

## **Determinants of Procurement Function and Its Role in Organizational Effectiveness**

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**Abstract:** Procurement function is a crucial activity in any organization and must be conducted efficiently and effectively. Organizational effectiveness is achieved through among other ways, efficient procurement function. therefore, this study sought to determine the determinants of procurement function and its role in organizational effectiveness. Objectives of the study were; to identify the determinants of procurement function and its role in organizational effectiveness, to find out the role of determinants of procurement function on organization effectiveness, to find out the challenges facing procurement function and to establish the policies to be suggested for effective procurement function at Moi Teaching and Referral Hospital. A case study research design was used and questionnaires administered to respondents. The study population was 142 employees at MTRH from where a sample size of 42 respondents was chosen by rule of the thumb that is 30 percent of 140 employees. The employees were first grouped into their respective departments from where they were chosen randomly. Data was coded, then analysed and presented in tables and charts inform of percentages and frequencies. From the analysis, the study established that; of the employees, 47 percent cited on the type of management as the most determinant factor of procurement function, 19 percent cited on availability of enough financial resource, 17 percent cited on the nature of the services offered by the organization which had the same percentage with the employees who cited on the market structure of the suppliers. Of the 42 employees, 36 percent cited on proper utilization of resources, 24 percent cited on proper cut on stock out cost 19 percent cited on low or no scraps, 12 percent cited on low input, high output and the minority group 9 percent cited on shorter operations and production types. Concerning the challenges facing procurement function, 48 percent cited on the lack of the right input of material, 10 percent cited on poor utilization of resources, 14 percent cited on lack of professionally qualified and experienced employees and finally 28 percent cited on technology change. from the findings it shows that the organization should choose the right input of material in order to improve on the efficiency and also they should learn to adapt on any technology change as technology improves the efficiency of the organization. The study concluded by suggesting the following policies to aid in procurement function; Consistence and full compliances with the public procurement and disposal act Promotion of economy, efficiency and value for money practices, good practices and linkages with larger public finance management, Enactment of applicable ethics in procurement and government guidance on procurement procedures

**Keywords:** Procurement function, Organizational effectiveness.

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### **I. Introduction**

#### **Background Information**

Purchasing refers to a business or organization attempting to acquire goods or services to accomplish the goals of the enterprise. Though there are several organizations that attempt to set standards in the purchasing process, processes can vary greatly between organizations. Typically the word purchasing is not used interchangeably with the word procurement, since procurement typically includes Expediting, Supplier Quality, and Traffic and Logistics (T&L) in addition to Purchasing. Lyson (2006)

Oakland (1992) stated that although purchasing is clearly an important area of managerial activity it is neglected by both organizations and health institutions. The separation of purchasing from selling has however been removed in many large organizations which have recognized that the procurement function must be responsible for the whole productive its selection, quality, specification, delivery, price acceptability and reliability and if any of this chain is wrong the purchasing function must resolve the problem.

Saunders (1997) stated that at one end of spectrum is an image of the purchasing and supply function which characterizes is an involving mainly clerical, order placing activities and in which personnel tend to adopt only a short term hand to mouth approach, merely reaching to contingencies as they arise. Movements towards

the other end of the spectrum opens up possibilities in which a strategic long-term approach is developed in shaping the direction of sourcing and supply plane and immediate requirements are controlled in the light of these. Such a practice image also emphasizes the strategic importance of performance in purchasing and supply chain management for organization as a whole. Indeed in many cases suppliers add value to the final stage along the company apparently making it. The purchasing strategies of more powerful companies can influence the structure of the supply chain as well as the behavior of other participants in the chain.

Charry(1992) stated that pursuit of improvements in methods and of reductions in the reductions in the waste of resources throughout the supply chain can contribute to learner supply performance and increase value of the final customer. For an organization, purchasing is a window to the outside world. The prime function of purchasing is that of being sensitive to the external supply market situation and also of feeding back this information to the other function of the organization. However it is usually understood to be to get the right quantity of materials of the right quality at the right time at right place from the right source and at the right cost.

Gillingham (2003) states that purchasing is obtaining goods and service from external sources from external sources which are necessary for running, maintaining and managing the company's primary and support activities at the most favorable conditions, purchasing along with such activities as production, warehousing and transportation is one of the links in the sequence of process by which design and resources are converted into finished goods that satisfy the needs of customers.

Baily (2005) objectives of purchasing are to acquire the right quality of materials at the right time in the right quantity from the right source at the right time.

Lyson (2006) defines purchasing as the process undertaken by the organizational unit that either as a function or as part of an integrated supply chain is responsible for procuring or assisting users to procure in the most efficient manner, required suppliers at the right time ,quality quantity and price and the management of suppliers thereby contributing to the competitive advantage of the enterprise and the achievement of its corporate strategy purchasing provides the interface between customers and suppliers in order to plan,obtain,store and distribute as necessary, suppliers of materials, goods and services, to enable the organization, purchasing is still part of a segmented departmentalized structure in which the procurement of supplies is a discrete activity in the sequence of activities from the acquisition of supplies to the delivery of a finished product to the ultimate user. The challenge of global competition is however increasingly loading many organization to replace segmented structure with integrated structure in which purchasing is part of large grouping such as materials, logistics or supply chain management. Such structure emphasizes the importance of cross-functional decision-making.

### **Statement of the Problem**

Purchasing is seen by today's successful organizations as an activity of considerable strategic importance. However not all businesses see purchasing as a function best undertaken by a specialized department there are those who see the activity more appropriately performed close. It is appropriately performed and it is probably true to say that a majority of larger organization employs the service of a dedicated team of purchasing and supply specialist (Bailey, 2005). The readily available of supplies is a strong indicator of the quality of service offered. The management of the procurement and supplies function is a crucial determinant of the organization efficiency. Purchasing department is functionally organizes to facilitate efficiency at health institutions, however there are several undesirable outcomes from these formal structures at the factory, these include inefficiency in operations, increase in scrapes and incompetence of employees. This study will seek to determine procurement function and its role in organizational effectiveness based on two specific research objectives as outlined below.

