



EFFECTS OF CENTRALIZATION OF PROCUREMENT FUNCTIONS ON PERFORMANCE OF STATE ENTERPRISES: A CASE OF KENYA AIRPORTS AUTHORITY

Allan Muturi¹, Dr. Martin Ogutu²

¹Jomo Kenyatta University of Agriculture and Technology (JKUAT), Nairobi Kenya

²Jomo Kenyatta University of Agriculture and Technology (JKUAT), Nairobi Kenya

Abstract: Most organizations that practice centralized procurement functions face major challenges that hamper realization of increased organization performance. The general objective of this study was to investigate the effects of centralization of procurement functions on the performance of state enterprises, a case study of Kenya Airports Authority. The study specific objectives were; to assess how automation of procurement functions affects the performance of state enterprises, to investigate how communication affects the performance of state enterprises, to examine how the level of procurement regulations compliance affects performance of state enterprises and to establish how supplier relationship management affects performance of state enterprises. The study adopted a case study research design and the study population comprised of a total of 1490 staff working at Kenya Airports Authority offices in Nairobi. The study applied disproportionate stratified sampling technique coupled with purposive to select a sample size of 135 respondents. The study used questionnaires as the main data collection instruments and a pilot study was conducted to pretest questionnaires for validity and reliability. Descriptive statistics data analysis method was applied to analyze the gathered data using a statistical package for social scientists SPSS. The analyzed results were presented on tables and charts and correlation analysis was carried out to establish the relationship between the research variables. The study found out that centralized procurement functions played a great role towards determination of the state of the organization performance as it enhanced standardization of procurement procedures and discouraged existence of irregularities in execution of procurement functions. The study concluded that the key notable effects of centralized procurement functions that affects the performance of state enterprises includes; automation, communication, level of procurement regulations compliance and supplier relationship management. The study recommended that for state enterprises to realize increased organization performance, procurement functions should be automated through implementation of computerized procurement systems, effective communication channel should be employed, the level of procurement regulations compliance should be improved and finally strong supplier relationship should be developed.

Key Words: Automation, Communication, Level of Procurement Regulations Compliance, Supplier Relationship Management

Introduction

Centralized procurement is a method of procurement of all types of materials, supplies, equipment through a single department (Baily, 2002). Under the policy of centralized procurement all types of purchases in a single-plant organization are made by the central buying sections, which are authorized to decide on the sources of supply, negotiate with the vendor, place the order and instruct the mode of delivery. In a multi-plant organization with scattered plant locations, all purchases are made by the central buying section of the head office. In such organizations sometimes regional or branch purchasing agents are employed to make purchases in local markets (Lambert, 2005).

Procurement is now considered as a strategic function (Smeltzer, 2006). Procurement importance to organizational competitiveness is increasingly being noted. The trend is toward a stronger more centralized function and greater participation in organizations strategic planning process (Stanley, 1993). Dimitri (2006) suggested that centralization appears as a clear trend in organizations' procurement function. Centralized procurement generates strategic value when it is closely integrated with critical business drivers. It must be linked to growth, return on capital and margin management. In order to meet the organization financial goal and maximize shareholders value, the organizations management has to recognize and support strategic sourcing as part of its overall strategy. It is further observed that centralized strategic sourcing helps to enhance cash flows, building customer, product, brand and reputational leadership. The procurement function is in the process of transformation from a mere administrative process to a critical process in the realization of organizational goals and objectives. However, it has been observed that centralized purchasing proliferated paperwork and leads to delays (Lysons, 2000). Lysons further noted that the user departments resort to informal procedures if formal purchasing procedures are too slow, unreliable or otherwise unsatisfactory.

The relative size of the procurement system to the World GDP and the world trade was highlighted in the OECD report (OECD, 2001), where the government procurement market was estimated at over \$ 2,000 billion in 1998. This is equivalent to 7 per cent of world GDP and 30 per cent of world merchandise trade. For Africa, the central government procurement is estimated to be between 9 and 13 per cent of GDP as compared to 5 and 8 per cent in the most industrialized countries (Trionfetti, 2000). The importance of procurement stems in part from its central role in budget implementation. The best intended and most competent budget plans are brought to naught, if there is disconnect between the budget planning process and the budget implementation process (Public Procurement and Disposal General Manual, 2009).

Kenyan Central Government public procurement is estimated at 10 per cent of the GDP. In 2008 Kenya's GDP was estimated at Kshs.2, 099.79 billion, hence the total expenditure on procurement by Government was around Kshs.209.9 billion annually. In a survey conducted by PPOA on procurement of common user items, it was found that Procuring Entities lost substantial amounts of funds in the past due to overpricing. Initial findings were that common user items were being procured at about 60 per cent above prevailing market prices. It was largely occasioned by collusive practices and bid rigging by persons involved in the procurement process (Kenya Procurement Journal, March 2010). In spite of numerous reform efforts in Government procurement, it seems that problems covering the past eighty years are still similar today, and will persist forever due to unfavorable public perception and the nature of government (Coe, 2000).

Most private and public sector organizations in Kenya recognize and support the centralization of the procurement functions since centralized procurement provides the greatest control over taxpayer's money. It also provides cost savings by consolidating purchases for volume discounts. With the utilization of a professional purchasing staff, state enterprises benefit from a streamlined administrative function, including the establishment of term (annual requirements) contracts, the use of standardized specifications, and standard contract terms and conditions. Centralized control improves relations with the business community, by providing a single source of information for businesses. Also, centralized procurement control helps to ensure fair and equitable treatment of all vendors (Robert, 2008). Many developing countries are strengthening their Public Financial Management as a main developing agenda. This shows an appreciation of the link between the performance of the procurement function as well as the financial management system on one hand and achievement of social-economic objectives on the other. A well managed public procurement system is a key pillar of good government since it is important for economic as well as political reasons (www.oecd.org, 2011).

