

ASSESSMENT OF SUPPLIER APPRAISAL INFLUENCE ON PERFORMANCE OF PROCUREMENT FUNCTION IN SERVICE STATE CORPORATIONS IN KENYA

Collins Obura

PhD Student: Jomo Kenyatta University of Agriculture and Technology

Dr. Noor Ismail Shale

Senior Lecturer: Jomo Kenyatta University of Agriculture and Technology

Dr. Clive Mukanzi

Senior Lecturer: Jomo Kenyatta University of Agriculture and Technology

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ABSTRACT

The rise of global sourcing has led organizations to seek effective ways of coordinating material flow and quality improvement particularly when appraising suppliers for non-standard products. Supplier appraisal is a business practice that measures, analyzes, and manages vendor performance in order to reduce costs, minimize risks and promote continuous improvement. The intention is to predict challenges and their main causes so that the unforeseen risks can be dealt with at the initial stages of purchasing. This study focuses on due diligence, communication and supplier commitment as key dimensions to give more insight into the study. Survey was used as the research design. Target population included respondents from service state corporations in Kenya. Stratified random sampling technique was used to attain the study sample size. For data collection, questionnaire was used. The ANOVA findings as explained by $F(1, 156) = 138.317$, $P < 0.05$ (sig. = 0.000) is an indication that Supplier Appraisal is a significant Predictor of performance of procurement function. The study concludes that firms which practice supplier appraisal will gain from improved quality, customer satisfaction, and reduction in acquisition costs.

Keyword: Supplier Appraisal, Due Diligence, Information Flow Supplier Commitment and Performance of Procurement Function.

1. INTRODUCTION

Suppliers can be referred to as entities that supply goods and services to other organizations. In order for a procuring entity to avoid appointing a supplier only to discover at a later date that the supplier is not able to perform effectively due to financial constrain or production capability, supplier appraisal is key. According Lysons (2006), Supplier appraisal is situational and is carried out to critical and strategic suppliers to ensure that these suppliers have the required financial capacity, production and human resource capability to provide the required materials and services before finally being invited to tender for any request. The practice of Supplier Appraisal includes adding value when undertaking acquisition of goods and services through the value chain processes and when making purchasing decisions. The Ultimate goal is to reduce purchasing costs and the environments risk which impacts sourcing practices hence increasing resource efficiency.

Actors from buying and supplying entities are repeatedly confronted with problems that need to be solved to re-establish improved performance. By carrying out supplier appraisal, an organization can set a threshold for its suppliers that can lead to higher quality results in terms of goods works and services (Gadde, 2007). Performance of a supplier is vital to an efficient procurement system and the attainment of procuring entity objectives (Transparency International, 2003). Suppliers that deal with government institutions are required to understand the Quality Assessment requirements and satisfy these where they are specified (AS/NZS ISO 9001). Quality management in procurement can be analyzed from the angle of quality of service and quality of products hence, failure by any organization or management to commit to quality through supplier appraisal can result in service gaps emerging or if already present, widening (Asin, 2016). Compliance audits on regular intervals will enable procuring entities to continuously improve their processes and ensure that all purchasing activities are captured and recorded accordingly (Terziovski, 2007).

Supplier appraisal supports the planning and control of operation and the strategic partnership where both partners to a business dedicate to the agreed terms of trade irrespective of the organization`s size. (Lysons, 2003). Through supplier commitment, the purchasing firm is able to achieve minimum wastage and improvement in lead times and product quality. In this case, the intention of undertaking supplier appraisal is to ensure performance improvement and supplier development through identification of areas where supplier performance fall short of best practice levels. With explosion of information availability, procuring entities are tasked with ensuring that suppliers have all of the information necessary for the delivery of goods, works and services. Performance measures such as Key Performance Indicators (KPIs) and balance scorecards can be used to manage, motivate and reward individuals, teams and suppliers.

1.2 Statement of the problem

In many public institutions, lack of supplier commitment and poor communication between buyer and supplier has led to diminishing stock levels and late deliveries of organizational goods and services. Where government institutions rely on suppliers for capacity and capability, it is in order to effectively manage risks to help mitigate high profile threats. This will promote value addition and order fulfillment and provide platform for decision making. (Public Expenditure Statistical Analysis, 2009). Failure by firms to undertake supplier performance measurement against defined performance criteria such as quality standards and service level agreements, derail the achievement of the agreed level of performance between buyer and supplier. Procurement by its nature is prone to several risks which if not looked into, can greatly affect the flow of materials and coordination between procurement function and other departments within the organization.

