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INFLUENCE OF STRATEGIC PROCUREMENT PRACTICES ON PERFORMANCE OF PARASTATALS IN KENYA: A CASE OF KENYA AIRPORT AUTHORITY

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ABSTRACT

The purpose of the study was to establish the influence of strategic procurement practices on performance of parastatals in Kenya. The study sought to be guided by the following specific objectives: To determine the influence of strategic outsourcing on performance of parastatals in Kenya; To determine the influence of supplier sourcing on performance of parastatals in Kenya; To determine the influence of reverse logistics on performance of parastatals in Kenya; To find out the influence of inventory management on performance of parastatals in Kenya. The study was built on the supply chain operations reference model, Stochastic Inventory Theory, Exchange Relationships Theory and Competency Theory. The independent variables are inventory control, process auditing, inventory investment and warehouse management while the dependent variable is service delivery in the public sector. The study adopted a descriptive research design, with a population of 88 respondents at KAA. A questionnaire with both open ended and closed questions was used to collect raw data from the respondents. The census technique was carried out and primary data was collected through the use of questionnaires. The secondary data was obtained from published documents such as journals, periodicals, magazines and reports to supplement the primary data. A pilot study was conducted to test the reliability and validity of the data collection instrument. The data was analyzed with the help of SPSS. The study adopted regression analysis at 5% level of significance to determine strength and direction of the relationship of the variables under study. Descriptive statistics were used to analyze the data in frequency distributions and percentages which were presented in tables of frequency distribution, percentages, bar graphs and pie-charts. From the findings, the study established that 66.9% of the total variability in the Performance of Parastatals (KAA) could be explained by Strategic Outsourcing, Inventory Management, Reverse Logistics, and Knowledge Management. However, Inventory Management did not contribute significantly to Performance of Parastatals in Kenya. Therefore, the study recommends that parastatals evaluate their strategic procurement practices (Strategic Outsourcing, Reverse Logistics, and Knowledge Management) so as to significantly improve their performances.

Key Terms: *Strategic Outsourcing, Supplier Sourcing, Reverse Logistics, Inventory Management, Performance of Parastatals*

INTRODUCTION

Traditional purchasing is driven by the desire to cut costs of purchase and short term profit improvement, historically often resulting in supplier proliferation, transactional rather than relationship behavior, and emphasis on price reduction. Strategic procurement, by contrast, looks at how the purchasing of goods and services, including outsourcing of entire processes, can deliver better long-term shareholder value. Strategic procurement is a very different approach which involves reducing the supplier base, co-operative negotiation with suppliers, quality interaction with suppliers, and developing long-term relationships with the best suppliers. Nevertheless, these strategic procurement behaviors are linked to better company performance (Swinder & Seshadri, 2011). In many companies, strategic procurement is now seen as key to competitiveness and Carr & Pearson (2012) find that it has a positive effect on the firm's financial performance. Strategic procurement is the process of creating alignment and consistency of action that establishes the long range objectives and overall strategy or course of action by which procurement function fulfills its mission (Kocabasoglu, 2012).

The strategic importance of the procurement function is well established in the literature. Mäkinen *et al.* (2011) conducted a study on purchasing practices in the Finnish banking industry, results of this investigation revealed that banks can decrease their transaction costs and enhance competitiveness through the application of cooperative purchasing. Also, purchasing has a direct effect on the ability of a firm to compete through its impact on quality, cost, technology and supplier responsiveness (McIvor *et al.*, 2007). Aside the immediate contribution on price savings, a performing purchasing function can improve shareholders value as well (Van Weele, 2012).

Public sector organizations are experiencing an unprecedented pace of change and as a result, they are rapidly re-evaluating their operating models and market strategies not just to withstand these market forces, but capitalize on them. Clearly, procurement has a significant role to play in helping the public sector achieve their objectives and prepare for the uncertainty ahead. In part, this will require procurement to focus on driving costs out of the cost base. But the opportunity also exists for the function to add value in a much more strategic way (Leenders *et al.*, 2008). Procurement is considered as a strategic player in the value chain as it usually represents one of the largest expense items in a firm's cost structure. According to Hawking *et al.* (2014), the procurement of goods and services represents the single largest cost item for any given enterprise since each dollar a company earns on the sale of a product; it spends about $0.50-0.60 on goods and services. Further, more capital is spent on the procurement of materials and services to support the business's operations than on all other expense items combined (Hawking *et al.*, 2014).

A spectrum of potential strategic government procurement responses therefore exists, at one extreme the need to help government agencies weather the storm through reducing costs, and, at the other, the potential of achieving long-term economic resilience, not necessarily at an additional cost to the government. It is not for public procurement managers but political leaders to make the choice regarding the government's specific objectives, but it is public procurement managers' professional duty to develop and present options (Murray, 2009). Spekman *et al.* (2014) argue that there are fundamental changes in practice of business and that there are significant implications for the procurement/procurement function. Indeed they suggest the procurement professional should be a key player in nurturing and managing both internal and external relationships. Ferguson *et al.*

(2006) postulate, very credibly, that procurement must continue to demonstrate its ability to positively impact on organization financial effectiveness. Similarly they argue that procurement must continually recognize its own strengths and market those throughout the organization. Chadwick (2005) argues, the strategic procurement is planned the same way other organization strategies are planned. Procurement personnel must think in terms of the potential strategic implications of their actions and routinely interact with other functional managers to develop coherent and integrated strategies (Chadwick, 2015).

