

## **Effects of Centralised Purchasing on Organizational Efficiency: A Case Study of Florensis Kenya Limited**

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**Abstract:** *The main purpose of the study was to investigate the effects of centralised purchasing on organizational efficiency a case study of Florensis Kenya limited. The study was guided by the following variables; inventory control, purchasing systems costs and materials management. In this study the researcher used descriptive research design, which is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. The targeted population in the study was 50 employees of Florensis Kenya limited which was sampled through simple and stratified random sampling designs. Questionnaires were used as a way of collecting primary data, Data coding was done by assigning numbers to questions so that responses could be put into a limited number of categories. The coded data was entered into the computer using Microsoft excel and analysed by the use of descriptive statistics which included tables, graphs and percentages. Based on the study findings it was concluded that inventory control affects efficiency of the organisation and that the organization does not experience stock out. Further it was concluded that the organisation has a well structured inventory management control system. Concerning cost, all the respondents were of the common idea that centralised purchasing reduces cost in their organization and it affect cost moderately. In additional the respondents indicated that centralised procurement result in better material management where it was found out that centralized purchasing highly affects materials management. The study recommended that the organizations should adopt an inventory keeping method that best suits their operation, also they should always ensure that there is a long-term, sustainable improvement in materials planning and purchasing to avoid stock outs.*

**Keywords:** *inventory control, purchasing systems, costs, materials management*

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### **I. Background**

Purchasing in a manufacturing firm involves negotiating as well as buying from current and potential suppliers. Purchasing provides the manufacturing firm with quality raw materials, parts, factory and office supplies and services for use in the production cycle required for the day to day operations of its business. Through effective and efficient purchasing function, the manufacturing firm is able to make its sales, keep production in operation, preserve plant and equipment, reduce operating costs, enhance productivity and improve profitability (Van 2000).

More importantly, maintaining purchasing effectiveness is essential for business organizations operating in competitive environment. However in the context of increasingly competitive business environment, sustaining an effective and efficient purchasing function requires that the organization formulates and implements an effective purchasing strategy. For instance, to sustain in the dynamic global business system, a manufacturing firm needs an effective purchasing strategy that emphasizes on identifying and developing global sources for procurement of quality as well as cheap raw materials parts, and components (Weele & Van 2000).

According to Johnson (2000) Purchasing is considered to be one of the most basic and important functions in almost all kinds of organizations. He defined purchasing as the process of obtaining from external sources all goods and services which are required for running, maintaining and managing a company's primary and support activities at the most favourable condition. Here, according to Lyson (2012) held that external sources includes people, also defined purchasing as the development of an external sourcing and supply strategy that links the total business plan of an organization so that it achieves and maintains a suitable position in the total value chain. According to Lamming (2002) indicated that not all business regards purchasing as a function that is best undertaken by specialists, rather there are firms who consider this activity as more appropriately performed close to the point of need of goods and services. Generally purchasing is the function responsible for obtaining by purchase, lease means, equipment materials, components, supplies and services required by an undertaking for use in the production or for resale.

Van (2000) describes a centralized purchasing system as one that gives a department an ultimate authority to make all the buying of goods and services within an organization. In centralized purchasing various

departments of an organization make their requisitions through a centralized buying unit which scrutinizes, adjusts and consolidates (puts together) all the orders placed in order to come up with one big order. The consolidation of orders leads to; reduce the purchasing costs, avoid duplication of items (variety reduction), reduced clerical work, reduced prices due to bulk buying, quantity discounts, reduced transportation costs and create better relationship both to the buying organization and the supplier. The purchasing function in most companies has become subject to changes in its internal as well as external relations in recent years (Ellram, 2008).

On the other hand, centralization can make it difficult to integrate the purchasing operations with those of other functions: "it is part of the total operations of the company, implying that integration with those other activities is a main concern. In the decentralized purchasing organization buyers are located together with people from manufacturing and engineering rather than with other purchasers, simplifying interdepartmental interaction, but making purchasing per se less professional." Hence, a strong argument in favour of a decentralized approach to organizing the purchasing function is that it becomes increasingly important for firms to promote internal interaction with other functions. Purchasing has become more complex owing to increasing specialization and technical sophistication. Therefore, the development seem to be directed towards diversified purchasing functions working closely with other units such as technical development, production, logistics functions etcetera. In the automotive industry, for instance, multi-functional teams including purchasing representatives, has become a vital organizational principle for managing the development of modules. (Van, 2000)

Mawanda (2008) conducted a research on the effects of organizational structure and its effect on organizations performance in Uganda and established that there is a relationship between centralized purchasing and organizational performance. Internal controls were looked at from the perspective of purchasing system and stock management whereas Susan & Michael, (2010) in their study on the effects of inventory record on performance of procurement department indicated that accuracy of inventory records is necessary to provide satisfactory customer service, determine replenishment of individual items; ensure that material availability meets repair or project demand, analyze inventory levels and dispose of excess inventory and that stock recording are expected to maintain particulars of receipt, issues and balances remaining in stock for each individual item held in the storehouse daily, further the study indicated that stock records provide the management with the information which is used to ensure accountability through stocktaking and stock audit exercise this leading to organizational efficiency.

