

Influence Of Strategic Sourcing Practices On Procurement Performance Of Lamu County Government In Kenya

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Abstract

The impact of strategic sourcing on various aspects of organizational performance has been well-documented. Strategic sourcing plays a crucial role in fostering effective communication and building enduring relationships between suppliers and buyers, both of which are factors that influence the overall performance of a firm. This research paper aimed to examine the impact of strategic sourcing practices on the procurement performance of the Lamu County Government in Kenya. The study was guided by specific objectives, including assessing the influence of supplier development practices on the procurement performance of the Lamu County Government, investigating the effects of e-sourcing practices on procurement performance, analyzing the influence of financial evaluation practices on procurement performance, and evaluating the effects of outsourcing practices on procurement performance within the Lamu County Government. The study was guided by The Balanced Scorecard (BSC) theory and strategic choice theory. This study adopted a descriptive research design, which portrays participants in a precise manner as it characterizes the individuals who are involved in the research. The target population comprised of two hundred and one (201) employees and pre-qualified suppliers of Lamu County government that comprised the head of directorates, procurement officers, county chief officers and pre-qualified suppliers. The study employed a stratified sampling method where a sample of 52 respondents were selected. A pilot study was conducted with at least ten per cent (10%) of targeted sample size to determine the validity of the research instruments. Data was collected using structured questionnaires. The study undertook both descriptive and inferential statistics in data analysis. Quantitative and qualitative data were analysed by use of Statistical Software for Social Sciences (SPSS) version 24 to generate mean, standard deviation, frequencies, regression and correlation analysis. Frequency distribution table and charts were also used in the presentation of the data. Data analysis was conducted using multiple regression models. Based on the findings, conclusions were drawn and recommendations were provided to improve the delivery of high-quality products and the provision of dependable services. From the findings, all four independent variables of the study had a positive and significant influence on procurement performance. Based on the magnitude of the unstandardized regression coefficients, supplier development had a weak positive and significant contribution to procurement performance, e-sourcing had a weak positive significant contribution to procurement performance, financial evaluation had a strong positive contribution to procurement performance while outsourcing had a moderate positive and significant contribution to procurement performance at Lamu County. Based on the findings, the study concludes that; strategic sourcing practices influence procurement performance of Lamu County Government in Kenya. In relation to specific objective, the study concludes that: supplier development has a weak positive and significant contribution to procurement performance; e-sourcing has a weak positive significant contribution to procurement performance; financial evaluation has a strong positive contribution to procurement performance and outsourcing has a moderate positive and significant contribution to procurement performance at Lamu County.

Key Word: Strategic sourcing practices, procurement performance, balance scorecard, Strategic Outsourcing

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I. Introduction

Within the present economic landscape, there has been a growing recognition of the strategic significance of the sourcing function in the broader framework of supply chain management. This recognition holds true in both practical and theoretical realms (Anderson & Katz, 2018). According to Johnson and Whang (2020), strategic sourcing is defined as a comprehensive undertaking that encompasses the acquisition of organizational

requirements and the management of supplier relationships, all aimed at fulfilling long-term objectives. Alongside strategic sourcing, Carr and Smeltzer, (2019) have indicated the rapid development of ICT to have influenced the strategic position of sourcing. According to Narasimhan and Das (2019), strategic sourcing is perceived as the utilization of supplier capabilities during the design and manufacturing stages, with the aim of attaining the strategic goals of the procurement function.

Sislian and Satir (2018) have conceptualized strategic sourcing as a framework that aids managers in making purchasing decisions, with a primary focus on competitive advantage. Fredriksson and Jonsson (2019) have provided a definition of strategic sourcing as a procurement framework that considers the total cost of ownership, facilitating value creation and enhancing competitive positions for firms. Humphreys, Lo, and Mcivor (2020) have emphasized the significance of supplier selection and development. Kocabasoglu and Suresh (2018) have identified various dimensions of strategic sourcing, which encompass internal coordination, information sharing, training, cost management, and supplier development. Procurement function in the current economy has been recognized as an important factor contributing to the success of an organization. Monczka, Trent and Handfield, (2020) attributed that strategic sourcing have helped firms meet challenges of an ever-increasing dynamism in procurement function. Kocabasoglu and Suresh, (2016) have described strategic sourcing to a process directing all sourcing activities of the organization for achieving its long-term procurement goal. Similarly, the concept of strategic sourcing has been viewed by Williamson, (2018) to be a classical corporate management for acquiring key competencies for an organization. Due to the strategic perspective that many organizations have adopted towards outsourcing, there remains a lack of consensus regarding the crucial elements that impact strategic outsourcing endeavours (Carr & Pearson, 2020).

