



**INFLUENCE OF PROCUREMENT MANAGEMENT PRACTICES ON
COMPETITIVENESS OF COMMERCIAL BANKS IN KENYA: A CASE OF
STANDARD CHARTERED BANK**

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Abstract

Procurement is recognized as a key supply chain function. It is a central concern for managers given that the typical manufacturing firm spends approximately 50 percent of its revenue on procurement-related activities. As a result, scholarly interest in procurement research has grown around the globe. Unfortunately, while the procurement function is believed to be critically important to firm performance, the current understandings of the mechanisms that drive a firm's procurement capability are not widely studied. Most of the studies attempting to explain the influence of procurement management on competitiveness of commercial banks have focused more on developed and developing economies. This study sought to establish the influence that the procurement management practices has on competitiveness of commercial banks in Kenya. It deeply studied how procurement planning, procurement controls, procurement monitoring and procurement staffing influence the competitiveness of commercial banks in Kenya with a particular focus on Standard Chartered Bank of Kenya. The study established that the research model predicts 57.1% of the competitiveness of commercial banks in Kenya. The study therefore commercial banks should adopt procurement planning as a best practice. It is also recommended that the process of coming up with the procurement plans and budgets should be as consultative as possible to satisfy the interests of different stakeholders. Procurement monitoring systems should be well laid out and proper reporting mechanisms implemented. The study also recommends that commercial banks should strengthen their procurement departments by hiring the right people.

Keywords: *competitiveness of firms, financial performance, procurement management*

1. INTRODUCTION

Procurement is the acquisition of goods, services and works from an outside source at the best possible cost to meet the needs of the purchaser in terms of quality and quantity, time and location (Eurodad, 2009). Efficiency in procurement is a way of obtaining the desired goods or services at the lowest price or, more generally, at the best value for money. The most common practices of procurement involve some form of tender or auction, and it is believed that, under these, efficient procurement outcomes can usually be achieved in situations where there are enough firms in the procurement market to sustain reasonable competition.

Monczka and Trent (2008) identified the following benefits when organizations effectively manage the procurement function: cost reduction, enhanced profitability, assured supplies, quality improvements, and competitive advantage. Versendaal and Brinkkemper (2003) provide no less than twenty different benefits derived from several sources in the procurement and e-business literature in America. Those benefits can be categorized as follows: process-related (with e.g. the benefit of improved sourcing decisions), cost-related (e.g. reduced purchasing costs), product quality-related (e.g. better product quality), and organization-related (e.g. increased trustworthiness). In an investigation of procurement improvement effectiveness, Accenture (2002) in a survey carried out in Europe, identified the following four procurement performance indicators: purchase price index, quality conformance, raw material inventory turnover, and supplier delivery accuracy.

Over the past few years, developing countries have been awakened on the importance of effective management of the public procurement process at both central and local government levels, and its subsequent contribution to improved governance of the public sector (and private sector for this discussion). Procurement; a function that was traditionally viewed as a clerical and reactive task has since positioned itself among core organizational functions, and its management is becoming increasingly critical for the well-functioning of any organization as noted by Basheka (2008) in Uganda.

Borozanov (2010) in a survey carried out in South Africa noted that banks in developing countries particularly in Africa face particular organizational and capability challenges in delivering systematic savings in their procurement function, compared to companies in sectors such as manufacturing, transportation or retail. The main drivers behind this are the presence of decentralized structures and unclear governance issues caused by mergers and acquisitions activity within the industry. Another driver is the underinvestment in procurement expertise due to historically higher margins in the sector, and the corresponding lack of urgency (Borozanov, 2010).

Commercial banks in Kenya play a major role in Kenya. They contribute to economic growth of the country by making funds available for investors to borrow as well as financial deepening in the country. Commercial banks therefore have a key role in the financial sector and to the whole economy (Central Bank of Kenya, 2012). Standard Chartered spends around US\$1 billion annually on the procurement of goods and services. This includes spending on technology, property, travel, professional, human resource and banking services. The company recognizes

the need to manage this expenditure from a social, ethical and environmental perspective by ensuring that suppliers meet the bank's high standards of responsible behavior. The procurement process at Standard Chartered Bank involves the management screening the suppliers to ensure that they observe human rights in their production processes, ethical standards and environmental watch (Standard Chartered Bank, 2013).