### **Objective of the Study**

The objectives of this study were;

- To find out the effect of determinants of procurement function on organizational effectiveness

## **II. Literature Review**

### **Empirical Review**

#### **Determinants of procurement function**

Baily (2005) argues that a well known statement of the objectives of purchasing is to acquire the right of material at the right time, in the right quantity from the right source at the right price and he mentioned the following objectives of purchasing. To develop staff policies, procedures and organization to ensure achievement of these objectives. To maintain sound co-operative relationships with other departments providing information and advice as necessary to ensure the effective operation of the organization. To buy efficiently and wisely obtaining by an ethical means the best value for every shilling spent. To supply organization with a flow of materials and service to meet its need. To ensure continuity of supply by maintaining effective relationship

with existing sources and by developing other source of supply either as alternative or to meet emerging or planned needs

Lyson(2000) says that purchasing is the function responsible for obtaining by purchase, lease or other legal means, equipment, materials components, supplies and service required by an undertaken for use in production or resale.

Saunders(1997) states that purchasing and supply chain provide an interface between customers and supplies in order to plan, obtain, store and distribute as necessary suppliers of material goods and services to enable the organizations to satisfy its external and internal customers.

The major functions of purchasing and supply chain may include; Contribution to the formulation, communication and implementation of policies, strategies and plans, Contribute to the establishment and improvement of purchasing systems, Establish and maintain a database of purchasing and store information, Contribute to effective working, Monitor and control the purchasing, supply, storage, distribution and transport chain, Acquire suppliers, Establish and develop sources of supply and Provide goods and materials to internal and external customers through movement, distribution and transport (Lyson, 2006).

Lyson (2006) explains a process as a set of sub-processes or stages directed at achieving an output. The various tasks or stages can be depicted as a process chain. Thus as with, figure 2.1 purchasing can be depicted as a sequential chain of events leading to the acquisition of supplies. The link in the purchasing process chain is information. Thus each sub processor otherwise processing information that enables us to answer the questions 'what are we required to purchase? And where and how can the required supplies are obtained'. A process chain relationship can therefore also be considered a message chain relationship. Previously messages both internal (such as requisition and external such as orders and payments) were transmitted on paper documents via the mail.

Purchasing managers/directors, and procurement managers/directors guide the organization's acquisition procedures and standards. Most organizations use a three-way check as the foundation of their purchasing programs. This involves three departments in the organization completing separate parts of the acquisition process. The three departments do not all report to the same senior manager to prevent unethical practices and lend credibility to the process. These departments can be purchasing, receiving; and accounts payable or engineering, purchasing and accounts payable; or a plant manager, purchasing and accounts payable. Combinations can vary significantly, but a purchasing department and accounts payable are usually two of the three departments involved. (Farrington, 2006)

Historically, the purchasing department issued Purchase Orders for supplies, services, equipment, and raw materials. Then, in an effort to decrease the administrative costs associated with the repetitive ordering of basic consumable items, "Blanket" or "Master" Agreements were put into place. These types of agreements typically have a longer duration and increased scope to maximize the Quantities of Scale concept. When additional supplies are required, a simple release would be issued to the supplier to provide the goods or services. ( Lyson, 2006)

Another method of decreasing administrative costs associated with repetitive contracts for common material is the use of company credit cards, also known as "Purchasing Cards" or simply P-Cards P-card programs vary, but all of them have internal checks and audits to ensure appropriate use. Purchasing managers realized once contracts for the low dollar value consumables are in place, procurement can take a smaller role in the operation and use of the contracts. There is still oversight in the forms of audits and monthly statement reviews, but most of their time is now available to negotiate major purchases and setting up of other long term contracts. These contracts are typically renewable annually. (Farrington, 2006)

This trend away from the daily procurement function (tactical purchasing) resulted in several changes in the industry. The first was the reduction of personnel. Purchasing departments were now smaller. There was no need for the army of clerks processing orders for individual parts as in the past. Another change was the focus on negotiating contracts and procurement of large capital equipment. Both of these functions permitted purchasing departments to make the biggest financial contribution to the organization. A new terms and job title emerged – Strategic sourcing and Sourcing Managers. These professionals not only focused on the bidding process and negotiating with suppliers, but the entire supply function. In these roles they were able to add value and maximize savings for organizations. (Lyson, 2006). This value was manifested in lower inventories, less personnel, and getting the end product to the organization's consumer quicker. Purchasing manager's success in these roles resulted in new assignments outside to the traditional purchasing function – logistics, materials management, distribution, and warehousing. More and more purchasing managers were becoming Supply Chain Managers handling additional functions of their organizations operation. Purchasing managers were not the only ones to become Supply Chain Managers. Logistic managers, material managers, distribution managers, etc all rose the broader function and some had responsibility for the purchasing functions now.

In accounting, purchases are the amount of goods a company bought throughout this year. They are added to inventory. Purchases are offset by Purchase Discounts and Purchase Returns and Allowances. When it

should be added depends on the Free On Board (FOB) policy of the trade. For the purchaser, this new inventory is added on shipment if the policy was FOB shipping point, and the seller remove this item from its inventory. On the other hand, the purchaser added this inventory on receipt if the policy was FOB destination, and the sellers remove this item from its inventory when it was delivered. Goods bought for the purpose other than direct selling, such as for Research and Development, are added to inventory and allocated to Research and Development expense as they are used. On a side note, equipments bought for Research and Development are not added to inventory, but are capitalized as assets (Farrington, 2006).