Governments all over the world are spending a significant chunk of their budgets on procurement. Public procurement spending is estimated to account for 15% of the world's GDP. Recent studies indicate that public expenditures account for around 45% of GDP among developed countries, albeit with considerable variation in the level and composition of expenditures (Afonso *et al.*, 2005). For example, public expenditure in Australia amounted to an average of only 36.7% of GDP during the 1990s, only 8.6 % of which was spent on social transfers, and 5.1% of which was attributable to education spending. In Sweden, by contrast, public expenditure averaged 63.5% of GDP over the same period, with spending on social transfers and education accounting for 20.4% and 7.6% of GDP respectively (Afonso *et al.*, 2005). Procurement is particularly prominent in developing countries with active infrastructure and social programs. In Uganda, for example, 70% of public spending goes through the public procurement system (World Bank, 2005). Ghana Government realized the enormous amounts of money that went down the drain as a result of uncoordinated and unregulated procurement activities of ministries departments and agencies. Consequently Public Procurement Act (Act 663) was promulgated in 2003 to introduce some sanity into the procurement functions of public institutions.

According to Ochieng and Muehle (2012), the Public Procurement System in Kenya has evolved from a crude system with no regulations to an orderly legally regulated procurement system. Since independence, the Government has sought to rationalize procurement in public institutions through various instruments; mainly the 1967 Supplies manual, circulars from the Treasury issued from time to time and, at times, the involvement of the Crown agents. In the year 2001, the government came up with Procurement regulations (Exchequer and Audit Rules) to replace the circulars. These were slightly amended in the year 2002 to accommodate certain concerns. This was an improvement, but an insufficient move to fill in the existing gaps. The answer to the prevailing shortcoming in the procurement of goods and services in the public sector was seen to lie in enacting an Act of Parliament to govern the whole public process. This was realized in October, 2005; paving the way for the Minister of Finance to gazette the Public Procurement and Disposal Regulations, 2006 through Legal Notice No. 174 of 29th December, 2006 which was effected in 2007 (RoK, 2007).

Article 227 of the Constitution of Kenya, 2010 has established a new framework to guide the public procurement and disposal process, which looks into ensuring that the Government Owned entities are agile enough to respond to opportunities in the market to grow value for the Kenyan public (RoK, 2010). A review conducted by the PPOA, while recognizing some strengths, identified a number of challenges including the cost of the procurement process, the long time to procure or reaction time to business opportunities, challenges of negotiation with suppliers, external approval processes and the issue of resale of branded items (PPOA, The public sector procurement mainly comprises procurements by government or state owned or controlled institutions and corporations. Public procurement consists of public sector supply chains and multi-level network which can be

assessed at the central, province, district and local authority. The difference between these levels of procurement usually depended on value and volume and annual goods and services pro cured (Ellinger, 2006).

The Kenya Airports Authority is an autonomous body established in 1991 through an act of parliament and is charged with an umbrella responsibility of providing and managing a coordinated system of airports in the country. Prior to its formation, the former erstwhile Aerodromes Department under the Ministry of Transport and Communication handled this responsibility. Erstwhile was in charge of then Nairobi's Old Embakasi Airport which was constructed in the mid-1950 to serve the first generation Boeing 707/DC8 aircraft; Nairobi Embakasi Airport was opened in May 1958, by the last colonial Governor of Kenya, Sir Evelyn Baring, although the airport was due to be opened by Queen Elizabeth, The Queen Mother was delayed in Australia and could not make the ceremony. Nairobi Embakasi Airport was then closed on March 14, 1978 and paved way to the current Jomo Kenyattta International Airport (Company website).

Statement of the Problem

The challenge of demand for quality service and upcoming competitions for most of the firms has realized the need for quality service delivery and efficiency Procurement is big business. A company's purchases of goods and services can account for 50-70% of total costs (Mcginnis & McCarty, 1998) and form 70-80% of the cost of new products in some industries (Minahan & Vigoroso, 2012). Coupling the scale of procurement costs with a recent increasing trend for outsourcing entire processes, it is hardly surprising that the purchasing profession is becoming more strategic. In many companies, strategic procurement is now seen as key to competitiveness and Carr and Pearson (2102) find that it has a positive effect on the firm's financial performance. Kenya airport authority as the parastatal is constantly faced with increasing demand for improved performance, accountability and transparency in their core responsibilities. KAA further faces regional competition from airports coming up within the East African countries that are taking a piece of the traffic from Europe and Asia that in the past transited or transferred through Nairobi. The number of passengers using airports in the country grew 4.6 per cent in the 2014/15 financial year, an improvement linked to cheaper airlines introduced on many local routes. Data from the KAA indicates that passengers increased from 8.5 million in 2013/14 to 8.8 million in the last financial year, who used eight airports and two airstrips. KAA has embarked on an equally aggressive expansion program which are capital intensive this projects include construction of airstrips in northeastern Kenya and an additional runway built at the aerodrome in Kitale, as part of a strategy to improve connectivity through domestic air travel (Business daily, 2015). This is a challenge to Kenya airport authority, since they spend a lot and also given extensive competition from low cost airline which have negatively impacted on their profits.

Several scholars have reviewed the subject of strategic procurement practices and its impact on organizational. Noor *et al.* (2013) conducted a study on the role of procurement practices ineffective implementation of infrastructure projects in Pakistan, the research has identified the different procurement choices and reasons for a particular choice, the issues in procurement choice and the issues in procurement implementation in the public sector organizations in Pakistan. It has also described the impact of procurement practice on successful project outcomes. As a result multiple issues have been identified which affects the choice of procurement such as the need for efficiency and finances, client objectives, timely policy decisions, clarity of client's needs, delays in bidding and response, delays in approvals, proposal and bid

evaluation procedures, need for relaxation of rules and project characteristics. The major barriers and constraints to implementation of procurement have been reported to be regulatory and legal, risks and contract management, principles of procurement, political, culture, inter and intra organisational issues, conditions of the country, lack of understanding, land acquisition, project revenue and finance issues. Procurement had a direct impact on successful outcomes of the project, the procurement systems in these organizations had a direct relationship and impact on performance and success of the project. Another study done by Oyuke (2014) on role of strategic procurement practices on organizational performance; a case study of Kenya national audit office found out that practices like cost management, information technology and records management have a direct positive relationship with organizational performance. With this knowledge gap this study sought to establish the influence of strategic procurement practices on performance of parastatals in Kenya, specifically Kenya Airport Authority.

