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INFLUENCE OF FINANCING SUPPLIER ON PROCUREMENT PERFORMANCE OF PUBLIC UNIVERSITIES IN MOMBASA COUNTY, KENYA

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***Abstract**: Procurement departments in public universities in Kenya are facing increasing number of complex challenges in procurement performance due to lack of supplier development. The study the researcher seeks to examine the influence of Supplier Financing Supplier on procurement performance in public universities in Kenya.*

***Methodology:** A census of all the 91 employees was conducted with the respondents including procurement top management, senior procurement staff, procurement officers, stores staff and procurement/store assistants. The study employed the cross-sectional research design. Data was collected using a questionnaire. A pilot study was completed to refine the instrument. Data was analysed using descriptive and inferential statistics and the hypotheses of the study tested using Analysis of Variance. Descriptive statistics such as frequencies, means and percentages were also used to report the quantitative data.*

***Findings:** Regression results revealed supplier financing had a significant influence on procurement performance. However, supplier financing was rated low by most respondent's supplier. Thus, the study recommends that public universities should invest more on supplier financial assistance by paying suppliers timely. This leads to the conclusion that it is beneficial for organizations to invest in supplier development as a way of improving procurement performance in public universities in Kenya.*

***Keywords**: Supplier Financing, Procurement Performance, Public Universities, Supplier Development*

Introduction

The supplier development philosophy originated from the Japanese automotive industry after the World War Two. According to Sako (2013), lectures, seminars and training courses for Toyota Motor Corporation employees were made available to core supplier employees as early as the 1950s. Supplier development later spread and gained root in the European and North American automotive industries in the 1980s (Handfield, Krause, Scannell & Monczka, 2015). The practice was subsequently embraced by North American manufacturing firms outside the automotive industry such as John Deere, Motorola, Harley-Davidson, Digital Equipment Corporation and Marks and Spencer (Wagner, 2016).

Supplier development is defined as any effort by a buying firm to increase the performance and capabilities of their supplier. It is the process of working collaboratively with suppliers to improve or expand their capabilities (Dominick, 2014). It is a bilateral effort by both the buying and supplying organization to jointly improve the supplier's performance or capabilities in one or more of the following areas: cost, quality, delivery lead time, technological advancement, safety and environmental responsibility, managerial capability and financial viability (Krause, Handfield, & Tyler, 2017). It is the process of having the buying organization work directly with certain suppliers to improve their performance for the benefit of the buying organization. There are various objectives which buying organizations seek to accomplish in their supplier development undertaking. These may include; improving supplier performance, reducing product costs, reducing lead-times, resolving serious quality issues, developing new routes to supply, developing new product in the market. Before undertaking supplier development on any supplier, the purchasing professionals responsible for the project must select the ideal supplier for development based on their current capacity compared to ideal capability, their cooperation with buying organization, product or service supplied, nature and scope of development required.

Public universities in Kenya are financed by the government and guided by PPADA 2015.All the universities are expected to have a well-established procurement department in order to ensure there is procurement performance as required. According to EACC report (2015), "about 31% of the procurement official surveyed indicated to have terminated procurement process midway between one and five times in the year 2012 and 2013. The reasons given for termination include insufficient funds (25%), changes in prices of goods (14%), non-adherence to timelines by supplier (15%), non-delivery of goods (10%), poor quality (9%) and incorrect specifications of goods supplied (18%)". Most of the universities in Kenya have since adapted use of PPADA 2015 as it's a requirement of all public entities . The movement towards closer cooperation between buyers and suppliers also results from the global and competitive marketplace that focuses on cost, quality, delivery, flexibility, and technology, which subsequently create a greater need to emphasize inter-firm collaboration with various business partners to enhance procurement performance (Korir, 2018).

However, all over the world there is increased reliance on suppliers for organization's own ability to meet customer requirements and expectations, and even, in some cases, to comply with legal and regulatory requirements, organizations are under increasing pressure to avoid supplier problems and to attract and retain the high performers (Martin & Grbac, 2018). Contractual relationships have been hypothesized to have a significant effect on the performance of organizations but many firms that have engaged in contractual relationships with their suppliers, have been found to still suffer from losses either owing to litigation costs or from the failure of suppliers to meet conditions stipulated.