Gillinghan (2003) suggests that purchasing along with such activities as production, warehousing and transportation is one of the links in the sequence of process by which design and resources are converted into finished goods that satisfy the needs of customers. In the United States, a group purchasing organization (or GPO) is an entity that is created to leverage the purchasing power of a group of businesses to obtain discounts from vendors based on the collective buying power of the GPO members (Gillinghan, 2003). Many GPOs are funded by administrative fees that are paid by the vendors that GPOs oversee. Some GPOs are funded by fees paid by the buying members. Some GPOs are funded by a combination of both of these methods. These fees can be set as a percentage of the purchase or set as an annual flat rate. Some GPOs set mandatory participation levels for their members, while others are completely voluntary. Members participate based on their purchasing needs and their level of confidence in what should be competitive pricing negotiated by their GPOs. Group purchasing is used in many industries to purchase raw materials and supplies, but it is common practice in the grocery industry, health care, electronics, industrial manufacturing and agricultural industries. Gillinghan (2003)

GPOs are not new. The first healthcare GPO was established in 1910 by the Hospital Bureau of New York. For many decades, healthcare GPOs grew slowly in number, to only 10 in 1962. Medicare and Medicaid stimulated growth in the number of GPOs to 40 in 1974. That number tripled between 1974 and 1977. The institution of the Medicare Prospective Payment System (PPS) in 1983 focused greater scrutiny on costs and fostered further rapid GPO expansion. In 1986, Congress granted GPOs in healthcare "Safe Harbor" from federal anti-kickback statutes after successful lobbying efforts. By 2007, there were hundreds of healthcare GPOs, "affiliates" and cooperatives in the United States that were availing themselves of substantial revenues obtained from vendors in the form of administrative fees, or "remuneration." 96 percent of all acute-care hospitals and 98 percent of all community hospitals held at least one GPO membership. Importantly, 97 percent of all not-for-profit, non-governmental hospitals participated in some form of group purchasing. With healthcare costs rising sharply in the early 1980s, the federal government revised Medicare from a system of fee-for-service (FFS) payments to PPS, under which hospitals receive a fixed amount for each patient with a given diagnosis. Other insurers also limited what hospitals could charge. The result was a financial squeeze on hospitals, compelling them to seek new ways to manage their costs (Baily2005).

In specifically exempting GPOs from the Federal Anti-Kickback Law, many healthcare providers interpreted the act as an encouragement to the expansion of GPOs. Congress did not specify any limit on contract administration fees, but required the United States Department of Health and Human Services (HHS) to monitor such fees for possible abuse – particularly with respect to fees in excess of 3.0 percent (Gillinghan 2003).

In 1991, HHS promulgated safe harbor regulations, reflecting Congress' intent to permit contract administration fees and creating the additional safeguard that GPOs inform members of administrative fees in excess of 3.0 percent. Despite these safeguards, the Government Accounting Office (GAO) published a study in 2002 indicating that GPOs did not always in fact reduce the cost of supplies and equipment for hospitals, but in some cases increased these costs by as much as 37%. Further examining the practices of GPOs, the Federal Trade Commission (FTC) clarified that "safety zone thresholds do not prevent and should not be appropriately read as preventing antitrust challenges to any of the alleged anticompetitive contracting practices..." of GPOs (Baily 2005).

In 2002, the Senate Judiciary Committee's Antitrust Subcommittee imposed stricter standards on GPOs in healthcare, requiring the adoption of a Code of Conduct to which GPOs must subscribe. Critics of GPOs charge that, as long as GPOs receive fees from the vendors they are charged with policing, the industry has anti-competitive contracting potential that should be subjected to further scrutiny and/or regulation. Gillinghan (2003)

### **Effects of determinants of procurement function on organization effectiveness**

Brian Farrington (2006) states that purchasing relationships may be internal and external, short-or long-term. Internal relationships are with other links in the supply chain as initiators of a purchase and the users of the goods procured. Increasingly, internal relationships are cross-functional and based on team work. Externally relation ships with suppliers, as shown later, may represent a continuum from arm's length to supplier's alliances. Many organizations now rely on suppliers to design, develop and manufacture items that they would previously have produced themselves. As Ford et al observe. The main issue facing managers is no longer about

'buying the right products at the right time, at the right price' but of handling and developing relationships with key suppliers over long periods. Farrington (2006)

According to IMP (industrial marketing and purchasing group), customers are not looking for a product from a manufacturer. Instead they seek a solution to a problem from a supplier. Business purchases are problem driven problem may relate to the customer's need to carry out its basic activities efficiently and economically. Examples in clued the problems of wastage of materials, poor utilization of staff or an unacceptable failure rate in components. We refer to these as problems of 'rationalisation'. A problem can also arise for positive reasons such as when a company is trying to develop relationships with new customers or enhance the performance of a product. We refer to these as problems of 'development'. Farrington (2006). Farrington (2006) states that a discipline is a branch of knowledge; an area of study .the academic content of purchasing lacks the clearly defined focus associated with other fields of study, such as mathematics, economics and law, and draws heavily on other subjects to build its knowledge base. Purchasing as a sub area of study is often included in wider-ranging courses, including logistics management, operations management and marketing.

Lyson (2006) argues that procurement is a wider term than purchasing, which implies the acquisition of goods or services in return for a monetary or equivalent payment. Procurement however is the process of obtaining goods or services in anyway including borrowing, leasing and even force or pillage. As procurement is strictly a more accurate term, it is unsurprising that the word procurement is often supplanting 'purchasing' in job titles such as 'procurement manager' procurement agents and head of procurement.

Fearon (1994) purchasing is one of the important functions in all types of business organizations, be it either a small, medium or large-scale commercial or manufacturing unit. No business can think of operating effectively without functions related to purchasing. In a sense no operation is possible without going through the purchasing process. All business are administered or managed by co-coordinating and integrating the six functions; Creation, the idea or design function, Finance, the capital acquisition and financial record, Personnel, the human resource and labour relations functions, Purchasing of required equipment, material and services, Conversion, the changing of materials to economic goods and Distribution, the selling of marketing of goods produced.

To this an added functions of research which in today's world has acquired important role to play in shaping the business decisions. By its nature, purchasing as a function becomes an integral part of any business activity. Purchasing function is developing sources of supply, finalizing prices, placing orders, obtaining materials by the right time, contributing to standardization, value analysis and affecting disposal of surplus and scrapes. The action of the purchase section is to provide and procure goods against purchase requisition received from stock control or rather department. It keeps record of the sources of supply of various items by very often new sources of supply of various items by very often new sources will have to be developed, prices of several items are negotiated and predetermined out for other tenders are invited on receipt of purchase requisition. The questions are tabulated and approved in accordance with the procedure held down by the management orders are placed on the basis of quality price placed on the basis of quality and delivery time. The responsibility of the purchasing section does not stop at placing orders, it has to ensure that materials do arrive at the right time; various follow-up methods are used for this purpose. It also contributes to cost reduction through value analysis and standardization. The disposal of surplus is another function handled by the purchasing department (Fearon, 1994).