Objectives of the Study

The purpose of the study was to establish the influence of strategic procurement practices on performance of parastatals in Kenya. The specific objectives were:-

- To determine the influence of strategic outsourcing on performance of parastatals in Kenya
- To determine the influence of inventory management on performance of parastatals in Kenya
- To determine the influence of reverse logistics on performance of parastatals in Kenya.
- To find out the influence of knowledge management on performance of parastatals in Kenya

LITERATURE REVIEW

Theoretical Review

Supply Chain Operations Reference Model

This theory guided the study in establishing the relationship between strategic outsourcing practices and performance of parastatals in Kenya. The Supply Chain Operations Reference model provides a unique framework that links performance metrics, processes, best practices, and people into a unified structure (Sulek *et al.*, 2006). The framework supports communication between supply chain partners and enhances the effectiveness of supply chain management, technology, and related supply chain improvement activities. Business value, whether real or perceived, is derived from the predictability and sustainability of business outcomes. It lives, healthy or sick, in those gaps between expected vs. perceived vs. actual performance (McManus, 2002). Value is articulated by measuring what is being managed. The SCOR model helps refine strategy, define structure (including human capital), manage processes, and measure performance (Larsson *et al.,* 2008).

An organization's annual strategic priorities are manifest in SCOR's vertical process integration. Organizations that have applied SCOR to help with supply chain problem solving, process improvement, process redesign, or business process engineering, have demonstrated that SCOR is an effective enabler for aligning an organization's portfolio of improvement projects with strategic goals and objectives. SCOR processes extend from your supplier's supplier to your customer's customer. This includes all customer interactions from order entry through paid invoice; all product (physical material and service) transactions, including equipment, supplies, spare parts, software, etc.; and all market interactions, from understanding aggregate demand to the fulfillment of each order (Lee *et al*., 2003). The purpose of a process

reference model, or business process framework, is the ability to describe your process architecture in a way that makes sense to key business partners. It is especially useful for describing value chains that cut across multiple departments and organizations, providing a common language for managing such processes.

According to Cooper, Lambert and Pagh (1997), SCM is "the performance of key business processes from end users to original suppliers that provides products, services and information that add value for customers and other stakeholders. The SCOR model (Supply chain council, 2003) divides supply chain management into several main business processes and further even more sub-processes. While it accentuates on the process view of the supply chain, this model also presents supplier and customers connections to illustrate the whole chain.

For many customers it is not enough, however just to live up to their expectations. This in itself does not create satisfaction; it 'only' removes dissatisfactions. Creating satisfaction demands more. This 'more' is what Kano calls 'exciting quality'. We have chosen to call it 'value-added' quality because this describes more directly that the producer has added one or more qualities to the product or service in addition to those the suppliers expects and that these extra qualities five the supplier extra value (Brun, 2011). The organization would therefore find this theory relevant in relation to the organization focus objective to focus on building supplier confidence, encouraging participants to get to know suppliers almost as well as they themselves so that they can anticipate their changes, needs and problems in order to respond appropriately.

Stochastic Inventory Theory

This theory relates to the inventory management on the performance of parastatals in Kenya. According to Arrow, Karlin and Scarf (1958), one of the outgrowths of the development of the field of supply-chain management, which deals with the ways organizations can achieve competitive advantage by coordinating the activities involved in creating products — including designing, procuring, transforming, moving, storing, selling, providing after-sales service, and recycling.

According to Odadi (2012) for most order quantity/reorder point inventory systems, the stochastic model, which specifies the demands as stochastic processes, is often more accurate than its deterministic counterpart the EOQ model. However, the application of the stochastic model has been limited because of the absence of insightful analytical results on the model. This paper analyzes the stochastic order quantity reorder point model in comparison with a corresponding deterministic EOQ model. Based on simple optimality conditions for the control variables derived in the paper, a sensitivity analysis is carried out, and a number of basic qualitative properties are established for the optimal control parameters.

The main results include the following: in contrast to the deterministic EOQ model, the controllable costs of the stochastic model due to selection of the order quantity (assuming the reorder point is chosen optimally for every order quantity) are actually smaller, while the total costs are clearly larger; the optimal order quantity is larger, but the difference is relatively small when the quantity is large; the cost performance is even less sensitive to choices of the order quantity; the relative increase of the costs incurred by using the quantity determined by the EOQ instead of the optimal from the stochastic model is no more than 1/8, and vanishes when the ordering costs are significant relative to other costs (Padget, 2016).

Exchange Relationships Theory

An exchange relationship is defined as a mechanism for creating value through the coordination of production, consumption, and related economic activities between a customer and a supplier (Johnson & Selnes, 2004). The

purpose of an exchange relationship is to connect a customer's needs with a supplier's resources and offerings. From a supplier's perspective, value creation is a process of understanding the heterogeneity of customer needs, developing products (goods and services) to fill those needs, and matching customers to products through distribution activities in competition with other suppliers (Lee *et al.*, 2003). From the customer's perspective, the customer chooses the supplier or suppliers that provide the highest expected benefits less any associated distribution and availability of the good' costs and risk, where benefits encompass a bundle of qualities, processes, and/or capabilities (Zhu *et al.*, 2008).

