

**DIPLOMA IN PROCUREMENT SUPPLY CHAIN MANAGEMENT**

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**EFFECTS OF PROCUREMENT PROCESS IN PERFORMANCE OF SUPPLIES ENTERPRISES:**

**A CASE STUDY OF SUPA LOAF SUPPLIERS IN NAIROBI COUNTY**

# CHAPTER ONE

# INTRODUCTION

# 1.0 Introduction

This chapter consists of the background of the study, statement of the problem, research objectives, research questions, justification of the study as well as limitation of the study.

# 1.1 Background of the study

Sollish and Semanik (2012) defines procurement as to the events handled by a company for proper management of the supply chain. Organizations should readjust their procurement processes with the aim of enhancing efficiency and promoting environmental conservation. Procurement process is an important part of efficient on performance of supplies and is critical for all levels of institutions. An effective procurement process ensures the availability of the right commodities in the right quantities, available at the right time, for the right people and at reasonable prices, and at recognizable standards of quality.

The supply chain has been directly linked to the overall company performance and this has therefore made procurement practices vital to company success. Procurement practices positively impact an organization’s financial performance, the success of a new product depends on procurement and supplier involvement. Most organizations use a substantial amount of their income in procurement and therefore recognize the importance of strategic procurement practices (Guth, 2010). Around the world, supplies enterprises are experiencing an unprecedented pace of change and as a result, they are rapidly re-evaluating their operating models and market strategies not just to withstand these market forces, but capitalize on them. In United States procurement process has a significant role to play in helping the supplies enterprises achieve their objectives and prepare for the uncertainty ahead. In part, this will require procurement process to focus on driving costs out of the cost base. But the opportunity also exists for the function to add value in a much more strategic way (Leenders et al., 2008).

Thai (2011) describes two types of goals in the procurement system: non-procurement goals and procurement goals. Procurement goals are primarily associated with quality, reduction of financial and technical risks, and protection over competition and integrity in the system. Non-procurement goals usually involve the economic, social, and political goals within the system. Achieving efficiency in supplies enterprises is an ambitious task, as procurement faces numerous challenges, especially due to the market structure, the legal framework and the political environment that procurers face (Thai, 2011).

The African institutions have been grappling with poverty and provision of effective services. Tackling the poverty challenge is the responsibility of the institutions in collaboration with other stakeholders. However, the state will deliver more effectively to all citizens and to poor people in particular if certain mechanisms are in place to man the running of operations. Supplies enterprises in developing countries is said to account for up to 25 percent. For several years, the rate in industrialized countries has remained at around 10 percent. Though in absolute terms, the procurement market trade volume in developing countries may not be significant, the relative formation of any economic alliance which most international trade organizations would not afford to easily let go, this is besides also the political impact it may pose (Arrowsmith, 2010).

In the Middle East and Africa in general, central government purchases range from 9 to 13 percent (Gul, 2010). This indicates that procurement process plays a vital role in a country. Procurement therefore has important economic and political implications and ensuring that the process is economical and efficient is crucial. This requires in part that the whole procurement process should be well understood by the actors: government, the procuring entities and the business community or suppliers and other stakeholders, including professional associations, academic entities and the general public. The procurement process is viewed as involving sourcing contracting, monitoring and evaluation, and expediting; based on the model definition by (Van weel, 2012). Procurement process is a function that forms the foundation for the rest of management functions.

In Kenya, supplies enterprises procurement can be broken down into two categories, namely; project specific procurement and general consumable procurement. In project specific procurement, goods, works or services are sought for a particular initiative (e.g. a new road, a hospital, plant and equipment), whereas general consumable procurement relates to items that are required for authority to perform its duties (e.g. fuel, stationery, vehicle parts, road maintenance, and security) (George 2008). According to the Kenya Gazette Supplement No. 92, (2006), there are five types of public procurements; open tenders, where prospective suppliers are invited to compete for a contract advertised in the press and the lowest tender in terms of price is generally accepted although the advertisers usually state that they are not bound to accept the lowest or any tender. Another type of tender is the restricted open tender where prospective suppliers are invited to compete for a contract, the advertising of which is restricted to appropriate local newspapers. Selective tenders are those where tenders are invited from suppliers from an approved list that have been previously vetted regarding their competence and financial standing. In a negotiated tender, a tender is negotiated with only one supplier such that competition is eliminated (Arthur 2009).