Concept of Strategic procurement sourcing practices in Kenya

Kenya's devolved system of governance, introduced by the 2010 Constitution, aimed to bring services closer to the people and foster local development. However, the effective delivery of services within Kenyan counties hinges significantly on efficient procurement processes (Rafati and Poels,2015). This essay explores the challenges facing procurement in Kenyan counties and examines how the adoption of strategic sourcing practices can enhance procurement performance, ultimately contributing to improved service delivery and socio-economic development. Kenyan counties encounter numerous challenges in their procurement endeavours, hindering efficiency and transparency. Firstly, limited capacity, both in terms of human resources and finances, often leads to delays, inefficiencies, and non-compliance with procurement regulations (Brum and Cardona, 2016).

Statement of the Problem

On a global scale, the strategic sourcing process has undergone significant technological advancements through the adoption of e-sourcing technologies. These technologies offer numerous advantages to organizations, including cost savings in transactions, inventory reduction, and the establishment of robust communication networks between buyers and suppliers (Min & Galle, 2019). Johnson and Whang (2020) classified e-sourcing technology into three categories: e-commerce, e-procurement, and e-collaboration. In the realm of procurement performance measurement, Kate (2019) introduced the concept of vested outsourcing, which emphasizes the outcome and partnership-based collaboration between clients and providers. This approach has attracted significant interest. Furthermore, Vitasek (2016) proposes that organizations should perceive sourcing as a continuum instead of oversimplifying it as a choice between market-based make-versus-buy decisions.

Over the years, there have been substantial reforms in public procurement in Kenya from 1960 to the present day. These reforms have been facilitated through the implementation of significant legislations, regulations, and policies. However, there have been widespread concerns expressed by the public and development partners regarding the lack of strategic orientation in procurement plans, strategic policies, and compliance with the existing policies. Ventovuori (2017) asserts that sourcing strategy that include sourcing interface, scope of service package and relationship building as the key factors for effective sourcing. Although previous research has investigated the effects of strategic sourcing and procurement performance in various domains, there is a lack of comprehensive studies on the influence of strategic sourcing practices on procurement performance specifically within devolved governments. Therefore, the aim of this research was to close the existing research void and investigate how strategic sourcing practices impact procurement performance within decentralized government environments.

General Objectives

The main purpose of this research study was to assess the influence of strategic sourcing practices on procurement performance of Lamu County Government in Kenya.

Specific Objectives of the Study

- 1) To determine the influence of supplier development practice on procurement Performance of Lamu County Government.
- 2) To find out the effect of E-Sourcing Practice on procurement performance of Lamu County Government.
- 3) To analyse the influence of Financial Evaluation Practice on procurement performance of Lamu County Government.
- 4) To evaluate the effects of outsourcing Practice on procurement performance at Lamu county government.

II. Literature Review

Balanced Scorecard Theory (BSC)

The Balanced Scorecard (BSC) theory is a strategic management framework that can be applied to various organizational functions, including procurement. The BSC provides a holistic approach to measuring and managing performance by considering multiple dimensions beyond just financial indicators. When applied to procurement, the BSC theory helps organizations align their procurement activities with strategic objectives and track performance across different perspectives. The Balanced Scorecard (BSC) theory is built on a set of principles that guide its application in measuring and managing performance across different dimensions. Key principles of the Balanced Scorecard theory are that BSC theory advocates for considering multiple perspectives beyond just financial indicators to assess organizational performance (Kaplan & Norton, 1992). This principle acknowledges the significance of maintaining a balance between financial metrics and other crucial aspects, including customer satisfaction, internal processes, and learning and development.

The BSC theory emphasizes aligning performance measures with the organization's strategic objectives (Kaplan & Norton, 1996). Performance measures should reflect the strategic priorities and goals of the organization to ensure that all activities and processes are contributing to the overall strategy.

Strategic Choice Theory

Strategic choice theory is a conceptual framework that aims to elucidate the decision-making process of individuals and organizations when faced with intricate, uncertain, and multiple competing alternatives. It emphasizes the importance of rationality, information processing, and the evaluation of different options before making strategic choices. Strategic choice theory posits that decision-makers are rational and seek to maximize their goals or objectives based on available information. It assumes that individuals carefully evaluate the potential consequences and trade-offs of different alternatives before making strategic choices (Cyert, 2013).