The central concept in the framework is the nature of the exchange relationship mechanism. The value created in an exchange relationship is a direct function of both the customer's and the supplier's distribution capabilities and strategies. The strategy of the supplier in the market-matching process is to know when and where to solve distribution problems (O'Farrell, 2008) and to identify the supplier that is perceived as the best in terms of distribution benefits less the costs and risks involved. This distribution problem solving has historically been linked to discrete product -distribution decisions (transactions). This theory relates to influence of reverse logistics on performance of parastatals in Kenya.

Competency Theory

To investigate the influence of knowledge management on performance of parastatals, the study will be based on competency theory. The work of McClelland and McBer in the 1980s established the competence theory. The authors defined competency as the underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation. Since then a number of competency frameworks have been developed by different procurement performance in various organizations, Crawford (as cited in Boyatzis, 1982; and Spencer, 1993), puts a model of competence that integrates knowledge, skills, demonstrable performance, and core personality characteristics, noting the last, personality characteristics, as challenging to develop and assess through training. She argues that two of the most influential procurement management standards established, are addressed only the knowledge aspect of competence while a third, Australia's National Competency Standards, draws from knowledge but focuses only on demonstrable performance.

Crawford (2010) study found out that procurement managers "do not necessarily have the required supply chain management competence perform the full activities required to promote and implement the changes that they are leading as part of their organizations. Interest in procurement management competence stems from the very reasonable and widely held assumption that if people who manage and work on organizations are competent in procurement, they will perform effectively and that this will lead to successful procurement and successful organizations (Beer, 1990; Smith, 1976).

Competence is generally accepted, however, as encompassing knowledge, skills, attitudes and behaviors that are causally related to superior job performance. Crawford (as cited in Boyatzis, 1982; and Spencer, 1993), stated that professional competence in procurement management is attained by combination of knowledge acquired from training and its subsequent application and other skills developed in the course of work. Previous management studies have investigated the impact of competency on procurement performance. Dainty (2004) have argued for a competency based performance model for supply chain managers where managerial behavior input is appraised and nine performance indicators for PM competency are developed to comprise team building, leadership, decision-making, mutuality and approachability, honesty and integrity, communication, learning, understanding and application, self-efficacy, and maintenance of

external relations. In the context of public procurement policy compliance it is assumed that if the procurement manager and the supply chain management team have all the required procurement competence, will influence performance of the organization.

Conceptual framework

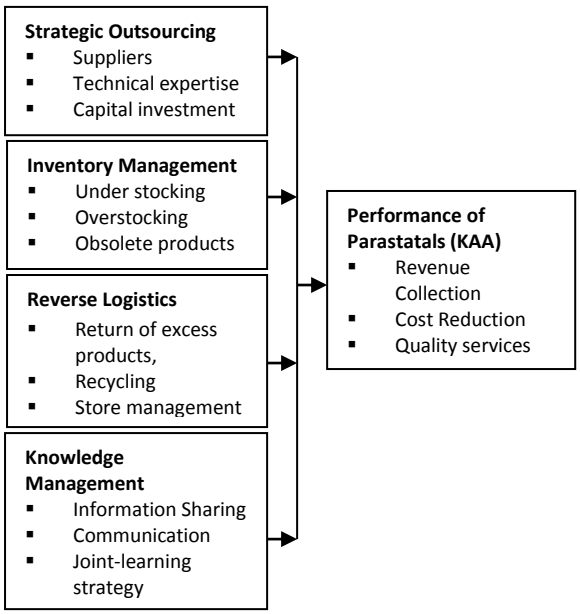

Figure 1: ***Conceptual Framework***

Strategic Outsourcing

With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers (Yang, Seongcheol, Changi & Jawon, 2007). Outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and to strategically use outside vendors to perform service activities that traditionally have been internal functions (Elmuti, 2004). Outsourcing can also involve the transfer of both people and physical assets to the supplier (Chase, Shanker & Aquilano, 2010).

Outsourcing is one of business kinds that influences development and organization of business processes. It earned scientific attention more than 20 years ago, and at present is increasingly establishing itself in public sector as a measure to reduce operation costs and provide qualitative services. Moving these functions from the public to the private sector requires a fair and open process in the public's best interest (National Institute of Government Purchasing, 2013). The increasingly challenging global environment means that the public sector must be reshaped to enhance efficiency and responsiveness to the needs of those whom they serve (Public Service Commission, 2010).

Outsourcing has become an important business strategy because it enables public sector to reduce and control operating costs, to improve company focus, to gain access to world class capability and to free internal resources for other purposes. Outsourcing has been used as part of the new public management agenda with the aim of increasing efficiency and decreasing costs. Consequently, its effects on productivity remain a factor to be considered by management in decision making (Kiptum & Njihia, 2012).

Inventory Management

Inventory management is the application of data collection, demand and forecasting, lean and operational principles to manage the total amount of inventory within the supply chain at any point in time and manage inventory holding costs (Sharafali, 2007). The scope of inventory management concerns the fine lines between replenishment lead time, carrying costs of inventory, asset management, inventory forecasting, inventory valuation, inventory visibility, future inventory price forecasting, physical inventory, available physical space for inventory, quality management, replenishment, returns and defective goods, and demand forecasting. Balancing these competing requirements leads to optimal inventory levels, which is an on-going process as the business needs shift and react to the wider environment (Riggs & Sharon 2008). Application of effective

inventory management methods such as economic order quantity and just in time greatly supports implementation of effective procurement practices.

Many organizations in the private and public sector use inventory control not only to ensure materials and products timely availability but also to ensure superior customer service and to achieve competitive advantage. While many organizations use internal inventory practices as a way to achieve organizational objectives such as enhanced efficiency and improved procurement operations, adoption of effective internal inventory control practices have been a challenge to many (Onchoke & Wanyoike, 2016). In recent years, a number of organizations have faced numerous challenges especially in inventory management or material control, thus affecting the performance of companies. There have been cases of materials overstocking which eventually get expired or out dated, under stocking, lack of stock-taking, theft of materials by workers and delays in deliveries of materials into the organizations among others. Over the years, companies all over the world had adopted the concept of inventory management as a way of improving their supply chain performance.