1.3 Research Objective

The study main Objective is to assess influence of supplier appraisal on Performance of Procurement Function in service state corporations in Kenya.

1.4 Hypothesis

Supplier appraisal has no significant influence on performance of procurement function

1.5 Justification of the study

1.5.1 State Agencies

The study will enable state agencies develop strategies to significantly improve supplier performance by identifying problems which can be fixed or areas in which support and development is needed.

1.5.2 Other Researchers

This study will add to the existing body of knowledge by providing key information on supplier appraisal on areas such as due, diligence, commitment which are fundamental in ensuring performance of procurement function

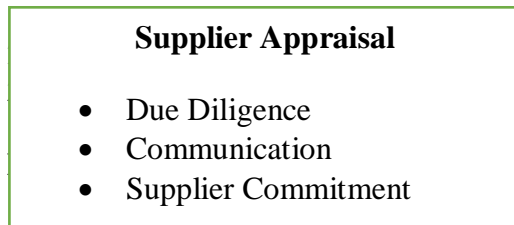
2. LITERATURE REVIEW

2.1 Stakeholder Theory

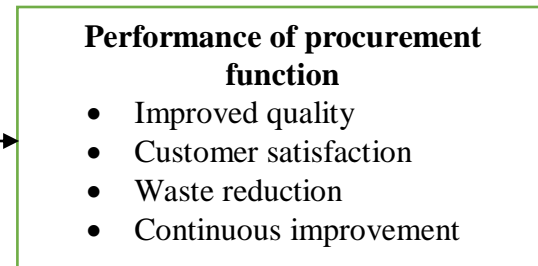
Theory of stakeholder was first developed by Freeman in 1984 as a managerial instrument. To date, the theory is considered as the theory of the firm with high explanatory potential and focuses mainly on interests of stakeholder as the main scalar value of organizational policy.. In public procurement and supply chain at large, supplier are among the main stakeholders since they have direct legal, contractual and commercial dealings with the organization. This theory evaluates the supplier based on three categories. They include corporation, coordination and collaboration. According Spekman et al (2009), the first category which is Co-operation enables organizations to exchange important information and engage suppliers in long-term relationship. Here, the assertion is on the connection between buyer and supplier. Coordination implies an orderly pattern of group effort to ensure unity of action in pursuit of a common goal, whereas in collaboration, organizations work on ensuring seamless flow of information and resources and represent the next level of interaction intensity among supply chain members. Stakeholder theory therefore enables for identification of those suppliers which a firm can work with for continuous improvement, quality development and strategic relationship. Stakeholder Theory is relevant to appraisal of supplier since it support long term relationships with a resultant output of waste reduction, quality improvement, trust and commitment. It seeks to increase the competitiveness of the operations by working closely and building relationships with key stakeholders whose motivation in business management reflects current interests in managing the issue of sustainability in interorganizational set-up (Chan 2010). Stakeholder theory can therefore be used to establish success of procurement function through supplier appraisal.

2.2 Conceptual Framework

Independent Variable



Dependent Variable



2.2.1 Due Diligence

Unknown suppliers pose significant higher risks to an organization. The main reason for using supplier appraisal is to avoid engaging a supplier only to discover at a later date that the supplier cannot perform well. Due diligence is one of the main component of supplier appraisal where an agency performs checks to understand whether a supplier is genuine, capable, financially viable, has required authorities and is of good repute and integrity (ICAC, 2020). The task of due diligence is performed during the procuring sourcing stage. Once suppliers have been identified and before being engaged in any kind of agreement, due diligence is undertaken to ensure that the supplier details are up to date. It is also an important tool for communicating with supplier about their part in supply chain performance, and how they are doing. Globally, Due Diligence is a common practice. For Example, the German Government have proposed an Act which requires companies to analyze human rights in their supply chain, fulfil due diligence and report obligations and establish complaint mechanism (SWP, 2021). Procuring entities can therefore assign Procurement evaluation committee, internal auditors or external management consultants to carry out due diligence on behalf of the organization.