Simon, H. A. (1955) asserts that Strategic choice theory recognizes that decision-makers have limited cognitive capabilities and face cognitive limitations, which may prevent them from fully analysing all available information. As a result, decision-makers rely on heuristics and satisficing strategies to simplify the decision-making process while March (2018) consider Strategic choice theory highlights the importance of information processing in decision-making. Decision-makers gather, interpret, and analyse information to reduce uncertainty and make informed choices. The theory acknowledges that the quality and availability of information affect the decision-making process and outcomes. Daft, (2014) opine that strategic choice theory recognizes that decision-makers bring their own unique perspectives, experiences, and biases to the decision-making process.

Financial Evaluation Practice Theory

The Theory of Financial Management, also known as financial management theory, encompasses a wide array of concepts, principles, and models aimed at guiding organizations in effectively managing their financial resources to achieve their objectives. While it is challenging to attribute the theory to a single founder, its development can be traced back to the pioneering works of scholars such as Eugene F. Brigham, Michael C. Jensen, and William H. Beaver, among others (Baxter & Chua, 2008).

Financial evaluation practices are crucial elements of strategic decision-making within organizations. They offer valuable insights into investment viability, performance assessment, and resource allocation. Rooted in financial theory and accounting principles, these practices provide a structured framework for evaluating the financial health and sustainability of projects and initiatives. This essay undertakes a comprehensive exploration of financial evaluation practices, encompassing their theoretical underpinnings, practical applications, and significance in strategic management. Financial evaluation practices draw upon various theoretical frameworks, the principle of the time value of money asserts that a dollar today is worth more than a dollar in the future due to earning potential. Techniques like discounted cash flow analysis apply this principle to evaluate the present value of future cash flows. Capital budgeting theory guides long-term investment decisions through methods like net present value (NPV) and internal rate of return (IRR) to assess profitability and feasibility.

Resource-Based View (RBV) theory

The Resource-Based View (RBV) theory is a cornerstone of strategic management, offering valuable insights into how firms can achieve sustained competitive advantage. Developed in the late 1980s and early 1990s, the RBV framework has significantly influenced strategic thinking and has been widely adopted by scholars and practitioners alike (Madhani, 2010). At its core, the RBV theory posits that a firm's competitive advantage stems from its unique bundle of resources and capabilities rather than external factors such as market conditions or industry structure. Resources can include tangible assets like equipment and facilities, intangible assets such as brand reputation and intellectual property, as well as organizational capabilities like efficient processes and skilled workforce

In the realm of procurement and supply chain management, the Resource-Based View (RBV) theory stands as a foundational framework, emphasizing the role of organizational resources and capabilities in achieving competitive advantage. This essay delves into the application of RBV theory in the context of e-sourcing practices and their influence on procurement performance (Taher, 2012).

III. Methodology

Research design: The research adopted descriptive research design, to assess the influence of strategic sourcing on procurement performance of Lamu county. Dependent variable was Procurement performance and independent variables were Suppliers development practice, E-sourcing, financial evaluation practice, Outsourcing Practice.

Location of the study: Lamu County Government

Target Population: 118 staffs working in procurement department in Lamu county

Sample size : The sample size of the research was 52 staff .

Data collection: The data was collected with a well-structured questionnaires supplied to the staff by the researcher.

IV. Result

Response rate

The filled questionnaires had an 82.7% while non-response was at 17.3%. The study response was excellent hence findings presented in this report represents the entire target population.

Reliability and Validity

The variables such as Supplier development had an alpha of .807; E-sourcing had an alpha of .821; Financial evaluation had an alpha of .732; Outsourcing had an alpha of .706 and Procurement performance had an alpha of .732. From the findings as illustrated in the table above; all variables had an alpha of more than 0.7, it's concluded that the study data was reliable and had a high degree of consistency.

Gender Distribution

Majority of study participants were male at 59% while female had a minority with 41%. Its observed that gender in the procurement is imbalanced, however, it was noted that the composition of females has greatly improved over the past two years.

Level of Education

Certificate level had 11% representation; diploma level had 33% representation; undergraduate had 41% representation while post graduate had 15% representation. The study observed that majority of employees in the department have higher levels of education and were knowledgeable of the factors under investigation by the study.

Years of experience as procurement Officer

Employees who have worked for less than 1 year had a 1 percent representation; 1-2 years of working had a 29% representation; 3-4 years had a 47% representation while above 6 years had 23% representation.

Supplier Development

Study participants were asked indicate to whether they agree or disagree to the influence of supplier development practice on procurement Performance of Lamu County Government.