According to Lamar (1990) purchasing functions today include a wide range of activities. Purchasing has acquired the status of a dynamic management activity. The work of purchasing is performed by the purchasing section and in broader sense. Their function and responsibilities include;- Obtaining the right quantity and quality of materials at the right time so that the production is not affected (Baily, 2005). The purchasing section ensures and sees that the purchases are made at the most competitive price. Nearly 50% of the annual expenses of a factory represent purchases. it is therefore the responsibility of the purchasing section to see that the funds are utilized on purchases with the utmost discretion. Cost reduction is another responsibility implied in the purchasing function. This can be achieved not only by competitive buying and negotiation but also by techniques such as standardization and value analysis. See if the materials intended can be manufactured in the plant by utilizing spare capability. See that purchases are made only against authorized purchase requisition and proper sanctions. Inform stock control of any changes on the delivery time and of the most economical quantities. In delay cases in obtaining supplies against any purchase requisition. Keep the dept concerned informed of the progress, and Suggest latest and more economical materials for use by the manufacturing department (Jessop2006).

Jessop (2006) the main stages in purchasing process are summarized as follows;

Recognition of need, Specification, Make or buy decision, Source identification, Source selection, Contracting, Contract management, Receipt, inspection, verification, Payment, and Fulfillment of needs. Purchasing cycle indicate the main activities in which purchasing might be involved. The activities included in

the cycle do not include all those that a purchasing staff might be involved with their many activities such as negotiation, vendor rating and source development that are not specifically included.

Oakland (2000) the usual duties that are assigned to a purchasing department are: Acting as a window on the world purchasing. Brings continual contact with outside organizations and this can prove a valuable channel of communication whereby news of novel processes, materials, services and equipments are brought to the notice of departments. Most concerned with these matters. Advising on prices for materials or services to be used in new markets or in modified designs. This activity can be of substantial value since it may help to decide major policies, questions for example the feasibility of meeting a marketing requirement on price or the likely cost of reequipping a unit. Speculative buying is sometimes a duty of purchasing and implies the purchase of goods, not from reasons of immediate need but because it appears that market conditions are particularly favorable. Organizing all discussions with suppliers, both actual and potential. It will be found that departments such as design will need to meet suppliers and discuss problems with them and while in many cases the only persons competent to carry out 'technical' discussions with suppliers are within the knowledge of purchasing.

Verifying invoices presented by suppliers. This task is carried out by the purchasing department, sometimes by a customer service department. It is necessary to check that the prices quoted on all invoices agree with those negotiated and this can be done by a direct comparison with the purchase order if the price is quoted there. The absence of prices from purchase orders is to be avoided if possible since it restricts the task of verification of invoices. A further and more real need for verification of invoices arises from the problem of incorrect quantities invoiced or prices perhaps caused by the return of defective material to the supplier. To help resolve this problem a note of every rejection should be passed to purchasing. The recording of these rejects will also help to build up a picture of the reliability of the supplier and this may well affect the placing of future orders (Bailey, 2006).

warning all concerned if deliveries are not going to be met, it is evident that a delivery date is not going to be met the appropriate departments must be informed in order that work can, if necessary and possible be re-scheduled.

Ensuring delivery of goods and services at the right time. This involves contracting suppliers before the due dates and seeking assurances that these dates will be maintained. A formal progress system may be set up to do this and a convenient method is to log all delivery requirements in diary form, perhaps raising an enquiry before the due date following this up by a final enquiry just before the date to confirm. Purchasing at least total cost. While the quality and quantity of goods and services may be specified elsewhere, the purchaser must purchase, these at the most advantageous terms. Whenever possible, price should be fixed by competitive tender, if possible by comparison with a target purchase price. Finding and approving suppliers. Suppliers must be taken to include both those who supply goods and those who supply services. This should be done not only by discussion with representatives and examination of catalogues and samples, but also by visits to the vendors product or service may be the responsibility of the quality or design departments, but the purchaser should be confident that the source of supply is stable, reliable and able to fulfill the demand upon it. Baily (2005)

According to Berry (2005) purchasing will buy the largest quantities possible. This results in large amounts of raw materials inventory. The manufacturing group desires to maximize production volume in order to spread the significant fixed cost of production over as many units as possible. These large lot sizes result in high amount of work in process, inventory with large quantities of goods pushed into finished goods, whether we therefore respond times to unexpected demand increase. Finally, distribution will try to fully load every track that is used to move materials to minimize transportation cost. Of course this may result in large amount of inventory in distribution centers. (Perhaps the wrong ones) and might not match well with what customers really need. Given the opportunity the sales group might even sell product that cannot possibly be desired on time. After all, they are evaluated on sales, not deliveries, and a more coordinated approach is facilitated by the use of the ERP system.

### **Measuring purchasing performance**

Baily (2005) examines efficiency in purchasing in relation to its stage of evolution at every Baily stages of development, purchasing invariably has a low status and is reactive in operation. Its effectiveness or otherwise is seen in terms of its ability to handle transactions. While it is important that transactions are handled efficiently, achieving strategic purchasing objectives can often assist in simplifying or reducing them. Measurements that centers on the generation of transactional activities in itself often clerical function. One might find for the finance director. This person's view of purchasing may be that the function should: Encourage competition by placing numerous enquiries, Change supplier regularly, Pay the lowest, and Delay paying suppliers for as long as possible.

These objectives could in-turn lead to the following results. Too many suppliers offering materials at the lowest price with no incentive to look at long-term aspects that could lead to strategic savings, An enormous amount of expediting time is spent by the buyer because suppliers are not paid on time. Too many short duration

orders, again increasing administrative effort rather than longer term arrangements that could perhaps cover a number of years. Buyers wastefully involved in routine ordering rather than the computer-scheduling suppliers when required. More advanced purchasing organizations would argue that the buyers time is much better spent on such tasks as negotiation, supplier development, cost reduction and internal interface development than on routine administrative activity ( Baily, 2005).

