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INFLUENCE OF SUPPLY SOURCING ON PROCUREMENT PERFORMANCE IN THE COUNTY GOVERNMENT OF MIGORI, KENYA

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ABSTRACT

In many county administrations, poor procurement performance is a widespread concern, with an annual cost of more than USD 0.5 million (Ksh, 50 million). Poor procurement management has resulted in an annual loss of more than Ksh.50 million to county governments in Kenya. More than half of the goods and services put out for public procurement had a mark-up of 60% on the market price, according to the Public Procurement Regulatory Authority (PPRA). As a result, this research attempted to assess the impact of supplier sourcing on procurement performance in the Migori County Government in Kenya. The study used a descriptive research approach. The County Government of Migori's supply chain, finance, user, and accounting departments constituted the study's 124 participants. The research used a stratified random sampling approach to pick 95 participants as its sample size. Self-administered structured questionnaires were used to gather the data. Inferential analysis comprised correlation analysis and multiple linear regression analysis, while descriptive analysis included frequencies, means, SDs, and percentages. To make sense of the information, tables and models were used. Observable constructs that measure independent variables were shown to be in accord with descriptive outcomes such as mean. Supplier sourcing and procurement performance have a positive correlation. A simple linear regression showed that the Migori County Government's procurement performance was mostly explained by supplier sourcing. Therefore, the study concluded that Supplier sourcing played a very key role in procurement management performance since it has led to cost effectiveness in regard to procurement process. In order to determine which suppliers were most suitable, the researchers recommended putting a lot of attention on comparing them side by side. Furthermore, the procurement of suppliers by county governments must be done openly and in accordance with established rules.

Key Words; *Supplier Sourcing, Procurement performance, Migori County Government*

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INTRODUCTION

Sourcing is defined as the processes and procedures by which the buyer seeks, surveys suppliers and determines policies relating to those who can most suitably meet the requirements of his undertakings. Sourcing is therefore, the counterpart of product marketing (Lysons, 1994). The process of source selection may be described as the preparation of an exhaustive list of prospective suppliers and the successive elimination from that list on various grounds until the number of prospective suppliers has been reduced to the one or few to be favoured with the organization business (Baily and Farmer, 1988). The supplier selection process has been the focus of many academics and purchasing authorities since the 1960s. Over time, the supplier sourcing process has changed considerably (Boer at al 2001).

An influential research study by professor New (1986) showed that UK firms tended to pay far less attention than should have been the case to source decision-making and supplier management. The report found that 52% of full factory cost was accounted for by purchases, and supported strongly the view that the unit cost performance of most manufacturing companies depended far more on the effectiveness of purchasing than on the control of labour performance (Baily et. al 1998). Rising customer expectations as well as the increase in global competition have made product and service quality an important strategic priority (Min. H. 1994). This has further compounded the aspect of supplier sourcing decisions. (Boer et al 2001) states, there is now an increasing trend for companies to develop supplier – partnering relationships. Another factor which needs to be kept in mind in making key supplier selection decisions, is who should be involved in the process.

According to Westing and Fine (1995), good supplier sourcing helps to identify those who can meet the conditions of the purchase from all who claim to be able to supply. Time and money spent on careful source selection is a long – run investment because once a good choice has been made, succeeding orders can be placed economically and with confidence. It also helps in fostering good internal relationship between the procurement and the user departments. These writers further argue that a good supplier is an invaluable resource to the organization requiring its products or service. Such suppliers make direct contribution to a firm's success. They can assist their customers with product development, value analysis, and timely delivery of the desired level of quality.

Supplier sourcing has emerged as an important enabler for managing global supply chain because organizations are exposed to a wide variety of supply chain risks and disruptions nowadays. For instance, the financial crisis led to several supplier bankruptcies, which resulted in supply shortages. The nuclear catastrophe in Fukushima in 2011 (Japan) and the volcanic ash in Europe in 2010 (Iceland) led to significant disturbances in the supply chain (Kotula and Reib, 2011). Furthermore, other risks such as wars and terrorisms, political instability, diseases or epidemics, product recalls, pirate attacks on container ships tremendously affect the supply chain (Chopra and Sodhi, 2004; Meena et al., 2011). All these risks have direct impact on long-term strategic sourcing decision, and have led many organizations to consider switching from single to multiple sourcing strategies.

