

## **POSITIONING OF PROCUREMENT FUNCTIONS AND ITS INFLUENCE ON SERVICE DELIVERY: A CASE OF ELGEIYO MARAKWET COUNTY, KENYA**

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### **ABSTRACT**

The current study sought to establish strategic positioning of procurement functions in Elgeiyo Marakwet County. The objectives of the study were to determine strategic position of procurement function in Organizational Structure and effects on service delivery and the effects of government policy on strategic positioning of procurement functions in Elgeiyo Marakwet County, Kenya. Descriptive survey design was adopted in this study; the target population was all the employees in administrative position at various departments. Cluster, purposive and simple random sampling was used to select the respondents. Questionnaires and key informant interviews was employed in data collection. Descriptive statistics summarized the data into frequencies and percentages while inferential statistics indicated the relationship between procurement positioning and service delivery. The study established that the position of procurement function in the organization structure influence service delivery in the County Government. The study findings indicated that decision making for procurement lies with the county executives making procurement functions highly centralized. The Chief procurement officer is not strategically positioned to take part in procurement decision. Concerning the organization in the procurement department, it was found that procurement staffs have a good knowledge of the Counties strategic goals, procurement functions are included in the County strategic planning process, The County government develops procurement staff to develop some elements of competitive strategy. The study findings indicated that the procurement policy is quite comprehensive in addressing various sectors in procurement which include: setting standard procurement guidelines that are aimed at enhancing competition, efficiency and value for money, requiring adoption of e-procurement to enhance transparency and competition in the procurement functions, stipulating composition of the procurement committee in the County government and requiring publication of tenders in the medium that allow large number of audiences to access. It was noted that the policy does not stipulate the positioning of the procurement function.

**KEYWORDS:** Procurement Performance, Service Delivery

### **INTRODUCTION**

Research on strategic procurement functions has received increased attention in recent years. Strategic procurement may be defined as the process of planning, implementing, evaluating, and controlling strategic and operative procurement decisions for directing all activities of the procurement function towards opportunities consistent with the firm's capabilities to achieve its long-term goals (James 2007). The term organizational design refers to the process of assessing and selecting the structure of an organization, which includes formal systems of communication, coordination, control, division of labor, authority and responsibility, with the intention to facilitate the achievement of organizational goals (Trent 2004). By assigning tasks to the members of an organization and by allocating resources to organizational

entities and redesigning the structure of an organization are the main prerequisites for efficient task completion (Dietl, and Frank 2002). In an environment characterized by global competition and increasingly demanding customers, a structure that matches the requirements of competition is an essential component of organizational competitiveness. In the area of procurement, researchers have studied patterns in the organization of procurement, identified contextual factors that influence its design or analyzed the contribution of the procurement organization to Procurement performance or the performance of the entire organization. More systematic approach towards research on the procurement organization is necessary (Hartmann, and Bals 2009). Chen et al., (2004) argue that strategic purchasing can engender sustainable competitive advantage for a firm by enabling them to foster close working relationships with a limited number of suppliers, promote open communication among supply-chain partners, and develop long term strategic relationships oriented to achieving mutual gains. They find that purchasing can contribute directly to the firm's bottom line, through enhanced buyer-supplier relationships, enhanced operational performance, and enhanced financial performance. The study aimed at evaluating strategic positioning of procurement functions in the Kenyan County Government with specific reference to Baringo County.

### **Statement of the Problem**

The importance of public organizations as an entity designed to serve the public, along with the imperative for public accountability, makes studying the problems associated with the public sector essential (Trionfetti, 2000). Public procurement systems are central to the effectiveness of development expenditure. Budgets get translated into services largely through the governments' purchases of goods, services and works. It is estimated that 15% of the world's Gross Domestic Product (GDP) is spent through public procurement (Development Assistance Committee, 2005). It is further estimated that public procurement accounts for 9%–13% of the GDP of the economies of developing countries. In Angola, public procurement accounts for 58%, it accounts for 40% in Malawi while in Uganda, it accounts for 70% of public spending (Thai, 2001). Given the significant role played by public procurement function in public service delivery, there have been a lot of challenges associated with it. This has resulted in a lot of policy reforms in the sector. Besides the amendment of the PPD Act and the alignment of the regulations in accordance with the new Constitution, the successful implementation of a sound, transparent, fair, equal, competitive, effective and value for money orientated public procurement system require strategic organizational restructuring. The county governments, which were newly created through the 2010 Constitution with the sole aim of bringing service delivery closer to people. This noble goal might not be is the most challenging task for the next couple of years to come.

