

# **EFFECT OF INTERNAL PROCUREMENT PROCESSES ON ORGANIZATIONAL PERFORMANCE**

**A CASE OF NAIROBI COUNTY, KENYA**

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## **Abstract**

*This research was conducted to find out the impact of internal procurement process on organizational performance in the Nairobi County Government. The research was conducted based on a quantitative research design, positivist research philosophy and survey strategy. Convenience sampling was used to select 87 respondents from procurement and finance departments within the Nairobi County Government. Data was collected using questionnaires and was analyzed using descriptive analysis and regression analysis. The findings of this research reveal that internal procurement processes have a great influence on organizational performance. Respondent's perceptions are that internal procurement processes have a great influence on the performance of the organization. Internal procurement processes like order processing, information sharing and payment processing bring forth improved organizational performance. The results also showed that internal procurement processes enhance purchase quality, purchase controls in addition to managing self-interests in effect leading to improved organizational performance.*

*Keywords: Procurement, Internal Processes, Organizational Performance, Kenya*

## INTRODUCTION

Procurement has become increasingly important not only in private institutions but also in public sector organizations. Regarding the public sector, Odhiambo and Theuri (2015) argue that procurement plays a central role in service delivery as well as promoting social, environmental and industrial policies in a country. Procurement decisions made within public institutions are of significant impact because in many public institutions, huge amounts of tax payers' money have been lost as a result of poor procurement decisions. Therefore, it has become increasingly important for stakeholders to monitor procurement processes to ensure that all decisions and actions undertaken within the entire process are not only transparent but also promote the general welfare of the state.

According to Ellram (2011) internal procurement processes include budgets, purchase request, quality management and payment processes. The manners in which the aforementioned processes are conducted within the procurement process have a great influence over the performance of an organization. The recent formations of the Public Procurement Oversight Authority in addition to reforms that have institutionalized procurement in public organizations have made procurement to become increasingly important in the Kenyan economy (Chebichii *et al.*, 2014). As a result of such recent developments, it was important to find out the impact of internal procurement processes on organizational performance.

### Statement of the Problem

Research studies have been conducted in the past to find out the impact of various dimensions of procurement on organizational performance. Chebichii *et al.* (2014) studied the impact of internal organizational communication channels on efficiency in procurement within public organizations. The findings of the research showed that internal communication on such aspects as quality controls, inventory management and staff training, development and performance significantly influenced efficiency of the procurement function and hence overall organizational performance. Onchoke and Wanyoike (2016) also examined the impact of inventory control as one of internal procurement processes on procurement performance in an organization. The findings of the research showed that inventory control positively impacts on procurement performance.

Past studies have not fully exhausted all aspects of internal procurement processes and how they impact on organizational performance. This research was conducted to find out the impact of internal procurement on organizational performance covering such aspects as payment processes, quality management and budgets.

## Research Objective and Hypothesis

This objective of the study was to establish the effect of internal procurement processes on organizational performance.

*(H<sub>1</sub>): Internal procurement processes did not affect organizational performance.*

## LITERATURE REVIEW

### Empirical literature

A research by Onchoke and Wanyoike (2016) on the impact of internal procurement processes on organizational performance reveals that indeed internal procurement processes enhance organizational performance. Specifically, inventory control as one of the internal procurement processes plays a very important role in bringing forth enhanced organizational performance. The same sentiments are shared by whose research revealed that internal procurement process play a very important role in bringing forth enhanced organizational performance. In particular, the research revealed that internal resources and capabilities concerned with efficiency and integration play a very important role in bringing forth improved organizational performance. Siricha and Theuri (2016) also investigated the impact of internal procurement such as electronic procurement on the organizational performance of Kenya Ports Authority. The findings of the research revealed that internal procurement processes and in particular electronic procurement had a great influence on organizational performance. Specifically, the research's findings showed that the integration of internal procurement processes played a very important role in enhancing organizational performance.

In a research to investigating the impact of supply chain management practices on organizational performance Lia *et al.* (2006) established that internal procurement processes such as the level of information sharing as well as the quality of information had a strong positive correlation with organizational performance. The research further established that competition in the business world was no longer at the organizational level but rather between different supply chains. Therefore, the management of supply chains and procurement processes has become increasingly important to the attainment of competitive advantage in the business world. As a result, internal procurement processes like the level and quality of information sharing play a critical role in bringing forth improved competitive advantage and overall organizational performance. Kennedy and Kiarie (2015) studied the influence of internal procurement processes on organizational performance revealing that there is a positive correlation between internal procurement processes and organizational performance. The research further revealed that internal procurement processes enhance organizational performance by integrating an organization's operational and support functions, ensuring that

production is aligned with new orders; purchasing is aligned with demand while shipping and scheduling are aligned with the requirements of customers. This contrasts with views of Lardenoije, Raaij and Weele (2005) who argue that internal procurement processes focus on financial aspects neglecting non-financial aspects in effect leading to overall poor organizational performance.