Baily (2005) show the likely measurements criteria as the purchasing activity changes so the methods used to evaluate performance also change. Initially measurement is clerically oriented and superficial as the function develops measurement criteria become more tactically and strategically based and the range of measurement criteria increases. This framework of criteria is based on work undertaken by Van Weel (1995) and allows for five stages of development. Where purchasing is essentially reactive and fragmented, performance criteria are few or even non-existent. The main objective for the activity is to convert requisition into orders and get the supplier in. As the function develops it is likely to be given the responsibility for handling the paperwork involved in the purchasing system. At this point in judging the functions contributing clerical efficiency is probably the main criterion. In the third stage of development the role is being viewed more in respect of its commercial usefulness to the organization. At this stage a chief buyer or a purchasing manager might be appointed while crucial and system efficiency are being measured the function would also be expected to begin to show savings against budget or costs. At this stage savings or cost reduction are likely to be measured. At the next important stage of development purchasing is seen as being of more strategic importance. At this point measurement criteria are established to assess key Suppliers' developments through vendor rating schemes. As the profile of purchasing becomes higher its interface with other functions becomes more significant and this may also be measured. At this stage the purchasing manager is reporting to the chief executive of the organization. Almost certainly concern will be shown for total acquisition costs and there will be less emphasis on lowest price. Finally the fifth stage purchasing is recognized as being of strategic importance with the head of the function probably of director level. Here measurement is centered on strategic effectiveness (bailey, 2005).

Purchasing ability does make world class concepts work would be measured and thus there would be considered interest in for example; Improving the strategic profile of suppliers, Improvement in the supply chain, Education of the supplier base, Moves towards co-maker ship and strategic, suppliers alliances, each supplier's adoption of JIT, TQM & Zero defects philosophies. Measurement criteria are dynamic and must develop as the organization develops clerical efficiency gives way to cost efficiency and eventually strategic effectiveness. (Baily 2005)

Lyson (2006) defines purchasing performance evaluation as the quantitative assessment over a given time towards the achievement of corporate or operational goals and objectives relating to purchasing economics, efficiency and effectiveness.

Quantitative assessment are objective and measurable using such measurements as number of orders placed, reduction in lead time, price savings and reduced administrative costs and will tend to be used where purchasing is regarded as a mainly clerical or transactional activity.

Quantitative assessments are judgmental impressions regarding the contribution of purchasing to suppliers good will, partnership sourcing, value analysis and internal customer satisfaction and is applicable when procurement regards strategic function (Mugenda and Mugenda 2006).

Evaluation is a more accurate term than performance measurement by definition measurement implies quantification or the expression of a quality or attribute in numeral terms. Although the performance of purchasing managers is usually assessed by means of objective, quantified measures such as cost price reduction and contribution to added value or profitability, performance evaluation frequently uses subjective, quantitative assessment approaches.

Progress over a given time Evaluation may relate to long (over one year) or short term performance. Long term objectives frequently extend several years into the future. Periodic reviews look at progress and outstanding actions needing in a past period and targets set for future period. For this purpose evaluation should always relate to specific objectives (Jessop, 2006).

Goals or objectives are basic to performance evaluation if we don't know where we are going we shall not know when we arrive. Corporate objectives will usually be at board level such goals are relatively permanent expressed in broad terms and derived from the mission statement of the organization. Today most corporate objectives relate to the provision of customers satisfaction. Organizational goals must be congruent that is consistent with corporate goals, not only overtime but also vertically and horizontally that the objectives set for different activities concerned with delivering value to the ultimate customers as in a supply chain must be consistent and integrated (Jessop 2006).

Corporate objectives usually expressed in broad qualification terms must be turned into specific for operational purposes thus the general strategy of delivery and cost effectiveness procurement service may, for the next financial year require purchasing to; Achieve earnings of 3% on purchases. Award contracts for an e-

tendering and supplies information database not later than done-subject to availability of future and Ensure that not less than 10% of purchasing staff are working towards an approved purchasing qualification. Operational goals shown above can be expressed as quantified (SMART) objectives that are they should be specific, measurable, attainable, results oriented and time based.

To ensure a consensus btw individual, functional and corporate aims and objectives, To improve actual results with planner performance, To ascertain preventable and non-preventable reasons for sub-standard performance and provide a basic where required for improvement, To improve decision making, To identify and make visible the contribution of the purchasing function to organizational competitive advantage and To improve feedback to staff which can improve motivation, encourage the search for improvement and the more efficient and effective discharge of purchasing responsibilities (Lysons, 2000).

Saunders (1997) what is measured not only provide data that can inform judgments about the standards of performance achieved but also provide signals about what is important measurement have a motivational influence, therefore, and they help to shape perceptions of what is important and to concentrate charges on actions relevant to them. Schemes are needed to cover the performance of suppliers, the performance of individual personnel. Choice of wrong factors for measurement may divert attention away from important goals, union have not been covered. Lyrics might say the same companies which claim that quality is important are only paying up services to what is fashionable unless they monitor and report equally performance along with other data such as financial performance.

The conclusion of this discussion is that measures should be related to the objectives chosen for the function and then an array of measures should relate to performance at both operational and strategic levels. conventional measures of quality delivery and availability as well as costs of the activities in different parts of purchasing and supply management may be appropriate with regard to current performance but others need to be devised to monitor strategic development programme with regard to supplier and product development are concerned more with capabilities of the supplier than with product deliveries. Total costs of supply are a more relevant measure in the analysis of supply chains than a focus which emphasizes only the purchase price, weighted points plan and cost ratio approaches are based upon the recognition that problems of quality and delivery can offset and benefits achieved from a lower priced supplier.