### **Objectives of the Study**

The study was guided by the following specific objectives:

- To determine position of procurement function in Organizational Structure and effects on service delivery in of Elgeiyo Marakwet County.
- To establish the effects of government policy on positioning of procurement functions in Elgeiyo Marakwet County.

## LITERATURE REVIEW

There has long been a debate amongst academics regarding the inclusion of procurement in the corporate strategy of a company. Cousins (2005) and Ramsay (2001) both propose that this debate was started in the 1970's through David Farmer's efforts to raise the procurement function's strategic profile in the organization (Farmer, 1976, 1978, and 1981). The recognition of procurement as a strategically valuable function was enhanced significantly when Porter emphasized the importance of the buyer in his five-force model (Carr & Smeltzer, 1997)). Hogan & Armstrong (2001) show that a strategic procurement function can assist to sustain competitive advantage in three ways: by providing value in the area of cost management, providing valuable information regarding supply trends that enables the company to make better decisions, and establishing close relationships with suppliers which lead to improvements in efficient quality and delivery of materials. The procurement function can be characterized as a strategic function if it is integrated into the company's Corporate Strategic Planning Process. The goal of a strategic purchasing function is to support a company's efforts to achieve its long-term goals, and in so doing, it can help to increase the company's competitive advantage (Carr and Pearson, 2002). Carr and Pearson (2002) proved that strategic procurement has a significant relationship with a company's financial performance, and that it can add value to a firm. The purchasing function is elevated to a strategic level in the organization structure to realize the value adding potential of procurement functions. While procurement alone can be considered as a strategic differentiator in a business, the alignment of procurement and organizational strategies is important. Procurement managers should therefore understand the company's competitive pressures and priorities and align their procurement strategies to fit these demands (Cousins, 2005). It is clear from the above discussion that strategic procurement positioning can add significantly to organizational performance. But how should it be strategically positioned to provide the greatest benefit to the organization?

Research on the procurement organization has not only been studied in privately owned companies, but has paid attention to the procurement function of public institutions as well. Since the procurement process in the public sector is subject to a different legal framework than private procurement, and since public institutions typically pursue a different set of goals than private companies (Telgen, Harland, & Knight 2007), it is reasonable to assume that differences in the procurement organization exist. Johnson, Leenders & McCue (2003) compared the procurement organization in public and private institutions and showed that the structure of purchasing is more complex and formalized in public than in private institutions, which may be due to the fact that public institutions use public funds and have to ensure transparency and accountability. Johnson, Leenders, & McCue (2003) further showed that public institutions tend to rely on a higher degree of centralization in organizing their procurement activities, which may be a result of efforts to reduce variability in the procurement process and to ensure that employees adhere to formal process descriptions and the regulations of public procurement law. Public institutions are subject to public procurement law, which necessitates that public tendering procedures have to be applied and which permits international sourcing activities only to a very limited extent. (Johnson, Leenders, & McCue, 2003) analyzed the use of sourcing teams in public institutions and compared their results with studies that focused on the private sector. The results indicate that sourcing teams are less frequently used in public than in private institutions. This may be attributed to the fact that public institutions are not active in new product development, which is a typical field of application for purchasing teams. However, the authors found that public institutions tend to use teams that involve internal customers, which may be due to the requirements of the public procurement process, where

procurement agents have to formulate tender documents which contain detailed information about product characteristics, while expert knowledge is located in the requiring units. This necessitates a close cooperation between the procurement agent and the internal customer. Intergovernmental cooperative procurement is a special form of cooperative sourcing, where public agencies jointly procure. Nollet & Beaulieu (2005) defined a procurement group as a formal or virtual structure that facilitates the consolidation of procurement for many organizations. Consolidation refers to a procurement practice used to transfer activities such as bidding, supplier evaluation or contract management to a central entity. Since public institutions are normally not in direct competition with each other, collaborative procurement initiatives are more common in public than in private institutions (Johnson, Leenders, & McCue 2003) and have consequently received increased attention in recent years (Essig 2000).