Procurement planning is the primary function that sets the stage for subsequent procurement activities. It 'fuels and then ignites' the engine of the procurement process. A mistake in procurement planning therefore has wide implications for local governance, measured from the two indicators of accountability and participation. Procurement Planning is a process of determining the procurement needs of an entity and the timing of their acquisition and their funding such that the entities operations are met as required in an efficient way (Basheka, 2008).

Procurement controls like other controls is a key area for risk minimization for all institutions. Despite the organization having policies and procedures for their operations, they also need to put in place controls to mitigate any risks. Procurement is inherently risky given the fact that it involves movement of company resources; the temptation to apply the resources for personal interest may be high. Controls should therefore be emphasized in banks so as to improve the financial performance (Croom & Johnston, 2003).

Statement of the Problem

The problem that this study sought to address was how poor practices in procurement management affect the competitiveness of commercial banks in Kenya. Many financial institutions are faced with the problem of cost minimization while ensuring they maintain quality of the services that they provide to their customers. The issue of cost cutting is looked at from different perspectives; unfortunately, most of these organizations do not recognize the role proper management of the procurement function can play in cutting organization costs and consequently improving financial performance (Thomson & Jackson, 2007).

Tarus (2015) noted that senior banking executives face a vexing dilemma in this commercial banking environment, where there is great urgency to reduce costs and improve efficiency. He notes that cutting costs indiscriminately or too deeply may severely hamper the ability to grow revenues when the economic outlook improves. Accenture (2008) noted that arbitrary cost reduction based on rationales of "sharing the pain equally across the organization" is no longer sufficient. Accenture noted that the differentiating power of procurement is no longer in bringing down prices only but in understanding the market environment, your vendors, their strategies, and what makes them tick. Tarus (2015) also noted that procurement management is still viewed as a non-strategic area in commercial banking industry in Kenya and that strategic sourcing of materials, works and services has not been embraced. Kariuki (2013) noted that there have been a lot of wastages in the banking industry as a result of poor procurement practices. It is therefore important to evaluate the influence of procurement management on the competitiveness of the banking industry in Kenya.

Basheka (2008) did a study on procurement planning and accountability of local government procurement systems in Developing countries in Uganda. In Kenya, some of the studies carried

out in this area are; Kariuki (2013) on e-procurement and supply chain management in standard chartered Bank of Kenya, Murungi (2012) on the role of procurement planning in effectiveness in supply chain management. There are few empirical investigations studies that have focused on the influence of procurement management practices on the competitiveness of commercial banking industry performance. In an attempt to address this knowledge gap, this study was conceived. Therefore, this study sought to examine the influence of procurement management practices on the competitiveness of commercial banks in Kenya.

Objectives of the Study

The general objective of the study was to establish the influence of procurement management practices on the competitiveness of commercial banks in Kenya.

The specific objectives were:

- i. To determine the influence of procurement planning on the competitiveness of Standard Chartered Bank Kenya.
- ii. To assess the influence of procurement controls on the competitiveness of Standard Chartered Bank Kenya.
- iii. To establish the influence of procurement monitoring on the competitiveness of Standard Chartered Bank Kenya.
- iv. To determine the influence of procurement staffing on the competitiveness of Standard Chartered Bank Kenya.