Reverse Logistics

It is the process of planning, implementing and controlling the efficient, cost-effective flow of raw materials, in process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing or creating value or for proper disposal. Product recall requires organization to be able to reverse the normal logistics flow from suppliers to customers so that inventory deemed unsuitable can be located by customers and returned to suppliers in a timely and cost effective manner (Xie & Breen, 2012). It would be the responsibility of the pharmaceutical companies to develop the reverse logistics networks and the flow options in order to avoid the dissatisfaction of the customers, counterfeit drugs, and return of outsourced drugs. This would also involve developing credit rules to guide the returns process for the customers and suppliers and creating a framework of metrics for the supplier relationships. Each of these sub-processes are defined by activities such as initiation of a return request, determining the right routing to keep the reverse logistics at a minimal cost, averting counterfeit drugs, crediting consumers and suppliers, thus analyzing the returns and performance of the reverse supply chain (Kumar *et al.*, 2008).

Knowledge Management

A stronger emphasis on knowledge management as part of organizational strategy may help supply managers to manage uncertainty better. It is observed that establishment of internal knowledge management systems for organizations create a greater base for tacit learning to be leveraged. On the other hand, external knowledge management brings value chain members closer together and adds value to the product through increased quality and customer perception of brand platforms (Lang, 2010). An organizations relational exchange, information enrichment and joint learning strategies can be reflected in the domains of partner relationships, information sharing and supply chain integration, respectively.

Walters (2008) singles out in particular, relational exchange strategy and stress the importance of committed ongoing relationship between enterprises. The focus of information enrichment strategy is on information flows, such as acquisition, distribution, and exploitation. Joint-learning strategy focuses on know-how collaboration and mutual competency creation (Walters, 2008)while partner relationship refers to mutually committed relationships between enterprises and their partners (e.g. suppliers, the same tier manufactures and channel members) in the supply chain (Panayides & So, 2005).

Information sharing refers to good-quality information flow between an enterprise and its partners in the supply chain while Supply chain integration is defined as the coordination and activity integration of supply chain processes between an enterprise and its partners in the supply chain.

Organizational Performance

Organizational performance is the ability of an organization to fulfil its mission through sound management, strong governance and a persistent rededication to achieving results. Parasuraman (2002), proposed that firms delivering services must broaden their examination of productivity from the conventional company-oriented perspective to a dual company-customer perspective. This broadened approach can help reconcile conflicts or leverage synergies between improving service quality and boosting service productivity (Parasuraman, 2002).

Roos (2005) affirms that Organization performance is closely linked to the performance of procurement it is therefore necessary to assure that procurement performs to the necessary levels so that the organization as a whole achieves high levels of operations. Delaney et al, (2006) assert that organization performance can be evaluated by quality service and products, satisfying customers, market performance, service innovations, and employee that organization performance can be appraised by the following "dimensions of performance: return of investment, margin on sales, capacity utilization, customer satisfaction and product quality". In the same way, Green et al, (2007) identified that return on investment, sales and market growth, and profit are important factors that be measured by organization performance.

Empirical Review

Strategic Outsourcing

Mclvor (2010) maintains that the world over, governments have embraced the phenomenon of outsourcing and have adopted this principle to help them expand into other markets. Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Oshri, Kotlarsky, & Wouldcocks, 2011). Elmuti and Kathawala (2010) argue that enlisting governments and private companies to deliver a wide array of products and services is now a common and accepted practice. Elmuti and Kathawala (2010) add that as public organizations and institutions search for ways to grow and maintain their competitive edge, outsourcing has emerged as a dominant organizational strategy for achieving those goals.

Inventory Management

A study conducted by Swaleh and Were (2014) on factors affecting effective implementation of inventory management systems in the Public Sector of Kenya revealed that to Kenyan organizations, the main aim of inventory control is holding the right quantity of inventory and containing inventory costs minimum. Study revealed that organizations are increasingly developing inventory control systems and adopting inventory control practices that can resolve the challenges currently faced in inventory management. Most of the organizations in Kenya use inventory control systems as a competitive tool and to improve financial performance (Nyabwanga, 2012).

Reverse Logistics

Wanaina (2014) sought to determine reverse logistics practices used by large scale manufacturing firms in Nairobi, Kenya and to establish the relationship between repackaging as one of the reverse logistics practices and profitability of large scale manufacturing firms in Nairobi, Kenya. From the tests, there was statistically significant relationship between the repackaging as one of the reverse logistics and profitability of the firms. Repackaging activities conducted most firms is receiving returned product from customers, while the number of manufacturers that conducted the other activities

such as remanufacturing, reconditioning, landfill practices and repackaging and even recycling was quite high.

Knowledge Management

Koh and Tan (2006) assert that it is only knowledge management that is inadequate in many ways for managing a supply network in uncertain environment hence a new approach is needed. They linked the impact of organizational structure in knowledge transfer and utilization among the different participating functions in the perceptive of systems theory. Information sharing practices such as vendor-managed inventory give manufacturers access to more accurate demand information such as customer sales data than before.