During a long-term study of the trends and changes in procurement management throughout the 1990's, Trent and Monczka (1998) found that the right organizational structure is essential for the effective implementation of leading edge procurement strategies. Procurement can be incorporated into an organizational hierarchy at one of three different levels, as depicted. In general, the higher the function is positioned in the organizational hierarchy, the greater the role it is able to play in the strategy development. A number of factors can influence the positioning of the procurement function: the organization's history and the philosophy of the founder, the type of industry in which the organization operates, the total value of goods and services procured, the type of goods or services purchased, and the ability of procurement to influence the overall performance of the organization (Monczka et al, 2002). Cousins *et al.*, (2006) undertook research aimed at investigating the different patterns of procurement function configurations, and the relationships between these patterns and organizational performance. They found that procurement organizations can be separated into four types based on their levels of strategic planning, status, internal integration and skills. They name these four groups; Undeveloped Purchasers, Celebrity Purchasers, Capable Purchasers, and Strategic Purchasers and described how the effectiveness of the procurement function increased as they move from undeveloped to strategic. Strategic procurement was found to be heavily involved in strategic planning, was closely aligned with internal business requirements, and was highly regarded by top management. In order to be effective at a strategic level, procurement needs to develop and foster cross-functional integration within the organization.

Procurement performance can be defined as the extent to which the purchasing function is able to realize its predetermined goals at the sacrifice of a minimum of the organizations' resources (van Weele, 2005). Monczka et al (2002) propose that there are four primary reasons why an organization would want to measure the performance of the procurement function. Firstly, the process of measurement will make performance and results more visible, which should lead to better decision making since it will help to identify those areas where performance falls short. Secondly, the existence of performance expectations requires improved communication to ensure that all stakeholders understand their roll in meeting the objectives. Thirdly, because the results are more visible, the performance feedback allows for the prevention and correction of problems. Finally, the process of measurement will motivate and direct behaviour in the most desirable direction. The way in which performance is measured will depend to a large extent on how management views the role and importance of purchasing. Procurement performance can be considered in terms of two elements, effectiveness and efficiency, and along four dimensions, a price/cost dimension, a product/quality dimension, a logistics dimension, and an organizational dimension. Effectiveness is related to the goals and objectives of the purchasing function, and efficiency is related to the resources which are required to realize these goals and objectives (van Weele, 2005). Procurement

managers have a very wide range of key performance measures available to them for measuring and tracking the performance of their functions. Checketts & Bartolini (2006) however identified the top ten key performance indicators (KPI) used by procurement managers, of specific relevance is the fact that cost saving ranks high on the list even though best-in-class procurement managers generally tend to be conservative in their savings estimates, preferring smaller, more consistent year-on-year gains. Increasing spend under management was considered as the most important KPI by all other managers (best-in-class excluded). Given that Increasing spend under management is considered as the most important KPI by the majority of procurement managers, Checketts & Bartolini (2006) then looked at the top strategies for improving this aspect, with the overwhelming preference being to analyze and distribute spend data. The primary motivation for this is the belief that end users and procurement staff should be enticed as well as compelled to comply with the defined policies and procedures.

