

EFFECT OF SOURCING ON SUPPLIER PERFORMANCE IN NON-GOVERNMENTAL ORGANIZATIONS IN KISUMU TOWN, KENYA

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Abstract

The main purpose of this study was to determine the effect of sourcing on supplier performance of Non-Governmental Organizations in Kisumu town, Kenya. The population of the study consisted of 35 respondents, made up managers and employees of the five NGOs in Kisumu Town. The NGOs were Plan international, impact research, world vision, CDC and FACES. The research adopted Descriptive research design. The target population was 35 employees involved in the sourcing of supplies in the organizations. Questionnaires were administered to the respondents. Validity and Reliability of the instruments were tested. The Cronbach Alpha Reliability Coefficient of 0.7 was obtained. The findings obtained concluded that single sourcing as a method for sourcing goods and services is time saving, facilitates purchase of quality goods and reduces cost. The study recommended that the NGOS should put measures into place to deal with risks associated with single sourcing, that the NGO in Kisumu should fully embrace e- procurement through financing of proper system and employing qualified staff to handle the system.

Keywords: Competitive Tendering, E- Procurement, Sourcing, Single Sourcing

INTRODUCTION

Organizations are operating in an environment characterized by countless economic and political disruptions to their sources of supplies and services. In order to survive in this turbulent marketplace, these organizations must continually monitor their competitive position as well as their internally controllable processes, especially the procurement process (Burt, Dobler & Starling 2003).

The spotlight of the procurement function today has shifted from minimizing costs to maximizing value. As part of this it shifts from a tactical to a more strategic focus, procurement policies are leveraging sourcing and procurement functions to drive supply chains' sustainability performance for long term success by analyzing products' environmental features, or lack thereof in the upstream supply chain. The procurement function is also becoming more active in monitoring and influencing the sustainability performance of the suppliers themselves, which often results in cost savings that can be passed on to the buyer

Many governments and organizations are struggling with limited resources and therefore there is great need for them to ensure that they do all they can to cut cost in the procurement system. In order to combat the mounting fiscal deficits, governments across the world have come under immense pressure to reduce their spending. One of the challenges of public procurement is inefficient cost cutting, lack of transparency even during negotiations, and hence competitive pricing will only have a limited impact on savings (Gabbard 2004). As a result, public sector buyers will be forced to revisit procurement practices and built an efficient and agile supply chain.

Through sustainable sourcing processes organizations can improve supplier disclosure and risk management capabilities and support information exchange and verification. Measuring supplier performance by addressing suppliers 'sustainability practices drives improvement of internal and external standards and facilitates disclosure and transparency. This in turn supports compliance with any environmental regulation and enables the ability to better understand and minimize risks associated to specific products or suppliers. Procurement function credibility and collaborative supplier dialogue also favor the building of a sustainable supply chain that ultimately increases brand reputation and company value

Sourcing, one of the major steps in the procurement process, involves the identification and selection of the supplier whose costs, qualities, technologies, timeliness, dependability, and service best meet the organization's needs (Reeds, Bowman & Knipper, 2005). For any organization to be able to sustain the current trends, they should focus strategic sourcing. This aspect of sourcing provides some of the most value- added benefits to the organization since it takes into consideration organization's transformation to supply management.

Strategic sourcing involves taking a strategic approach to the selection of suppliers an approach that is more aligned with the organization's competitive strategy. Strategic sourcing reflects the integration of procurement or sourcing strategy with corporate strategy (Porter 1998). The integration of procurement and corporate strategy is reflective of the transformation of purchasing to supply management. Strategic sourcing is a well-established and proven method for managing large- scale, medium to long term procurement activities. It has been adopted as standard practice by numerous public and private organizations in developed countries. It consists of two key capabilities - strategic contracting and category management (Arrowsmith & Trybus, 2003). In strategic contracting, the emphasis is on developing a detailed knowledge base of the market and the category being sourced, and using this knowledge to develop optimal sourcing solutions.