# 1.2 Statement of the problem

Supplies enterprises in Kenya have become inefficient and non-profitable requiring the Government to shoulder major procurement burdens. Most organizations failed to take into consideration the proper management of procurement activities by implementing all the necessary procurement processes before embarking on both procurement and purchasing activities of the organization. The importance of procurement process to organization in terms of competitive advantage and profitability seems untapped by most agricultural firms in Kenya. Perhaps it is not being considered as a strategic function which most organizations must adopt in order to have an edge over their contemporaries and competitors. In terms of cost reduction, inventory management and enterprise resource planning most of the business firms tend to lag behind. Moreover, it must also be noted that the list of what and how organizations purchase nowadays is varied and practically endless, despite having various studies undertaken on procurement processes by various researchers, none of the studies have particularly addressed the effects of procurement process in performance of supplies enterprises in Nairobi County. This has created a significant knowledge gap and therefore forms the basis for this study; hence the need to study the effects of procurement process in performance of supplies enterprises in Kenya to bridge the gap.

# 1.3 Objectives of the study

**1.3.1 General Objective**

The general objective of this study was to establish the effects of procurement process in performance of supplies enterprises in Supa Loaf Suppliers in Nairobi County.

**1.3.2 Specific Objectives**

The specific objectives of the study include: -

1. To examine how the procurement management affect performance of Supa Loaf Suppliers in Nairobi County.
2. To find out the buyer-supplier relationships on performance of Supa Loaf Suppliers in Nairobi County.
3. To establish how supplier selection procedures, affect performance of Supa Loaf Suppliers in Nairobi County.
4. To determine how organizational capacity, affect performance of Supa Loaf Suppliers in Nairobi County.

# 1.4 Research Questions

The study was guided by the following as the research questions.

1. How does the procurement management affect performance of Supa Loaf Suppliers in Nairobi County?
2. How is the buyer-supplier relationship on performance of Supa Loaf Suppliers in Nairobi County?
3. How does the supplier selection procedure affect performance of Supa Loaf Suppliers in Nairobi County?
4. How does the organizational capacity affect performance of Supa Loaf Suppliers in Nairobi County?

# 1.5 Significance of the study

**1.5.1 Management of Supa Loaf Suppliers Company**

The study may be of importance to the management of Supa Loaf Suppliers Company. It will provide information to the management and make the administration to know the various ways that the organization can improve the performance of supplies to be able to come up with better strategies in procurement process in the industry and seek ways to work on the weak areas and strengthen the positive factors in order to enhance competitiveness.

**1.5.2 Other Researchers**

The research study will be of great importance to other researchers who shall carry out research on different issues by showing them the procedures to follow hence come up with better results in their research. Also, the research may be of great importance to federation of Kenya employers who depends on workers who came up with policies to govern the employer.

# 1.6 Limitations of the Study

**1.6.1 Fear of Victimization**

The secrecy and fear of victimization especially on issues deemed detrimental to the organization by the employees will end up limiting the study. To overcome the limitation the researcher will therefore assure the respondent that the information gathered will be very confidential and is for academic purposes only.

**1.6.2 Confidentiality**

The organization under survey has the policies regarding to information confidentiality and employees are restricted on which information they share with non-members of the organization. However, the researcher will overcome this by assuring the respondents that the information collected will be kept confidential.

**1.6.3 Finance and Time**

The researcher may get finance and time constraints as the main sponsor of this research project however, the researcher will use the available resources to accomplish the research project in time. In gathering secondary data, some of the publications that will not be available and not up to date hence the researcher will gather literature from other resource centers concentrated in Nairobi County.

# 1.7 Scope of the study

The study will cover the effects of procurement process in performance of supplies enterprises in Supa Loaf Suppliers. The study will be limited to Supa Loaf Suppliers in Nairobi County and generalized to other counties.

# 1.8 Definition of operational terms

**Procurement:** Refers to acquisition by purchase, rental, lease, or by any other method of assets, works, services or goods including livestock or any combination.

**Cost Effectiveness:** Refers to the act of comparing the output achieved by combining different inputs.

**Procurement Methods:** Refers to the procedures that are spelt out to be used in acquiring public supplies

**Procurement Process:** Refers to the system that is used in acquiring school supplies.

**Procuring Entity:** Refers to a public institution making purchase and acquisition to which public procurement and disposal act applies.