



# **NOMINATED SUB-CONTRACTING ON PROCUREMENT PERFORMANCE IN PUBLIC HOSPITALS IN NAKURU COUNTY**

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## **Abstract**

*According to county health infrastructure upgrading report 2018 there are various stalled projects in different health facilities in Nakuru County, Kenya. With the introduction of county government, procurement procedures in hospitals has greatly changed with majority of contractors opting to sub-contract most of their roles this has been attributed to untimely completion of projects, compromised quality of projects and sometimes cost overruns of the projects. This study sought to establish the influence of nominated sub-contracting on procurement performance in public hospitals in Nakuru County. The study adopted descriptive survey design. Target population was all 80 respondents involved in the procurement process in health facilities; they include medical officer in charge of the various targeted health facilities, procurement officers and department heads from user departments in health facilities in Nakuru County. Since the population was small, study used census technique. Primary data was collected by administering questionnaires to the respondents in the hospitals. Data was analyzed using both descriptive and inferential statistics. The study concluded that majority of nominated sub-contractors tend to deliver quality work since they are solely sourced based on their technical know-how and this enhances procurement performance in the public hospitals. The study concluded that nominated sub-contractors are usually reliability because in most cases they must have worked with the main contractor or the client. Based on the conclusions the study recommended that the public hospitals should adopt nominated subcontracting. This is because in nominated sub-contracting they can select the specialist contractor they want and obtain the design and value of the services input and have direct access during the progress of works*

*Keywords: Sub-Contracting, Nominated sub-contracting strategy, Procurement Performance, County Government*



## INTRODUCTION

Subcontracting is the practice of assigning part of the obligations and tasks under a contract to another party (McDavid & Clemens, 2017). Subcontracting is especially prevalent in areas where complex projects are the norm, such as construction and information technology. Subcontractors are hired by the project's general contractor, who continues to have overall responsibility for project completion and execution within its stipulated parameters and deadlines.

The Malaysian government started subcontracting of the health care services for sub-contract in certain districts to private bidders, and increased public health expenditure to pay for these bids, (Chaudhury, 2016). The contracting program caused large increases in the service outcomes, however the program did not have large effects on health services indicators not explicitly mentioned in the sub-contract. The program led individuals to shift curative care visits to public facilities, and reduce visits to untrained service providers such as drug sellers and traditional healers. Decreased out-of-pocket spending on curative care offset increased public spending, so the program did not increase, and probably decreased, overall health spending, (Chaudhury, 2016).

The Kenyan Government relies on contractor-subcontractor to take care of many of the logistics necessary to keep the government running smoothly. More so, many large public corporations and institutions in Kenya rely on procurement to access most of their products and services, through purchasing and sourcing as well as tendering and contracting. In order to ensure fairness during the bidding process, the Government through the Public Procurement Oversight Authority (PPOA), Public Procurement and Asset Disposal Act (PPDA) of 2015, and the Procurement Regulations of 2015 entrenched the concept of competitive procurement in all government agencies. Despite these standards, Kenya loses a lot of taxpayers' money to improper procurement practices (RoK, 2015).

Procurement performance is a measure of identifying the extent to which the procurement function is able to reach the objectives and goals with minimum costs (Van Weele, 2015). Procurement effectiveness is the extent to which the previously stated goals and objectives are being met. It refers to the relationship between actual and planned performance of any human activity, (Van Weele, 2015). Additionally, he explains that procurement efficiency is the relationship between planned and actual resources required to realize the established goals and objectives and their related activities, referring to the planned and actual costs. As a result, supplier performance is the most important procurement performance driver.

According to health sector performance report 2013 and 2014 health institutions are ailing from shortage of drugs or holding on expired drugs. Health centers and dispensaries are hardly stocked with the recommended medicines. It indicates that high rate of expired drugs in dispensaries and other public hospitals indicates poor planning and high wastage of public resources in the counties this affects efficient delivery of quality services. Procurement is an important part of efficient management and supply and wastage is critical for all of level care institutions. An effective procurement process ensures the availability of the right Medicals in the right quantities, available at right time for the right patient and at the right prices and at recognizable standards of quality (WHO, 2015).

Most public hospitals in Nakuru County are in bad conditions (Kenya Health Policy, 2018) characterized by dilapidated facilities, obsolete medical equipment, inadequate drugs and low bed capacity in the wards. Patients suffer in grief, due to inadequate care from medical personnel who complain about insufficient medical equipment and low pay among other poor working conditions. These factors can be linked to the procurement practices employed in the respective public health facilities in question (MOH Survey, 2018).