METHODOLOGY

The study used descriptive research design. Kothari (2006) observed that descriptive design is a blue print which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible in yielding maximum information with minimal expenditure of effort, time and money. Multiple regression analysis was used to test relationships between the variables. t-statistics and their respective p-values were computed for all the coefficients and used to determine whether the coefficients of the independent variables were significant or not. In this study, the statistical model was developed from the conceptual framework as follows: the dependent variable (DV) which in the present study is Performance of parastatals took the variable [Y], and the coefficients of the independent variables (IV) denoted by X_1, X_2,.....X_4 were used to show the relationship of the independent variables and the dependent variable. Statistically, analysis was done using the model: $Y= \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+ \epsilon$: Where Y= Performance of Parastatals; β_0 = Intercept; β_1…….β_4 = regression coefficients of independent variables; X_1…..X_4 = Independent Variables (Strategic Outsourcing, Inventory management, Supplier Sourcing, reverse logistics); and ϵ = Error term.

FINDINGS

Correlation between the variables

A correlation matrix (Table 1) between the variables was generated from the data and presented below. From the table, the independent variables (Strategic Outsourcing, Reverse Logistics, and Knowledge Management) had a positive and statistically significant (p-values less than 5%) correlation with the dependent variable. This implied that there was positive and statistically significant linear relationship between the dependent and independent variables. However, Inventory Management did not have a statistically significant linear relationship with the dependent.

Table 1: ***Correlation between the variables***

Correlations

		Performance of Parastatals (KAA)	Strategic Outsourcing	Inventory Management	Reverse Logistics	Knowledge Management
Performance of Parastatals (KAA)	Pearson Correlation	1	.722**	.210*	.717**	.793**
	Sig. (2-tailed)		.000	.039	.000	.000
	N	97	97	97	97	97
Strategic Outsourcing	Pearson Correlation	.722**	1	.337**	.723**	.789**

	Sig. (2-tailed)	.000		.001	.000	.000
	N	97	97	97	97	97
Inventory Management	Pearson Correlation	.210*	.337**	1	.297**	.275**
	Sig. (2-tailed)	.039	.001		.003	.006
	N	97	97	97	97	97
Reverse Logistics	Pearson Correlation	.717**	.723**	.297**	1	.781**
	Sig. (2-tailed)	.000	.000	.003		.000
	N	97	97	97	97	97
Knowledge Management	Pearson Correlation	.793**	.789**	.275**	.781**	1
	Sig. (2-tailed)	.000	.000	.006	.000	
	N	97	97	97	97	97

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

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

Descriptive Statistics

Strategic Outsourcing

The study generated a descriptive statistics table from SPSS software. The findings were summarized in Table 2. From the table, 43.3% agreed that KAA has performed outstandingly in the recent past as a result of outside suppliers, 30.9% agreed that outsourcing has enabled KAA to free internal resources such as technical expertise for other purposes, 43.3% agreed that outsourcing has greatly reduced operation costs and enabled them to provide qualitative services, 45.4% agreed that outsourcing has enabled them to gain access to world class capability through capital investments etc., and 44.3% agreed that due to outsourcing, they are now able to fully focus on delivering on their mandate as KAA.

Table 2: ***Descriptive Statistics of Strategic Outsourcing***

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
KAA has performed outstandingly in the recent past as a result of outside suppliers	3.1%	7.2%	17.5%	43.3%	28.9%
Outsourcing has enabled KAA to free internal resources such as technical expertise for other purposes	2.1%	8.2%	25.8%	30.9%	33.0%
Outsourcing has greatly reduced operation costs and enabled us to provide qualitative services	1.0%	12.4%	18.6%	24.7%	43.3%
Outsourcing has enabled us to gain access to world class capability through capital investments etc.	2.1%	8.2%	15.5%	45.4%	28.9%
Due to outsourcing, we are now able to fully focus on delivering on our mandate as KAA	3.1%	5.2%	21.6%	44.3%	25.8%

Inventory Management

A descriptive statistics for Inventory Management was generated from SPSS program and the results were tabulated in Table 3. The table shows that a majority (42.3%) agreed that inventory has enabled KAA to ensure materials

and products are available when needed, 36.1% agreed that KAA has an effective internal inventory control practices that has enhanced efficiency and improved procurement operations, 40.2% strongly agreed that in the recent past there have been no stocking cases such as overstocking or understocking reported at KAA, 39.2% agreed that stock taking is regularly done at KAA, and 35.1% agreed that cases like delays in deliveries of materials are rare at KAA.

Table 3: ***Descriptive Statistics on Inventory Management***

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Inventory has enabled KAA to ensure materials and products are available when needed	6.2%	5.2%	18.6%	42.3%	27.8%
KAA has an effective internal inventory control practices that has enhanced efficiency and improved procurement operations	5.2%	6.2%	22.7%	36.1%	29.9%
In the recent past there have been no stocking cases such as overstocking or understocking reported at KAA	6.2%	7.2%	16.5%	29.9%	40.2%
Stock taking is regularly done at KAA	5.2%	8.2%	14.4%	39.2%	33.0%
Cases like delays in deliveries of materials are rare at KAA	6.2%	5.2%	21.6%	35.1%	32.0%

Reverse Logistics

The study generated a descriptive statistics table on Reverse Logistics from SPSS data. The findings were summarized in Table 4. From the table, 40.2% agreed that KAA has adopted reverse logistics practices that efficiently enable flow of raw materials to and from the manufacturers, 41.2% agreed that unsuitable/excess products identified by their officers are returned to suppliers in a timely and cost effective manner, 32.0% strongly agreed that there are established rules on reverse logistics that are strictly followed during the return process especially for recycling products, and 37.1% agreed that reverse logistics practices used by KAA have ensured that product and services offered are of the highest quality.

