

**THE ROLE OF PROACTIVE PROCUREMENT ON STRATEGIC
PROCUREMENT PERFORMANCE AT PUBLIC INSTITUTIONS IN KENYA: A
SURVEY OF RONGAI SUB-COUNTY IN NAKURU COUNTY**

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ABSTRACT

The research study covered the role of proactive procurement on strategic procurement performance at public institutions in Kenya: A survey of Rongai Sub-County in Nakuru County. There was need to have direct interventions that would undo the complexities that bedevil the efforts of the government and international organization for supporting the public procurement performance initiatives. Despite of the presence of the current legal framework (PPDA, 2005), the efficiency and effectiveness of the procurement process had not been achieved. This was demonstrated by the continuous return of unutilized funds to the treasury by state agencies. The objectives of the study were: To assess the contribution of Early Supplier involvement to strategic procurement performance, to find out the role of procuring entity- supplier partnership(s) on strategic procurement performance and to establish the effects of information sharing on strategic procurement performance at public institutions. The study targeted a population of 200 persons from the user departments and prequalified suppliers engaged in procurement at Rongai Sub-County in Nakuru County. Both stratified sampling and Simple Random Sampling techniques were used to select the respondents. The study used questionnaires for collecting data that supported the intended objectives.

Keywords: *procurement, international, strategic procurement, supplier involvement*

Introduction

Procurement refers to the acquisition of goods, services and works by a procuring entity using public funds. Public bodies have always been big purchasers, dealing with huge budgets. Public procurement represents 18.42% of the world GDP. In developing countries, public procurement is increasingly recognized as essential in service delivery (Basheka, 2010). It accounts for a high proportion of total expenditure. For example, public procurement accounts for 60% in Kenya (Bhatt 2000), 58% in Angola, 40% in Malawi and 70% of Uganda's public spending (Wittig, 1999). This is very high when compared with a global average of 12-20 % (Froystad et al., 2010). Due to the colossal amount of money involved in government procurement and the fact that such money comes from the public, there is need for accountability and transparency. Consequently, various countries both in developed and least developed countries have instituted

procurement reforms involving laws and regulations.

The complexities of public procurement performance require more than just a mere policy framework in every nation. There is need to have direct interventions that would undo the complexities that bedevil the efforts of the government and international organization for supporting the public procurement performance initiatives. In this era of quickly changing corporate environments, purchasing managers are encouraged to be proactive. Purchasing managers need to develop a more proactive strategic approach and encouraged a proactive approach to purchasing planning (Rajagopal and Bernard, 1993). Proactive procurement management is the process of professionally and aggressively adding value during the four stages required for effective procurement (Burt and Pinkerton, 1996).

In the past decades, the public procurement system in Kenya has undergone significant developments. From being a system with no regulations in the 1960s, and a system regulated by Treasury Circulars in the 1970s, 1980s and 1990s, the introduction of the Public Procurement and Disposal Act of Kenya 2005 and the Procurement Regulations of 2006 have introduced new standards for public procurement in Kenya. Despite of the presence of this legal framework, the efficiency and effectiveness of the procurement process has not been achieved. This can be demonstrated by the continuous return of unutilized funds to the treasury by state agencies.

During the 2010-2011 financial years, state agencies returned a whopping Ksh.142.5 billion in unutilized funds to the treasury. Despite all support measures aimed at achieving timely procurement objectives by public institutions, there are still cases of inefficient operations and ineffective use of information. Strategic procurement performance can be defined as long-range plans for ensuring timely supply of goods and/or services that are critical to a firm's ability to meet its core business objectives. The Public Procurement System in Kenya has evolved from a crude system with no regulations to an orderly legally regulated procurement system. The Government's Procurement system was originally contained in the Supplies Manual of 1978, which was supplemented by circulars that were issued from time to time by the Treasury. The Director of Government Supply Services was responsible for ensuring the proper observance of the provisions of the Manual. The Manual created various tender boards for adjudication of tenders and their awards.

A review of the country's public procurement systems was undertaken in 1999 and established that: There was no uniform procurement system for the public sector as a whole. It did not have sanctions or penalties against persons who breached the regulations in the Supplies Manual, other than internal disciplinary action. Consequently application of the rules was not strict and many of the norms were not followed, the Supplies Manual did not cover procurement of works, the dispute settlement mechanisms relating to the award procedures as set out in the Manual were weak and unreliable for ensuring fairness and transparency and that records of procurement transactions in many cases were found to be inaccurate or incomplete or absent, which led to suspicions of dishonest dealings at the tender boards.

The systems had other institutional weaknesses that not only undermined its capacity for carrying out their mandates effectively but also led to a public perception that the public sector was not getting maximum value for money spent on procurement. In view of the above shortcomings it was found necessary to have a law to govern the procurement system in the public sector and to establish the necessary institutions to ensure that all procurement entities observe the provisions of the law for the purpose of attaining the objectives of an open tender system in the sector.

Consequently the establishment of the Exchequer and Audit (Public Procurement) Regulations 2001 which created the Public Procurement Directorate (PPD) and the Public Procurement Complaints, Review and Appeals Board (PPCRAB). The PPD and PPCRAB, though largely independent in carrying out their activities, had been operating as departments in the Ministry of Finance on which they relied for staff, facilities and funding. Since these institutional arrangements have a potential for undermining the impartiality of these bodies in the long run it was found necessary to create an oversight body whose existence was based on a law. The Public Procurement and Disposal Act, 2005 was thus enacted and it became operational on 1st January, 2007 with the gazettelement of the Public Procurement and Disposal Regulations, 2006. The Public Procurement and Disposal Act, 2005 created the Public Procurement Oversight Authority (PPOA), the Public Procurement Advisory Board (PPAB) and the continuance of the Public Procurement Complaints, Review and Appeals Board as the Public Procurement Administrative Review Board (PPARB), (<http://www.ppoa.go.ke>, as at 30th January 2013)

Statement of the Problem

The efficiency and effectiveness of the public procurement in Kenya had not been realized until the creation and enactment of the Public Procurement and Disposal Act of Kenya (2005). The adoption of the public procurement regulations that followed forthwith gave room for the improvement in the realization of five rights of purchasing that promoted mutual coexistence between the procuring entity and suppliers. Early Supplier Involvement (ESI) has been advocated as a means of integrating suppliers' capabilities in the buying firm's supply chain system as well as its operations (Lawther, 2003a).