Category management focuses on managing contracts to ensure that the negotiated contract benefits are realized, and driving continuous improvement in contract benefits year on year (Arrowsmith & Trybus, 2003). Supporting the implementation of the policy are other existing policies, extensive good practice guidelines and comprehensive tools and templates, including standard contracts and tender documentation (Callender & Mathews 2000).

Public procurement in Kenya has undergone tremendous changes reforms 1960 to date, with the enactment of key legislations, regulations and policies. However, a lot of concern has been raised by members of public and development partners on the lack of strategic focus in procurement plans, strategic policies and including lack of adherence the currently laid policies. Procurement officers' face challenges when implementing prequalification procurement such as cost implication, lack of technical experts to evaluate, time constrain and evaluation standard setting.

Mamiro (2010) points out that the major setbacks in public procurement is poor procurement planning and management of the procurement process which include needs that are not well identified and estimated, unrealistic budgets and inadequacy of skills of procurement staff responsible for procurement. Kakwezi and Nyeko (2010) argue that the procurement performance is not usually measured in most organizations as compared with the human resource and finance functions. Failure to establish performance of the supplier can lead to irregular and biased decisions that have costly consequences to any public procuring organization.

Statement of the problem

Despite the reform processes in public procurement and the employment of Public Procurement and Disposal Act (PPDA) 2005 as a strategic tool, there are predicaments in Kenyan

public procurement practices, for example non-compliance with procurement related legislation and policies as well as tender irregularities. Pearce et al (2008) asserts that corruption has reached epidemic proportion in the world and is a major challenge to managers and policy makers. Procurement officers face other challenges when implementing prequalification procurement such as cost implication, lack of technical experts to evaluate, time constrain and evaluation standard setting.

Agreeably Mamiro (2010) in his findings underscores these facts and concludes that one of the major setbacks in public procurement is poor procurement planning and management of the procurement process which include needs that are not well identified and estimated, unrealistic budgets and inadequacy of skills of procurement staff responsible for procurement. Similarly, Kakwezi and Nyeko (2010) argue that supplier performance is not usually measured in most organizations as compared with the human resource and finance functions. They conclude in their findings that failure to establish performance of the supplier can lead to irregular and biased decisions that have costly consequences to any public procuring entity.

It is against this background, that this study seeks to focus on effect of sourcing on supplier performance. This is justified due to the fact that none of the previous literature on public procurement in Kenya has critically analyzed the role of sourcing in supplier function and performance

Objective of the Study

To determine the effect of supplier sourcing on performance of Non-Governmental in Kisumu Town, Kenya

Significance to the Study

The study will be of great importance to the organization with special reference to the NGOs in Kisumu Town since it highlights the effects of sourcing on supplier performance. The study highlights the possible problems in sourcing and gives the possible solutions to the issues identified. It also helps to improve competency of organization due to improved quality in ways of sourcing and eradicating complaints due to improved customer satisfaction. The study also improves the organization's quality of products and its dominance in the market; due to improved customer satisfaction. The study will be of great help to scholars through contribution of knowledge in the field of sourcing.

LITERATURE REVIEW

Theoretical Framework

The current study was guided by resources dependency theory and transaction cost theory.

Just in time Theory

Just in time (JIT) is a production strategy that strives to improve a business' return on investment by reducing in-process inventory and associated carrying costs.(Goran Svensson, 2001) Just in time is a type of operations management approach which originated in Japan in the 1950s. It was adopted by Toyota and other Japanese manufacturing firms, with excellent results: Toyota and other companies that adopted the approach ended up raising productivity (through the elimination of waste) significantly. To meet JIT objectives, the process relies on signals or (Kanban Kanban) between different points, which are involved in the process, which tell production when to make the next part. Kanban are usually 'tickets' but can be simple visual signals, such as the presence or absence of a part on a shelf. Implemented correctly, JIT focuses on continuous improvement and can improve a manufacturing organization's return on investment, quality, and efficiency. To achieve continuous improvement key areas of focus could be flow, employee involvement and quality (John T. Dalton, 2013). JIT relies on other elements in the inventory chain as well. For instance, its effective application cannot be independent of other key components of a lean manufacturing system or it can end up with the opposite of the desired result.

