practices creates a 12.3% (Beta = 0.123) change in SME performance compared to a 47.9% change in SME performance created by a 100% change in buyer - supplier relationships (Beta = 0.479). Buyer - supplier relationships and procurement practices explain 29.6% variation in supply chain performance.

Conclusion

From the results and discussion of research findings above, it can be concluded that, procurement management and the business performance of SMEs are positively related i.e. with proper procurement management, business performance is positively affected and where the procurement management is not proper, then the performance is negatively affected. The hypothesis that Buyer - supplier relationships have a positive relationship on business performance of SMEs was accepted based on the results shown in the summary findings above. From the hypothesis that procurement practices positively affect the SMEs business performance, the summary findings indicate that the hypothesis was accepted.

Recommendations

In view of the above mentioned discussions, implications and conclusions highlighted above, the following recommendations are made for the improvement of SMEs procurement practices. Based on the above findings, the researcher therefore recommends the following:

1. There is need to encourage these firms to create purchasing departments in order to oversee purchasing related activities and improve professionalism in the purchasing function. Limited presence of purchasing departments in private firms can be explained by the fact that in Kenya, focus on procurement is in the public sector only. Purchasing in the private sector has been left unregulated. There is need for the Public procurement and Disposal Authority - PPDA (that oversees public procurement) to create a section to cater for aspects of procurement in the private sector. This will ensure that there is quality in purchasing activities in these firms and owners will get value for their money.
2. Owners and managers of SMEs should be encouraged to create purchasing departments in order to ensure professionalism in the purchasing function. Other systems should also be put in place to ensure that this professionalism is realized can maintained. This may be possible through training and refresher courses in purchasing and supply chain management.
3. The purchasing departments should be run by qualified persons in the field of purchasing management who should be subjected to regular trainings and refresher courses to ensure that they are always updated with knowledge and skills.
4. SME owners and managers in order to support them and enable them implement the systems that will support collaborative relationships and professionalism in the procurement function. The PPDA should also work with SMEs to build capacity in purchasing management through training programme and refresher courses.
5. To strengthen the procurement practices, management should ensure that the procurement policies are easily accessed by the staff so that they are appropriately guided through the process. The procurement policies should be reviewed periodically by independent personnel from those who directly participate in the procurement process.
6. The finding from this study suggested that purchasing performance could equally be measured using both financial and non financial measures. As earlier indicated, having performance measures is not an end in itself but a means to effective and efficient control and monitoring of any function. The issue is to ensure that measures are being implemented and measure what they were intended to measure. Implementing purchasing measures is not as easy as it may sound. It requires preparation, coordination, team work, constant communication and feedback.
7. SMEs and procurement staff can both be better educated and informed. Steps can be taken to level the playing field for SMEs and encourage innovation further, and good practice in terms of management of prime contractors will also help.

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