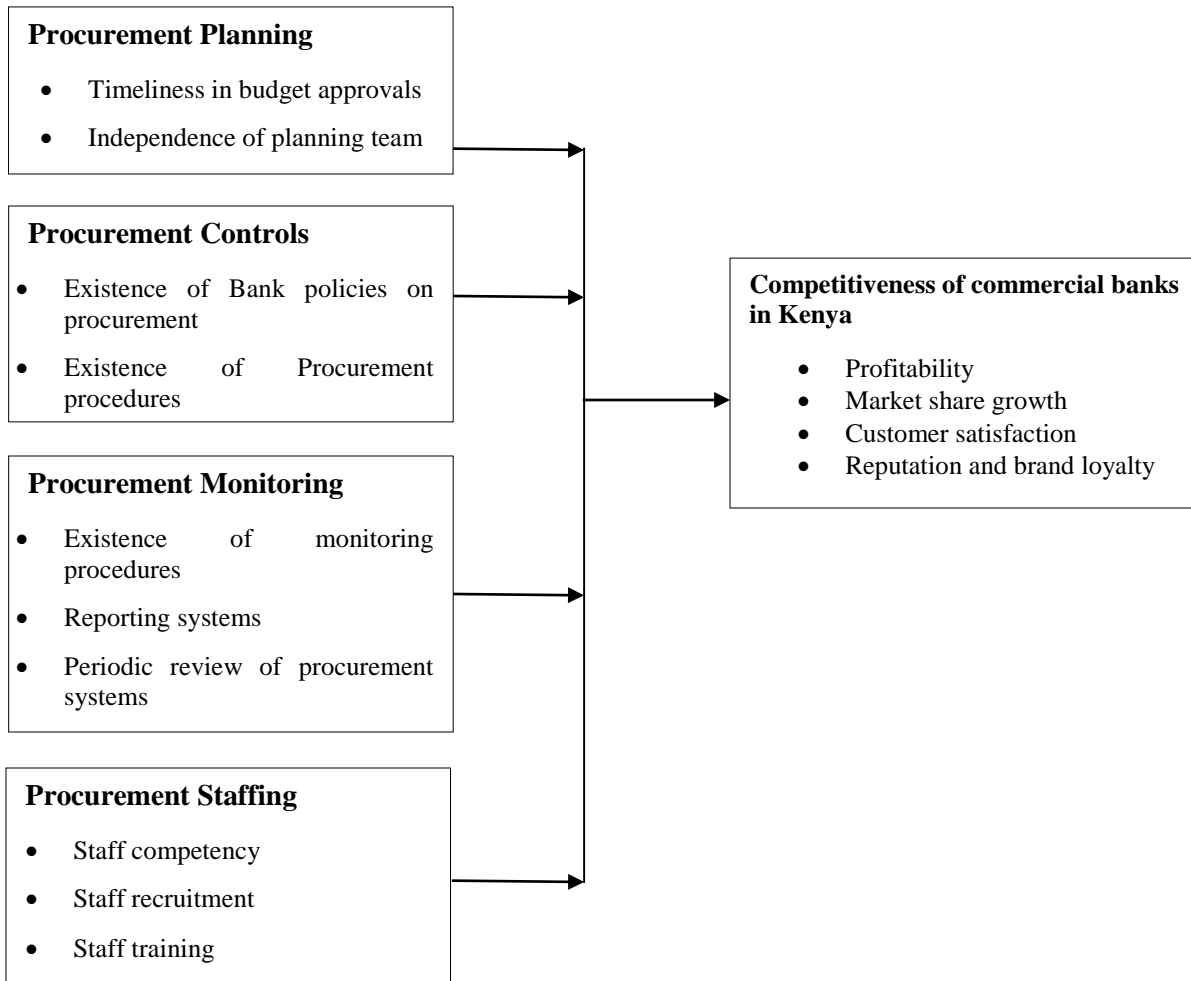
Research Questions

- i. What is the influence of procurement planning influence on the competitiveness of Standard Chartered Bank Kenya?
- ii. What is the influence of procurement controls on the competitiveness of Standard Chartered Bank Kenya?
- iii. How does procurement monitoring influence the competitiveness of Standard Chartered Bank Kenya?
- iv. How does procurement staffing influence the competitiveness of Standard Chartered Bank Kenya?

II. LITERATURE REVIEW

Based on the study's objectives, the organizational support theory, agency theory, stakeholder management theory and incentive theory were reviewed out of which a conceptual framework was developed.