Just in time theory is relevant for this study because for any organization to be able to perform optimally there must be timely sourcing structures that would ensure procurement is done within desired time frame by eliminating the lead time as much as possible.

Transaction Cost Theory

Transaction cost theory was brought forth by Ronald in 1937 who argued that any organization is always concerned about search and information costs, bargaining and decision costs, as well as policing and enforcement cost all of which should be minimized. Transaction cost theory is based on the basis of company existence and the guidelines towards its expansion program to the external environment. Through this microfinance banks ought to minimize their operation through adaptation of strategic procurement strategies. In this theory both institution and environment in which they operate are perceived to have a symbiotic relationship with optimal benefits from each other. Moreover, if company's operational costs are lower than market costs then there are opportunities for more profits (Ronald, 1937; Williamson, 1981).

According to Williamson (1981) transaction cost can be viewed as environmental uncertainty, opportunism, bounded rationality and core company assets. This classification was based on the fact that all these factors have tendency to accelerate transactions costs by making company service dear to acquire, thus few customers will be attracted towards microfinance financial products. Therefore, it is economical for Technical institutions to evaluate the procurement procedures present in an organization from which they can evaluate the benefits against cost of individual, institutional, economic and environmental factors in relation to supplier performance in a given NGO.

The theory is appropriate for the study since NGO in Kisumu must continuously evaluate their cost benefit analysis with the sole purpose of improving efficiency and minimizing operational cost. In an organization there is need to develop measurers and mechanisms geared towards minimization of costs and improved of chances for more benefits.

METHODOLOGY

Research design

Kothari (2004) defined research design as the nature, outlook and character that the researcher has taken. The study employed descriptive research design. Descriptive was conducted to describe the present situation, what people currently believe and/or are currently doing (Baumgartner, Strong and Henseley 2002).

Target Population

Mugenda and Mugenda (2003) describe population as the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The population of the study consisted of all the procurement staff of the NGOs, management staff and various heads of department. Census was adopted for the study thus all the 35 staff of the NGOS were interviewed and given the questionnaires.

Sampling Frame (Source: NGOs, 2017)

NGOS	Sample Size
Directors	5
Programe officers	5
Finance officer	5
Accounts clerks	5
Procurement officers	5
Supplies officers	5
Store keeper	5
Total	35

Research Instruments

Questionnaire containing structured and unstructured questions was used to gather the necessary data. The questionnaire was prepared thematically based on the objectives. Primary data was used for making the conclusions. These are data which is collected afresh and for the first time, and thus happens to be original in character (Kothari 2003)

Validity & Reliability

Prior to use, the research instruments were validated by exposing them to the experts: the lecturers in the department of entrepreneurship and Procurement to give their Inputs and necessary corrections before piloting.

Cronbach alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. It is considered to be a measure of scale reliability. 0.7 range was used because it is considered normal and acceptable. The reliability and validity of the results was contained through member checks to help indicate whether the findings appeared too much with perceived authenticity.

FINDINGS AND DISCUSSION

Single Sourcing

Ability of supplier to adequately supply

Table 1. Ability of supplier to adequately supply

		Frequency	Percentage
Valid	Yes	27	77.0
	No	5	14.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

The analysis showed that 77% of the respondents were in agreement of the fact that their suppliers were adequately able to supply them with the commodities while only 14% were not agreement. The above findings are in agreement with Burke, Carrillo, and Vakharia (2007) The relevance of single sourcing is further highlighted by), in their abstract titled 'single versus multiple supplier sourcing strategies', where they indicate that the former is an ideal strategy only when (i) supplier capacities are large relative to the product demand and (ii) when the buying firm does not obtain diversification benefits.

Table 2. Ability to obtain diversification from the supplier

		Frequency	Percentage
Valid	Yes	22	63.0
	No	10	28.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

The analysis showed that 63% of the respondents were in agreement of the fact that their suppliers were adequately able to supply them with the commodities. However, 28% were not agreement. The above findings show that though majority of the respondents agreed that the supplier was able to achieve diversification, 28% of the respondents were not in agreement maybe because of the challenges posed by single sourcing. The above findings sums up Burke, Carrillo, and Vakharia (2007) single sourcing is ideal when supplier capacities are large relative to the product demand.