In order to strengthen public administration and improve service delivery, the Government of Kenya introduced the performance contracts in October 2004. This started with 16 largely commercial pilot state corporations. In 2008/2009 financial year a total of 425 agencies (43 ministries and departments, 139 state corporations, 175 local Authorities and 68 Tertiary Institutions) signed and implemented performance contracting. By the financial year 2009/2010 all Government ministries, state corporations, Local Authorities and Tertiary Institutions had fully implemented the performance contracting. 31 Ministries/Departments representing 68% attained “very good” 2 grade. 14 representing 31.1 per cent achieved, “Good” 3 grade. None attained the “fair” 4 grade or the “Poor” 5 grade. Further, out of the 162 state corporations evaluated, 105 representing 64.8 per cent achieved the “very good”. 52 per cent representing 32.1 per cent achieved the “good” grade. 1 state corporation representing 0.6 per cent achieved “Fair” grade and 4 representing 2.5 per cent attained “Poor” grade. Financial year 2009/2010 saw none of the institutions achieving the “excellent: 1 grade. Performance contracting is a management tool for measuring performance against negotiated targets (Performance Evaluation Report, 2009-2010). The targets are freely negotiated between Government and the agencies. The Kenya Airports Authority (KAA) was ranked number 23 out of 162 state corporations.

KAA identified a number of major projects towards achievement of the vision 2030. The Authority has set its eyes on being “the airport system hub of choice”. The performance of the procurement function will play a pivotal role in realization of this vision. The KAA’s Board of Directors has set key strategic objectives to enhance revenue and cost management, enhance capacity of infrastructure and airport facilities, enhance security and capacity, enhance safety, strengthen business process automation and use of ICT, enhance staff capacity and welfare levels, implement green initiatives, strengthen customer service delivery mechanisms and enhance the corporate image of the Authority, (KAA strategic Plan 2011-2015).

Effective purchasing must involve activities, objects and measurements relating to operations, tactical and strategic issues. As Herb Simon argued, we should ask “Are we doing the right things?” before we ask “Are we doing them right?” There is not one single generally applicable approach to measure purchasing performance. Each organization needs to be studied so as to ensure that the measurement approaches which are used are appropriate. While most effective measurement systems are quantitative, there are qualitative factors which are important. Some managers even rely on intuition (Bailey, Farmer, Jessop and Jones, 1998).

Globally, most organizations that practice centralized procurement face major challenges that hamper realization of increased organization performance (Compton, 2005). According to Patrick (2010) in Africa, most organizations that have attempted to apply centralized procurement functions have exhibited a declined performance especially in procurement department. Effective centralization of procurement functions eases automation of procurement functions. However, In Kenya, most state enterprises that have adopted centralized procurement systems have been found to face automation challenges that have had a negative effect on organization performance (Charles, 2007).

According to Edward (2010) centralized procurement system adversely affects employees morale since only authorized employees in headquarter offices are allowed to procure high value items. Paul (2008) argued that centralized procurement functions in most state enterprises have not enhanced effective communication and this has hindered achievement of organization performance objectives. According to George (2009) centralization of procurement functions has made it difficult for most state enterprises to effectively comply with procurement regulations since central procurement department is assigned many procurement tasks beyond its handling capacity. As a result of centralization of procurement functions, most state enterprises are unable to strengthen supplier relationship

management practices that contribute greatly towards realization of increased organization performance (Michael, 2010).

Centralized procurement is known to cut down on procurement prices and process costs. Centralized purchasing enables an organization to use its purchasing power or leverage to the best effect. Consolidation of quantities results in quantity discounts or rebates (Lysons, 2000). Under section 30 (1) of the Public Procurement and Disposal Act 2005, it is an offence to split a procurement. The Act provides that “no Procurement Entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement process”.

A survey carried out by Public Procurement Oversight Authority, in 2007 indicated that although procedures had been established, procurement planning was far from being complied with. KAA started implementation of centralized procurement planning in 2004. There were immediate benefits as well as challenges. The Authority expected that, when successfully implemented, centralization would greatly improve performance of the procurement function and support attainment of the strategic objectives. A customer satisfaction Survey for the procurement department was conducted in April 2010. A self-completion questionnaire was distributed to staff who dealt with the procurement department directly. The survey provided the following information:-

The customer satisfaction index had been derived on the basis of overall satisfaction ratings of employees who participated in the survey. The customer satisfaction index for procurement department was 48.9%. On its own, this was below average performance. It is against this background that a study was undertaken to determine the effects of centralization of procurement functions on the performance at Kenya Airports Authority.

The general objective of this study was to investigate the effects of centralization of procurement functions on the performance of state enterprises. The study specific objectives were to:

1. To establish how level of automation of procurement functions affects the performance of state enterprises
2. To establish how organizational communication affects the performance of state enterprises
3. To establish how the level of procurement regulations compliance affects performance of state enterprises
4. To establish how supplier relationship management affects performance of state enterprises.

Literature Review

Level of Automation

Chang (2004) argued that an automated procurement system is typically a computerized system designed to manage the procurement processes in organizations. Centralized procurement system leads to a central procurement data base that creates a favorable environment for effective automation of procurement processes. There are two primary types of procurement systems: electronic procurement and standard procurement. Both types of systems are widely available and are often included in enterprise resource planning (ERP) or accounting software products.

Charles (2004) concurred that, as purchasing departments have become larger and more complex, most organizations have adopted centralized procurement systems that have created a platform for installation of automated procurement systems. These procurement systems provide efficient and extensive cost savings and other business benefits by automating the purchasing processes.

According to Anderson (2006) an organization with centralized procurement system can easily automate its procurement functions by implementing an Enterprise Resource Planning (ERP) system. ERP is a system that integrates all organization functions into a single system in order to serve the needs of each different department within the enterprise. ERP is more of a methodology than a piece of software, although it does incorporate several software applications, brought together under a single, integrated interface.

Bell (2007) affirmed that an ERP system integrates information, such as order information and financial data. It can speed up the manufacturing process by automating processes and workflow, and as a result, it also reduces the need to carry large inventories. ERP is expensive software but if implemented correctly, the rewards give the company a major competitive edge.