## **1.2 Statement of the Problem**

Centralized purchasing structures are characterized by all (or the majority) purchases, being managed by a central purchasing group (Weele, 2000). In this approach, the operating units are consulted but are not fully responsible for their own buying. Centralized purchasing provides the firm with a single, collective sourcing and buying power. This captures a large part of the potential corporate purchasing synergies, but there is little user control and responsiveness to local needs. Historically, the primary advantage of centralized purchasing has been to realize a favourable price due to accumulated volumes. Unfortunately, when firms pursued centralized purchasing, they not only centralized the purchasing of parts with suppliers, but also the actual ordering process. (Stock, 2010).

Centralized purchasing is about having one centre point responsible for purchasing requirements for the whole organization (Anderson, 2004). The aim is to obtain cost reduction in material management, better material management in the organization, easy handling of materials. This means that for better material management all functions in the organization should be concerned. Departments like material management, procurement and warehousing or store department to do their work to perfection. To improve this, there should be proper coordination between the department sources (the suppliers), which do play a big role in centralized purchasing for efficient productivity in an organization (Sundaresan, 2006). For instance in Florensis Kenya Ltd, centralization procurement has been implemented but its effects are unknown. Probably centralized purchasing in FKL may help in maintaining good relationships with vendors and suppliers which may help the organization to manage its inventory, reduce cost of purchase, avoid duplication of materials or orders and reduce transportation cost. Therefore this study intends to investigate the impact of centralized purchasing unit on the supply chain management in flower organisation and specifically to Florensis Kenya limited. The unit seeks to find out the importance of purchasing strategy that is being used in Florensis Kenya Ltd and its effectiveness to the organization at large. The specific objectives of this study were:

- i. To find out the effect of inventory control on organizational efficiency.
- ii. To establish the effect of purchasing systems on organizational efficiency.
- iii. To determine the effect of costs on organizational efficiency.
- iv. To determine the effect of materials management on organizational efficiency.

## II. Literature review

### 2.1 Introduction

This literature review is basing on effects of centralized purchasing on organization efficiency. It tends to point out the effects of centralized purchasing on organization efficiency. The chapter is divided into three major sections. These include the theoretical review, conceptual framework, past studies, critical review, research gaps and the summary.

### 2.2 Theoretical Review

#### 2.2.1 The Contingency Theory

The study will be based on contingency theory which is a class of behavioural theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. (Brandon 1987).

Contingency theory has since the 1960s been viewed by many as the way out of the “jungle” of different theories, since it guides top management in choosing the right management tools for a given situation. The essence of contingency theory, also known as situational theory, is that “management concepts are not universally applicable but are only appropriate if the right conditions exist in a given situation”. (Joan 1958), In other words, the utilization of the many managerial tools or concepts is contingent upon the specific situation.

One of these management tools is the choice of organizational structure. Up until the late 1950s, academic writing held that there was one organizational structure that was optimal and most efficient for all organizations. This structure was characterized as hierarchical, where the planning and decisions were made at the top of the hierarchy and activities in the lower levels was dominated by strict job definitions and routines predefined by the top management. However, by the end of 1950, scholars started to apply contingency theory to the choice of organizational structure, a combination that has emerged to what we know today as Structural Contingency Theory. (Mohsini and Davidson 1986)

#### 2.2.2 Structural Contingency Theory

Structural contingency theory states that there is no organizational structure that is highly effective for all organizations. Each organization must find a structure that is contingent to its situation. This situation, which again influences the choice of organizational structure, can be characterized, or influenced by a number of contingency factors. Within structural contingency theory, a number of contingency factors are identified such as task uncertainty, technology, environmental change, technological change, size and strategy. Donaldson (2001) argues that these factors can be reduced to the following underlying factors: size, task uncertainty, and task interdependence.