David (2004) observed that changes have occurred in business and firms during the past few years than the two processing decades world class competition critically of product/marketing environment objectives, price based costing escalating customers and the tremendous emphasis on quality are but a few of the key challenges confronting most purchasing emerging role pro active and more strategically and committed supplier qualification and selection activities. What is the role of purchasing in business management and why is it important? To answer these questions the author believed that the purchasing function would be observed from three points of view. First as a function of business, second as one of the basic elements requirements required to accomplish productive work and third as a key department responsible for outside manufacturing. A purchaser that relied solely on domestic sources for purchasing requirements may begin to use worldwide sources as a result of increased integration and coordination of purchasing strategy between business departments (Morrison, 1994).

According to Rudl (2006) a supply chain management becomes increasingly important the sharing of information and oral communication has also increased in significant. This has resulted in the need for an instrument to measure managers, oral communication, and capacity to develop an instrument to measure capability. to achieve these goals a survey was conducted among German and Spanish buyers and supply managers. the results indicate that oral communication capability construct has a second order structure with three dimensions their ability to pass on information, their ability to persuade and their ability to listen and understand.

Lyson (2000) states that many organizations started giving purchasing departments priority. When it was realized it helps in cost reduction. it helps buying goods and services that tend to be more advantageous to the organization and may go further r to negotiate on better deals with the supplier for the benefit of the organization. Also purchasing, along with such activities as production, warehousing and transportation is one of the links in the sequence of process by which design and resources are converted into finished products that satisfy the needs of the customers. It has also the greatest scope of saving expenditure for most organization the areas of the great expenditure are purchasing and payment to personnel.

Lyson (2006) defines environment as all factors external to an organization. Environment is both general and specific. Both this aspects must be considered in relation to organizational structure and decision-making. The general environment is comprised of the political, economical organization with whom a particular enterprise must interact. This includes clients' customers, regulators resources, suppliers' trade unions and numerous others. Both general and specific environments have specific significance for organizations that operate internationally. Mintzberg states that environment can range stable to dynamic in stable environments more mechanistic structure will apply the more dynamic the environment the more organic will be the structure.



Simple to complicated the more complicated the environment the more decentralized the organizational structure and vice versa.

Purchasing and supply is an activity that has usually generated and employed large quantities paperwork. This paperwork was necessary to communicate inform action from one function to another in order to facilitate action to indicate requirement to suppliers and to obtain the necessary goods and services on time and to specification. The advantage of information technology and more integrated software systems has gradually changed matters. Although the paperless office may still be the future and indeed may never come about simple transactions are today seldom paper based. The Internet or World Wide Web has provided further opportunities to electronic purchasing and has made new approaches possible as echoed (Baily 1998).

Although face to face clear by word of mouth between buyer/seller had always been important in procurement and no doubt will continue to be so most purchasing transaction between organizations have required documentation. Increasingly routine communications such as order, schedules and invoices go direct computer to computer rather than as paper based documents send by post. Each has super sale paperwork interchange; EDI is the transfer of data from one computer to another by electronic means and was an early application of electronic commerce (e-commerce) using agreed standards and protocol. Purchasing system has to enhance a lot within the purchasing function.

Purchasing can pay a more active and effective role through participating in active and effective role through participating in multidisciplinary design teams because of the unique skills, resources and capabilities found in each functional area, the effectiveness of the design process can be enhanced through such involvement. The unique roles of purchasing on such teams include: Ensuring continuous supply of materials components and services Certification of suppliers, Evaluation of make, buy decisions, Development of strategic alliances, Determination, and tinting of suppliers involvement, Purchasing, tooling and equipment, Suggesting alternative materials, Providing insights into competitive supply environment (Menzer, 2006). According to Lyson (2000) purchasing reduces costs which interact with other internal and external environment has tremendous potential to contribute to the competitiveness of business enterprise since supply environment is the critical element in determining added value in products of many enterprises.

The term supply management describes the methods and processes of modern corporate or institutional buying. This may be for the purchasing of supplies for internal use, purchasing raw materials for the consumption during the manufacturing process, or for the purchasing of goods for inventory to be resold as products in the distribution and retail process. The supply management function of an organization is responsible for various aspects of acquiring goods and services for the organization. In many organizations, acquisition or buying of services is called contracting, while that of goods is called purchasing or procurement Managing supplier performance, Implementing technologies, processes, policies, and procedures to support the purchasing process (Gartner, 2008).

The supplier relationship management process: a process for providing the structure for how relationships with suppliers will be developed and maintained, and Economic theories of supply and demand. Supply management is generally regarded as a systematic business process that includes more functions than traditional buying, such as coordinating inbound and internal pre-production logistics and managing inventory. (Gartner, 2008)

Supply management deals primarily with the oversight and management of materials and services inputs, management of the suppliers who provide those inputs, and support of the process of acquiring those inputs. The performance of supply management departments and supply management professionals is commonly measured in terms of amount of money saved for the organization. However, managing risk is one of the other critical aspects of supply management; especially the risk of non-availability at the required time of quality goods and services critical for an organization's survival and growth (Gartner, 2008)

The importance of supply management in global business has prompted the formation of professional organizations to address the need for higher levels of supply management skill and expertise. One of the largest of these is the Institute for Supply Management, a United States not-for-profit association that includes more than 40,000 members. It is affiliated with the International Federation of Purchasing and Supply Management, a union of local and national purchasing associations with approximately 200,000 members. For companies seeking to fulfill diversity supplier spend commitments, the National Minority Supplier Development Council with 39 affiliated nation-wide councils, was established in 1972 to assist in promoting supplier diversity, and also provides management training and access to viable minority business enterprises (Wilson, 2008).

Many certification programs are relevant to the supply management profession. Some are offered through non-profit associations, such as the Certified Purchasing Manager (CPM) and Certified Professional in Supply Management (CPSM) through the Institute for Supply Management. There are also for-profit companies who offer certification programs, such as Next Level Purchasing, Inc. who offers the Senior Professional in Supply Management (SPSM) Certification (Gartner, 2008).