Supplier training programs has helped to improve the skills, knowledge, and expertise of suppliers had a mean of 3.794; Lamu County Government has a policy on supplier development had a mean of 3.265; Lamu

County Government has formed cross functional supplier development team had a mean of 2.971; Enhancing supplier knowledge and capabilities had a mean of 3.647; Lamu County Government has Strengthened its communication and collaboration with suppliers had a mean of 3.556; Lamu County Government continuously appraise suppliers performance had a mean of 3.006 while statement on supplier development practice has helped in promoting innovation and continuous improvement in the supply chain 3.123. On an average mean of 3.3374, study participants agreed that supplier development practice influences procurement Performance of Lamu County Government.

E-Sourcing Practice

Study participants were asked indicate to whether they agree or disagree to the influence of e-sourcing practice on procurement Performance of Lamu County Government. Lamu County Government has a policy on E-sourcing had a mean of 1.971; E-Sourcing has enhanced cost and operational effectiveness by reduction of transaction costs had a mean of 3.824; Lamu County Government has embraced and employ IT in their procurement procedures had a mean of 4.324 and E-sourcing has helped to improve the interaction of suppliers and Lamu County government that has contributed to improved procurement performance had a mean of 3.735. On an average mean of 3.4635 study participants agreed that e-sourcing practice on procurement performance of Lamu County Government.

Financial Evaluation Practice

Study participants were asked indicate to whether they agree or disagree to the influence of financial evaluation practice on procurement performance of Lamu County Government.

A financial evaluation is undertaken to ensure that the price is fair and reasonable had a mean of 3.900; financial proposals are not allowed to exceed the budget figure had a mean of 4.320; During the financial evaluation prices are reviewed against prevailing market conditions and whether they are reasonable in view of the requirements had a mean of 3.110; During the financial evaluation, communication with the bidders is allowed for the purpose of clarifying the financial offers had a mean of 4.420 while statement on For bids determined to be unqualified, the corresponding financial offer is not eligible for further consideration had a mean of 3.901. On an average mean of 3.9302, study participants agreed that financial evaluation practice affects procurement performance of Lamu County Government.

Outsourcing Practice

Study participants were asked indicate to whether they agree or disagree to the influence of outsourcing practice on procurement performance of Lamu County Government.

Lamu County Government has delegated non-core services to external providers had a mean of 2.57; outsourcing has helped to reduce cost and risks in Lamu County government had a mean of 4.12; Outsourcing has helped the Lamu County government to acquire strong technical expertise from strategic suppliers had a mean of 2.99; There are been improvement on quality of services and goods supplied by outsourced suppliers had a mean of 4.01; There has been improvement in process efficiency at Lamu County Government had a mean of 2.10 while statement on it has helped to reduce staffing levels through efficiency and use of systems had a mean of 2.37. On an average mean of 3.0267 study participants agreed that outsourcing practice influences procurement performance of Lamu County Government.

Procurement Performance

Study participants were asked indicate to whether they agree or disagree to improvement of procurement performance at the Lamu County Government. statement on customer satisfaction has improved in Lamu County Government had a mean of 3.14 while statement on there has been improved service delivery in Lamu County Government had a mean of 3.56. On an average mean of 3.35; study participants agreed that, procurement performance had improved at Lamu County.

Correlation analysis

Correlation between supplier development and procurement performance was strong and significant ($r=.754^{**}$, $p=.000$); correlation between e-sourcing and procurement performance was strong and significant ($r=.725^{**}$, $p=.000$); correlation between financial evaluation and procurement performance was strong and significant ($r=.676^{**}$, $p=.000$) while correlation between financial evaluation and procurement performance was weak but significant ($r=.246^{**}$, $p=.002$). The positive correlation observed between independent variables and procurement performance at Lamu County means that the IVS moves in the same direction as the performance. This implies that strategic sourcing practices are one of the true parameters of measuring procurement performance at Lamu County.

Regression Analysis

Model Summary

The output results of the model summary are presented in the table below to prove the fitness of the regression model in the study.

Model Summary

Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	.718	.515	.505	.618

above; the model summary results show the proportion of the predicted value explained by the model predictors. The adjusted R-square is .505 indicating that the 4 factors related to procurement practices explain 50.5% of procurement performance at Lamu County.

Analysis of Variance (ANOVA)

The ANOVA results in regression analysis were used to test the fitness of the whole regression model to the data.

Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	86.721	4	21.680	35.138	.021 ^b
Residual	24.065	39	0.617		
Total	110.786	43			

The ANOVA results in table 16 shows a significant $p < .021$. This is an indication that strategic sourcing practices and procurement performance data fitted well in multiple linear model with procurement performance as the dependent variable and procurement practices indicators as predictor variables.