Table 3. Knowledge of risks associated with single sourcing

		Frequency	Percentage
Valid	Yes	18	51.0
	No	14	40.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

The analysis showed that 51% of the respondents were in agreement of the fact that their suppliers were adequately able to supply them with the commodities. However, 40% were not agreement. Hence there could be need to empower the people on the benefits of sourcing as a procurement strategy in the organization. It is clear that majority the respondents are aware with risks associated with single sourcing. The findings confirms what several authors have written. For example Khan and Burnes (2007) said that single sourcing mean putting all your eggs one basket. Other authors contest that single sourcing is reactive rather than proactive and cannot mitigate supply chain risks (e.g. Hou et. al, 2010; Burke, Carrillo, and Vakharia 2007). It is also clear from the respondents that since these technical institution relied on single sourcing some of their staff were not aware of dangers associated with single sourcing. This is evident from the findings since 36% were not aware.

Table 4. Extent in which single sourcing has affected supplier performance
in the respondent's organization

Parameters	Strongly agree	Agree	Disagree	Strongly disagree	Not sure	Missing system	%
Single sourcing has led to reduction in lead time	10%	40%	26%	5%	5%	14%	100
Single sourcing has led to procurement of quality goods and services	20%	38%	24%	5%	4%	9%	100
Single sourcing has led to cost reduction	9%	39%	35%	3%	5%	9%	100

From the table above, it is clear that single sourcing has improved supplier performance in these NGOs as per the given parameters above. Majority of the respondents either strongly agree or agree with effect of single sourcing on the listed parameters.

Two stage tendering

Table 5. Response rate of the Two stage tendering

		Frequency	Percentage
Valid	Yes	27	77.0
	No	5	14.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

From table above, it is clear that 77% of the respondents agree that that their institution have adopted the use of two stage tendering. These findings confirms with Eadie et al (2007) that two stage tendering lows sections of electronic documentation to flow through the supply chain; it improves the speed of returns and subcontractor price visibility. He further notes that since it is easier to communicate requirements in a quicker more accessible manner, it will result in a better understanding of requirements and due compliance besides allowing clients to gauge the state of the market by seeing how much interest is shown in the tender. Hawking et al, (2004)

as quoted in Eadie et al (2007) considered market intelligence and the decisions made on that intelligence as two separate drivers.

Table 6. Response rate of embrace of two stage tendering

		Frequency	Percentage
Valid	Yes	25	71.0
	No	7	20.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

The analysis showed that 71% of the respondents were in agreement while 20% were not in agreement. The above findings show that 78% OF the respondents are in full agreement that their institutions have fully embraced and adopted two stage tendering. However 20% still feel that their respective organizations have not embraced two stage tendering..

Table 7. Response rate explaining whether the adoption of two stage tendering has improved good relation between suppliers and service seekers in the respondent's organization

		Frequency	Percentage
Valid	Yes	29	83.0
	No	3	8.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

From table above it clear from the respondents that majority of them do agree that two stage tendering has improved the relationship between the institutions and the suppliers. The above findings

Table 8. Response rate explaining whether two stage tendering has improved the speed of communication, real time response and savings in communication in the respondents' institution

		Frequency	Percentage
Valid	Yes	26	74.0
	No	6	17.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

From table above, majority of the respondents agree that two stage tendering has improved the speed of communication between the institution and the suppliers. The findings are in line by what authors like Muhia and Afande (2015) have put down.

Table 9. Extent in which two stage tendering supplier performance in the respondent's organization

Parameters	Strongly agree	Agree	Disagree	Strongly disagree	Not sure	Missing system	%
Flexibility	10%	42%	25%	5%	9%	9%	100
Reduced risks	15%	40%	24%	7%	5%	9%	100

Table above list various parameters through which two stage tendering has affected procurement function in the NGOS. From the above findings, it clear that majority of the respondents either strongly agree or agree that two stage tendering as affected procurement function positively within the listed parameter in the above table. The table above sums up the benefits the NGOS are getting for using two stage tendering.