*Size* as a contingency factor relates to the size of the organization, e.g. the number of employees. The way size affect the structure of the organization is as follows: When an organization has few members and is relatively small, a simple centralized structure is sufficient. The top manager can have the decision authority since he or she has both the capacity and sufficient overview of the entire organization. However, as the organization grows, this simple structure is “replaced by a bureaucracy featuring a tall hierarchy and extensive specialization” This makes decentralization of decision authority close to necessity since “internal structural complexity and length of hierarchy makes centralization infeasible” (Kelly and Fleming 1986)

*Task uncertainty* is often caused by environmental and technological change. This uncertainty may then be reinforced by the innovation that often is needed as a response to these changes in environment and technology. If a task has low uncertainty, it is most efficiently performed in a centralized structure, since this allows efficient planning and coordination. However, with high task uncertainty, “less work can be scheduled in advance” and the firm needs to rely more on ad hoc solutions hence, there should be a reduction in formalization and the firm should have a more decentralized structure

*Tasks interdependence* relates to the activities of an organization’s different sub units that are connected to each other. A classical distinction of interdependence is pooled, sequential and reciprocal interdependence. The way task interdependence affects organizational structure is that low interdependence between tasks, fits with divisionalization. According to Donaldson (2001), the divisional structure is a decentralized organizational structure. The reason for this is that there might not be a need for a central division coordinating the interdependent activities. However, “the greater the task interdependence, the more centralized the coordination”

Even though these factors are characteristics of an organization, Donaldson (2001) argues that these characteristics often “reflect the influence of the environment in which the organization is located”. He further argues that in order to be efficient, organizations need a structure that fits to the characteristics of the organization and thus to its environment. Within structural contingency theory, organizational structure involves more than the tension between a centralized and decentralized structure.

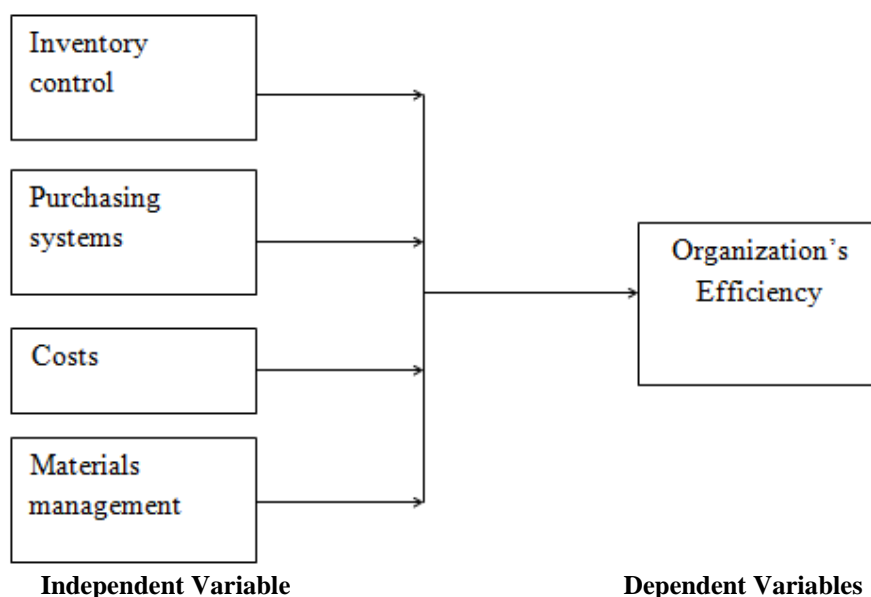
Other structural dimensions may include specialization, standardization, formalization, hierarchical levels, and span of control. However, since some of these extra dimensions are touched upon within the tension between a centralized and decentralized structure, the contingency factors mentioned above, may still be relevant for choosing between a centralized or decentralized purchasing structure. In addition, several academics have performed studies to identify the underlying factors that affect the choice of structure. These factors are found using different theories and perspectives and can be classified as information and power related factors, and purchasing related factors.

### 2.2.3 The Theory of the Firm

In simplified terms, the theory of the firm aims to answer these questions: Existence, Boundaries, Organization, why are firms structured in such a specific way, for example as to hierarchy or decentralization?, heterogeneity of firm actions and performances, what drives different actions and performances of firms, and lastly, the evidence, what tests are there for the respective theories of the firm (Thomas, 2008). The theory of the firm consists of a number of economic theories that describe, explain and predict the nature of the firm, company, or corporation, including its existence, behavior, structure, and relationship to the market. This theory affirms that a firm is a “black box” operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits, or more accurately, present value. The theory helps to explain why an entrepreneur or manager in a firm which has a mixed financial structure containing both debt and outside equity claims will choose a set of activities for the firm such that the total value of the firm is less than it would be if he were the sole owner and why this result is independent of whether the firm operates in monopolistic or competitive product or factor markets (Kantarelis, 2007).

### 2.3 Conceptual framework

The study is going to implement both independent and dependent variables.