2.2.2 Communication

Supplier appraisal have gained considerable attention in recent past as researches in purchasing and supply management focuses on ways organizations can improve on quality, performance and buyer-supplier relationships. Procurement process begins with need identification, after which specification is developed. If specification enables clear communication to take place between the buyer and supplier at the beginning of the contract, then there is less chance of disputes later on. Within the purchasing function, communication between buyers and suppliers takes place frequently along the procurement cycle including at the pre-qualification stage, during the tender opening stage and during the product delivery. The following five features must be observed when developing communication mechanisms by a firm. First is Clarity, which includes the use of terminology that is understandable to the agency and bidders. Secondly, Communication need to be simple and accurate, i.e avoiding unnecessary details and use of units of measure that are compatible with the industry standard respectively. Communication must also be competitive and Flexible. Accordingly, with the advancement in information technology, procuring entities are required to examine what motivates the specific choice of communication method in the procurement between buyer and supplier. This will ignite supplier confidence and increase trust levels hence creating a better environment for good results (Momanyi, 2016).

2.2.3 Supplier Commitment

Firms conduct supplier appraisal to test the commitment level of suppliers. In conducting the appraisal, long term relationships are sought in order to reduce price volatility and increase procurement function efficiency. According to Sultan (2011), Supplier commitment is the dedication of each partner to maintain and improve their working relationships. The level of commitment therefore should indicate how partners are willing to do business with each other for mutual benefit (Morsy, 2017). Stakeholder theory plays a significant role in enhancing supplier commitment level. The theory evaluates the supplier based on three categories. They include corporation, coordination and collaboration. These dimensions ensure existence of supplier partnership by both customers and suppliers with a resultant output of waste reduction, quality improvement, trust and commitment.

3.METHODOLOGY

3.1 Research Design

Survey was used as the study research design. According to (Mathiyazhagan, 2010), survey designs are used in social science methodology since it has the advantage of having a great deal of information from a larger group of respondents.

3.2 Target Population

The study targeted Audit Managers, ICT managers and Procurement Managers respectively in the 132 service State corporations in Kenya. The study targeted these groups because they are involved in executing key procurement activities at various stages. According to Kothari, (2004), target population consist of the entire number of respondents that meet the designated set of criteria. The table 1 below shows the number of service state corporations, target population and their percentages

Table 1: Distribution of Target Population

Segments	No. of Service S/C	Proc. Manager	Audit Manager	ICT Manager	Target Population	%
Executive Agencies	62	1	1	1	186	46.97%
Independent Regulatory Authority	25	1	1	1	75	18.97%
Research Institutions, Universities and Tertiary institutions	45	1	1	1	135	34.09%
Total	132				396	100.00

3.3 Sample Size and Sampling Technique

This study employed a stratified random sampling technique. Kothari (2004) posits that stratified random sampling is appropriate when the population is not homogeneous. This was appropriate for this study since Service State Corporations are in various sectors and as such, are deemed to

be heterogeneous. The aim of stratification was to ensure that sub-groups were proportionately represented. The study followed the method of Taro Yamane to calculate the sample size using the formula below

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n= sample size

N= Population under study

e= margin error of 5%

3.4 Data Collection Instrument

Questionnaire was used as the main tools for data collection. Questionnaire was used because the study was concerned with variables that could not directly be observed.

3.5 Reliability of the study

Reliability was determined through the use of Cronbach alpha coefficient. According to (Tavakol & Dennick, 2011), Cronbach Alpha Coefficient is an appropriate Model because it is a better indicator of internal consistency of sample items. 0.7 was the minimum cut off point. Any item that was below the 0.7 coefficient reliability was dropped.

3.6 Data Analysis and presentation

Analysis of Variance (ANOVA) was used to test the significant level at 95%. Frequencies, Percentages, mean and standard deviation were some of the descriptive tools used for data analysis

The following regression model was used $Y_1 = \beta_0 + \beta_1 X_1$

Whereby;

Y = Performance of Procurement Function

β_0 = Constant, explaining the level of Performance given

β_1 = Slope or change in Y, given one unit change in X1

X1 = Supplier appraisal

ϵ =represents the error term explaining the variability of the quality of performance as a result of other factors not counted for.

4. RESULTS

4.1 Descriptive Results for Supplier Appraisal

Table 2 below indicate statistical results for supplier appraisal based on the four statements. A linkert scale of 1-5 was used to rate the item responses where; 1= (SD) strongly disagree, 2= (D) disagree, 3=(N) neither agree nor disagree, 4= (A) agree and 5= (SA) strongly agree, as indicated in the table.