Christopher (2004) contended that automation of procurement functions can be realized through implementation of Materials requirements planning (MRP) system which is software based. MRP helps a business manage inventory levels while making sure necessary materials are in stock when they are needed for manufacturing. Companies often use this type of system as part of operations designed to deliver orders on time. Generally, an MRP is a computer software program with functions designed to help a business order, manage, and use materials and other resources necessary for production. This type of system is helpful for a business managing multiple orders that require raw materials for production. Availability of centralized procurement data creates a supportive environment for automation of procurement processes since manual procurement procedures that slow the level of automation are eliminated.

According to Fisher (2007) advantages of using a material resource planning system include; more on-time order deliveries reduced costs due to materials shortages and reduced inventory of excess materials from the production process. Corsten (2003) explained that disadvantages of using MRP include cost, employee training, and operator error. Software programs for materials resource planning are generally more beneficial for large businesses than small ones. For small operations with little inventory, using an MRP can add extra work for employees, who need training to use the system. Setting up these systems costs money, and the cost of the extra electronics needed to run an MRP can also be greater than the benefits for a small company.

According to Larson, (2005) E-procurement has become an important function of enterprise information systems as a result of automation of procurement functions. The process of e-procurement includes the automatic definition of product requirements, search and selection of suppliers, negotiation and contracting with suppliers. However, the adoption of e-procurement encounters various uncertainties from internal and external environments, such as inventory failure, sharp increased demand, and delivery delay.

Fitzsimons (2000) argued that an automated inventory system provides a real time assessment of inventory levels since each time an item is sold, the inventory level for that item is automatically adjusted and when that item's inventory level reaches the Minimum level, the system automatically generates a purchase order that can be electronically transmitted to the supplier. Hurlbut (2009) affirmed that automated inventory systems keep track of every item that is close to reaching its minimum inventory level and at the end of the day, compiles a list of all items that require replenishing sorted out by supplier. Then multiple purchase orders are generated and transmitted to the suppliers with a copy of each purchase order that is also transmitted to accounting. When the goods arrive from each supplier, the inventory levels are adjusted accordingly and the system also issues a notification to the accounting department that will be used against the supplier's invoice and copy of purchasing order (Wang, 2006).

Organizational Communication

According to Burt (2007) centralization of procurement functions increases communication problems between the purchasing function and the user departments. Baily (2007) argued that centralized procurement system leads to delay in communication since top management communicates the information to all levels in the organization as the authority is centralized and as such management may fail to communicate the information within the right time.

Mohr, (2010) affirmed that delay in decision making is a major communication problem experienced in centralized procurement system. Mohr argued that the Top level management has to process all necessary data and information, identify the organization problems, develop the alternative solutions & make the final decision. Top management takes relatively more time to perform all sub functions of decision making and as such decision making is delayed in centralized procurement functions.

According to Watzlawick (2001) the two dimensions of communication are information quality (I-QUALITY) and relationship quality (R-QUALITY). Information quality is based on the content of communication and includes relevance, accuracy, reliability, timeliness, adequacy and credibility of information exchanged (Low 2001). On the other hand purchaser's communication behavior influences the quality of interpersonal relationships (R-QUALITY). Therefore, relationship quality includes the strength of the relationship, the level of trust, the duration, the willingness to collaborate in the future and the number of individuals involved (Olsen, 2007).

Mohr (2000) showed that when communication quality in supplier-customer relationships measured in terms of accuracy, timeliness, adequacy, and credibility is higher, satisfaction with supplier-customer relationship is higher as well. On the organizational level Penley (2001) identified that accuracy of communication was significantly associated with centralization of organization functions.

Pearcy (2000) stated that interpersonal communication strength is the most important ability of purchasing managers. Penley (2001) showed the influence of oral and written communication apprehension on communication behavior. Sypher (2006) discussed persuasive ability, perspective-taking ability and communication effectiveness as three dimensions of the communication ability.

Rubin (2005) argued that communication is not only a consequence of communication skills, but it is also a matter of motivation since if purchasers held positive attitudes toward communication with suppliers' employees; they will be more likely to communicate frequently with these individuals.

Boyle (2009) contended that centralized purchasing buyers require mathematical and communication skills as well as effective negotiating abilities. Knowledge of email, word processing, spreadsheet and inventory management software are also essential to the work of centralized purchasing managers, reports the Occupational Information Network.

Level of Procurement Regulations Compliance

Patrick (2009) argued that execution of procurement functions as per the PPOA guidelines helps state enterprises to overcome performance challenges as quality goods and services are made available and cases of misappropriation of organization funds through shoddy procurement dealings are eliminated. According to PPOAB (2007), the public procurement system in Kenya has been undergoing reforms consistent with the global trend since the mid 1990s, most notably within the periods covering 1997-2001 and 2005. Previous to these reforms, the legal framework governing public procurement was very amorphous, providing a conducive environment for the perpetration of various malpractices in public procurement including the endemic corruption that characterized the system.

A Country Procurement Assessment Review (CPAR) carried out in 1997 and funded by the World Bank through the Public Procurement Assessment Reform and Enhanced Capacity Project, revealed that there were serious shortcomings in the Kenyan public procurement system, unearthing the centrality of public procurement in the economy and laid ground for Public Procurement Reforms launched on 25th November, 1998 whose pillars of strengths were transparency, accountability and value for money (PPOA, 2007).

According to Patrick (2009), with the official launch of Public Procurement Reforms, the country set on the reform road in the area of public procurement by; putting in place a unified legal and regulatory framework to guide the reforms. This was realized through the gazettment of the Exchequer and Audit Act (Public Procurement, Regulations, 2001), which harmonized all the Treasury circulars and manuals governing procurement in the public sector. Putting in place an institution to oversee development and implementation of the public procurement policy in Kenya and improve transparency. This was realized through the creation of the Public Procurement Directorate (PPD) to oversee the public procurement process in Kenya and the Public Procurement Complaints, Review and Appeals Board (PPCRAB) to handle tendering disputes (Public Procurement, Regulations, 2001).