## RESEARCH METHODOLOGY

This study adopted a descriptive research design because it portrays an accurate profile of persons, events, or situations and allows in-depth examination of the problem. According to (Tromp, 2006) a descriptive design is a description of the state of affairs, as it exists. The current study aims at achieving a better understanding of the current status of positioning of procurement function in the Kenyan County Government. The study was conducted in Elgeyo Marakwet County. According to Mugenda and Mugenda (2003) target population or absolute population is all that conforms to a given specification that a researcher would like to generalize results from. The study targeted employees in all the departments in Elgeyo Marakwet County Head quarters and members of the public seeking services from the County Departments. From the records there are a total of 967 employees at the County head quarters. A proportionate cluster sampling, purposive and simple random sampling method was used. The researcher purposively target employees in the administrative positions in the entire departments at the County head quarter, once the employees in the administrative position are established. A sample size of 282 was established using statistics formulae. The sample was distributed proportionately in all the departments. Simple random sampling was used to select the respondents for the study. The study collected both primary and secondary data. The researcher used questionnaire and interviews to collect primary data. Quantitative data was analyzed using descriptive statistical methods, frequencies and percentage with the aid of Statistical Package for Social Scientist (SPSS) version 20. According to (Mugenda & Mugenda, 2003) descriptive statistics features assist in variable response comparison and gives a clear indication of response frequencies. Qualitative data from open ended questions and interview schedule with the key informants will be more detailed and therefore will require a more complex analysis technique.

## RESEARCH FINDINGS

The demographic characteristics included gender, age and academic level. The demographic characteristics of the respondents were as follows; 166 (63%) of respondents were males and 98 (37%) of respondents were females. The data showed that majority of respondents were males. This finding shows that 30% constitutional gender rule has been upheld in the County recruitment process. The age distribution of the respondents was that the majority of the respondents 121(46%) aged between 40-49 years, 24(9%) aged between 18-29, 61(23%) aged between 30-39 years, while 58(22%) aged above 50. The study indicated on the academic qualification of the respondents that most of the respondents

146(55.3%) had diploma, 84(31.8%) had Bachelors' degree, 18(7%) had certificate while 16(6.1%) had other qualification such as PhD among others professional certifications.

### Position of Procurement Function in Organizational Structure

The first objective of the study was to determine position of procurement function in organizational structure and effects on service delivery in of Elgeiyo Marakwet County. The study established that there are standardized procurement procedures as indicated by 147(55.7%) agreed, 92(34.8%) strongly agreed and only 5(1.9%) disagreed. Majority of the respondents 128(48.5%) agreed, and 70(26.5%) strongly disagreed that decision making for procurement lies with the county executives, while 5(1.9%) disagreed and 2(0.8%) strongly disagreed. Similarly, it was found that procurement functions are highly centralized as indicated by 119(45.1%) of respondents who agreed and 94(35.6%) who strongly agreed, while few of them 8(3.0%) disagreed and 2(0.8%) who strongly disagreed. The findings agree with (Johnson and Leenders, 2006) whose study results indicated that hybrid procurement organizations are most commonly used in many industries and that a shift towards a higher use of hybrid procurement organizations has occurred over time.

**Table 1: Position of Procurement Function in Organizational Structure**

|  |   | SA   | A    | U    | D   | SDA |
|--|---|------|------|------|-----|-----|
| The organization have standardized procurement procedure   | F | 92   | 147  | 20   | 5   | 0   |
|  | % | 34.8 | 55.7 | 7.6  | 1.9 | 0.0 |
| The decision making for procurement lies with the county Executives  | F | 70   | 128  | 59   | 5   | 2   |
|  | % | 26.5 | 48.5 | 22.3 | 1.9 | 0.8 |
| The procurement functions are highly centralized   | F | 94   | 119  | 41   | 8   | 2   |
|  | % | 35.6 | 45.1 | 15.5 | 3.0 | 0.8 |
| The chief procurement officers is not strategically positioned to contribute to major procurement decision | F | 70   | 133  | 50   | 9   | 2   |
|  | % | 26.5 | 50.4 | 18.9 | 3.4 | 0.8 |
| There is specialization within the department that enhance efficiency                                      | F | 94   | 119  | 41   | 8   | 2   |
|  | % | 35.6 | 45.1 | 15.5 | 3.0 | 0.8 |
| The members of executive committee lacks professionals in procurement functions                            | F | 73   | 117  | 67   | 5   | 2   |
|  | % | 27.7 | 44.3 | 25.4 | 1.9 | 0.8 |