### **Statement of the Problem**

Although subcontractors are perceived experts in their field, it is not a guarantee that they will meet the contractor's standards. Like in other parts of the country the health sector in Nakuru County has been facing numerous challenges under the devolved systems. According to county health infrastructure upgrading report 2018 there are 12 stalled projects in different health facilities in Nakuru County for example the trauma center in Nakuru County Referral Hospital, maternity ward in Subukia Sub-County Hospital, Outpatient Department Unit in Bahati-Sub-County Hospital, Theater in Molo Level Four Hospital, Surgical Ward in Olenguruone Sub County Hospitals among other stalled projects in other health facilities in the County. (Nakuru County Health Infrastructure Report, 2018). With the introduction of county government the procurement procedures in hospitals has greatly changed with majority of contractors opting to sub-contract most of their roles this has been attributed to untimely completion of projects, compromised quality of projects and sometimes cost overruns of the projects.

Muinde, (2015) conducted a study on impact of contractor-subcontractor relationships on the performance of construction projects. Okech (2017) investigated the impact of performance contracting on efficiency in procurement performance in the public sector. However a few studies have been conducted in the health sector therefore there was a need to conduct a study to assess the influence of nominated sub-contracting has no significant influence on procurement performance in public hospitals in Nakuru County

## Research Hypothesis

H<sub>01</sub>: Nominated sub-contracting has no significant influence on procurement performance in public hospitals in Nakuru County.

## LITERATURE REVIEW

### Theoretical Review

The study was anchored on the concept of Agency Theory. Agency theory was developed by Stephen Ross and Barry Mitnick in 1973. The assumes that the problem arises where the two parties have different interests and asymmetric information (the agent having more information), such that the principal cannot directly ensure that the agent is always acting in their (the principal's) best interest, particularly when activities that are useful to the principal are costly to the agent, and where elements of what the agent does are costly for the principal to observe (refer moral hazard and conflict of interest), (Bebchuk & Fried, 2004).

Often, the principal may be sufficiently concerned at the possibility of being exploited by the agent that they choose not to enter into the transaction at all, when it would have been mutually beneficial: a suboptimal outcome that can lower welfare overall. The deviation from the principal's interest by the agent is called "agency costs" Whinston, 2010. The agency costs arise from the conflict of interest between a principal and an agent. This conflict results, for example, when managers, who are responsible for important decisions of the firm, are not the primary claimants of the firm's net assets, and thus do not bear a major share of the wealth effects of their decisions. Agency theory predicts that in a well-functioning market, where there is perfect information and the ability to monitor, there should be little difficulty aligning incentives between principals and agents, (Kumarappan & Joshi, 2014). The theory is relevant to the current study in that, control procedures, such as the use of contracts, are necessary to align the actions of the managers (the agent) with those of the residual claimants, the shareholders (the principals). Agency theory stresses that such means of contracting reduce agency costs by coordinating the goals of the principal and the agent.

### Conceptual Framework

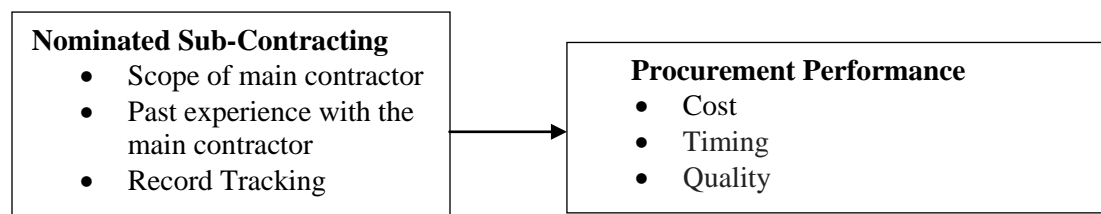


Figure 1: Conceptual Framework

## Nominated Sub-Contracting

Mbachu (2015) opined that nominated subcontracting is a way by which client or client's representative select another person to undertake part of the main contractor's work and the person employed under this means is called nominated subcontractor. Construction Industry Development Board (CIDB) (2017) affirmed that the basic characteristic, of nominated subcontracting is the power to choose by client, which makes instructions to come from the client representative to the main contractor to enter into contract with the nominated and approved subcontractor. Gunderson and Rick (2015) identified factors involve in selection of nominated subcontractor by client as track records; technical know-how; financial capability; quality; reliability and pricing. It has also developed in China following the launch in 1984 of a reform program in the health sector entitled, Separation of Management from Field Operations (Sha & Jiang, 2016).