Despite this being a huge stride forward in the reforms, an Independent Procurement Review (IPR) of the Kenyan procurement system which was carried out in 2005 pinpointed out various weaknesses, top being the need for fundamental procurement principles in the procurement process to be anchored in an Act of Parliament rather than being relegated to Regulations. Thus it was necessary to deepen the procurement reform process and have a sound legal framework through an Act of Parliament to allow for proper enforcement and remedy the issues arising from the Independent Procurement Review (IPR) (Independent Procurement Review report, 2005).

According to Johnson (2010) the landmark in the reforms was in 2005 when the Public Procurement and Disposal Act, 2005 was enacted by Parliament. The Act established an oversight body, the Public Procurement Oversight Authority (PPOA), Public Procurement Oversight Advisory Board and the Public Procurement Administrative Review Board. It amended all other laws relating to procurement in public entities ensuring that all were done under the umbrella of the Act thus widening the scope of application of the law and providing a proper basis for enforcement. With the gazettment of the subsidiary legislation namely Public Procurement and Disposal Regulations 2006, the law became operational on 1st January 2007 (PPOA, 2007).

The Public Procurement and Disposal Act, 2005 became operational on 1st January 2007 with the gazettment of the Public Procurement and Disposal Regulations, 2006. This called for all public enterprises to strictly execute procurement functions in accordance with the act. However, despite all these regulatory machines, the public sector procurement process is not in tandem with these legislations. According to the study by Price Water House Coopers PWHC (2009), over 50% of public enterprises in Kenya do not comply with procurement regulations and this has created corruption loopholes and other malpractices in procurement processes.

Supplier Relationship Management

Lysons (2005) suggested that centralized purchasing helps in strengthening supplier relationship management practices since it creates a common point of reference that enables effective communication between an enterprise and suppliers. Baily (2007) on the other hand contended that supplier relationship management practices are easily coordinated in a centralized purchasing environment and this facilitates realization of increased efficiency of processes associated with acquiring goods and services, managing inventory, and processing materials.

According to Aljans (2008) in order to develop or improve SRM, an organization needs to implement a supplier segmentation approach that considers the internal needs of the business, spend, and also accounts for all risk and business critical factors. Segmentation uses 4 categories: Strategic category comprises of those few, critical suppliers, on which most relationship management effort is expended to drive collaborative engagement with shared benefits and minimization of risk.

Leeders (2007) contended that relationship managed entails those suppliers with some strategic value, and with whom an element of supplier relationship management needs to be carried out. Performance Managed is applied where the focus is placed upon ensuring delivery of the contracted goods and services at the required cost and service levels rather than on building a collaborative long term relationship (as the supplier is providing goods and services that are not strategically important and are provided from a competitive market environment). Transactional is used where little or no relationship management or performance management activity is undertaken as the suppliers provide infrequent one off goods or services or goods or services of low value to the business and these suppliers can be easily switched out for another if they fail to deliver. Leeders (2007) also concurred that centralized procurement system allows execution of procurement functions by one department and this encourages development of strong relationship between the organization procurement department and the suppliers.

Burt, (2007) affirmed that all successful companies build strong relationships with their suppliers. Companies are not isolated entities that simply purchase goods and services from individuals who happen to be able to supply them at that particular time. Companies typically make larger purchases. In reality, successful companies recognize the need to build bridges between their organization and the vendors that they work with by establishing strong buyer/seller relationships.

According to Ammer (2009) Supplier relationships are different from simple purchasing transactions in several ways. First, there can be a sense of commitment to the supplier. For example, if a vendor sells light bulbs, he can feel confident that the buyer will come to him the next time the company he represents requires a new shipment of light bulbs. Another element of these supplier relationships is advanced planning. Buyers don't just communicate with suppliers when a procurement need arises; they also contact them in order to discuss their future needs and to determine how best to satisfy those needs by working together.

According to Burt (2007) there are of course other benefits to creating robust relationships with suppliers from a customer perspective especially if a standalone SRM function exists. Cross category supplier measurement can take place, risk mitigation exercises (both reactive and proactive) can be undertaken and knowledge and innovation can be shared for mutual gain. Equally SRM function can create a community of the supplier relationship managers or Account Managers, Supply chain Consultants, Supplier Performance Managers in which they can centralize knowledge and deliver revenue generating opportunities for both parties through the exploration of additional, out of current contract business opportunities (Wang, 2006).

Conceptual Framework

The conceptual framework is used to explain how the independent variables affect the dependent variable. The independent variables are; automation, communication, level of procurement regulations compliance and supplier relationship management. The dependent variable is performance of state enterprises.

Automation is the use of control systems and information technologies to reduce the need for human work in the procurement of goods and services. In the scope of industrialization, automation is a step

beyond mechanization. Whereas mechanization provided human operators with machinery to assist them with the muscular requirements of work, automation greatly decreases the need for human sensory and mental requirements as well. Automation plays an increasingly important role in enhancing effective execution of centralized procurement functions (Leeders, 2004). Low level of automation makes it difficult for state enterprises to realize increased organization performance in a centralized procurement system.