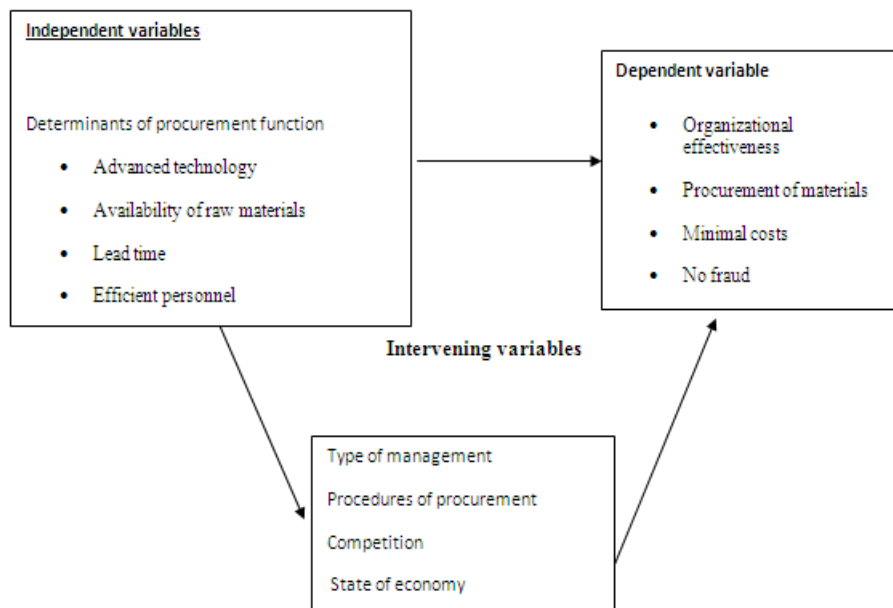
Magic Quadrant For Sourcing Application Suites, 2008, a Gartner research report, summarizes: Sourcing applications provide a systematic and scalable means for organizations to manage the full sourcing process, including finalizing purchase specifications, selecting suppliers and negotiating prices....Most sourcing solution vendors bundle spend analysis, contract management and supplier performance management tools into their suites. The Gartner report summarizes, Best-of-breed providers with suites delivered via software as a service dominate the strategic sourcing application market, while ERP companies with integrated offerings are gaining traction by providing tactical sourcing support." Gartner estimates the sourcing software market at close to a half-billion dollars in 2007 with a annual growth rate of 5%. According to Gartner, the research firm, leading providers of supply and contract management software include SAP, Ariba, Bravo Solution, and Emptoris (Wilson, 2008).

According to Jessop (1994) the purchasing function has the responsibility for the receipt, custody and distribution of very large sum of appropriate quantities of the materials to be held in order that the operations needs may be met in economical matters as it is possible, purchasing function may be managed and operated in and highly efficiency way. The contribution that a good supply function can be made to the success of an organization is today almost universally recognized. Most organizations adopt these practices alongside their own purchasing procedures. This has enhanced the creating of harmonious and supportive environment that fostered the efficiency of purchasing within the organization.

The procurement of supplies and equipment is a potential instrument of environment policy. Careful purchasing gives full weight to environment considerations in the selection of products and can help improve environment standards by reducing pollution and waste. It can also help through natural operation of the market influence purchases and suppliers in their pricing policies and product ranges (Lysons, et al 2006).

### Conceptual Framework

**Figure 1.1 Hypothesized determinants of procurement function and their role in organizational effectiveness.**



**Source: Author (2009)**

From the above diagram the dependent variable include the organizational effectiveness, Procurement of materials, Minimal costs and obtaining materials with no fraud. The independent variable include Determinant of procurement function, advanced technology, availability of raw materials, lead time, and efficient personnel which leads to organizational effectiveness of procurement department. The Intervening variable were Type of management, Procedures of procurement, Competition and State of economy Saunders (2006) effectiveness is considered important element of creating value of customers with cost reduction in one component of efficiency, the process of producing the desired results. Once the determinants are identified it will be easier to direct them into appropriate functional use so as to attain high levels of performance in an organization.

### III. Methodology

#### Research Design

The study will employ a case study at The Moi Teaching and Referral Hospital Eldoret case study is an in-depth investigation of an individual group phenomenon or institution. A case study approach allows consensus building since the learner is able to relate real life and work issues to the theoretical knowledge and empirical results (Kangethe 2002). The case study is to determine factors and relationships that have resulted in the behaviour under study. It also describes and explains rather than to predict.

#### Target Population

The researcher will target a population of 140 Moi Teaching and Referral Hospital employees concern with purchasing from various departments as shown in the table 1.

**Table: 1 Target Population**

Strata	Target Population
Purchasing and supply	40
Human Resource	30
Sales and Marketing	20
Information Technology	20
Public Relation	20
<b>Total</b>	<b>140</b>

#### Sampling Size and Techniques

From a target population of 140 employees concern with purchasing from various departments the researcher will select the sample size of 42 employees which is 30% of the target population. According to Mugenda and Mugenda (1998) suggest that when dealing with heterogeneous that is population with different characteristics the sample size should be at least 30% of the total population so as to adequately capture the heterogeneity of the population or the variability in the population. The study will apply stratified random sampling technique to select the employees. Stratified random sampling method is used to administer questionnaires to all employees in various departments. Stratified random sampling technique selects a sample from each stratum without biasness from accessible population. The advantage of simple random sampling technique is that it ensures that each member of the target population has an equal chance of being included in the sample. The reason for adopting stratified random sampling is because it is more reliable and detailed and that information can be obtained easily.

**Table: 2 Sample size**

Strata	Target population	Sample size
Purchasing and supply	40	15
Human resource	30	9
Sales and Marketing	20	6
Information Technology	30	9
Public relation	20	6
<b>Total</b>	<b>140</b>	<b>42</b>

#### Data Collection Procedures

The researcher personally administered the questionnaires this helps to clarify difficult questions, saved time and ensured quick response. The researcher picked the completed questionnaires from the respondents.

#### Validity and Reliability of the Instruments

According to Mugenda (1999) reliability is the degree to which research instruments yield consistent results of data after repeated trials. In testing reliability errors are the deviation from true measurements due to the fact that have not been effectively addressed by the researchers. The instrument is pre-tested to help all the questionnaires to have same meaning of questions to all the respondents. An instrument that is consistently given the same result every time is considered to be reliable instrument. To ascertain the reliability of questionnaires pre-testing method is subjected on the respondent that is not part of the study to determine consistency of results. Validity is the accuracy and meaningfulness of inference which is based on the research results. It is also the degree to which results obtained from analysis of the data actually represent the phenomenon under study.