Hughes, Gray and Murdoch (2016) states that the emergence of nominated subcontracting is feature of subcontracting peculiar to construction is the practice of "nomination" which has evolved to cope with three major issues which are the need to modify the main contractors' control over specialists; the incorporation of role of the design team; the needs of clients to have a say. The primary motivation behind nomination was the need to harness the skills of specialists before the main contractor was appointed. It is one of the strongest arguments for nomination and has helped to spur the growth of nominated subcontracting Specialists favored nomination because it protected them from unbridled market forces by enabling them to compete on some basis other than cost. It also enabled them to develop strong and stable business relationships with regular clients of the industry and with certain consultants.

Vilasini, Neitzert, Rotimi and Windapo (2015) explained that main contractor provides necessary support services to the nominated subcontractor in order to aid his/her work. These necessary supports as identified by Abdullahi (2014) includes, provision of access road, provision of electricity, store houses, conveniences, scaffolding and hoisting facilities, water, etc. in doing this, the main contractor gets his reward in form of attendance and profit. CIDB (2017) explained nominated subcontractor as a specialist that execute or undertake mostly special nature of work which falls outside the scope of main contractor e.g. mechanical, electrical, plumbing, roofing works.

Perera (2017) conducted a study on the management of nominated subcontractors in the construction of commercial buildings in Sri Lanka. The study utilized the questionnaires and interview schedules to collect data. The findings of the study indicated that the most critical issue that can arise for not making payments to nominated subcontractors properly are the

delays in approving the interim payment certificate' and the most important solution to resolve this issue is to 'Attend to joint measurements, joint records and joint reports prior to the submission of the application. The study further observed that the most critical issue that can arise due to the improper selection of NSCs is 'Delays caused by the NSC' and the most suitable solution to resolve this issue is to 'Make the NSC's program to fall in line with the MC's program'. Similarly, the solution 'Prepare the specifications and the scope of work well' is identified to be the most important solution that will resolve the issue 'Errors in documentation' that can arise due to poor documentation.

Rodrigo (2017) conducted a study on the selection of nominated subcontractors in commercial building construction in Nigeria specifically the study sought to understand and compare the nominated subcontracting practices between Nigeria and other countries and to identify and rank the current issues aroused due to improper selection and solutions to avoid these issues in commercial buildings in Nigeria. The study comprised of interviews and questionnaire survey to derive at the aim of this research. The findings indicated that selection method of Nominated Subcontractors (NSC), subcontract signed between Main Contractor (MC) and NSC are used in Nigeria equalizing the nominated subcontracting practices in other countries. However, there is no form of subcontract prepared for Sri Lankan usage; no compulsory subcontractor registration procedure in Nigeria. Further, the most critical issue due to improper selection of NSC, is delays occurred by NSC. Moreover, NSC's program being in line with MC's program was recognized as the most important solution to avoid this issue.

### **Research Gaps**

Mburu (2014) conducted a study on the perceived effect of sub-contracting on performance of Kenya agricultural research institute. Nonetheless the study was exclusive in performance subcontracting in Agricultural sector while the current study will focus on the performance sub-contracting in health sector. Mutava (2015) conducted a study on the impact of public procurement procedures on delivery of maintenance works. From the findings the major challenges being delays in terms of time due to a lot of documentation required, cost overruns and compromised quality of works. Nonetheless, the study focused on the cost overruns and the quality of works. While the current study will focus on the specialty, subcontracting, labor only subcontracting and nominated subcontracting

### **RESEARCH METHODOLOGY**

The study used descriptive research design. This type of design was appropriate for gathering information, summarizing, presenting and interpreting it for clarification (Orodho &

Kombo, 2002). Descriptive survey research design can generate accurate information for a large number of people over a wide area using a small sample. It is used to explore relationships between variables and allows generalizations across populations

### Target Population

The target population was medical officer, procurement officer, and department heads in the user departments and medical officer in charge of the various targeted health facilities, procurement officers and department heads from user departments in sub-county hospital and referral hospital in Nakuru County. According to Nakuru County Health Records Department there are 657 health facilities however the study purposively selected sub-county hospitals and referral hospital. The referral hospital and sub-county hospitals are the only health facilities mandated to procure medical equipment for themselves and on behalf of other health facilities in the county.