Hult (2002), Kotabe and Murray (2004), state that sourcing can influence the competitive advantage and business performance of a company. Narasimhan and Das (1999) empirically support the positive influence of strategic sourcing on manufacturing flexibilities, as buyers can increase manufacturing performance and reduce costs through strategic sourcing. Khan and Pillania (2008) present the key dimensions of strategic sourcing with empirical validation, where partnerships, flexibility, supplier selection, and trust are essential. The authors provide evidence for the importance of strategic sourcing, and its positive correlation with the company's performance. Su et al. (2009)

analyze how strategic sourcing and supplier selection influence competitive advantage and business performance. The study supports that the supplier selection process has an impact on gaining a competitive advantage, and strategic sourcing positively influences business performance. Furthermore, Chiang et al. (2012) show that strategic sourcing and strategic flexibility have significant influences on the agility of supply chains. The determination of strategic sourcing by strategic purchasing, supplier development, internal integration, and information sharing has a greater influence on a firm's supply chain agility than flexibility.

Statement of the Problem

Poor procurement performance is a prevalent issue in many county governments, with an incalculable cost escalating to more than USD 0.5 million (Ksh 50 million) each year for each county government affected (Transparency International, 2019). Tom (2019) showed that the county suffers from inefficiency and incompetence, resulting in a loss of more than Ksh.50 million each year. Public Procurement Regulatory Authority 2020 estimates that the majority of the tendered works/services have a mark-up of 60 percent above market rates, which is consistent with previous estimates.

The performance of the County Government of Migori's procurement department has been criticized harshly. As reported by Africog (2019), the Migori County Government's procurement of goods and services lacked the necessary documentation, such as requisitions, prequalification registers, quotation registers, quotations and tender documents, signed contracts, inspection and acceptance reports, and market surveys. The auditors' reports for 2018/2019, 2017/2018, and 2016/2017 all said that contracts were awarded in an irregular manner, and as a result, rates were not consistent with the quality and amount of work awarded. In addition, the assessments said that the spending did not provide a return on investment because of the delays seen in the execution of projects and poor craftsmanship (Office of Auditor General, 2020). As previously stated, Njagi and Kinoti (2018) found that the County government has lost a significant amount of money in the procurement processes as a result of conflict of interests in the procurement processes, poor record keeping, lack of transparency and accountability, transaction inefficiencies, delays in delivering goods, and collusion with suppliers, all of which have a negative impact on procurement performance.

Existing research has not focused on procurement management practices and procurement performance in county governments, but has instead focused on procurement performance (Cherotich, 2018; Kitavi, Ochieng, and Sang, 2020; Cherotich, 2018; Kitavi, Ochieng, and Sang, 2020) and service delivery (Cherotich, 2018). (Ciira & Moronge, 2018). Some studies have also shown that procurement management methods have a negligible impact on the functioning of a procurement organization (Odero & Ayub, 2017; Leiyan, 2016; Cherotich, Ngacho & Omari, 2018). The research was undertaken to investigate the effect of procurement management techniques on procurement performance in the County Government of Migori, Kenya, in order to provide a better understanding of the situation.

Research Objective

The objective of the study was to determine how supplier sourcing influences procurement performance in the County Government of Migori. The study was guided by the following research hypothesis;

- H_{01}: Supplier sourcing does not significantly influence procurement performance in the County Government of Migori.