Empirical studies show that several studies have been done of supplier development and procurement performance. Yegon, Kosgei and Lagat (2015) evaluated the effect of supplier development on buyer-performance in the sugar milling firms in Western Kenya; in which they conceptualized supplier development to be comprised of supplier technical support and financial support. Lubale and Kioko (2016) evaluated effects of supplier development on organizational performance of Kenya Power Limited; with their study focusing on supplier evaluation, supplier incentives and supplier partnership as the components comprising supplier development. Oromo and Mwangangi (2017) examined effects of supplier development on procurement performance of listed companies at the Nairobi Securities Exchange; in which they operationalized supplier development as supplier capacity, supplier capability, and continuous improvement. Shigoli and Simba (2017) examined the determinants of supplier development practices in public institutions in Kenya. Their studies failed to adequately address the concept of supplier development, focusing more on top management commitment, supply chain timelines and costs, and supply chain compliance. Gachini and Namusonge (2018) examined effects of supplier development on performance of supermarket chains in Kenya; whereby they conceptualized supplier development as comprising supplier evaluation, buyer-supplier communication, supplier capabilities, and supplier management.

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Influence of Supplier Financing on Procurement Performance

As indicated by Choi (2018), provider budgetary help is the purchasers' exertion towards its providers to persistently spot monetary shortcomings inside its supply base and taking the important money related help to evade supply interruptions and increment provider money related wellbeing in order to meet his present moment and long haul monetary commitments. Money related help is a basic achievement factor in provider improvement and provider execution. As indicated by Heidi and John (2017), demonstrated money related help gives the purchasing firm expanded provider rivalry in the worldwide market and possibly diminishes transportation and other calculated expenses of providers. The present effective purchasers can credit their accomplishment to their significant purchaser provider relationship possible through purchasers' drive to help provider by means of specialized help, budgetary help and through provider preparing so as to accomplish predominant execution and shared addition for the two gatherings.

Budgetary venture can likewise allude to the purchasing association’s exertion to build up their provider by participating in human and capital assets which incorporates direct interest in gear and instruments and specialized help at the provider site (Li et al., 2017). At the point when the provider gets assessment input from the purchasing association for enhancements, the firm needs to give recommendations or work force to provider site (Krause *et al.*, 2000; Prahinski and Benton, 2018). Such activity of the purchasing firm persuades the immediate contribution of their potential providers including budgetary assets (Wagner, 2016).

Arrangement of money related help might be stretched out to explicit providers who may encounter monetary troubles to enable them to meet their budgetary commitments. This can be as up-front instalments, credits, gear gifts and so forth which helps a provider in gaining operational limit which they might not have been prepared to do. A provider who is appropriately and sufficiently monetarily bolstered expands the purchasing association’s capacity to convey high calibre and creative items to its clients and in this manner lessens purchasers' operational dangers. Provider's budgetary help is basic in deciding the provider's capacity to remain monetarily dissolvable (Wagner, 2016). Budgetary help improves providers' ability and ability to adapt to the purchasers' necessity and in this manner reinforces the providers' ability to meet asset prerequisites by the purchaser.

In this study, supplier development is operationalized to entail supplier financing. To manage procurement costs in public universities, there is a need to relook at adoption of supplier development. This study seeks to provide a link between supplier development and procurement performance before providing a policy recommendation on the best supplier development practices to be adopted. With the challenges facing procurement activities in the public sector, and specifically public universities, it was hard to generalize the findings of other studies to this sector, hence there was a need to fill this contextual scope by focusing on the influence of supplier financing on procurement performance among public universities with specific focus on public universities in Mombasa County.

Theoretical Framework

This paper was anchored on Resource Based View Theory. Resource Based View (RBV) is a key hypothetical establishment for seeing how manageable upper hand can be accomplished in associations. RBV is a monetary hypothesis that proposes that firm execution is a component of the sorts of assets and capacities constrained by firms (Barney, 2008). An asset is a moderately perceptible, tradable resource that adds to an association's market position by improving client esteem or bringing down expense (or both); and a capacity signifies the capacity of a firm to achieve errands that are connected to higher financial execution by expanding esteem, diminishing expense or both (Walker, 2009).

Barney (2008) likewise portrays assets as substantial and elusive resources a firm uses to think about and actualize its procedures; and capacities as a subset of assets that empower a firm to exploit its different assets. As indicated by Priem and Butler (2001), the asset based view misses' administrative ramifications or operational legitimacy. The asset-based view discloses that supervisors need to create and acquire vital assets that meet the criteria profitable, rareness, non-imitable and no substitution and how a proper association can be created. In any case, the asset based view does not clarify how chiefs can do this (Connor,2002). As indicated by Priem and Butler (2001) and Collins (1994), the asset based view involves endless relapse.