Conceptual Framework



Independent variables

Dependent variable

Figure 1: Conceptual Framework

III. RESEARCH METHODOLOGY

The data used in this study was collected using questionnaires, from the employees of Standard Chartered Bank of Kenya six branches. The study used simple random sampling and purposive methods in coming up with a sample size of 69.

Descriptive statistics such as frequencies and percentages and augmented with measures of central tendency (mean) and dispersion (standard deviation) were used. Additionally, multiple linear regression analysis was conducted to determine the relationship between dependent (Competitiveness of Commercial Banks) and independent variables (procurement planning, procurement controls, procurement monitoring and procurement staffing).

IV. RESEACH FINDINGS AND DISCUSSION

Procurement Planning

The respondents were requested to indicate their level of agreement with the assertion that procurement planning influences the competitiveness of the bank. According to the findings, 86% of the respondents strongly agreed that procurement planning influences the competitiveness of the bank, 12% of the respondents agreed that procurement planning influences the competitiveness of the bank while 2% disagreed with that assertion. The findings are as shown in table 1. This collaborates the findings of Bailey (2000) who noted that early and accurate planning is essential to avoid last minute, emergency or ill-planned procurement, which is contrary to open, efficient and effective and consequently transparent procurement. This is further collaborated by Thomson and Jackson (2007) who noted that most potential savings in the procurement process are achieved by improvements in the planning stages.

Procurement Controls

The respondents were asked to indicate the extent to which they agreed with the stated attributes of a procurement controls influence on the competitiveness of commercial banks. According to the findings, the respondents agreed with a mean of 3.54 and a standard deviation of 0.504 that existence of policies on procurement as a means of procurement control lead to a higher competitiveness of the commercial banks. The respondents strongly agreed with a mean of 4.13 and a standard deviation of 0.609 that existence of procurement procedures enhance procurement controls leading to improved competitiveness of the banks. The respondents further agreed with a mean of 3.69 and a standard deviation of 0.780 that procurement controls should be strengthened and given more focus by the procurement managers. Nantege (2011) observed that proper procurement controls leads to better savings in that money is not misused and is used for the purpose it is intended for. Thus better controls prevents maverick spending. The findings are as shown in table 1 in the next page.

Table 1: Attributes of procurement controls and competitiveness of banks

Attribute	N	Mean	Std. Deviation
Existence of policies on procurement as a means of procurement control lead to a higher competitiveness of the commercial banks.	60	3.54	0.504
Existence of procurement procedures enhance procurement controls leading to improved competitiveness of the banks.	60	4.13	0.609
Procurement controls should be strengthened and given more focus by the procurement managers.	60	3.69	0.780

Procurement Monitoring

The respondents were asked to indicate the extent to which they agreed with the stated attributes of a procurement monitoring influence on the competitiveness of commercial banks. According to the findings in table 2, the respondents strongly agreed with a mean of 4.54 and a standard deviation of 0.614 that there is a relationship between procurement monitoring and the competitiveness of the commercial banks. The respondents also agreed with a mean of 3.67 and a standard deviation of 0.609 that existence of monitoring procedures of the procurement function lead to higher competitiveness of the banks. The respondents further agreed with a mean of 3.55 and a standard deviation of 0.762 that periodic review of the procurement systems lead to better monitoring of the procurement function. Finally, the respondents strongly agreed with a mean of 4.61 and a standard deviation of 0.652 that procurement monitoring should be strengthened and given more focus by the procurement managers. The findings are as shown in table 2. This is supported by to D'Avanzo, *et al.*, (2003) who noted that procurement activities must be skillfully monitored to ensure adherence to legislation, set procedures and best practice and that monitoring is also necessary to guarantee procurement operates efficiently and effectively as possible to realize organizational objectives within available resources.