#### 2.3.1 Inventory control

According to Sadiwala, (2007) in a centralised procurement, inventory control refers to all the activities involved in developing and managing the inventory levels of raw materials, semi-finished materials (work-in-progress) and finished good in a central point so that adequate supplies are available and the costs of over or under stocks is low. Inventories are essential for keeping the production wheels moving, keep the market going and the distribution system intact. They serve as lubrication and spring for the production and distribution systems of organizations. Inventories make possible the smooth and efficient operation of manufacturing organizations by decoupling individual segments of the total operation. Purchased parts inventory permits activities of the purchasing and supply department personnel to be planned, controlled and concluded somewhat independently of shop-product operations. These centralized inventories allow additional flexibility for suppliers in planning, producing and delivering an order for a given product's part. Sadiwala, (2007)

Inventory is vital in doing business and its importance must be recognized. Without some levels of inventory, organisations cannot produce goods and services to meet customers' needs and wants. It is pertinent to know that organisations should carry inventory only when the benefit of holding inventory exceeds the cost of

holding the inventory. Therefore for better efficiency, inventory control must be put in place to ensure that adequate inventories exist since failure to do so can lead to overstocking or under-stocking of inventories. (Pollitt, 2005).

Monczka, (2009) argues that well and efficiently centralized inventories can contribute to the effective operation of the firm and hence the firm's overall profit and efficiency. Proper management of inventory plays a big role in enabling other operations such as production, purchases, sales, marketing and financial management to be carried out smoothly. Basic challenge however is to determine the inventory level that works most effectively with the operating system or system existing within the organization. Various inventory control methods exist. For the small business, the inventory control method used has a major impact on the business cash flow and operational cost. Whatever inventory control method a company uses, the goals for managing inventory hold true regardless of industry or product. These goals include maximizing customer service, lowering operational cost and minimizing inventory investment. (Monczka, 2009).

The concept of centralization, even though with the rapidly changing face of the corporate culture, has still maintained its importance for many organizations, which abide by the very approach and consider it a means of their success. Centralization is basically a suitable option for all those organizations and enterprises that have the following characteristics.

The size of the organization is large in terms of personnel. Along with a great team of personnel, the capital investment of the organization is also enormous. Regarding the nature of the environment, the work environment in an organization that employs the approach of centralization is a highly competitive one. In addition to that, a lot of importance is given to brand name, patent rights and the sorts. The product lines are homogenous. Moreover the level of interdependence between various departments is also very high. Burt, (2007)

The structure of the organization affects processes, procedures, systems and the relationships of a purchasing function (Leenderset 2009). Thus, the choice of purchasing structure is important. A central issue in the organizational design of the purchasing structure is, as mentioned, the classical distinction between centralization and decentralization.

A centralized purchasing structure is defined as when "all main purchasing is controlled at one central location for the entire firm" (Leenders 2009). This structure may be described as a situation where a central purchasing department, operating on the strategic and tactical level, is found at a corporate level. This department is often responsible for product specification, supplier selection, contract negotiations and coordination of activities. While the corporations' different business units' conduct the operational purchasing activities (Van 2000).

Centralization of purchasing makes it possible to control the resources used and the activities performed at one place in the organization (Gadde and Håkansson 2003). A feature of a centralized purchasing department is that it is usually divided according to different product types, where different groups of personnel are responsible for different product groups (Gadde and Håkansson 2003). Examples of this may be different component group and different raw materials. This enables the purchasers to become specialists within their respective product group (Gadde and Håkansson 2003).

### **2.3.3 Purchasing systems**

According to Knudsen, (1999) procurement performance starts from purchasing efficiency and effectiveness in the procurement function in order to change from being reactive to being proactive to attain set performance levels in an entity. Van Weele (2006) stated that centralized purchasing is considered to be the result of two elements: purchasing effectiveness and purchasing efficiency. Purchases systems provides the basis for an organisation to assess how well it is progressing towards its predetermined objectives, identifies areas of strengths and weaknesses and decides on future initiatives with the goal of how to initiate performance improvements. This means that purchasing system is not an end in itself but a means to effective and efficient control and monitoring of the purchasing function (Lardenoije, et al 2005).

Purchasing efficiency and purchasing effectiveness represent different competencies and capabilities for the purchasing function. CIPS Australia (2005) presents the differences between efficiency and effectiveness. Efficiency reflects that the organisation is "doing things right" whereas effectiveness relates to the organisation "doing the right thing". This means an organisation can be effective and fail to be efficient, the challenge being to balance between the two. For any organisation to change its focus and become more competitive, Amaratunga&Baldry (2002) suggest that centralized procurement is a key driver to improving quality of services while its absence or use of inappropriate means can act as a barrier to change and may lead to deterioration of organisations efficiency.