LITERATURE REVIEW

Theoretical Framework

A conceptual basis for outsourcing is Williamson`s (1985) theory of transaction cost analysis. This combines economic theory with management theory to determine the best type of relationship a

firm develops in the market place. The central theme of transaction costs theory is that the properties of the transaction determine the governance structure. Asset specifically refers to the non-trivial investment in transaction - specific assets. For example, the level of customized equipment or materials involved in the transaction relates to the degree of asset specificity. Due to the nature of fast food companies' operation basis, most confectionaries and operational equipment are needed and are sometimes outsourced to minimize cost of operations but when asset specificity and uncertainty are low and transactions are relatively frequent, transactions will be governed by markets. High asset specificity and uncertainty lead to transactional difficulties, with transactions held internally within the firm - vertical integration. Medium levels of asset specificity load to bilateral relations in the form of cooperative alliances between the organizations. Transaction cost economics (TCE) has been the most utilized theory of outsourcing. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the managing relationship phase. Another useful issue for outsourcing provided by TCE is explanation of contractual complexity. Though TCE has not been utilized explicitly for studying the Vendor selection phase, it has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities. Even though it has been exercised extensively in outsourcing applications, the TCE has several indulgencies. Lacity and Willcocks (1995) found that the original mapping to the TCE framework only explained with few examples on IT sourcing decisions and generated much more anomalies in their sample. Another critique could be that TCE relies on a single transaction as a unit of analysis, neglecting the contemporary industrial collaborative arrangements. Finally, TCE is static which does not correspond to dynamism of current business environment

Conceptual Framework

This collection of ideas, assumptions, expectations, beliefs, and theories is referred to as the conceptual framework by Robson (2011). Supplier sourcing procedures, contract management, inventory management, and procurement planning were the independent factors in the research, whereas procurement performance was the dependent variable. This is shown in Figure 1.

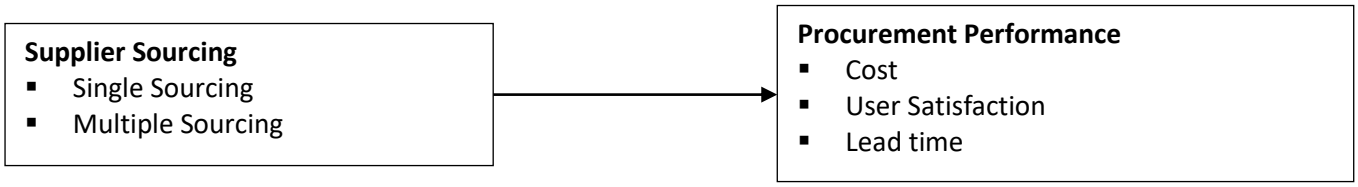

Figure 1: Conceptual Framework

Empirical Studies

Das and Narasimhan (2000) developed purchasing competence as a valid construct and explore its relationship with different manufacturing priorities. An empirical study is conducted among purchasing professionals in manufacturing firms. The results of the research indicate that purchasing competence is found to have a positive impact on manufacturing cost, quality, and delivery, as well as new product introduction and customization performance. Purchasing integration, a component of purchasing competence, is found to relate to all dimensions of manufacturing performance.

Gartner (2003) reported that satisfaction with the benefits from outsourcing contracts fell from 86 percent in 2001 to 50 percent in 2002 among board

level executives in Western Europe. He noted that European countries wasted 6 billion Euros due poor deal structures and poorly managed relationships with IT outsourcing companies in 2002. Frayer et al (2010) however suggested that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firms overall competitive position. The increasing use of outsourcing arrangements, as well as the unfamiliar complexity, suggest the need to know more about how to effectively utilize this strategy.

Hanley et al., (2004) analyzed the effects of outsourcing, measured by total bought inputs over value add in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. Distinguishing service outsourcing and material outsourcing, they found that only large plants profit from material outsourcing while they can derive no clear-cut results for service outsourcing. Gilley and Rasheed (2000) analyses the influence of the outsourcing of core and peripheral functions on firm performance considering the moderating effects of firm strategy and environmental dynamism. They collected subjective data on firm performance relative to peers and outsourcing intensity from 94 manufacturing firms. The results of this study showed no direct impact of outsourcing on firm performance. However, outsourcing was found to be positively related to the performance of firms which pursue cost leadership and innovation differentiation strategies.