Table 2: Descriptive Results for Supplier Appraisal

Statement	SD		D		N		A		SA		M	SD
	F	%	F	%	F	%	F	%	F	%		
Due diligence done to confirm compliance	6	4	8	5	23	15	48	30	72	46	4.44	0.729
Risks of defects is reduced	7	4	13	8	53	33	62	39	23	15	3.51	0.981
There is good communication with suppliers	6	4	5	3	19	12	70	44	58	37	4.22	0.717
Suppliers financial capacity analyzed	1	1	1	1	16	10	62	39	78	49	4.36	0.719
Suppliers show commitment to contract agreements	8	5	6	4	37	23	64	41	43	27	4.36	0.769

From table 2, supplier appraisal had a considerable influence on procurement function performance. For instance, 46% of the respondents agree that Due diligence is carried out by the agencies to confirm supplier compliance. This finding is represented by a mean of 4.44 and a standard deviation of 0.729. This is an indication that suitability of supplier performance is considered is given priority. The findings concur with a research done by Beil (2009) on supplier selection which noted that due diligence is undertaken to appraise suppliers with high risk products and where strategic partnership and collaborative relationships are involved.

On statement on reduction of risk of defects on products due to early supplier involvement in the procurement process, 39% of the respondents agreed that suppliers are involved at an early stage of the procurement process. The finding of this study indicates that service state corporation appreciates the need to introduce suppliers at earliest stages of procurement process hence reducing the risk of defects of products. The finding corresponds with a study by Baily et al (2015) which documents that the buyer will be able to benefit a great deal should the supplier be brought on board at the initial stages of acquisition.

The availability of information has given procurement practitioners opportunity to make informed decisions and improve in their operational efficiencies. Procuring entities are tasked with ensuring that suppliers have all of the information necessary for delivering goods, works and services. On the statement of whether there is good communication with suppliers in service state corporations, (44%) of the respondents agreed that proper communication along supply chain reduces uncertainty and build up an understanding between the buyer and supplier. The finding coincides with a study Colin, M., Galindo. R. & Hernandez O, (2015) which documents that speeding up communication strengthens existent trade agreements between buyer and

supplier.

On supplier financial capability being analyzed before contract award, 49% of the respondents of service state corporations strongly agreed that supplier financial capability is analyzed before contract award. This finding is a strong indication that supplier capacity to perform is given priority before being engaged in any form of contract or agreement. As documented by CIPS (2012), sales turnover, value of capital asset and the scale of borrowing define the financial capacity of a supplier. Therefore, these indicators should be appraised at the initial stages and before offering any contract to supplier.

Lastly, study revealed that suppliers demonstrate commitment to contract agreements as shown by a response rate of 41%. This finding corresponds with a research done by Merilee’s, F & Yasim. A. (2018) which demonstrated the relevance of commitment of and trust to sustainable relationship in supply chain.

4.2 Inferential Statistic

4.2.1 Correlation analysis for Supplier Appraisal

Pearson Correlation Coefficient was computed with scores on Supplier Appraisal as independent variable and performance of Procurement Function as dependent variable. The scores for both variables, which were collected in form of frequencies, were converted into ratio scaled data by computing mean responses of each respondent. Table 3 below shows the correlation analysis.

Table 3: Correlation analysis result

		Performance of Procurement Function
Procurement Records Management	`Pearson Correlation	.686**
	`Sig. (2-tailed)	.000
	`N	158

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

From the above table, there was a moderate positive ($r=.686$, $n=158$, $p=0.000$) and significant relationship between the two variables. The result shows that an improvement of supplier appraisal in the organization will lead to an improvement in the performance of procurement function. Table 3 findings shows that the “supplier appraisal” had a positive correlation with “performance of procurement” function. It indicates that when an organization improves in gathering information about suppliers and is able to appraise suppliers positively, then it will be able to minimize risks and achieve improvement on quality and performance. This is confirmed by the assertion of Moronge (2018) who acknowledges that the Procurement department needs to have a supplier who is reliable and keeps promises in order to maintain an efficient operation in an end to end process.

4.2.1 Regression Analysis for Supplier Appraisal

The study objective was to investigate the influence of supplier appraisal on the performance of procurement function. The study hypothesized that supplier appraisal did not have an influence

on the performance of procurement function. A simple linear regression, model 4 was adopted to test this relationship. The results from the test are presented in the following tables.

Table 4: Regression Model Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.686 ^a	.471	.467	.47579

a. Predictors: (Constant), Supplier Appraisal

From the table the model summary results show the coefficient for determination for relationship, $R^2 = .471$. The model summary results reveal that supplier appraisal accounts for 47.1% of total variance in performance of procurement function while the rest, 52.90% is contributed by other related variables. However, to determine whether Supplier Appraisal was a significant predictor of performance of procurement function, Analysis of Variance (ANOVA) was computed as shown in Table 5 below.