Internal procurement has also been found to greatly influence the manner in which an organization performance relative to competing firms. Internal procurement processes such as information sharing, payment processes and ordering procedure have a great influence on the effective of the procurement process and overall firm performance. According to Siricha and Theuri (2016) the effectiveness of internal procurement processes such as payment processing, order processing and information sharing has a direct positive impact on organizational performance. Therefore, to bring forth improved organizational performance, it is essential for the management to ensure that internal procurement processes are conducted at the highest level of effectiveness. Ordanini and Rubera (2008) also argue that improvement in such aspects of information sharing, order processing and payment process can bring forth enhanced organizational process particularly when internet technology is applied within the procurement process. In contrasts, Mugambi and Theuri's (2014) study revealed that there is significant relationship between internal procurement processes and organizational performance. Empirical literature shows that internal procurement processes have a positive impact on organizational performance. Some of the internal procurement processes that enhance organizational performance include enhanced information sharing, ordering processes and payment processes. Further, the use of internet within the internal procurement process enhances the effectiveness of order processing, the quality and level of information sharing and payment processing in effect leading to improved organizational performance. The purpose of the study was to evaluate the effect of internal procurement processes on organizational performance in case of public sector.

## **RESEARCH METHODOLOGY**

### **Sampling Design**

Sampling can be defined as a process through which a section of the population is chosen to form the basis of study after which the findings of the study are generalized to the entire population (Colton and Covert, 2007). This research employed stratified random sampling to select 87 directors, middle level managers, senior managers and support staff from procurement and finance departments of the Nairobi County Government. Convenience sampling method was selected because it enabled the researcher to choose respondents with

adequate knowledge on procurement practices within the Nairobi County Government effectively yielding high quality research outcomes. In the study, the sample frame is composed of 87 employees from the County Government's procurement and finance departments. The 87 respondents include senior managers, directors, and support staff and middle level managers within the County Government.

### Data Collection

The current research employed simple structured questionnaires to collect data from respondents regarding the impact of internal procurement process on organizational performance. The simple structured questionnaire was used because of the ease associating with filling in simple structured questionnaires. Therefore, a high response rate is possible with high quality data being collected.

### Data Analysis

The data analysis was carried out using descriptive statistics. The data was entered into the excel software to yield a descriptive analytical perspective of internal procurement processes and the impact they have on organizational performance. Regression and correlation analyses were then conducted to determine the nature and extent of the relationship between internal procurement processes and organizational performance.

## FINDINGS AND DISCUSSION

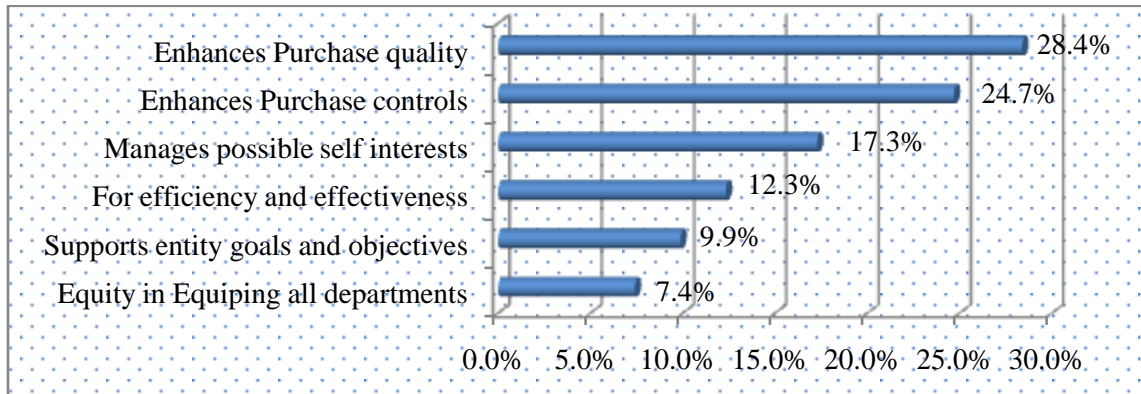
Out of 87 questionnaires distributed to respondents, 81 dully filled in questionnaires were collected from the respondents. Therefore, the response rate was 93.1%. According to Fowler (2013) the acceptable response rate for a social research is 70% and, therefore, 93.1% was an appropriate response rate for the purpose of current study. In a bid to find out how internal procurement processes impact on organizational performance, respondents were required to rate internal procurement processes based on performance.