Table 1: Targeted Health Facilities

<b>Name of Hospital</b>	<b>Procurement Officer</b>	<b>User Department</b>	<b>Medical officer In charge</b>	<b>Total</b>
Nakuru County Referaal Hospital	2	8	1	11
Keringet Hospital	0	3	1	4
Naivasha Referral Hospital	1	7	1	9
Bahati Sub-County Hospital	1	6	1	8
Subukia Hospital	0	5	1	6
Kabazi Hospital	0	4	1	5
Molo Hospital	1	7	1	9
Elburgon Hospital	0	4	1	5
Olenguruone Hospital	0	5	1	6
Gilgil Sub-County Hospital	0	5	1	6
Njoro Sub-County Hospital	0	4	1	5
Mirugi Kariuki Hospital	0	5	1	6
<b>Total</b>	<b>5</b>	<b>63</b>	<b>12</b>	<b>80</b>

### Data Collection Instruments and Procedure

Questionnaire was used as the main data collection instrument to collect primary data desirable for the study. The questionnaire contained structured questions which are the questions that the researcher has given the respondents the choices of the answers that the respondents can answer. The design of the questionnaire was based on a multiple-item

measurement scale. There are several advantages associated with the use of the questionnaire and which informs its usage in this study. These advantages include ease of distribution and data collection, ease of data analysis, standardization of the questions and cost efficiency. Data was collected using the drop and pick later method which was collected after two weeks. In this method, the consent statement was issued and then the questionnaire administered. The respondents were assured of the confidentiality of any information that they provided which improved the response rate. Arrangement was made to collect the questionnaire later at pre-agreed time.

To ensure that the questionnaire were properly filled the researcher used the researcher provided a clear instructions for filling in the questionnaire, the researcher also involved a research assistant who assisted her to distribute and clarify on unclear questionnaire. The researcher also went through the all the questionnaire again and made sure all answers are filled in properly

### **Pilot Test**

The purpose of a pilot test was to discover possible weaknesses, inadequacies, ambiguities and problems in any aspect of the research process. A pilot-test was conducted in Nyahururu Hospital, Laikipia County where 8 questionnaires were issued out. Data collected from the pilot study was not incorporated in the main study.

### **Reliability of Research Instruments**

Cronbach's Alpha was calculated and used as a measure of internal consistency. The Cronbach's Alpha is a statistical measure that was used as a measure of internal consistency or reliability of a psychometric instrument. It measures how well a set of variables or items measure a single one-dimensional aspect of an individual. The results from the pilot study were subjected to the Cronbach's reliability test for internal consistency.

### **Data Analysis and Presentation**

Data collected was quantitative in nature. Quantitative data was analyzed by use of Statistical Package for Social Sciences (SPSS) version 24. Both descriptive and inferential statistics were used in the study. Descriptive statistics involved the use of percentages, frequencies, measures of central tendencies (mean) and measures of dispersion (standard deviation). Inferential statistic was used to determine the relationship between variables.



## FINDINGS

### Response Rate

The study administered 80 questionnaires for data collection. However, 62 questionnaires were properly filled and returned. This represented 78 percent overall successful response rates. Respondents were also assured of confidentiality of the information provided. .

### Demographic Information

Table 2: Respondents' Highest Level of Education

Level of Education	Frequency	Percentage
Post Graduate	29	47%
University	19	30%
College	14	23%
<b>Total</b>	<b>62</b>	<b>100%</b>

From the findings, 47% of the respondents indicated that they had attained post graduate education, 30% indicated that they had attained university education while 23% indicated that they had college education. This shows that majority of the respondents had attained post graduate education. The education level determines the efficiency of a procurement officer. Officer with high education level tend to perform better.

### Nominated Sub-Contracting Strategy on Procurement Performance

Table 3: Nominated Sub-Contracting Strategy on Procurement Performances Public Hospitals

Nominated Sub-Contracting	S	A	A	U	D	SD	Mean	Std
	%	%	%	%	%	%		
The ability of a client to be involved in selecting a nominated sub-contractor ensure the quality of product and service is guaranteed	52	39	9	0	0		4.419	0.667
In nominated sub-contracting the main contractor can provides necessary support services to the nominated subcontractor which ensure timely delivery of service	37	31	19	13	0		3.887	1.073
Nominated subcontractor mostly execute or undertake special nature of work which falls outside the scope of main contractor	44	40	6	10	0		4.177	0.932

Majority of nominated sub-contractors tend to deliver quality work since they are solely sourced based on their technical know-how	37	39	10	14	0	3.984	1.032
Nominated sub-contractors are usually reliability because in most cases they must have worked with the main contractor or the client	42	39	11	8	0	4.145	0.921

Table 3...