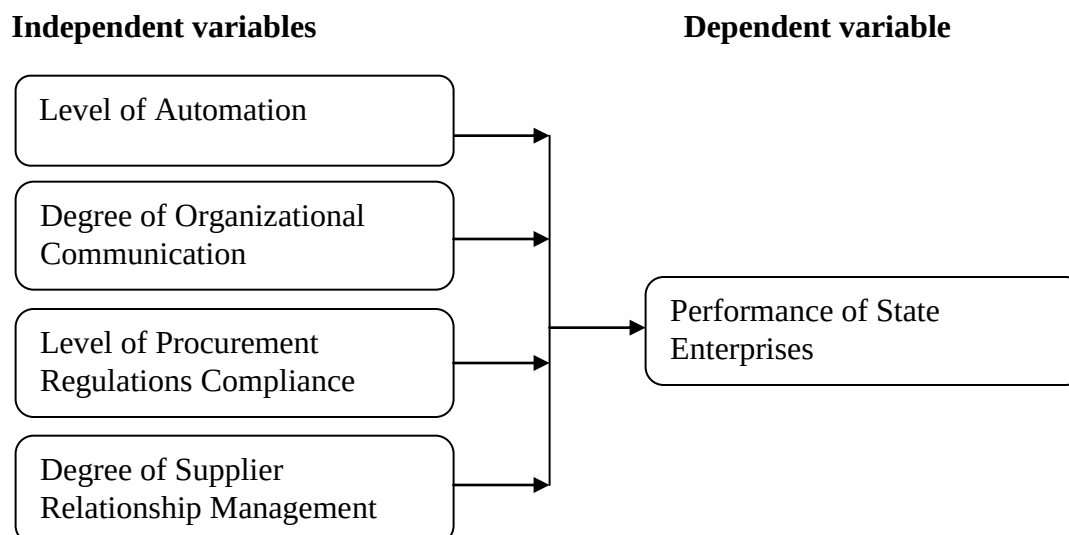
Communication is primarily a mechanical process, in which a message is constructed and encoded by a sender, transmitted through some channel, then received and decoded by a receiver (Mohr, 2010). Centralized procurement system creates communication challenges between the central procurement managers and the field procurement officers since all procurement information must be communicated to the headquarters and the feedback sent back to the organization field branches. The long communication channel creates long lead times that disrupt organization operations in the field and this plays a great role towards realization of declined overall organization performance.

The level of procurement regulation compliance is the degree to which state enterprises applies and follow the procurement guidelines as stipulated in the public procurement Act. Procurement guidelines govern the choice of suppliers, products and the methods and procedures to be used to communicate with suppliers (Patrick, 2009). Most state enterprises that employ centralized procurement system exhibit low level of procurement regulations compliance since cases of noncompliance have been reported which imposes a critical challenge that affects the realization of increased organization performance.

Supplier Relationship Management is an all-inclusive approach to managing the affairs and interactions with the organizations that supply goods and services. This includes communications, business practices, negotiations, methodologies and systems that are used to establish and maintain a relationship with a supplier. Benefits include lower costs, higher quality, better forecasting and less tension between the two entities that result in a win-win relationship (Ammer, 2009). Centralized procurement system leaves the procurement department with too much work that makes it difficult for the procurement staff to give close attention to individual suppliers hence weakening the relationship between the organization and the suppliers. This leads to supply of low quality goods and services that hamper realization of organization performance objectives.

The relationship between the independent variables and dependent variable is presented schematically in the conceptual framework in Figure 2.1.

Figure 1 Conceptual Framework



Empirical Review

A study by Grabner (2005) found out that many organizations in United Kingdom have adopted centralized purchasing functions as a strategy to reduce costs associated with the execution of procurement functions. A study by Chang (2004) found out that in China, most organizations employ centralized procurement functions as a strategy to enhance efficiency and effectiveness in execution of procurement functions. Besides reduced procurement costs as a result of minimal administration expenses, centralized procurement systems create a favorable platform for monitoring and controlling the execution of procurement functions and holding the procurement management accountable for all activities within the procurement department.

A study by Stevens (2009) noted that in Africa, most countries have not effectively managed to employ centralized procurement systems and as a result many corruption loopholes that lead to wastage of government funds are created. Wang (2006) noted that lack of integration of information technology with procurement functions is a core hindrance to the success of centralized procurement system in many government state enterprises in African countries.

In Kenya, A study by KISM (2010) noted that effective application of centralized procurement system could play a great role towards proper monitoring and control of procurement functions within state enterprises since all procurement functions will be executed from one central location. This could help the government save large amount of funds that are normally lost in decentralized procurement systems where shoddy procurement dealings are carried out.

A study by PWC (2010) noted that, centralized procurement systems played a key role towards enhancing realization of increased organization performance in most state enterprises and most organizations that recorded a declined performance had been facing challenges with implementation of centralized procurement system. Johnson (2010) found out that in Kenya, organizations that adopt centralized procurement systems create a favorable environment for effective compliance with procurement regulations. State enterprises that employ centralized procurement systems create a suitable environment for application of Public Procurement and Disposal Act, 2005 and ensure that organizations procurement processes are in tandem with the procurement regulations.

A study by Henrique (2009) identified that implementation of centralized procurement within a company requires focus on three procurement concepts: using procurement data management systems, group buying and consolidation of all key procurement functions. The success of centralized procurement requires communication and close cooperation between the organizations business units and procurement department. Lack of cooperation between the procurement department and other organization departments affects clarity in information sharing and this creates confusion within the central procurement department on right specifications of goods and services to be procured.

A study by Boyle (2009) found out that by concentrating all purchase responsibility in one department, it is possible to achieve standardization to eliminate duplication of effort, and to lower prices as a result of volume buying. Such organization permits the hiring of people professionally trained in the business of purchasing. The vendors and the general public may thus look to one professional staff for information and for assurance that the State's purchases are being handled properly and economically.

The major past activities that have been explained in the theoretical review of the study, have not suggested an effective solution to problems associated with centralization of procurement functions. Instead, the theoretical review explored general issues and arguments raised by different scholars on procurement centralization. The empirical review on the other hand failed to give evidence on how state enterprises could realize increased performance by effectively managing centralized procurement

challenges. These are of little significance towards addressing the effects of centralization of procurement functions on the performance of state enterprises.