Purchasing department should adopt systems that align or integrate with organisation goals. The purchasing department may sometimes fail due to insufficiency in the integration of its plans and strategies with overall plans; strategies due to improper selection and training of purchase personnel, poor material management; lack of cost reduction strategies, slow recognition of the benefits that a progressive procurement function can provide and not participating in the procurement planning process can be an hindrance to and effective organizational structure. Therefore, efficient purchasing department should actively participate in maintaining and adopting a well framed procurement system.(Swan, 2000).

A purchasing systems method is used by businesses to buy products and/or services. A purchasing system manages the entire acquisition process, from requisition, to purchase order, to product receipt, to payment. Purchasing systems are a key component of effective inventory management in that they monitor existing stock and help companies determine what to buy, how much to buy and when to buy it. A popular purchasing system is based on economic order quantity models. (Adedayo, 2006).

Purchasing systems may be seen as the lifeblood or one of the major intangible assets of any organization. Business operations thrive on purchasing systems. Purchasing systems must be properly harnessed with other resources for the purpose of effectiveness and efficiency of business operations. Effective materials management is practically impossible without reliable, current, and accurate purchasing systems. Regardless of the types of organization (larger small, profit-oriented or non-profit-oriented), and the sizes of materials management department, quality information is needed by managers to harness internal resources, obtain and process necessary information concerning organization materials. Materials managers use the purchasing systems to tap opportunities and manage threats in the logistics external environment. The usefulness purchasing systems is determined by its positive effect on decision making, especially, as it relates to materials management.(Doubler, 2008).

Purchasing systems should be comprehensive and capable to allow free communication within materials management department, between the functional areas of the firm (marketing, production, finance, production, etc.) and also between the members of the supply chain (vendors, materials handler, carrier and customers).Sharing selected information about sales, demand forecasts, purchasing, transportation, inventory warehousing, materials handling devices, production schedules, stock availability, etc. with sellers can improve performance and reduce uncertainties throughout the supply chain assures find ways of benefiting from information availability. Of course, it should be realized that there is need to manage priority information that can jeopardize a firm's competitive position from the general public. Even though the benefits of free information sharing across the organizations are being recognized, there is likely to be a limit to how much information firms are willing to share with others outside their control. A system approach to generating the information required by materials management department for various purposes requires organizations to develop materials information system. An information system consists of inter-related parts working together in a holistic way to provide required information for managers.(David 2005)

Purchasing systems obtains input resources from both internal (organization's material requirements) and external (supply chain) environment. These resources include materials characteristics, prices, purchasing policy and procedures, inventory, transportation, warehousing, materials handling equipment, personnel, financial, etc. The inputs are put through a conversion or transformation process (technology) which manipulates and analyses the data into output. The output can be in form of reports, documents, queries, etc.

Purchasing system has data storage and feedback loop which help in storing data or information for use at a later time. The feedback loop serves as a control mechanism that helps the materials management department obtain feedback information on the quality of materials delivered to various departments and the relationship with other members of logistics system like order management subsystem.(Arnold, 2009).

#### **2.3.4 Costs**

Cost is the practice of managing and /or reducing business expenses. In procurement cost control starts by the business identifying what their cost are and evaluate whether those cost are reasonable and affordable, thereafter if necessary, they can look for ways to cut costs through methods such as cutting back, moving to a less expensive plan or changing services providers. For a company to be efficient they must not only earn revenues, but also control costs. If the costs are too high, profit margin will be low making it difficult for a company to succeed against its competitors. Dmitri (2013) was of the opinion that companies should watch the cost and the profit will take of itself. Cost control in an integral part of in a centralized organization venture where no firm will stay in the business if it does not employ prudent means of checking its costs by ensuring that they don't over surpass the estimated costs projections. If costs are not checked properly the outcome can be negative to smooth running of the business. Arrowsmith, (2010) opined that for cost control purpose a budget provides standard cost. Company management must match budgeted and actual costs and strive to ensure that they always remain within the estimated projections.

To reduce costs does not mean only the reduction of specific expenses. Organizations can achieve greater profits through more efficient use of the expense. Some of the ways companies do this are by increasing the average sale per customer, by effectively using display space and thereby increasing sales volume per square foot, by getting a larger return for its advertising and sales promotion, and by improving its internal methods and procedures. (Arrowsmith, 2010).