Firms which have an ability which they can put practically speaking best, can be overwhelmed by a firm that can build up that capacity superior to anything firm who is best by and by. As per Eisenhardt and Martin (2010), accessibility of substitute assets will in general discourage returns of the holders of a given asset and this legitimizes the motivation behind why they ought to be protected from contenders. By leading a viable esteem chain examination, an association can recognize these rare assets that give it upper hand and apply fitting components to shield the assets from contenders. This hypothesis will help further clarify the impact of provider association, provider financing and provider preparing and their effects on obtainment execution. The theory is therefore adopted in this study to find out the influence of financial support on procurement performance among public universities in Kenya.

Review of literature

As indicated by Choi (2018), provider budgetary help is the purchasers' exertion towards its providers to persistently spot monetary shortcomings inside its supply base and taking the important money related help to evade supply interruptions and increment provider money related wellbeing in order to meet his present moment and long haul monetary commitments. Money related help is a basic achievement factor in provider improvement and provider execution. As indicated by Heidi and John (2017), demonstrated money related help gives the purchasing firm expanded provider rivalry in the worldwide market and possibly diminishes transportation and other calculated expenses of providers. The present effective purchasers can credit their accomplishment to their significant purchaser provider relationship possible through purchasers' drive to help provider by means of specialized help, budgetary help and through provider preparing so as to accomplish predominant execution and shared addition for the two gatherings.

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Methodology

This study adopted a cross sectional survey and mixed methods research design. Since the target population is comprised of 91 employees in procurement departments of the six public universities in Mombasa County, the census method was considered appropriate. The questionnaires were used to collect data from procurement and stores staff of the targeted six universities. In this study reliability ensured that through a piloted questionnaire that was subjected to a sample of 31 staff members that were not included in the study. The pre-test was conducted using Cronbach's Alpha coefficient reliability. Data was analysed suing descriptive and inferential statistics. A multiple linear regression model was used to measure the relationship between the independent variables and the dependent variable which are explained in the model. The regression model assisted to explain the magnitude and direction of relationship between the variables of the study through the use of coefficients such as correlation, coefficient of determination and the level of significance. The linear regression model to be used is presented below:

$Y= \alpha_0 + \beta_1 X_1 + e$

Where: -

Y = Procurement Performance (dependent variable)

α_0= Constant

β = Regression coefficient

X_1 = Supplier Financing

e = error term

Findings and Discussions

This section presents data analysis and discussion of the study findings.

Descriptive statistics

The mean scores obtained by the respondents on the items measuring procurement performance ranged from 3.89 to 4.49. The highest scored items were: "Introduction of supplier development will lead to transparency in procurement about winning bids and prices (4.49)" and "introduction of supplier development will lead to provision of error-free products or services that conform to customer requirements (4.48)". The lowest ranked items were: "introduction of supplier development will lead to reduction in supplier quality problems (3.89)" and "introduction of supplier development will lead to reduction in product and material costs (3.90)".

For any association to change its concentration and become increasingly suitable, Amaratunga and Baldry (2016) recommend that acquirement execution is a key driver to improving predominance of administrations while its nonattendance or utilization of improper methods can go about as an impediment to change and may prompt decay of the obtaining capacity. Handfield, et al., (2015) declares that cutting edge acquisition and inventory network execution estimation frameworks contain an assortment of measures which falls into two noteworthy classes: viability measures and productivity measures.

Table 1: Procurement Performance

Procurement Performance	**Mean**	**Std. Dev**
Introduction of supplier development will lead to transparency in procurement about winning bids and prices.	4.49	0.50
Introduction of supplier development leads to error-free products that conform to customer requirements.	4.48	0.50
Introduction of supplier development lead to delivery of goods as fast as possible.	4.44	0.50
Introduction of supplier development enables suppliers to introduce new products, services and change volume of output over time.	4.39	0.49
Introduction of supplier development eliminates wasteful production process	4.26	0.44
Introduction of supplier development leads to reduced product and material costs.	3.90	0.90
Introduction of supplier development reduces supplier quality problems.	3.89	0.92
Grade mean	**4.26**	**0.61**

Supplier Financing

As shown in Table 2, the mean scores obtained by the respondents on the scale measuring supplier financial assistance ranged from 1.75 to 4.07. The highest ranked items on the scale were "preparing schedules for paying suppliers invoices on time will ensure timely delivery (4.07)" and "prompt payments encourage suppliers to deliver quality products and reduce lead time (3.14)". On the other hand, the lowest ranked items were "offering financial support to key suppliers will cut down our product cost (1.75)" and "public universities give advance payments to their suppliers to ensure quality services (1.97)". The findings presented above shows that most of staff members obtained mean scores below 3, meaning majority of them were in disagreement with the statements on the scale. This clearly indicates that there was low financial support among the suppliers within the university.