Research Gaps

The empirical and theoretical review explained various efforts that have been undertaken to address the effects of centralization of procurement functions on the performance of state enterprises. However the past studies and theoretical suggestions have concentrated much on general procurement issues with no specific focus on the effects of centralization of procurement functions on the performance of state enterprises. This has contributed to the existence of various gaps that include; automation gap, communication gap, procurement regulations compliance gap and supplier relationship management gap. This study will thus narrow its research undertakings into these gaps and give appropriate recommendations on how state enterprise could manage centralized procurement challenges and with a focus to improved performance of state corporations

Methodology

The study adopted a case study research design and the study population comprised of a total of 1490 staff working at Kenya Airports Authority offices in Nairobi. The study applied disproportionate stratified sampling technique coupled with purposive to select a sample size of 135 respondents. The study used questionnaires as the main data collection instruments and a pilot study was conducted to pretest questionnaires for validity and reliability. Descriptive statistics method was applied to analyze quantitative data where data was scored by calculating the percentages, mean, STD deviation and Variance. This was done using Statistical Package for Social Sciences (SPSS) computer software. SPSS is considered appropriate since it allows the researcher to follow clear set of quantitative data analysis procedures that leads to increased data validity and reliability and demonstrates the relationship between the research variables. SPSS also assists in cross tabulation and recording of data frequencies. Correlation analysis was carried out to establish the nature of the existing relationship between the research variables. Qualitative data analysis method was employed to analyze qualitative data gathered using open end questionnaires. The analyzed results were presented on tables and charts and correlation analysis was carried out to establish the relationship between the research variables.

Results And Discussion

Automation

The study found out that centralized procurement function played a great role towards determination of the state of the organization performance as it enhanced standardization of procurement procedures and discouraged existence of irregularities in execution of procurement functions. Majority (85%) of the respondents expressed that centralized procurement system eased automation of organization procurement functions and only few (15%) of the respondents who differed with majority. The respondents who answered yes explained that centralized procurement system led to availability of a central procurement data base that supported computerization of procurement functions. This concurred with argument by Chang (2004) that centralized procurement system leads to a central procurement data base that creates a favorable environment for effective automation of procurement processes. Majority (93%) of the respondents felt that increased level of procurement functions automation greatly improved the state of organization performance and only 7% who failed to agree with the majority. The respondents who answered yes argued that automation of procurement processes through adoption of Enterprise Resource Planning system helped to speed the execution of organization job task functions and elimination of long lead times since quality suppliers were

effectively selected. These greatly impacted positively on organization performance as organization operations were not disrupted.

This argument supported findings by Bell (2007) that Organizations that automate procurement processes through application of Enterprise Resource Planning system speed the execution of organization job tasks and functions and eliminate cases of long lead times since quality suppliers are effectively selected. The study found out that centralized procurement data was highly rated with mean of 4.41 and this indicates that centralized procurement affected automation to a large extent. Budgetary allocation recorded a mean of 4.13 and this demonstrated that budgeted funds affected automation to a large extent. The table clearly presents that financial management was the most highly rated factor with a mean of 4.47 and this indicated that the employed financial management practices affected the level of automation to a large extent. Lastly, procurement of materials and equipment's was rated to affect automation to a large extent with a mean of 4.15. The respondents argued that centralized procurement data helped to minimize manual data recording procedures that were tedious and inaccurate and this hence eased the level of automation since procurement data could be easily integrated with computerized systems. This was in tandem with arguments by Christopher (2004) that availability of centralized procurement data creates a supportive environment for automation of procurement processes since manual procurement procedures that slow the level of automation are eliminated. The variance and standard deviation shows the spreadness of the answers. A low standard deviation and variance is a good symptom, because it shows the questions were designed in such a way that most of the respondents understood the questions and answered them in the same way. This supported findings by Dempsey (2003) that low standard deviation and variance results indicates greater clarity and closeness of the answers given by respondents.

The study identified that centralization of procurement functions led to consolidation of procurement activities in a single department and this led to availability of a central data base that helped in monitoring materials and equipment's usage from various user departments. This helped in creating favorable procurement environment suitable for automation purposes. This supported the argument by Chang (2004) that centralized procurement system leads to a central procurement data base that creates a favorable environment for effective automation of procurement processes.

The study revealed that when most of the organizations procurement functions were automated, this speeded the execution of organization procurement activities such as supplier monitoring and selection and minimization of long lead times during sourcing. The study noted that application of automated systems such as ERP and EDI influenced realization of greater efficiency and effectiveness during execution of organization procurement functions and this contributed towards procurement of quality goods and services that supported achievement of the organization performance objectives. This concurred with findings by Bell (2007) that application of Enterprise Resource Planning system speeds the execution of procurement functions by eliminating long lead times and enhancing selection of quality suppliers.

The study established that centralization of procurement functions led to existence of centralized procurement data that affected automation of procurement processes to a large extent. Lack of enough budgetary provision led to lack of funds for financing automation process. Application of weak financial management practices affected financing of automation process through procurement and implementation of computerized procurement systems. The study further identified that procurement of materials and equipments affected automation of procurement functions to a large extent since application of non-standardized procurement procedures encouraged procurement of low quality materials and equipments that lowered the level of work efficiency in the organization and hence influenced realization of declined organization performance.

Communication

The study found out that centralized procurement system affected the internal and external organization communication since it allowed one procurement point to communicate with suppliers and collect data on supplies needs in the organization. The study found out that majority (76%) of the respondents felt that centralized procurement system affected both internal and external organization communication functions and the responders who differed with the majority were only (24%) of the total response rate. The respondents argued that centralization of procurement processes contributed to communication differences between the purchasing department and the organization user departments that were located in remote stations. This agreed with argument by Burt (2007) that centralization of procurement functions increases communication problems between the purchasing function and the user departments.

The study findings indicated that respondents with a mean of 4.60 strongly agreed that centralized procurement improves communication; a mean of 3.19 indicates that most respondents were neutral on the issue that centralized procurement system leads to delay in communication, a mean of 4.36 demonstrated most of the respondents agreed that centralized procurement leads to delay in decision making and finally a mean of 4.28 indicates that many agreed that centralized procurement affects information quality. The table indicates that on average almost all respondents agreed on all the aspects of communications. The respondents further explained that centralized procurement system triggered communication challenges since top management was the sole decision maker and this led to procurement of goods and services against the demands of user departments in the organization remote branches. This agreed with argument by Baily (2007) that centralized procurement system leads to delay in communication since top management communicates the information to all levels in the organization as the authority is centralized and as such management may fail to communicate the information within the right time. The low variance indicates that respondents' answers were reliable and the high STD deviation on centralized procurement system leads to delay in communication was a result of high deviation of respondent's answers.