Table 10. Extent in which two stage has affected supplier performance in your organization

		Frequency	%
Valid	To no extent	2	6.0
	To some extent	8	23.0
	To moderate extent	7	20.0
	To a large extent	12	34.0
	To a very large extent	3	8.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100

From Table above, majority of the respondents, 60% agree that e- procurement has affected supplier performance in a positive way.

Competitive Tendering

Table 11. Response rate of the prequalified suppliers available in the respondent's organization

		Frequency	Percentage
Valid	Yes	30	86.0
	No	2	5.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

The above findings show that 86% of the respondents agree that their institutions have prequalified suppliers as per the requirement of the government of Kenya.

Table 12. Response rate of whether the suppliers meet the respondent's specification of requirements

		Frequency	Percentage
Valid	Yes	31	88.0
	No	1	3.0
	Total	32	91.0
Missing	System	3	9.0
Total		35	100.0

From table above, it is clear that 88% of the respondents feel that their current suppliers are have capacity and are able to meet the NGOS specific requirements when it comes to delivery of goods and services. The above findings show that the NGOS were very careful when they were selecting their prequalified suppliers. The above findings are well presented on table below.

Table 13. Extent in which competitive tendering has affected procurement function in the respondent's organization

Parameters	Strongly agree	Agree	Disagree	Strongly disagree	Not sure	Missing system	%
Competitive tendering has led to fairness	10%	42%%	25%	5%	9%	9%	100

Competitive tendering has led to accountability	15%	41%	24%	7%	4%	9%	100	Table...
Competitive tendering has led to competition	10%	40%	33%	3%	5%	9%	100	

Table above list various parameters through which competitive tendering has affected procurement function in the NGOs. From the above findings, it clear that majority of the respondents either strongly agree or agree that competitive tendering has affected procurement function positively within the listed parameters in the above table. The table above sums up the benefits the NGOS are getting for using e- procurement.

Table 14. Extent in which competitive tendering has affected procurement functions in your organization

		frequency	%
valid	to no extent	2	6.0
	to some extent	9	26.0
	to moderate extent	8	23.0
	to a large extent	10	28.0
	to a very large extent	3	8.0
	total	32	91.0
missing	system	3	9.0
total		35	100.0

From the table above it is clear that the majority of the respondents feel that competitive tendering has a positive on procurement function. This is line with Dimitri et al (2006) tenders are normally based on a specification of requirements prepared by the purchaser but then an alternative is to invite suppliers to submit a solution and a price to a problem stated by the purchaser. It's comprehensible that tendering is based on the principles of competition, fairness and accountability, transparency and openness and probity since the whole process is aimed at ensuring best value for money and not necessarily the lowest price.

The multiple linear regressions result for the 32 observations is as shown in the table 15 below.

Table 15. Multiple linear regressions result

Equation	Obs Parm	RMSE	R- sq	F	P	
P-function	32	4	.603741	0.6895	20.73042	0.0000
	Coef.	Std. Err.	t	p>(t)	(95% conf. interval)	
P-function						
S-sourcing	.400036	.141467	2.87	0.009	.110275	.689797
Two stage tendering	.2265859	.1586208	1.43	0.164	-.098334	.515059
- tendering	.421754	.1696968	2.49	0.019	.074146	.7693621
Cons	-.1943646	.4948811	-0.39	0.697	-1.208083	.8193534

From the results, it can be seen that the correlation is 0.6895 which means that the observations are correlated, hence the strength of the linear relationship is high. In addition, the p-values are highly significant. The regression equation model becomes:

$$y = -0.194 + 0.400x_1 + 0.227x_2 + 0.422x_3$$

Where,

y Represents the procurement function

x_1 Represents the single sourcing

x_2 Represents the two stage tendering

x_3 Represents the competitive tendering

This means that a unit rise in procurement functions causes 0.4 units increase in single sourcing, 0.227 units increase in e-procurement and 0.422 units increase in competitive tendering.