According to Williams, & Randall, (2010) the organizations goal should be to pay the right price for prosperity. Determining that price for operation goes beyond knowing what expenses are. Reducing expenses to increase profit requires the manager to obtain the most efficient use of the expense shilling. Look, for example, at the payroll expense. Salesclerks are paid to sell goods, and their productivity is the key to reducing the payroll cost. If the organization trains a salesclerk to make multiple sales at higher unit prices, it increases productivity and the profits without adding shilling to the payroll expenses. Or, if four salesclerks can be trained to sell the amount previously sold by seven, the payroll can be cut by three persons. An understanding of the worth of each expense item comes from experience and an analysis of records. Adequate records tell what has happened. Their analysis provides facts which can help the organization set realistic goals; it is paying the right price for the store's prosperity.

### **2.3.5 Materials Management**

Materials are the physical items that are needed for producing goods and services. Materials can be raw materials, components, sub-assemblies, parts, tools, consumables, services, or any other type of item. Materials are one of the main inputs to a process, and typically account for a major portion of the costs. The significance of materials to the efficient operation of organizations is increasing more than ever. (Leenders, 2009).

Shortages of raw materials, components, and products have been experienced on a global scale. With demand exceeding supply, the price of many materials has increased significantly. Every organization requires raw materials and other materials for its operation that must be acquired, stored, and handled, and there is always necessity for enough stocks of materials and equipment to be maintained for immediate consumption and for short and long term requirements. These stocks or inventory are cash in kind that need utmost care. Therefore the safe custody, up keep and maintenance, handling and proper supply of the materials are of great importance. (Lee, 2010).

The materials management is an important method materials manager's use for planning records of materials required for production. Materials manager should keep a balance between quantity of inventory purchased and stored with production requirement so that overstocking and under stocking will not occur. The cost of ordering and carrying inventories should be minimized and maintained within reasonable limit so that organisation can minimize production cost and maximise profit. (Rozemeijer, 2007).

Another major objective of material management is to achieve minimum materials wastage or operate at zero tolerance for materials waste. Materials wastages may occur as result of leakages, mishandling of materials, spoilages, purchasing substandard materials, deterioration, obsolescence, theft, etc. This challenge can be managed through the adoption of centralized procurement. It is worth to mention that appropriate organization structure has a direct effect on the overall organizational efficiency.

Materials management is simply the process by which an organization is supplied with the goods and services which it requires to achieve the objectives of buying, storage and movement of materials. It is concerned with the flow of materials from suppliers to the organizational stores and to the user in the production department. It is related to planning, procuring, storing and providing the appropriate materials of right quality, right quantity at right place in right time so as to coordinate and schedule the production activity in an integrative manner in the organization. It includes activities of purchase of various types of materials, manage and control of their storage, and flow and supply of these materials to various places. The materials planning, purchasing, inventory planning, storage, inventory control, materials supply, transportation and materials handling are the activities which are part of the materials management. Almost all the organizations, regardless of their nature, have the requirement of proper and efficient management of materials. Furthermore, both real and contrived shortage of materials makes materials management an important and difficult organizational function. The reason is that material, especially components and sub-assemblies have specific uses and have low flexibility and they need more care in procurement, storage handling, and distribution.

The goal of materials management department is to develop and implement an optimum material availability plan that supports the company's daily operation and the overall strategic plan. Research reveals that in manufacturing companies, purchased materials cost accounts for 60% of the total product cost. In the retail and wholesale business, the cost of a purchased materials especially finished goods to sell can be higher than 60%. If these purchased material costs are added to the costs of other activities such as sourcing, purchasing and utilisation of materials, it will account for greater part of product costs. (Matthews, 2005).

Effective purchasing and supply management has a significant impact on quality product and entire organization process. Materials can promote or destroy a company, in terms of providing products and services

that satisfy regulatory requirement and exceed customers 'expectations. Also, poor or wrong materials can fail miserably to meet the set targets. A poor or wrong quality product can shut down company's operations. In today's competitive business operations, organizations place more attention in meeting their numerous customer expectations and therefore the buying of quality raw materials, parts, components and services they consume which are mostly outsourced. This further increases the relevance of purchasing function to the organization. Purchasing and procurement functions are intertwined and therefore often used interchangeably, although the activities differ in scope.

Purchasing function refers to the actual buying of materials and those activities associated with the buying process. Procurement is wider in scope and includes purchasing, traffic, receiving, and storing materials.

## **2.4 Critical Review.**

In his study on the factors affecting the implementation of centralized procurement in Canadian firms, Charles (2008) found that over 46% of firms in Canada had succeeded in implementing effective centralized procurement through application of strategic sourcing strategies such as global sourcing, multiple sourcing and supplier development. However, this study failed to explain how each of the sourcing strategies can support implementation of effective centralized procurement practices. This indicates that, there lacks a specific study that clearly recommends on the effects of centralization purchasing on organizational efficiency.