Table 5: Regression ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.312	1	31.312	138.317	.000 ^b
	Residual	35.315	156	.226		
	Total	66.626	157			

a. Dependent Variable: Performance of Procurement Function
 b. Predictors: (Constant), Supplier Appraisal

The ANOVA results reveal $F(1, 156) = 138.317, P < 0.05$ (sig. = 0.000). According to the results, the computed F value, 138.317 is far high than the critical F-value and is greater than 1. This implies that Supplier Appraisal is a significant Predictor of performance of procurement function.

Table 6: Regression Coefficients Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.123	.257		4.369	.000
	Supplier Appraisal	.725	.062	.686	11.761	.000

a. Dependent Variable: Performance of Procurement Function

From table 6 above, there was a positive beta co-efficient of 0.725 as indicated by the coefficient matrix with a p-value = .000 < .05 and a constant of 1.123 with a p-value = .000 < .05. Therefore, both the constant and Supplier Appraisal contribute significantly to performance of Procurement Function. Consequently, the positive beta coefficient implies that a unit change in supplier appraisal results in a rise in performance of procurement function by 0.725 units. As such the null hypothesis was rejected. These results therefore show the variables are related under the

following model: $Y = \beta_0 + \beta_1 X_1 + e$

Where

Y_{PPF} = Performance of Procurement Function

β_0 = constant (coefficient of intercept)

X_1 = Supplier Appraisal

e = error

Hence

$$Y_{PPF} = 1.123 + 0.725X_1 + e$$

(Performance of Procurement Function = 1.123 + 0.725 Supplier Appraisal)

The findings corresponds with a study by Opaleye et al (2020) on effect of supplier relationship management practice. The study revealed that supplier appraisal which is the assessment of potential supplier capability positively and significantly affects a firm's performance. The findings also agree with the study by Darren (2006) on Appraisal and monitoring of suppliers which revealed that the practice of supplier appraisal enables the procuring entity to identify the weaknesses, need for new supplier and the basis for continuous improvement. Mutai and Okello (2016) on effects of supplier evaluation on procurement performance of public universities in Kenya which affirms that supplier quality commitment directly determines the level of quality in products and services obtained through procurement activities. This findings are also echoed by CIPS (2012) which documents that performance of suppliers substantially have impacts on the efficiency and effectiveness of the procuring entity to a great extent.

5.SUMMARY

Descriptive statistics revealed that supplier appraisal had a considerable influence on procurement function performance resulting into timely purchase and provision of quality goods and services. The study revealed that supplier financial capability is well analyzed before contract award which showcase the stability of a supplier hence helping service state corporations to drive better Procurement decisions and mitigate on the risks associated with appointing a supplier only to find out at a later date that the supplier is financially unstable and is unable to commit to the contract.

From the Pearson correlation analysis, the findings indicate that there is linear relationship between supplier appraisal and performance of procurement function. The regression coefficients shows that the relationship performance of procurement function with supplier appraisal, $B_1=0.725$ is significant with $t=11.761$, $P=0.000$. The significance of the observed t-value, which is greater than the critical value, provides further evidence that the two variables are significantly related. From these results, the null hypothesis that there is no significant relationship between supplier appraisal and performance of procurement function in service state Corporation Kenya was rejected. This therefore implies that compliance audit on supplier appraisal helps organizations to reduce defects on products and services hence leading to improvement of quality which in-turn leads to satisfaction of user departments. The study revealed that the existence of supplier commitment in contract award is a key factor in performance of procurement function since it result in a long term relationships between trading partners thus improving performance of procurement function.

6. CONCLUSION

The study concludes that supplier appraisal is significantly related to performance of procurement function. Due diligence done on supplies to confirm material facts was found to be a key practice by the service state corporations in Kenya. On the other hand, engaging supplier at the initial states of product design give rise to quality outcome and promote good relationship between buyer and supplier. Where there is enhanced communication in procurement practice and information is shared freely, trust is achieved and there will be minimal distortion of information from one end of a supply chain to the other which in many cases leads to tremendous inefficiencies. Lastly, when suppliers are committed to contract agreements, organizations can easily achieve the five rights of purchasing. Further benefits from supplier appraisal includes improved quality, customer satisfaction, continuous cost reduction and performance of procurement function.

7. RECOMMENDATION

Government institutions need to develop mechanisms for supplier appraisal to measure supplier performance and manage product quality and supply lead time.

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