The study noted that there existed communication differences between the main purchasing function at the head office and the organization remote procurement sections in the station level since there existed delay in delivery of ordered supplies and sometimes the delivered goods and services failed to comply with the user department specifications. This supported argument by Burt (2007) that centralization of procurement functions leads to communication problems between the purchasing function and the user departments. The study identified that most respondents were neutral on the issue that centralized procurement system leads to delay in communication, most of the respondents agreed that centralized procurement leads to delay in decision making and finally respondents agreed that centralized procurement affected the information quality when procurement officers in organizations remote stations were not consulted during procurement undertakings.

Level of Procurement Regulations Compliance

The study found out that centralized procurement function affected the level of procurement regulation compliance since it allowed execution of procurement functions by single procurement department which was easier to automate than many procurement departments in a decentralized procurement system. The study found out that majority (87%) of the respondents stated that centralized procurement systems supported compliance of procurement regulations and only few (13%) of the respondents who felt that centralized procurement had no effect on compliance with procurement regulations. The respondents who answered yes explained that centralized procurement system influenced increased level of compliance with procurement regulations since it allowed consolidation of all procurement

functions to a single department that followed the regulated procurement processes and eased monitoring of procurement procedures. This supported argument by Johnson (2010) that organizations that adopt centralized procurement systems create a favorable environment for effective compliance with procurement regulations.

The question sought to understand the extent to which centralized procurement system affected the performance of procurement department in the organization. Table 4.10 thus indicates that majority (52.2%) of the respondents felt that centralized procurement system affected the performance of the organization to a very large extent, 39.1% of the respondents stated to a large extent, 4.3% to a moderate extent, 2.25 to a small extent and 2.2% no extent at all. Most respondents explained that centralized procurement system encouraged effective execution of procurement procedures as per the PPOA guidelines and this led to procurement of quality goods and services that contributed towards realization of increased organization performance. This agreed with Patrick (2009) that execution of procurement functions as per the PPOA guidelines helps state enterprises to overcome performance challenges as quality goods and services are made available and cases of misappropriation of organization funds through shoddy procurement dealings are eliminated. A mean of 3.82 indicated that respondents agreed on the opinion that centralized procurement systems supports application of Public Procurement and Disposal Act, 2005 in state enterprises, a mean of 4.65 demonstrates that respondents strongly agreed that the organization strictly execute procurement practices in accordance with the procurement regulations and lastly a mean of 4.52 indicates that respondents agreed that effective application of procurement regulations influences realization of increased organization performance. These findings concurred with findings by Johnson (2010) those state enterprises that employ centralized procurement systems create a suitable environment for application of Public Procurement and Disposal Act, 2005 and ensures that organizations procurement processes are in tandem with the procurement regulations. The low variance and standard deviation is a clear indication that the answers given were properly answered and that there was no error in data analysis. This supported findings by Dempsey (2003) that low standard deviation and variance results indicate greater clarity and closeness of the answers given by respondents.

The consolidation of all procurement activities in one unit allowed execution of procurement functions by qualified professionals who strictly adhered to the procurement procedures stipulated in the procurement Act. This was achieved since authorization of execution of all procurement functions by one department strengthened the environment for procurement regulations adaptation and this supported argument by Johnson (2010) that organizations that adopt centralized procurement systems create a favorable environment for effective compliance with procurement regulations. The study noted that centralized procurement system affected the performance of procurement department in the organization to a large extent since it encouraged effective execution of procurement procedures as per the PPOA guidelines and this supported findings by Patrick (2009) that execution of procurement functions as per the PPOA guidelines helps state enterprises to overcome performance challenges. The study noted that the benefits realized by the organization as a result of adoption of centralized procurement functions ranges from effective application of Public Procurement and Disposal Act, 2005, strict execution of procurement practices in accordance with the procurement regulations and realization of increased organization performance since the performance of procurement department was improved.

Supplier Relationship Management

The study noted that supplier relationship management affected the performance of procurement functions in the organization since centralized procurement system encouraged application of supplier

relationship management strategies such as supplier collaboration and vendor inventory management techniques.

The study found out that majority (76%) of the respondents felt that effective implementation of SRM affected the procurement performance and only (24%) of the respondents differed with majority opinion. The respondents further argued that centralized procurement system created an enabling environment for implementation of various SRM strategies since execution of procurement functions by one department encouraged development of strong relationship between the organization procurement department and the suppliers. This was in tandem with Leeders (2007) that centralized procurement system allows execution of procurement functions by one department and this encourages development of strong relationship between the organization procurement department and the suppliers.

The study noted that majority (41.3%) of the respondents felt that supplier relationship management affected the performance of the organization to a very large extent, 26.1% of the respondents stated to a large extent, 17.4% to a moderate extent, 8.7 to a small extent and 6.5% stated no extent at all. Most respondents affirmed that creation of robust supplier relationship influenced realization of increased organization performance since SRM helped the organization to mitigate various suppliers risks and encouraged innovation and sharing of ideas between the organization and the suppliers. This agreed with argument by Burt (2007) that the benefits of creating robust relationships with suppliers is a risk mitigation exercise (both reactive and proactive) which can be undertaken and knowledge and innovation can be shared for mutual gain.

Study findings showed that 3.89 which shows that respondents agreed that centralized purchasing helps in strengthening supplier relationship management practices; a mean of 4.56 indicates that respondents agreed that supplier collaboration helps in building strong supplier relationship management, a mean of 4.43 still indicates that respondents agreed that supplier relationship management helps in improving inventory management practices and lastly a mean of 4.30 indicates that respondents agreed that decentralized procurement systems weakens supplier relationship management practices. These findings agreed with Lysons (2005) that centralized purchasing helps in strengthening supplier relationship management practices since it creates a common point of reference that enables effective communication between an enterprise and suppliers. The low variance and standard deviation is a clear indication that the answers given were properly answered and that there was no error in data analysis. This agreed with Leeders (2007) that centralized procurement encourages development of strong relationship between the organization procurement department and the suppliers.