Table 2: Attributes of Procurement monitoring and the Competitiveness of Banks

Attribute	N	Mean	Std. Deviation
There is a relationship between procurement monitoring and the competitiveness of the banks	60	4.54	0.614
Existence of monitoring procedures of the procurement Function lead to a higher competitiveness of the bank	60	3.67	0.609
Periodic review of the procurement systems leads to Better monitoring of the procurement function.	60	3.55	0.762
Procurement monitoring should be strengthened and given more focus by the procurement managers	60	4.61	0.652

Procurement Staffing

The respondents were asked to indicate the extent to which they agreed with the stated attributes of a procurement staffing as a contributor to the competitiveness of commercial banks. According to the findings, the respondents agreed with a mean of 3.75 and a standard deviation of 0.95743 that there is a relationship between procurement staffing and the competitiveness of the commercial banks. The respondents also agreed with a mean of 4.06 and a standard deviation of 0.57735 that good staffing practices improve the effectiveness of the procurement function. The respondents with a mean of 2.75 and a standard deviation of 0.5 further noted that they were satisfied with assertion that laying down HR policies and procedures helps in putting up an effective procurement department. The respondents further agreed with a mean of 3.95 and a standard deviation of 0.57735 that procurement staffing should be strengthened and given more focus by the procurement managers. This is collaborated by Kakwezi and Sony (2010) who noted that, the ability of any organization to realize procurement goals is influenced by internal force. The findings are as shown in the next table 3.

Table 3: Attributes of Procurement staffing and the Competitiveness of Banks

Attribute	N	Mean	Std. Deviation
There is a relationship between procurement staffing and the competitiveness of the banks	60	3.75	0.95743
Good staffing practices improve the effectiveness of the procurement function	60	4.06	0.57735
Laying down HR policies and procedures helps in putting up an effective procurement department	60	2.75	0.50
Procurement staffing should be strengthened and given more focus by the procurement managers	60	3.95	0.57735

Regression Analysis

The researcher conducted a multiple linear regression analysis so as to determine the relationship between the competitiveness of commercial banks and the four independent variables. The regression model was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

whereby: β_0 is the regression intercept; β_1 - β_4 is the regression coefficients; Y is the dependent variable (Competitiveness of Commercial Banks); X1 is the procurement planning; X2 is procurement controls; X3 is procurement monitoring and X4 is procurement staffing.

The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable. The four independent variables that were studied, explain 57.1% of the competitiveness of commercial banks as represented by R square. This therefore means that other variables not studied in this research contribute 42.9% of the competitiveness of commercial banks in Kenya. Therefore, further research should be conducted to investigate the other variables and factors (42.9%) that influence competitiveness of commercial banks in Kenya.

Table 4: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.756 ^a	0.571	0.508	1.99163

a. Predictors: (Constant), procurement planning, procurement controls, procurement monitoring, procurement staffing

The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how procurement planning, procurement controls, procurement monitoring and procurement staffing influence competitiveness of commercial banks. The F critical at 5% level of significance was 2.7278. Since F calculated which can be noted from the Anova table above is 8.999 which is greater than the F critical (value = 2.7278), this shows that the overall model was significant.

Table 5: ANOVA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	142.777	5	35.694	8.999	.000 ^b
1	Residual	107.098	54	3.967		
	Total	249.875	59			

a. Dependent Variable: Competitiveness of commercial banks

b. Predictors: (Constant), procurement planning, procurement controls, procurement monitoring, procurement staffing

As per the coefficient table 5 the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$) becomes:

$$Y = 0.177X_1 + 0.072X_2 + 0.352X_3 + 0.118X_4 + 1.777$$

Where Y is the dependent variable (Competitiveness of Commercial Banks); X1 is the procurement planning; X2 is procurement controls; X3 is procurement monitoring and X4 is procurement staffing.

Discussion

Procurement Planning

The study sought to establish the influence of procurement planning on the competitiveness of the commercial banks. This study established that there is a relationship between procurement

planning and the competitiveness of the commercial banks. The study also established that timelines in budget approvals as a way of procurement planning leads to a higher competitiveness of the bank. This shows that organizations that practice strict adherence to budget for decision making in purchasing achieved faster progress toward achieving financial objectives.

The study also indicated independence of the planning team leads to a better procurement planning which enables realization of effective cost management. The study also found out that procurement planning is the primary function that sets the stage for subsequent procurement activities and as such, the study found that procurement planning should be strengthened and given more focus by procurement managers.