Table 1: Nature of Internal Procurement Processes in the Studied Organization

Internal Procurement Procedures and Performance	Average rating	Conclusion
My company has articulate Internal Procurement Processes	2.50	Agree
The Internal Procurement Processes are responsible for Organizational Performance	2.00	Agree
Employees do not relate Internal Procurement Processes with their Performance	3.17	Neutral
The presence of Internal Procurement Processes do positively influence Organizational Performance	1.93	Agree

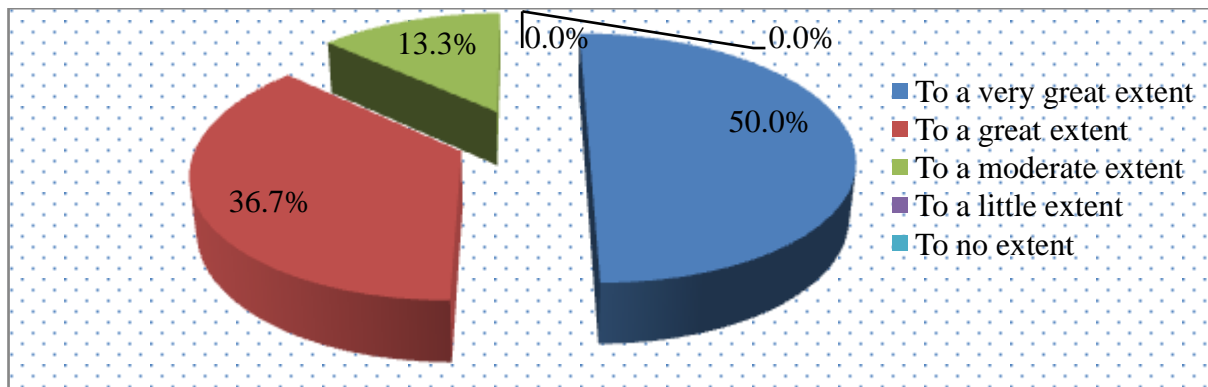
From the figure below, respondents agree with the assertion that articulate internal procurement processes bring forth improved organizational performance. The findings are in line with a research by Lia *et al.* (2006) who established that internal procurement process led to improved organizational performance. Respondents were also required to offer their opinion on the role of internal procurement processes in relation to organizational performance. The results were as shown in the figure below:

Figure 1: Role of Internal Procurement Processes on Organizational Performance



From the figure 1, internal procurement processes improved organizational performance by enhancing purchase quality, enhancing purchase controls and managing potential self-interests. The above findings are in line with a research by Kennedy and Kiarie (2015) whose research showed that internal procurement processes enhance organizational performance by integrating operational and support functions. Odhiambo and Theuri (2015) also believe that internal procurement processes bring forth enhanced organizational performance. Respondents were also required to indicate the extent to which internal procurement processes influence organizational performance. The findings were as illustrated in the figure below:

Figure 2: Extent to which Internal Procurement Processes Influences Performance



From figure above, 50% of respondents believe that internal procurement process influence organizational performance to a very great extent while 36.7% believe that the influence is to a great extent.

### Regression Analysis Results

The regression results of the ratings on influence of internal procurement processes on organizational performance against performance provided the results shown below.

Table 2: Model Coefficient and Statistical Significance

Model	Unstandardized		Standardized	F	Sig
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	0.878	0.357		2.46	0.016
Internal Procurement processes	0.325	0.097	0.202	3.35	0.002

As indicated in table above, the results of regression analysis yielded statistically significant results with a p-value of 0.002 and a coefficient of 0.325. That indicates that internal procurement processes does influence organizational performance.

### SUMMARY AND RECOMMENDATIONS

In conclusion, the findings of this research reveal that internal procurement processes have a great influence on organizational performance. Respondent's perceptions are that internal procurement processes have a great influence on the performance of the organization. Internal procurement processes like order processing, information sharing and payment processing bring forth improved organizational performance.

The results also showed that internal procurement processes enhance purchase quality, purchase controls in addition to managing self-interests in effect leading to improved organizational performance. Thus, the null hypothesis is rejected and the alternative hypothesis that internal procurement processes influences organizational performance. The above findings are in synchrony with findings of a research by Onchoke and Wanyoike (2016) who believe that internal procurement process greatly influence organizational performance by enhancing effectiveness of processes like order processing, payment and information sharing. The county government of Nairobi should bolster its internal procurement processes to enhance performance, effectiveness and efficiency.



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