Table 4: ***Descriptive statistics on Reverse Logistics***

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
KAA has adopted reverse logistics practices that efficiently enable flow of raw materials to and from the manufacturers	2.1%	9.3%	21.6%	40.2%	26.8%
Unsuitable/Excess products identified by our officers are returned to suppliers in a timely and cost effective manner	0.0%	11.3%	27.8%	41.2%	19.6%
There are established rules on reverse logistics that are strictly followed during the return process especially for recycling products	0.0%	11.3%	25.8%	30.9%	32.0%
Reverse logistics practices used by KAA have ensured that product and services offered are of the highest quality	2.1%	12.4%	21.6%	37.1%	26.8%

Knowledge Management

A descriptive statistics table of Knowledge Management was generated using SPSS software and the results were tabulated in Table 5. From the table, 33.0% strongly agreed that knowledge management is embedded in their organizational strategy and this helps them to deal with uncertainties, 34.0% strongly agreed that they have an established relational exchange with their partners in the industry, 39.2% agreed that relevant information is mutually shared with their partners in the industry, 29.9% agreed that they have open communication channels with their partners so that there is free flow of information, 32.0% strongly agreed that joint-learning strategy with their partners is carried out often so as to ensure they are up to date with the trends in the industry.

Table 5: ***Descriptive Statistics of Knowledge Management***

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Knowledge management is embedded in our organizational strategy and this helps us to deal with uncertainties	2.1%	9.3%	26.8%	28.9%	33.0%
We have an established relational exchange with our partners in the industry	1.0%	9.3%	22.7%	33.0%	34.0%
Relevant information is mutually shared with our partners in the industry	2.1%	9.3%	27.8%	39.2%	21.6%
We have open communication channels with our partners so that there is free flow of information	2.1%	12.4%	26.8%	28.9%	29.9%
Joint-learning strategy with our partners is carried out often so as to ensure we are up to date with the trends in the industry	1.0%	8.2%	28.9%	29.9%	32.0%

Performance of Parastatals (KAA)

The study sought to find the descriptive statistics of performance of KAA as Parastatal. The results were presented in Table 6. The table shows that 36.1% agreed that revenue collection has greatly increased in the last five years, 36.1% agreed that their financial performance has greatly increased in the last five years due to reduction in cost, 43.3% agreed that the quality of services has remained all-time high in the last five years, 39.2% agreed that they have embraced the latest technology which has enabled them to innovate in their service delivery, and 34.0% agreed that procurement has performed at its best and therefore enhanced the performance of KAA in the last five years.

Table 6: ***Descriptive statistics of performance of KAA***

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Revenue collection has greatly increased in the last five years	1.0%	8.2%	24.7%	42.3%	23.7%
Our financial performance has greatly increased in the last five years due to reduction in cost	2.1%	6.2%	35.1%	38.1%	18.6%
The quality of services has remained all-time high in the last five years	1.0%	15.5%	28.9%	34.0%	20.6%
We have embraced the latest technology which has enabled us to innovate in our service delivery	0.0%	5.2%	23.7%	51.5%	19.6%

Procurement has performed at its best and therefore enhanced the performance of KAA in the last five years	0.0%	5.2%	38.1%	35.1%	21.6%

Regression Analysis

A regression analysis was carried out between Performance of Parastatals (KAA) (dependent variable) and the independent variables (Strategic Outsourcing, Inventory Management, Reverse Logistics, and Knowledge Management). From the Model Summary Table 7, R^2 in the model is .669 meaning that all independent variables (Strategic Outsourcing, Inventory Management, Reverse Logistics, and Knowledge Management) can explain 66.9% of the total variability in the dependent variable (Performance of Parastatals (KAA).

Table 7: ***Model Summary of Independent Variables and the Dependent Variable***

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818[a]	.669	.655	2.096

a. Predictors: (Constant), Knowledge Management, Inventory Management, Reverse Logistics, Strategic Outsourcing

b. Dependent Variable: Performance of Parastatals (KAA)

The Anova Table 8 showed that the model was statistically significant as p-value was below the 5% threshold.

Table 8: ***Anova Table of Independent Variables and the Dependent Variable (Performance of Parastatals (KAA))***

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	817.072	4	204.268	46.512	.000[b]
	Residual	404.041	92	4.392		
	Total	1221.113	96			

a. Dependent Variable: Performance of Parastatals (KAA)

b. Predictors: (Constant), Knowledge Management, Inventory Management, Reverse Logistics, Strategic Outsourcing

From the Coefficient Table 9, Inventory Management was statistically insignificant and therefore, was not featured in the derived optimal model below;

$$Performance\ of\ Parastatals\ (KAA)\ (Y) = 6.215 + .169X_1 + .211X_3 + .377X_4$$

Table 9: ***Coefficient Table of Independent Variables and the Dependent Variable (Performance of Parastatals (KAA))***

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	6.215	1.463		4.248	.000
	Strategic Outsourcing	.169	.081	.215	2.082	.040
	Inventory Management	-.063	.073	-.055	-.860	.392
	Reverse Logistics	.211	.104	.204	2.030	.045
	Knowledge Management	.377	.089	.479	4.253	.000

a. Dependent Variable: Performance of Parastatals (KAA)

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In the first objective, the study sought to determine the influence of strategic outsourcing on performance of parastatals in Kenya. From the findings, 43.3% of the respondents agreed that KAA has performed outstandingly in the recent past as a result of outside suppliers, 30.9% agreed that outsourcing has enabled KAA to free internal resources such as technical expertise for other purposes, 43.3% agreed that outsourcing has greatly reduced operation costs and enabled them to provide qualitative services, 45.4% agreed that outsourcing has enabled them to gain access to world class capability through capital investments etc., and 44.3% agreed that due to outsourcing, they are now able to fully focus on delivering on their mandate as KAA. From correlation analysis, Strategic Outsourcing had a positive and statistically significant (p-values less than 5%) correlation with the performances of parastatals. This implies that there was positive and statistically significant linear relationship between the performances of parastatals and strategic outsourcing. Regression analysis showed that Strategic Outsourcing contributed significantly to the optimal regression model.