According to the findings majority of the respondents agreed (91%) that the ability of a client to be involved in selecting a nominated sub-contractor ensure the quality of product and service is guaranteed with a mean of 4.419. The findings further indicated that majority of the respondents (68%) agreed that in nominated sub-contracting the main contractor can provides necessary support services to the nominated subcontractor which ensure timely delivery of service with a mean of 3.887. Also, the findings indicated that majority of the respondents (84%) agreed that nominated subcontractor mostly execute or undertake special nature of work which falls outside the scope of main contractor with a mean of 4.177. Further majority of the respondents (76%) agreed that the Majority of nominated sub-contractors tend to deliver quality work since they are solely sourced based on their technical know-how with a mean of 3.984. Finally majority of the respondents (81%) also indicated that nominated sub-contractors are usually reliability because in most cases they must have worked with the main contractor or the client with a mean of 4.145. The standard deviation ranged between 0.667 to 1.073 indicating that majority of the respondents agreed with the issues raised. These findings are in line with Vilasini, Neitzert, Rotimi and Windapo (2015) who explained that main contractor provides necessary support services to the nominated subcontractor in order to aid his/her work.

### Procurement Performance of the Public Hospitals

Table 4: Procurement Performance of the Public Hospitals

Procurement Performance	S	A	U	D	SD	Mean	Std
	%	%	%	%	%		
Services procured meet the specified quality	37	34	10	16	3	3.855	1.185
Services offered are worthy the cost.	55	34	8	3	0	4.403	0.778
Services are delivered within the stipulated timelines	44	46	7	3	0	4.307	0.738
Patients are satisfied with the service provided	37	44	16	3	0	4.145	0.807

According to the findings majority of the respondents (71%) agreed that services procured meet the specified quality with a mean of 3.855. Majority of the respondents (89%) also agreed that services offered are worth the cost with a mean of 4.403. They further agreed (90%) that services are delivered within the stipulated timelines indicated with a mean of 4.307. In addition majority of the respondents (81%) agreed that customers are satisfied with the service provided with a mean of 4.145. Majority of the respondents (88%) also agreed that general patient satisfaction surveys are conducted with a mean 4.387. The standard deviation ranged between 0.607 to 1.185 indicating that majority of the respondents agreed with the issues raised. The findings concurs with Rwabangila(2016) study which found out that procurement process affect service delivery in hospitals.

### Inferential Statistics

The researcher undertook correlation analysis to establish the nature and strength of the relationships between the independent and the dependent variables of the study

### Correlation between Nominated Sub-Contracting on Procurement Performance in Public Hospitals

In addition, the study conducted a correlation between nominated sub-contracting on procurement performance in public hospitals.

Table 5: Correlation between Nominated Sub-Contracting on Procurement Performance in Public Hospitals

		Procurement Performance
<b>Specialty Sub-Contracting Strategy</b>	Pearson Correlation	.441 **
	Sig. (2-tailed)	.006
	N	62

\*. Correlation is significant at the 0.05 level (2-tailed).

The findings indicated that there was a moderate positive and statistically significant correlation between nominated sub-contracting and procurement performance. ( $r = 0.441$ ;  $p < 0.05$ ). This implies that an improvement in nominated sub-contracting results to enhanced procurement performance. The p-value was less than 0.05 therefore according to the results, the hypothesis that: Nominated have no significant influence on procurement performance in the public hospitals in Nakuru County., Kenya was rejected.

## Hypothesis Testing

The study sought to test the hypothesis that:  $H_{01}$ : Nominated sub-contracting has no significant influence on procurement performance in public hospitals in Nakuru. From the findings the p-value was 0.00 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis ( $H_{02}$ ) and concluded that nominated sub-contracting have a significant influence on procurement performance in the public hospitals in Nakuru County Kenya.

## CONCLUSION AND RECOMMENDATIONS

From the findings, the study concluded that nominated subcontractor mostly execute or undertake special nature of work which falls outside the scope of main contractor. In addition the researcher concluded that majority of nominated sub-contractors tend to deliver quality work since they are solely sourced based on their technical know-how and this enhances procurement performance in the public hospitals. The study further concluded that nominated sub-contractors are usually reliability because in most cases they must have worked with the main contractor or the client.

Based on the conclusions, the study recommended that public health facilities should adopt nominated subcontracting to get the most qualified contractor this will improves the procurement performance as hospitals are certain of the delivery of the quality products and services on time. In most cases nominated subcontractors are selected due to their expertise and skills therefore it is important for the main contractors to delegate some portion of the contract to nominated subcontractors to ensure quality of product and service and also reduce the time taken in delivery of product and services

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