Procurement Control

The study sought to evaluate how procurement controls influences the competitiveness of the commercial banks. This study established that there is a relationship between procurement controls and the competitiveness of the commercial banks. The study established that existence of policies and procurement procedures as a means of procurement control lead to competitiveness in the banks through effective cost management control, ethical trading and management of supply chain risks. The study findings indicate that there is potential for substantial cost reduction simply by catching errors at the source.

The study also found out that most banks have different approval levels as the most efficient control mechanism alongside separation of duties for procurement staff and involvement of the internal audit in the procurement process. These findings mean that organizations need to put in place controls cutting across functional teams to mitigate any risks. These findings support stakeholder management theory which states there may be a number of internal stakeholders possibly with conflicting goals adding complexity to the decision making process. However, for harmony the stakeholders should be involved. Through different approval levels, involvement of internal audit and separation of duties for procurement staff, stakeholders are engaged for harmony.

Procurement Monitoring

The study sought to evaluate how procurement monitoring influences the competitiveness of commercial banks. This study established that periodic review of the procurement systems leads to a better monitoring of the procurement function which in turn is able to deliver the functional objectives. This finding indicates that for efficient procurement monitoring of procurement should be done on a continuous process to ensure that the procurement system in use is properly implemented to meet the intended objectives. The study also revealed that existence of monitoring procedures of the procurement function leads to a higher competitiveness of the banks. The study also revealed most banks has enough control mechanisms in their operations and the level of procurement monitoring is high. The study however revealed that procuring

monitoring should be strengthened and given more focus by procurement managers. These findings indicate that monitoring the performance of the purchasing function yields benefits to organizations such as cost reduction, enhanced profitability, assured supplies, quality improvements and competitive advantage.

Procurement staffing

The study sought to evaluate how procurement staffing influences the competitiveness of commercial banks in Kenya. The study revealed that good staffing practices improve the effectiveness of the procurement function. The study also revealed that laying down HR policies and procedures helps in putting up an effective procurement department. The study further established that skills and competencies of procurement staff in the organization influences its competitiveness. This finding indicates that bringing a sufficient number of supply management professionals into purchasing can help the organization to increase the value it receives from its purchasing spending which in turn improves its competitive edge.

The study further revealed that procurement staffing should be strengthened and given more focus by the procurement managers to achieve the intended objectives. This finding is particularly important since procurement managers continue to face recruitment and retention challenges especially in finding qualified employees with the right skill sets; including knowledge and capabilities relevant to the current procurement environment and that retention of key talent is core in the management of procurement. The findings support the incentives theory and the organizational support theory which notes that HR practices that affect employee skills, employee motivation, and structure of work can create strategic advantage for the organization. The incentive theory highlights a basic trade-off between cost reduction and rent extraction which is a matter of concern in procurement management in terms incentives. The business cannot monitor the manager's effort toward cost cutting and may not be able to induce the managers in form of incentives to make the maximum of effort to contain the organization's procurement costs.

V. CONCLUSION

The findings indicated that skills and competencies in procurement are a key element in driving procurement effectiveness. The results also revealed that procurement control and monitoring mechanisms are a must for commercial banks to survive in the market with cut throat competition. The study also revealed that procurement planning is the prerequisite of the effective procurement management and efficiency and must be adopted by any organization. The study however revealed that more need to be done especially in staffing, planning and more monitoring mechanisms in the commercial banks.

VI. RECOMMENDATIONS

The study confirmed that procurement management practices have a strong influence on the competitiveness of commercial banks. It is very important for the commercial banks to enhance their procurement management practices in order to survive in the market with cutthroat competition. Control systems should be enhanced and commercial banks should strengthen their procurement departments by hiring qualified people, providing proper incentives and developing skills and competencies that are key in driving value through the procurement department. From the study and related conclusions, the researcher recommends further research in the area of procurement management practices. More variables can be incorporated in the study and the scope be expanded to include other industries and state agencies.

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