Carr and Smeltzer (2000) presented a regression model of the relationships among purchasing skills and strategic purchasing, a firm's performance, and supplier responsiveness to test three hypotheses to determine if purchasing skills are related to strategic purchasing, a firm's financial performance, and supplier responsiveness. A regression analysis of sample of 85 surveys indicates that purchasing skills are related to strategic purchasing, a firm's financial performance, and supplier responsiveness

In another study, Carr and Pearson (2002) offered a model of the hypothesized relationships concerning purchasing/supplier involvement, strategic purchasing and firm's financial performance. The model is tested using a survey method and random sample of purchasing executives across various industries which are included in the National Association of Purchasing Management (NAPM) membership database. The model is empirically tested using structural equation modeling and the findings reveal that the hypotheses tested in the model are supported. Strategic purchasing has a positive impact on firm's financial performance.

Benson and Littler (2002) compared the effects of outsourcing of core and support functions to other restructuring measures of large Australian organizations using a survey among 4500 firms in 1998. Out of the 1222 respondents, 649 firms reported recent workforce reductions. The authors found that the most important reason for outsourcing was a change in the business strategy, whereas this was not the trigger for other restructuring measures. The main objective of outsourcing was the reduction of labor costs and an increase in labor productivity, which was indeed achieved by outsourcing according to the responding managers. On the other hand, firms that reduced workforce for other reasons than outsourcing reported similar objectives and achievements. The authors concluded that outsourcing cannot deliver labor cost reductions in excess of those produced by other forms of restructuring.

METHODOLOGY

This investigation was conducted using the correlation research design. As a quantitative research approach, correlation studies are used when two or more measurements of a group of people are present and you are aiming to determine if the variables are associated (or covariated). The study population was all employees of Migori County Government. Since the target population was less than 100, a census of all the 72 respondents was undertaken. Supply chain officials and accounting/Chief Officers from the Migori County Government made up the sample

frame, from which 72 respondents were chosen. The study used questionnaires to collect primary data for the study. Content validity was checked through giving the instrument to be reviewed by the supervisors of the study and experts in the field for validation before embarking on the real data collection. Reliability of the instrument was determined using Cronbach Alpha coefficients where the instrument yielded an alpha of 0.827. SPSS version 23 statistical software was used to attain the descriptive statistics and inferential statistics of the collected data. Inferential statistics was done to test hypotheses which consist of Pearson correlation and regression analysis. Linear regression analysis was used to determine the influence of independent variable on the dependent variable. The following regression model was used:

$Y = \beta_0 + \beta_1 + \varepsilon$

Where;

Y = Procurement Performance (Dependent variable)

B_0 = Y intercept (constant) whose influence on the model is insignificant

X_1 =Supplier Sourcing

β_1= Model coefficients which are significantly large to have significant influence on the model.

ε = is the error term

FINDINGS AND DISCUSSION

Descriptive Statistics

Supplier Sourcing

The objective of this study was to determine how supplier sourcing influences procurement performance in the County Government of Migori. In order to achieve this objective, the study therefore sought to find out the extent to which supplier sourcing influence procurement performance. The results are presented in Table 1.0 in which percentage are presented inside brackets while frequency outside brackets.