It was further identified that supplier relationship management affected the performance of procurement functions to a large extent since it assisted in minimization of suppliers risk and this avoided cases of disruption of organization operations as a result of long lead times, delivery of low quality goods and lack of cooperation. Strong supplier relationship encouraged innovation and sharing of ideas between the organization and the suppliers. This was in tandem with Burt (2007) that robust supplier relationships encourages mitigation of risks and the execution of organization functions without disruption. The study noted that most of the respondents agreed that centralized purchasing helps in strengthening supplier relationship management practices, supplier collaboration helps in building strong supplier relationship management, supplier relationship management helps in improving inventory management practices and lastly decentralized procurement systems weakens supplier relationship management practices.

Conclusions and Recommendations

The key notable effects of centralized procurement functions that affect the performance of state enterprises include; automation, communication, level of procurement regulations compliance and supplier relationship management. Most state enterprises experience performance setbacks as a result of lack of strategic approach to management of these effects prior to implementation of centralized procurement system.

Centralized procurement function eases automation of procurement procedures since it creates a central procurement data base that encourages the application of automated information technologies to procurement processes. This changes the approach of performing procurement tasks, the number and skills of contracting personnel, and the organization's structure. Proper implementation of advanced automation helps to revolutionize workplace productivity and purchasing effectiveness and this influences the organization to speed up the pace of execution of procurement functions. Procurement automation improves the work environment at the organization buying function by providing productivity gains in paper documentation and file preparation. When combined with advanced telecommunications, decision support software, mass data storage, and microcomputer workstations, automated procurement systems enable the development of improved buying processes.

Advanced automation technologies in centralized procurement functions foster paperless procurement systems in which information can be exchanged strictly through electronic networks. These help to gather and coordinate procurement information through electronic mail messages and electronic data interchange (EDI) transactions conveyed over electronic networks to workstations. Automated systems store and retrieve information without using paper and this leads to increased speed and greater effectiveness as procurement decision makers receive better quality information that leads to greater buyer, organizational and market effectiveness and hence influence realization of increased organization performance.

Centralized procurement system eases execution of organization communication practices since it is easier to manage human resources in a centralized system. Training of staff is easily undertaken as many staff members are centrally located and performance management of staff is handled through a common system. However, lack of an effective communication system between the purchasing department and the user departments' leads to purchases of unsuitable goods and services as the specific, detailed requirements of all end-users are not taken into account. The procurement staff in the purchasing department should always be wary of the distance between their own assessment of their needs and what can be delivered on a central basis. In practice, only certain items will be suitable for central procurement, and that list may vary over time and with technical and commercial developments. The purchasing department should thus employ an effective communication channel with user departments in order to arrive at a clear agreement on order specifications. The communication mistakes made by centralized procurement systems in selecting unsuitable goods and services affect a large volume of purchases and result in substantial overspending that lead to declined organization performance.

Centralized procurement functions allow consolidation of all purchasing activities to one procurement department that is easily monitored and controlled by the organization management. This creates a favorable environment for application of standardized procurement procedures that are tailored to suit the requirement of the stipulated procurement guidelines in the Procurement Act. Centralized procurement functions therefore encourage compliance of procurement regulations and this helps to

eliminate inefficiency in procurement undertakings hence contributing to increased performance of procurement department.

Centralization of procurement functions lead to increased purchasing power of the purchasing department and this allows the supply base to be streamlined and overhead costs to be reduced. It also allows the proactive purchaser to seek changes in the supplier's organization and production methods, further reducing costs. This creates strong basis for the development of strong supplier relationship that help in minimization of operation risks and encourages delivery of quality goods and services by the suppliers. Increased supplier collaboration is also realized and procurement expenditure is minimized through the experienced SRM benefits such as free transportation, inventory management and quality improvement. These benefits greatly influence the realization of increased organization performance.

To effectively manage the effects of centralization of procurement functions on the performance of state enterprises, the study gave the following recommendations; State enterprises should adopt centralized procurement system in order to create an enabling environment for automation of procurement functions. This should be done through effective implementation of computerized procurement systems such as Electronic Data Interchange(EDI),Enterprise Resource Planning System (ERP) and other custom made procurement systems such as sourcing and vendor rating software's. The procurement staff should be trained on effective use of the automated systems in order to speed up the execution of procurement functions and encourage application of high quality standards in all procurement undertakings. This when continually applied would result to minimization of long lead times and delivery of quality goods and services that helps to improve the level of organization performance.

The management of state enterprises should improve on organization communication by adopting an effective communication channel that allows sharing of information between central procurement department and the organization user departments. Members of the user departments should be advised on how to draft supplies specifications and how to present such specifications to the procurement department.

To encourage realization of increased level of procurement regulations compliance, state enterprises should standardize procurement procedures and support the central procurement department to carry out purchasing functions. This would help in creation of favorable environment for application of procurement rules and regulations since unlike the decentralized system, centralized procurement functions are easy to monitor and to regulate hence ensuring that all procurement functions are executed in accordance with the Procurement Act. This would contribute to increased efficiency and effectiveness of procurement processes and thus contribute towards realization of state enterprises performance objectives.

To strengthen supplier relationship management in state enterprises, centralization of procurement functions should be continually employed in order to allow execution of procurement functions by qualified professionals with greater understanding on how to build and maintain good supplier relationship. The staff involved in SRM activities should have a good combination of commercial, technical and interpersonal skills. Commercial acumen, market knowledge, analytical abilities and project management expertise are also important. But "softer" skills around communication, listening, influencing and managing change should be considered as critical to developing strong and trusting working relations. The organization management should effectively collaborate with suppliers on matters relating to quality improvement, price reduction and elimination of supplier risks. These would lead to logistics services that support organization performance such as free transportation, vendor managed inventory, reduced operation risks and guarantee of materials and equipment supplies.

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