Multiple linear Regression

In linear regression analysis, the regression coefficient results show the contribution of each predictor and its significance in the model to the target variable. The results are presented in table below

Regression Co-efficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.477	.349		1.368	.176
Supplier development	.187	.085	.176	2.188	.012
E-sourcing	.241	.077	.538	3.134	.009
Financial evaluation	.525	.108	.586	4.856	.018
Outsourcing	.389	.089	.392	4.344	.007

Source: Research Data (2023)

From the findings presented in table 17 above; the regression and p-values for the study variables are as indicated below; supplier development ($\beta = .187$, $p < .012$), E-sourcing ($\beta = .241$, $p < .009$), Financial evaluation ($\beta = .525$, $p < .018$) and Outsourcing ($\beta = .389$, $p < .007$). The effect of independent variables on procurement shows that; a unit change in supplier development influence procurement performance at Lamu County by .187; a unit change in E-sourcing influences procurement performance at Lamu County by 0.241; a unit change in Financial evaluation influence procurement performance at Lamu County by .525 while a unit change in Outsourcing influences procurement performance at Lamu County by 0.389.

$$PP = .477 + .187SDP + .241EP + .525FEP + .389OP + \epsilon$$

From the findings, all four independent variables of the study had a positive and significant influence on procurement performance. Based on the magnitude of the unstandardized regression coefficients, supplier development had a weak positive and significant contribution to procurement performance, e-sourcing had a weak positive significant contribution to procurement performance, financial evaluation had a strong positive contribution to procurement performance while outsourcing had a moderate positive and significant contribution to procurement performance at Lamu County.

V. Summary, Conclusion And Recommendations

Summary

The first objective of the study was to determine the influence of supplier development practice on procurement Performance of Lamu County Government. Study participant agreed that supplier development practice influences procurement performance of Lamu County Government. They pointed out that the county

management; offer supplier training programs that has helped to improve the skills, knowledge, and expertise of suppliers; policies in place on supplier development; cross functional supplier development team and strengthened communication and collaboration with suppliers. In addition, correlation between supplier development and procurement performance was strong and significant. Lastly, regression analysis revealed that supplier development had a weak positive and significant contribution to procurement performance.

The second objective was to find out the effect of E-Sourcing Practice on procurement performance of Lamu County Government. Study participant agreed that E-sourcing influences procurement performance of Lamu County Government. This was attributed to effective policies on E-sourcing; Reduction of transaction costs and deployment of IT in procurement procedures. In addition, correlation between e-sourcing and procurement performance was strong and significant. Lastly, regression analysis revealed that e-sourcing had a weak positive significant contribution to procurement performance.

The third objective was to analyse the influence of Financial Evaluation Practice on procurement performance of Lamu County Government. Study participant agreed that financial evaluation influences procurement performance of Lamu County Government. This was attributed to carrying out of financial evaluation to ensure that prices are fair and reasonable; financial proposals not allowed to exceed the budget figure and review of prices against prevailing market conditions. In addition, correlation between financial evaluation and procurement performance was strong and significant. Lastly, regression analysis revealed that financial evaluation had a strong positive contribution to procurement performance.

The fourth objective was to evaluate the effects of outsourcing Practice on procurement performance at Lamu county government. Study participant agreed that outsourcing influences procurement performance of Lamu County Government. This was attributed to reduction of cost and risks; acquiring strong technical expertise from strategic suppliers and improvement in process efficiency. In addition, correlation between financial evaluation and procurement performance was weak but significant. Finally, regression analysis revealed that Outsourcing had a moderate positive and significant contribution to procurement performance at Lamu County.

Conclusions

Based on the findings, the study concludes that; strategic sourcing practices influence procurement performance of Lamu County Government in Kenya. In relation to specific objective, the study concludes that: supplier development has a weak positive and significant contribution to procurement performance; E-sourcing has a weak positive significant contribution to procurement performance; financial evaluation has a strong positive contribution to procurement performance and outsourcing has a moderate positive and significant contribution to procurement performance at Lamu county.

Recommendations

- Lamu County should establish well-defined procurement policies and ways that comprehensively outline each phase of the procurement process. These documents should be easily accessible to all relevant stakeholders, fostering transparency and adherence to established guidelines.
- County managers should allocate more resources in training and capacity building for procurement officers and staff. Equipped with a deep considerate of procurement regulations, ethical standards, and best practices, personnel can navigate the process competently and ethically.
- There is need for county managers to maintain a comprehensive database of qualified suppliers and contractors to ensure there is a readily accessible pool of potential vendors. This can be followed by regular updates which can help keep it relevant.
- County managers should actively promote competitive bidding by widely advertising procurement opportunities through various channels, including online platforms and traditional media. This expands the pool of potential bidders and fosters a more competitive environment.

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