This shows that low level of supplier financial assistance led to low procurement performance whereas high level of supplier financial assistance level led to high procurement performance within the university. In line with the findings, Mwesigwa & Nondi (2018) in their study on the effects of supplier development on procurement performance of World Food Programme found out that supplier finance was the driver which had the highest effect on procurement performance.

Table 2: Supplier Financing

Supplier Financial Assistance	Mean	Std. Dev
We prepare schedules for paying suppliers for timely delivery	4.07	1.032
Prompt payments encourage suppliers to deliver quality products and reduce lead time	3.14	1.391
Offering financial support to suppliers boosts product quality	3.05	1.517
We offer financial support (credit) to key suppliers.	2.77	1.452
We guarantee credit facilities to our suppliers to increase their working capital	2.45	1.461
Offering financial support to key suppliers improves on the delivery time.	2.31	1.242
We offer financial support to suppliers via advance payments.	2.24	1.338

We give advance payments to our suppliers to ensure quality services	1.97	1.061
Offering financial support to key supplier's cuts down product cost.	1.75	1.183
Grade mean	**2.64**	**1.30**

Inferential Statistics

Table 3 illustrates the Pearson correlation and linear regression results of supplier and procurement performance. The findings revealed that supplier financing were indicated to positively correlate with procurement performance ($r = 0.424$, $\rho<0.01$). These findings imply that supplier financing are expected to influence the procurement performance. Table 3 illustrates the model summary of multiple linear regression model; The results showed that supplier financing explained 35.0 per cent of procurement performance. This showed that independent variable, there is a probability of predicting the procurement performance by 35.0% (R squared=0.350). In addition, study findings in Table 3 indicate that the coefficient of determination was significant as evidence of F ratio (11.033) with a p-value (0.000<0.05 (level of significance). The model was evidently fit to predict the procurement performance by the use of supplier financing.

Finally, the study sought to determine the influence of supplier financing on procurement performance of Public Universities in Kenya. The analysis output indicates that supplier finance has coefficients of estimates which is significant basing on $\beta_2=0.341$ (p-value=0.000<0.05). This implies that supplier involvement has a significant on the procurement performance. For every increase in supplier involvement, there is 0.341 units increase in the procurement performance. Furthermore, the effect of supplier financing was stated by the t-test value = 3.758 which implied that the standard error associated with the parameter was less than the effect of the parameter. The table below shows the regressions results;

Table 3: Correlations And Regression Results

	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta	t	Sig.	correlation results
(Constant)	7.266	4.492		1.617	0.110	
Financing	0.205	0.055	0.341	3.758	0.000	.424**
Model Summary						

a. Dependent Variable: Performance

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

Conclusions and Recommendations

It was established that, 39 (44.8%) staff members rated supplier financial assistance level as low, 34 (39.1%) rated it as average while the remaining 14 (16.1%) rated supplier financial assistance level in the procurement department as high. This shows that most of the staff members were of the view that supplier financial assistance level was low within the universities. Statistical analysis revealed that supplier financial assistance level had a significant influence on procurement performance, $F(2, 84) = 8.290$, $p=0.001$. This shows that low level of supplier financial assistance led to low procurement performance whereas high level of supplier financial assistance level led to high procurement performance within the university.

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Most of the procurement department staff members were of the view that supplier financial assistance level was low within the universities. It can be concluded that for procurement department in public universities to perform, there is a need to develop a positive culture towards providing financial support to their suppliers. This study also concluded that procurement department in public universities to adopt financial support such as introduction of supplier to financial institutions, equipment donations to suppliers, down payments before delivery, loan extension to suppliers and support in labour. Thus, the study recommends that Public universities should invest more on supplier financial assistance as a way of developing their suppliers. The study finally concludes that in order for public universities in Kenya and the other universities in Kenya to improve on their procurement performance, there is need to encourage supplier financial support through such practices as introduction of supplier to financial institutions, Paying suppliers timely, loan extension to suppliers and support in labour as they improve the procurement performance among public universities in Kenya.

This study was carried out among public universities in Mombasa County. The study findings therefore cannot be generalized for all Kenyan Universities. As such, there is need to conduct a similar study in universities in other regions to find out whether the same results would be obtained.

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