Table 1: Supplier Sourcing

Supplier Sourcing	5	4	3	2	1	Mean	SDV
The county government sources suppliers according to their pricing structures	58 (24.3)	116 (48.5)	35 (14.6)	24 (10)	6 (2.5)	3.8	1.0
During supplier sourcing, supplier profile is put into consideration to establish their capabilities	54 (22.6)	134 (56.1)	32 (13.4)	13 (5.4)	6 (2.5)	3.9	0.9
The county government prefers suppliers who have necessary certification and authorizations from relevant bodies	72 (30.1)	68 (28.5)	66 (27.6)	21 (8.8)	12 (5)	3.7	1.1
During sourcing, in-depth comparison is carried out among various suppliers to establish their suitability	32 (13.4)	126 (52.7)	69 (28.9)	6 (2.5)	6 (2.5)	3.7	0.8
The county government carries out supplier sourcing in a transparent way adhering lay down regulations	34 (14.2)	78 (32.6)	109 (45.6)	12 (5)	6 (2.5)	3.5	0.9
The county government has a competitive process for identifying a suppliers	42 (17.6)	92 (38.5)	96 (40.2)	6 (2.5)	3 (1.3)	3.7	0.8

Summary Stats	Mean(%Mean)	Std. Dev.	Std. Error of mean	Minimum	Maximum
	3.7 (74.5%)	.9	.10455	3.5	3.9

Note: 1- Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree, SDV=Standard Deviation

To sum up, according to table 1.0's results, 24.3% of those who participated in the survey strongly agreed with the assertion that the county government picks suppliers based on their price structures, 48.5% agreed, and only 14.6% disagreed. An analysis of the line's mean and

standard deviation revealed that the county government purchases goods from vendors based on their price structures (M=3.8; SD=1.0). 2.5 percent strongly disagreed, 5.4 percent disagreed, 13.4 percent were neutral, 56.1 percent agreed, and 22.6 percent strongly agreed with the assertion that supplier profile is taken into account during supplier sourcing. The average and standard deviation of the statement were (M=3.9; SD=0.9). 5.0 percent strongly disagreed, 8.8 percent disagreed, 27.6 percent stayed neutral, 28.5 percent agreed, and 30.1 percent strongly agreed with the statement that the county government preferred suppliers that have the requisite certifications and authorizations from relevant agencies (M= 3.7; SD=1.1). These certifications and authorizations from appropriate agencies show that providers were favored by county government.

52.7 percent agreed and 13.4 percent strongly agreed with the statement that during sourcing, different suppliers are thoroughly compared to determine their appropriateness, however 28.9 percent were unsure (M=3.7; SD=0.8) of the 55 people who took part in this survey. This indicates that thorough comparisons of different vendors are conducted throughout the sourcing process to determine their appropriateness. Only 32.6% and 14.2% of respondents strongly agreed that the county government conducts supplier procurement in a transparent manner while following to laid-down rules, however 45.6% of respondents were unsure in their opinions. The average and standard deviation of the statement were (M=3.3; SD=0.9). Additionally, 17.6% and 38.5% of those polled said they strongly agreed or agreed with the statement that the county government uses a competitive procedure to choose suppliers, with a mean score of 3.7 to back up their claims. An earlier research found that excellent supplier sourcing helps to distinguish those who are capable of supplying from all those who claim to be capable of doing so. Investment in proper source selection pays off in the long term since subsequent orders can be placed inexpensively and with confidence after the right decision has been made.

Inferential Analysis

Inferential statistical analysis was conducted to establish the relationship between Supplier Sourcing and procurement performance in the in the County Government of Migori. Statistical significance of the relationship was determined to indicate whether to reject or accept the null hypothesis stated for the study. Pearson Moment Correlation Coefficient Analysis model was used to establish the association between Supplier Sourcing and procurement performance. Simple Regression Analysis model was used to establish the level of significance of Supplier Sourcing on procurement performance and determine the state of the null hypothesis.

Table 2: Correlation Analysis Supplier Sourcing

		Supplier Sourcing	Procurement performance
Supplier Sourcing	Pearson Correlation	1	.512**
	Sig. (2-tailed)		.000
	N	55	55
Procurement performance	Pearson Correlation	.512**	1
	Sig. (2-tailed)	.000	
	N	55	55

**. Correlation is significant at the 0.01 level (2-tailed).

In the study's findings as shown in Table 2, supplier selection had a somewhat favorable Pearson correlation (r=0.512) impact on procurement performance. This demonstrates that supplier sourcing is critical in ensuring that procurement performance is strong and consistent. The study sought to establish the influence of Supplier Sourcing on the organization performance of Kakamega County. To do so, it was guided by the following first null hypothesis:

Ho_1: Supplier sourcing has no significant influence on procurement performance in the in the County Government of Migori

This was tested using simple regression analysis, and the findings are presented in Table 3.