Highly centralized procurement organizations seem to be more prevalent than highly decentralized structures, especially in the public sector. Majority of the respondents 133(50.4%) agreed, and 70(26.5%) strongly agreed, the Chief procurement officer is not strategically positioned to take part in procurement decision, compared to 9(3.4%) who disagreed and 2(0.8%) that strongly disagreed. The study established that the specialty within the department enhance efficiency since 119(45.1%) agreed and 94(35.6%) strongly agreed against 8(3.0%) who disagreed and 2(0.8%) that strongly disagreed. The study established that County executives lack professionals in the procurement functions as indicated by 117(44.3%) who agreed and 73(27.7%) who strongly agreed, while 5(1.9%) and 2(0.8) who disagreed and strongly disagreed respectively. The above information is summarized in table 1. The researcher conducted correlation analysis to establish whether there is a relationship between variables under study and service delivery. The correlation analysis indicates that there is a positive correlation ( $r = .391$ ,  $p = 0.00$ ) between position of procurement function and service delivery.

## Procurement Policy

The fourth objective of the study was to establish the effects of government policy on positioning of procurement functions in Elgeiyo Marakwet County. The study findings indicated that the policy sets standard procurement guidelines that are aimed at enhancing competition, efficiency and value for money, as indicated by the majority of the respondents 155(58.7%) who agreed, and 13(4.9%) that strongly agreed while 18(6.8%) and 4(1.5%) that disagreed and strongly disagreed respectively. The study is in agreement with the guidelines set in PPD Act 2005, which plays an important role in the standardization of the public procurement practices across all procuring entities in Kenya (PPOA, 2009).

**Table 2: Response on Procurement**

|   |   | SA   | A    | U    | D   | SD  |
|---|---|------|------|------|-----|-----|
| The policy sets standard procurement guidelines that are aimed at enhancing competition, efficiency and value for money | F | 13   | 155  | 74   | 18  | 4   |
|   | % | 4.9  | 58.7 | 28.0 | 6.8 | 1.5 |
| The policy requires adoption of e-procurement to enhance transparency and competition in procurement functions          | F | 47   | 143  | 70   | 2   | 2   |
|   | % | 17.8 | 54.2 | 26.5 | 0.8 | 0.8 |
| Procurement policy clearly stipulate the composition of the procurement committee in the County government              | F | 80   | 108  | 67   | 8   | 1   |
|   | % | 30.3 | 40.9 | 25.4 | 3.0 | 0.4 |
| The policy require publications of tenders through mediums that can allow large numbers of audients to access           | F | 70   | 107  | 80   | 5   | 2   |
|   | % | 26.5 | 40.5 | 30.3 | 1.9 | 0.8 |
| The policy does not strategically position procurement function in the County governments.                              | F | 108  | 102  | 42   | 6   | 0   |
|   | % | 40.9 | 38.6 | 15.9 | 2.3 | 0.0 |

Majority of the respondents 143(54.2%) agreed and 47(17.8%) strongly agreed that the policy requires adoption of e-procurement to enhance transparency and competition in the procurement functions while a small proportion 2(0.8%) disagreed and similar proportion strongly disagreed. The majority of the respondents 108(40.9%) agreed and 80(30.3%) strongly agreed that the policy stipulate composition of the procurement committee in the County government while 8(3.0%) disagreed and 1(0.4%) strongly disagreed. Majority of the respondents 107(40.5%) agreed and 70(26.5%) strongly agreed that policy require publication of tenders in the medium that allow large number of audiences to access, while 5(1.5%) disagreed and 2(0.4%) strongly disagreed. The study findings indicated that the policy does not stipulate the positioning of the procurement function as evidenced by large proportion of respondents 108(40.9) who strongly agreed and 102(38.6%) that agreed as compared with 6(2.3%) who disagreed as presented in table 2. The researcher conducted correlation analysis to establish whether there is a relationship between variables under study and service delivery. The results also indicated positive correlation (.575,  $p = 0.00$ ) between contextual factors and service.