Mawanda, (2008) conducted a research on the effects of organizational structure and its effect on organizations performance in Uganda and established that there is a relationship between centralised purchasing and organizational performance. Internal controls were looked at from the perspective of purchasing system and stock management however this study fails to discuss the key factors which are addressed in this study thereby leaving a gap to be filled by this study. According to the study by Murray (2009) on the impact of centralization in an organization mostly embarked on the problem of inadequate funds, long procurement procedure, inadequate qualified personnel, and inadequate stock control procedures has the main factors which are characterized with centralized procurement. However this study fails to address and give recommendations on the key issues which are as a result of centralized procurement and its effect on organizational efficiency.

According to a study by Sobczak (2008) on the effect of centralization on the performance of procurement department in Japan found out that many Japanese firms that employ centralized procurement technique have succeeded in embracing sustainable procurement practices. However, the study failed to explain the effects of centralization purchasing on the organizational efficiency and give recommendations on the factors that affect organizational efficiency in a centralized procurement.

## **2.5 Research Gaps**

Study by Assail, et al. (2012) examined the effect of centralization on the profitability of Nigerian food and beverage manufacturing firms by means of a case study in the bottling industry. They concluded that there is a significant relationship between organization efficiency and centralization of procurement functions and this has a positive effect on firm's profitability, and that it can result in cost savings and increased profitability. With reference to centralized procurement and organizational efficiency, very few studies have been done and none has focused its attention on the effect of centralization on organizational efficiency. This study differs from previous work in that it only focuses on certain aspects of centralization, namely the procurement system, inventory management, cost reduction and material management. Further, this study is only concerned with the effects of centralized procurement on organizations efficiency. It is worth noting that organizations efficiency in the broad sense and that it should be view in all aspect of management and not only procurement.

The literature often cites material management, cost reduction and inventory control as the primary advantage of centralized purchasing. The benefits of centralized procurement on the other hand have not been covered as well by the literature. However, this study is interested in the benefits that an organization can achieve its efficiency through centralizing the procurement functions therefore many studies were unable to find literature discussing this situation as it is over-shadowed by the much more common situation and many different functions, of which centralization is one. (Leenders, 2009). Therefore this study will fill this gap through establishing the effects of centralized procurement and how they affect organization efficiency.

## **III. Methodology**

### **3.1 Introduction**

This section deals with the method the researcher used to collect data from the employees and it described the research design that was employed. It covers, the target population, sample designs, data collection instruments and data analysis It also includes data analysis and presentation.

### **3.2 Research Design**

The researcher used a descriptive research design, which is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. The goal of descriptive study hence is to



offer the researcher a profile or to describe relevant aspects of the phenomena of interest from an individual organizational, industry oriented or other perspective. (Creswell, 2012).

### 3.3 Target Population

Target population refers to the entire group of individuals or objects to which researcher is interested in generalizing the conclusions. The target population usually has varying characteristics and it is also known as the theoretical population. (Robson, 2003).The target population entailed 50 employees of Florensis Kenya limited. From all departments of the company as follows:

**Table 3.1** Target population

Departments Ratio	Target	Population
Procurement	13	26
Production	11	22
Stores	12	24
Inspection	14	28
<b>Total</b>	<b>50</b>	<b>100</b>

### 3.4 Sample Design

Simple and stratified random sampling designs were employed in obtaining the required samples. The total population of 50 employees was picked from four departments namely Procurement, stores, operations, and inspection. Stratified random sampling ensured that certain subgroups in the population of procurement, stores, production and inspection department were represented in the sample in the proportion to their number in the population. To obtain sample size from the target population, the target population was multiplied by a ratio of 0.8 to obtain 80% of the target population (Saharan, 2005). The sample size of 44 employees was arrived as follows:

**Table: 3.2** Sample size

Departments Ratio	Target	Ratio	Population
Procurement	13	0.8	14
Production	11	0.8	9
Stores	12	0.8	10
Inspection	14	0.8	11
<b>Total</b>	<b>50</b>		<b>44</b>

### 3.5 Data Collection Instruments

The main data collection instrument was questionnaires with structured and open- ended questions. The questionnaires comprised of investigative questions and personal details. It is the most convenient instrument for such a big population and enabled respondents to express their views freely concerning centralized procurement. (Creswell, 2012).

### 3.6 Data Collection Procedures

Both primary data and secondary data was used in the study. Primary data was collected through the administration of questionnaires. 44 questionnaires were administered. The questionnaires were designed to obtain as much information as possible relevant to the aims of the study. Every respondent was issued with a questionnaire, which he/she was expected to fill and return within one week. Before issuing the questionnaire, the researcher briefed all the respondents to understand what is required of them.