In the second objective, the study sought to determine the influence of supplier sourcing on performance of parastatals in Kenya. The findings show that a majority (42.3%) of the respondents agreed that inventory has enabled KAA to ensure materials and products are available when needed, 36.1% agreed that KAA has an effective internal inventory control practices that has enhanced efficiency and improved procurement operations, 40.2% strongly agreed that in the recent past there have been no stocking cases such as overstocking or understocking reported at KAA, 39.2% agreed that stock taking is regularly done at KAA, and 35.1% agreed that cases like delays in deliveries of materials are rare at KAA. Correlation analysis showed that Inventory Management had a very low statistically significant linear relationship with the performances of parastatals. This was further confirmed by regression analysis which showed that Inventory Management did not contribute significantly to the optimal regression model.

In third objective, the study sought to determine the influence of reverse logistics on performance of parastatals in Kenya. From the findings, 40.2% of the respondents agreed that KAA has adopted reverse logistics practices that efficiently enable flow of raw materials to and from the manufacturers, 41.2% agreed that unsuitable/excess products identified by their officers are returned to suppliers in a timely and cost effective manner, 32.0% strongly agreed that there are established rules on reverse logistics that are strictly followed during the return process especially for recycling products, and 37.1% agreed that reverse logistics practices used by KAA have ensured that product and services offered are of the highest quality. Correlation analysis shows that, Reverse Logistics had a positive and statistically significant (p-values less than 5%) correlation with the performances of parastatals. This implies that there was positive and statistically significant linear relationship between performances of parastatals in Kenya and Reverse Logistics. Regression analysis confirmed that Reverse Logistics contributed significantly to the optimal regression model.

In the fourth objective, the study sought to find out the influence of inventory management on performance of parastatals in Kenya. From the findings, 33.0% of the respondents strongly agreed that knowledge management is embedded in their organizational strategy and this helps them to deal with uncertainties, 34.0% strongly agreed that they have an established relational exchange with their partners in the industry, 39.2% agreed that relevant information is mutually shared with their partners in the industry, 29.9% agreed that they have open communication channels with their partners so that there is free flow of information, 32.0% strongly agreed that joint-learning strategy with their partners is carried out often so as to ensure they are up to date with the trends in the industry. From correlation analysis Knowledge Management had a positive and statistically significant (p-values less than 5%) correlation with the dependent variable. This implies that there was positive and statistically significant linear relationship between the performances of parastatals in Kenya and knowledge management. From the regression analysis Knowledge Management was found to contribute significantly to the optimal regression model.

Conclusions of the Study

In the first objective, the study sought to determine the influence of strategic outsourcing on performance of parastatals in Kenya. From the findings, the study established that strategic outsourcing had a positive and statistically significant influence on performance of parastatals in Kenya. The conclusions of this study were in line with those of Mclvor (2010) who maintained that the world over, governments have embraced the phenomenon of outsourcing and have adopted this principle to help them expand into other markets. Elmuti and Kathawala (2010) added that as public organizations and institutions search for ways to grow and maintain their competitive edge, outsourcing has emerged as a dominant organizational strategy for achieving those goals.

In the second objective, the study sought to determine the influence of inventory management on performance of parastatals in Kenya. From the findings, the study concluded that inventory management did not have a significant influence on performance of parastatals in Kenya. This was more pronounced when inventory management was combined with other strategic procurement practices (Strategic Outsourcing, Reverse Logistics, and Knowledge Management) and was found to have no significant contribution to performance of parastatals in Kenya. However, similar studies in this area do not indicate clearly the kind of relationship that exists between inventory management and performance of parastatals. For instance, Nyabwanga (2012) noted that most of the organizations in Kenya use inventory control systems as a competitive tool and to improve financial performance. Swaleh and Were (2014) found that organizations are increasingly developing inventory control systems and adopting inventory control practices that can resolve the challenges currently faced in inventory management.

In third objective, the study sought to determine the influence of reverse logistics on performance of parastatals in Kenya. From the findings, the study concluded that reverse logistics had a significant influence on performance of parastatals in Kenya. The conclusions of this study were in line with those of Wanaina (2014) who found that there was a statistically significant relationship between the repackaging as one of the reverse logistics and profitability of the firms.

In the fourth objective, the study sought to find out the influence of knowledge management on performance of parastatals in Kenya. From the findings, the study established that knowledge management contributed significantly to influence performance of parastatals in Kenya.

The conclusions of this study confirmed the arguments of Koh and Tan (2006) who linked the impact of organizational structure in knowledge transfer and utilization among the different participating functions in the perceptive of systems theory. They added that information sharing practices such as vendor-managed inventory give manufacturers access to more accurate demand information such as customer sales data than before.

Policy Recommendations

The study established that 66.9% of the total variability in the Performance of Parastatals (KAA) could be explained by Strategic Outsourcing, Inventory Management, Reverse Logistics, and Knowledge Management. However, Inventory Management did not contribute significantly to Performance of Parastatals in Kenya. Therefore, the study recommends that parastatals evaluate their strategic procurement practices (Strategic Outsourcing, Reverse Logistics, and Knowledge Management) so as to significantly improve their performances.

Recommendations for Further Studies

This study sought to establish the influence of strategic procurement practices on performance of parastatals in Kenya using a case of KAA. Therefore, a study can be carried out using a different case study. The study used Strategic Outsourcing, Inventory Management, Reverse Logistics, and Knowledge Management as its independent variables. Therefore, a similar study can be carried out using different strategic procurement practices from the ones used in this study. Besides, Inventory Management showed low influence on performance of parastatals in Kenya. Therefore, a study can be carried to establish with certainty if there is any significant influence of Inventory Management on performance of parastatals.

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