Table 3: Regression Results of Supplier sourcing and Procurement performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.512[a]	.262	.248	.86453	.262	18.855	1	53	.000

a. Predictors: (Constant), Supplier sourcing
b. Dependent Variable: Procurement performance

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.092	1	14.092	18.855	.000[b]
	Residual	39.613	53	.747		
	Total	53.705	54			

a. Dependent Variable: Procurement performance
b. Predictors: (Constant), Supplier sourcing

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.944	.369		5.269	.000
	Supplier sourcing	.435	.100	.512	4.342	.000

a. Dependent Variable: Procurement performance

From the Table 3, the value of R^2 is 0.262 shows that supplier sourcing explains up to 26.2% of variance in procurement performance. From the ANOVA results, the significance of the model has a value F (1,54) =18.855, P=0.000. This implies that supplier sourcing is a useful predictor of procurement performance. The unstandardized regression coefficient value of supplier sourcing is 0.435 and significance level of p=0.000. This indicated that a unit change in supplier sourcing would result to significant change in procurement performance by 0.435 units, P<0.01. Hence, there exists a positive and significant influence of supplier sourcing on procurement performance. The simple linear regression equation is as shown below

Procurement performance(Y) = 1.944+0.435(X_1) Supplier sourcing

Majority of the respondents were in agreement (Strongly Agree +Agree) that the county government sources suppliers according to their pricing structures; during supplier sourcing, supplier profile is put into consideration to establish their capabilities and the county government prefers suppliers who have necessary certification and authorizations from relevant bodies. Simple linear regression analysis revealed that procurement performance variation is significantly explained by supplier sourcing. Therefore, supplier sourcing is significant predictor of procurement performance. Therefore, the first null hypothesis was rejected as supplier sourcing has significant influence on procurement performance.

These results are consistent with those of Kamath, Barkur, and Naik (2018), who found that the sourcing of suppliers has a considerable impact on procurement performance in terms of quality. It was discovered by Obinda and Gichure (2017) that effective communication networks, coordination between supplier sourcing and sourcing staff, and adequate communication networks all have an impact on the performance of the procurement

department and ensure that the most appropriate supplier is selected to meet evolving and anticipated needs and requirements. According to the findings of the research, procurement efficiency in public organizations is dependent on the sourcing of suppliers, communication between procurement and user departments, and the quality monitoring of products and services. According to Manyega and Okibo (2015), sourcing of the supplier may provide an entity with a chance to improve the efficiency and effectiveness of the entity. These findings are consistent with their findings. Mutai and Okello (2016) conducted an investigation on the sourcing of suppliers and discovered that it is associated with procurement performance at public universities in Kenya, according to their findings.

CONCLUSION AND RECOMMENDATIONS

According to the findings of the research, supplier sourcing has an impact on procurement performance in the County Government of Migori. Supplier sourcing has played a critical part in the success of procurement management initiatives since it has resulted in increased cost efficiency in the procurement process. Vendors having the requisite certification and authorizations from relevant agencies are sought after by the county government of Migori during supplier sourcing. An in-depth comparison is carried out among different suppliers to determine their eligibility throughout the supplier sourcing process. Consequently, enhanced supplier sourcing processes would result in an increase in procurement efficiency.

A strong beneficial influence on procurement performance was found to be associated with supplier sourcing, and as a result, the research advised that considerable focus be made on in-depth comparison among different suppliers in order to determine their appropriateness. Finally, county governments should conduct supplier procurement in a transparent manner, complying to all applicable laws, rules, and regulations.

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