The reliability information of the variables with respect to the dependent variable, procurement function is as shown below:

Test scale = mean (unstandardized items)

Average inter-item covariance: .6046707

Number of items in the scale: 4

Scale reliability coefficient: 0.8790

Thus the scale reliability coefficient is seen to be 0.8790. This means a higher reliability/internal consistency between all the variables involved.

From the above regression analysis it clear that single sourcing as more influence than other sourcing methods discussed.

Table 16. Level of significance of each sourcing method

Sourcing Method	Level of significance	Remarks
Single sourcing	0.4	High influence
Two stage tendering	0.227	
Competitive bidding	0.422	

From the above table single has the greatest influence on the procurement function among the NGOs in Kisumu.

Table 15. Results of regression analysis

Variables	Coeff	St error	p- value
X_1	0.4	.141467	.110275
X_2	0.227	.1586208	.515059
X_3	0.422	.1696968	.074146

The analysis was done by way of one-way Anova test and the estimated reliability was found to be 0.96854, 0.97258 and 0.96761. As earlier indicated, a reliability value of greater than 0.7 shows a higher internal consistency, thus there is a higher internal consistency for the values exhibited by the single sourcing, two stage tendering and competitive tendering.

SUMMARY

From the findings it clear that the NGOS still embrace single sourcing a method for sourcing goods and services. This could be due to benefits of single sourcing like time saving, quality goods and cost reduction. A positive advantage is that single sourcing has the possibility to cut costs through cost advantages and quality improvements which lead to enhanced global competitive position. Other positive advantages are the various supply base reduction efforts, total cost cutting strategies and reducing through time projects in purchasing (Faes and Matthyssens, 2009). However there is a growing concern among the respondents about the risks involved with single sourcing.

The effect two stage tendering procurement function

The findings shows that the NGOS have embraced the use of two stage tendering in the procurement process. It is clear that owing to the benefits associated with two stage tendering, the NGOs are already feeling positive impact going by the listed parameters. Key aspects of two stage tendering include, it is easier to communicate requirements in a quicker more accessible

manner, it will result in a better understanding of requirements and due compliance besides allowing clients to gauge the state of the market by seeing how much interest is shown in the tender. Hawking et al, (2004) as quoted in Eadie et al (2007) considered market intelligence and the decisions made on that intelligence as two separate drivers.

The effect competitive Tendering

From the above findings it is clear that the NGOS are benefiting from competitive tendering since it brought accountability and fairness in the tendering process. It also exposed the NGOS to accessing specific goods and services which meet their expectations. Tenders are normally based on a specification of requirements prepared by the purchaser but then an alternative is to invite suppliers to submit a solution and a price to a problem stated by the purchaser. It's comprehensible that tendering is based on the principles of competition, fairness and accountability, transparency and openness and probity since the whole process is aimed at ensuring best value for money and not necessarily the lowest price.

RECOMMENDATIONS

Single sourcing still remains a key sourcing tool to the NGOs owing to its benefits like time saving and cost reduction. However the NGOS should put place structures that would help them with risks associated to single sourcing should they occur in order not to affect the supply chain. Therefore the NGOs in Kisumu should embrace single sourcing as a means of sourcing since it contributes heavily to the success of procurement function.

Use of technology in procurement process has brought out great benefits to NGOS starting from speed, accountability to quality and should be fully embraced to ensure a successfully supply chain. However the NGOS should be able to give provide adequate frame work for the system to be a success by ensuring that there is adequate equipment and technical knowhow to run the system. Therefore the NGOs in Kisumu should embrace single e-procurement as a means of sourcing since it contributes heavily to the success of procurement function.

Competitive tendering has provided the NGOS with an opportunity to meet their specific specification when it comes to goods and services. It also ensured accountability and fairness in the tendering process and this has ensured a successful supply chain. Therefore the NGOs in Kisumu should embrace competitive as a means of sourcing since it contributes heavily to the success of procurement function.

CONCLUSION

Single sourcing remains a popular way sourcing because it greatly reduces chances for delay hence could be used to achieve success in supplier performance among organizations and this could be enhanced through sourcing practices. Two stage tendering should be embraced by the NGOs in Kisumu since it flexible hence gives the supplier opportunity to perform optimally. This could further help the organizations to improve on their performance.

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