#### Data Analysis

Data was collected using the questionnaires and sorted out to check completeness and clarity. The data was analyzed using descriptive statistics by making use of statistical indices like the mode, mean, median and

range and presented in form of frequency distribution tables to facilitate description of the findings. Inferential statistics was not used because it was not possible to infer the study findings on the entire population of all the referral hospitals in the country. Descriptive statistics therefore enabled the researcher to describe the sample characteristics without generalizing them on the entire population.

#### IV. Results And Discussion

##### Determinants of procurement function

It was important to establish the determinants of procurement functions in organizational effectiveness of MTRH. The determinants were availability of enough financial resources, type of management, the nature of services offered by organizations and the market structure of the suppliers as shown in the table below.

**Table: 3 Determinants of procurement functions**

Procurement functions	Frequency	Percentage
Availability of enough financial resources	8	19
Type of management	21	47
The nature of services offered by organizations	7	17
The market structure of the suppliers	7	17
<b>Total</b>	<b>42</b>	<b>100</b>

The finding show that majority of the employees 20 (47) cited the type of management as the most determinant factor of procurement function, 8(19%) cited on availability of enough financial resource, 7(17%) cited on the nature of the services offered by the organization which had the same percentage with the employees who cited on the market structure of the suppliers.

##### Effects of procurement function and its role in organizational effectiveness

It was important to establish the determinants of procurement function and its role in organizational effectiveness of MTRH. the determinants were proper utilization of resources, proper cut on stock out cost, low or no scraps, low input, high output and shorter operations and production types as shown in the table below.

**Table: 4 Roles of determinants of procurement function on organization effectiveness**

Response	Frequency	Percentage%
Proper utilization of resources	15	36
Proper cut on stock out cost	10	24
Low or no scraps	8	19
Low input, high output	5	12
Shorter operations and production types.	4	9
<b>Total</b>	<b>42</b>	<b>100</b>

The findings showed that majority of the employees 15(36%) cited on proper utilization of resources, 10(24%) cited on proper cut on stock out cost 8(19%) cited on low or no scraps, 5(12%) cited on low input, high output and the minority group 4(9%) cited on shorter operations and production types.

##### Challenges facing effectiveness of procurement department

The researcher sought to find out the challenges facing the effectiveness of procurement and the challenges were lack of the right input of material, poor utilization of resources, lack of professionally qualified and experienced employees and technology change as shown in the table below.

**Table: 5 challenges facing effectiveness of procurement department**

Response	Frequency	Percentage
Lack of the right input of material	20	48
Poor utilization of resources	4	10
Lack of professionally qualified and experienced employees.	6	14
Technology changes	12	28
<b>Total</b>	<b>42</b>	<b>100</b>

The researcher sought to find the challenges facing the determinants of procurement function and its role in organizational effectiveness. from the findings the majority 20(48%) cited on the lack of the right input of material,4(10%) cited on poor utilization of resources,6(14%) cited on lack of professionally qualified and experienced employees and finally 12(28%) cited on technology change. from the findings it shows that the organization should choose the right input of material in order to improve on the efficiency and also they should learn to adapt on any technology change as technology improves the efficiency of the organization.

**Policies suggested for effective procurement function**

- (a) Promotion of economy, efficiency and value for money practices
- (b) Good practices and linkages with larger public finance management
- (c) Enactment of applicable ethics in procurement e.g Avoidance of collusion and avoidance of conflict of interests and equal opportunities
- (d) Government guidance on procurement procedures

**Table 6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.984 <sup>a</sup>	.969	.968	.09809
a. Predictors: (Constant), LNX,				
b. Dependent Variable: LNY				

Table 6 illustrates that, 96 percent of variations in organizational effectiveness are explained by determinants of procurement function. This conclusion is per the adjusted R Square and the coefficient of determination, R Square which are 0.968 and 0.969 respectively.

**Table 7: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.746	3	10.582	1.1003	.000 <sup>a</sup>
	Residual	1.029	107	.010		
	Total	32.775	110			
a. Predictors: (Constant), LNX						
b. Dependent Variable: LNY						

Table 7 shows the results of Analysis of Variance (ANOVA). The researcher was interested in the F statistics. The p value for the F statistic was 0.000. This shows that the model has explanatory power.

**Table 8: Showing Predictors of Sustainability**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.014	.017		.829	.409
	LNX1	.282	.033	.321	8.550	.000

**Dependent Variable: LNY**

These results indicate that there is a direct positive relationship between the dependent and independent variable. This means that, when there is a change in determinants of procurement function, organizational effectiveness also improves by 28.2 percent. Further, the model explains that, there is 1.4% chance that organizational effectiveness will be achieved irrespective of existence of determinants of procurement function.

**V. Conclusions**

It was therefore concluded that the determinants of procurement function included: Availability of enough financial resources, type of management, the nature of services offered by organizations, and the market structure of the suppliers

The determinants of procurement function on organization effectiveness were Proper utilization of resources, proper cut on stock out cost, low or no scrapes, shorter operations and production types low input, and high output

The challenges facing effectiveness of procurement department include lack of the right input of material, poor utilization of resources, lack of professionally qualified and experienced employees and technology change.

Policies suggested for effective procurement function were as follows: Consistence and full compliances with the public procurement and disposal act, promotion of economy, efficiency and value for money practices, good practices and linkages with larger public finance management, enactment of applicable ethics in procurement e.g avoidance of collusion and avoidance of conflict of interests and equal opportunities and Government guidance on procurement procedures.

### **Acknowledgement**

First and foremost my sincere gratitude goes to the almighty God for the gift of life, health, wisdom, and strength that He granted me during the time of undertaking this study. I also extend my gratitude to Fountain Cyber cafe for availing resources and more so their Academic Research Consultants who worked hand in hand with me to make this work a success. Finally, to all the participants; that are the employees of Moi Teaching and Referral Hospital in Uasin Gishu County, I extend my sincere gratitude for taking part in this study.

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