### Service Delivery

The aim of the study was to establish positioning of procurement functions and its influence on service delivery in Elgeiyo Marakwet County. To measure service delivery, a five Likert scale questionnaire was presented to members of the public who were seeking various services from the County offices. The researcher managed to obtain response from 165 members of the public. On the statement that County employees provides prompt and timely services to the public, 84(50.9%) agreed, 12(7.3%) strongly agree, while 51(30.9%) disagreed. Majority of the respondents 113(68.5%) agreed that complaints by members of the public are constructively handled, while 17(10.3%) disagreed and 11(6.7%) strongly disagreed.

**Table 3: Response on Service Delivery**

|  |   | SA  | A    | U    | D    | SDA  |
|--|---|-----|------|------|------|------|
| County employee provides prompt and timely service to the public                           | F | 12  | 84   | 18   | 51   | 0    |
|  | % | 7.3 | 50.9 | 10.9 | 30.9 | 0.0  |
| Complaints by members of public are constructively handled                                 | F | 0   | 113  | 24   | 17   | 11   |
|  | % | 0.0 | 68.5 | 14.5 | 10.3 | 6.7  |
| County employees are courteous when dealing with members of the public                     | F | 3   | 86   | 26   | 31   | 19   |
|  | % | 1.8 | 52.1 | 15.8 | 18.8 | 11.5 |
| The employees communicate in the language that members of the public understand            | F | 0   | 78   | 24   | 55   | 8    |
|  | % | 0.0 | 47.3 | 14.5 | 33.3 | 4.8  |
| Accurate information is communicated to the public in good time                            | F | 2   | 118  | 12   | 21   | 12   |
|  | % | 1.2 | 71.5 | 7.3  | 12.7 | 7.3  |
| Full range of services is delivered to the public efficiently                              | F | 6   | 9    | 5    | 145  | 0    |
|  | % | 3.6 | 5.5  | 3.0  | 87.9 | 0.0  |
| Report on budget performance are available for public scrutiny                             | F | 0   | 14   | 12   | 139  | 0    |
|  | % | 0.0 | 8.5  | 7.3  | 84.2 | 0.0  |
| The members of the public are satisfied with the services offered by the County government | F | 0   | 33   | 47   | 80   | 5    |
|  | % | 0.0 | 20.0 | 28.5 | 48.5 | 3.0  |

The study established that the county employees are courteous when dealing with members of the public, as indicated by majority 86(52.1%) agreed, 3(1.8%) strongly agreed while 31(18.8%) disagreed, and 19(11.5%) strongly disagreed. Majority of the respondents 78(47.3%) agreed that the County employees communicate in the language that the members of the public understand, while 55(33.3%) disagreed and 8(4.8%) strongly disagreed. Most of the respondents 118(71.5%) agreed that accurate information are communicated to public in time, 2(1.2%) strongly agreed, while 21(12.7%) disagreed and 12(7.3) strongly disagreed. The findings indicated that majority of the respondents 145(87.5%) disagreed that full range of services is delivered to the public efficiently compared to 6(3.6%) who strongly agreed and 9(5.5%) who agreed. Similarly, it was also found that report on budget performance is not available for public scrutiny, as indicated by majority of the respondents 139(84.2%) disagreed while 14 (8.5%) agreed. Majority of the respondents 80(48.5%) disagreed on statement that members of the public are satisfied with the services offered by county government



while 33(20.0%) agreed.

## CONCLUSIONS

The study concluded that procurement staffs had a good knowledge of the Counties strategic goals, procurement functions are included in the County strategic planning process, The County government develops procurement staff to develop some elements of competitive strategy. The results indicate that the organization in the procurement department has been sufficiently capacitated to enhance efficient procurement function. The study findings indicated that the procurement policy is quite comprehensive in addressing various sectors in procurement which include: setting standard procurement guidelines that are aimed at enhancing competition, efficiency and value for money, requiring adoption of e-procurement to enhance transparency and competition in the procurement functions, stipulating composition of the procurement committee in the County government and requiring publication of tenders in the medium that allow large number of audiences to access. It was noted that the policy does not stipulate the positioning of the procurement function.

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