The purpose was discussed at length in order to help them give concrete answers to the questionnaires. The respondents were assured of the confidentiality for their views. The secondary data was collected from relevant, magazines, websites and media as well as both published materials such as books, statistical abstracts, economic surveys, journals, annual reports, research papers, study results and grey library. These sources of information were sought in the libraries, as well as other information centres. Articles and other publications posted on the internet formed a major secondary data in this study. Such information was of great significance in further review of literature.

### 3.7 Data Analysis and Presentation

Data collected was coded and edited for the purposes of ensuring comprehensiveness and accuracy of the filled questionnaire. The actual number of questionnaires was counted and each respondent comment taken into consideration with a major intention of getting a true and clear picture of the respondents on change management with regard to organization performance. Quantitative data was analysed by use of descriptive statistics and presented using tables and figures while Qualitative data which is descriptive information was

categorized and reported in emergent subject matter. This helped the researcher to obtain detailed information, which enabled in establishing the effect of centralized purchasing on organizations efficiency.

#### **4. Findings and Conclusion**

##### **4.1 Introduction**

This chapter presents the findings received from the study in relation to the effect of centralized purchasing on organisations effectiveness. The responses were coded to facilitate easier analysis

##### **4.2 Response rate**

Out of 44 questionnaires issued, 40 were filled and returned accounting for 91 % of the sample population which was acceptable for analysis. This shows that there was a higher response rate. This was in line with Orodho (2009) that a response rate above 50% contributes towards gathering of sufficient data that could be generalized to represent the opinions of respondents about the study problem in the target population.

##### **Inventory Control**

###### **What is the effect of inventory control on organizational efficiency?**

The findings showed that 50% of the respondents were for the opinion that inventory control highly affects efficiency of the organisation, 38% of the respondents said it affects and 12% were for the opinion that it moderately affects efficiency of the organisation. It was also found that majority of the respondents were of the opinion that the organisation does not experience stock outs. Further the respondents strongly agreed that the organisation has a well structured inventory management control system.

##### **Purchasing Systems**

###### **How does purchasing systems affect organizational efficiency?**

It was realized that 73% of the respondents were of the view that their organisation had introduced a centralized purchasing system while 27% of the respondents said no. 50% of the respondents said that centralized purchasing is moderately effective while 40% of them said it was effective and only 10% of the respondents said it is highly effective. It was also realized that 63% of the respondents said that centralized purchasing affects the efficiency of the organisation while 37% of the respondents said it does not have any effect. 50% of the respondents were for the opinion that centralized purchasing highly affects efficiency of the organisation, 38% of the respondents said it affects and 12% were for the opinion that it moderately affects efficiency of the organisation.

##### **Costs**

###### **What is the effect of costs on organizational efficiency?**

All the respondents were of the common idea that centralized purchasing reduces cost in their organisation. 70% of the respondents were for the opinion that centralized purchasing moderately affects cost while 30% of the respondents said it affects. Through effective and efficient purchasing function, the organization is able to make its sales, keeps its production in operations, preserves its plant and equipment, reduces its operating costs, enhances its productivity, and improves its profitability.

##### **Materials Management**

###### **Does materials management affect organizational efficiency?**

All the respondents were in an agreement that there is a relationship between materials management and centralized purchasing. It was also realized that 70% of the respondents were for the opinion that centralized purchasing highly affects materials management, 30% of the respondents said it affects.

#### **IV. Conclusion**

Based on the study findings it was concluded that all the identified independent variables affected the independent variable in a large extent. Inventory control was found to affect efficiency of the organisation and that the organization does not experience stock out. Further it was concluded that the organisation has a well structured inventory management control system.

The study concluded that the organisation had introduced a centralized purchasing system where this implies that the organization has adopted a centralized procurement in its operations where majority of the respondent indicated that centralized purchasing is moderately effective in the organization.

#### **V. Recommendations**

Based on the research findings, the researcher recommends the following;

Since organization cannot relegate the importance of evolving and maintaining effective inventory control system to the background, there is the need for them to adopt a proactive attitudes towards the issue.

Being proactive requires maintenance of the right level of inventory at any point in time. Organizations should avoid the dangers that are inherent in keeping too little or too much of stock.

To achieve the above, it is recommended that the organizations should adopt an inventory keeping method that best suits their operation. Here, just-in-time method could be considered as an option as it has been proven to be effective in maintaining the right level of inventory and also prevent stock-outs. There is also the need for organizations to train their personnel in the area of inventory control management. What this means is that only trained professional with the requisite skill should be in charge of inventory management.

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