Rapid technological development, shorter product life cycle, clock speed competition and increased outsourcing have prompted many firms to involve their suppliers early in their new product development activities (Mikkola and Larsen, 2003). According to (Brown and Eisenhardt, 1995), it is not clear exactly how or when suppliers and customers are appropriately involved in the product development or in procurement process and the evidence is not unanimous. The more an activity involves changes in both the customer's and supplier's operations, the more there is likely to be uneven distribution of costs and

benefits. Therefore, the tradeoffs between risks and rewards of both parties in partnering relationships have to be studied for a greater understanding. Supply Chain Management is touted as a strategy of choice for enhancing the competitiveness (Rich and Hines, 1997), higher degree of uncertainty about how to best achieve the goals or end outcomes of the procurement and the partnership (Lawther, 2003a), a higher degree of risk (Hardcastle and Boothroyd, 2003) and a significant change in partnership roles, including a sharing of responsibilities.

Lee (2001) recommends that channel members in different cultures may have different perceptions of power sources. It is clear that exchanging data with key suppliers leads to improved product quality of buying firms (Sriram and Stump, 2004). Despite the already existing steps aimed at achieving the objectives of a fully functional procurement system, there is need to have closer examination of the role of the various proactive procurement methods that form the independent variables that influence procurement performance especially at public institutions.

The available literature reviewed for the study outlined the various important elements of proactive procurement but its main shortcomings are that the studies are confined to the general aspects of Procuring Entity -Supplier Relationships and how to achieve them. None of the past study provides a detailed impact and the specific roles of such proactive procurement variables on an organization's strategic procurement performance. Getting an insight of this unexplored relationship will bring a greater meaning to the relationship between the Procuring Entity- Supplier Relationships while achieving the five rights of purchasing as well as efficiency and effectiveness in procurement performance as a system. In order to fill this gap and to resolve the current inefficiencies in the current relationship between organizations and its prequalified suppliers, clarity is essential for the purposes of understanding the role of proactive procurement on strategic procurement performance. It is for this reason that the research study examined the role of proactive procurement on strategic procurement performance at public institutions in Kenya.

Literature Review

Early Supplier Involvement

Some scholars have defined ESI as a form of vertical cooperation where manufacturers involve suppliers at an early stage in the product development/innovation process, generally at the level of concept and design (Koufteros et al., 2002). This concept has been also tested empirically as an integral part of concurrent engineering, Prior research has shown that ESI offers a number of benefits to procurement performance for most organizations (Bidault et al., 1998).

Some of these benefits include reducing new product development times (McGinnis et al., 1999) and (Wynstra et al., 2001), improving product quality (Milligan, 1999), utilizing supplier technological expertise (LaBahn, 2000) and managing cost (Wynstra et al., 2001). However, not all organizations have realized benefits from engaging in ESI. Some of the more notable drawbacks of ESI include increasing product and development costs

(Wynstra et al., 2001), improper sequencing of tasks (Laseter and Ramdas, 2002), mismatching resources and requirements by implementing levels of supplier involvement inappropriate to the situation at hand (Laseter and Ramdas, 2002), failing to anticipate and effectively address significant organizational resistance and selecting incapable suppliers (Wynstra et al. 2001).

Recent attention has been directed towards additional benefits of ESI associated with the risk of product and supplier failures. More specifically, these failures may include quality problems, supplier insolvency and product introduction delays. The risk of product failures in new product development and procurement for most public organizations can be manifested in terms of excessive costs (Balasubramanian, 2001), quality problems (Koufteros et al., 2002) and extended product design lead-times (Jayaram and Vickery, 2000). On the other hand, firms can engage in ESI to reduce the risk of supplier failures, such as those with low levels of technological sophistication (LaBahn, 2000) and supplier leadership problems (Ragatz et al., 1997).

Principles of agency theory are appropriate for investigating inter-organizational relationships, and can give insight as to how ESI can serve as a supply risk management tool. The ESI methods represent effective approaches to implementing many of the conceptual features presented by (Dowlathshahi, 1999) and its explication provides a reasonable roadmap for overcoming implementation barriers noted by (McIvor and Humphreys, 2004). One particularly advantageous aspect of the current model is its focus on ESI implementation at the individual design project level that provides a method for organizations to build capacity for organizational ESI initiatives.

Early Supplier Involvement provides conceptually appropriate sequencing of managerial activities in a generic process that can readily be adapted to many settings. One of the key benefits of properly sequenced activities is that it allows detection of potential risks stemming from both procurement and supplier performance. Early involvement of the right suppliers in product design promotes utilization of the best expertise available in individual design and specification decisions. Thus, potential for product failure is minimized by problem prevention rather than through remediation. However, collaborative efforts also promote early detection and correction of problems in the design as they develop, considerably reducing costs associated with implementing required changes later in the product life cycle (Smith and Zsidisin, 2002).

These properties of inter-organizational concurrent design mirror findings in concurrent design at the organizational level. However, such advantages can only be obtained where well-founded trust and effective communication are prevalent. The development and effective monitoring of collaborative relationships are critical to both reducing the potential for supplier failure and reducing the magnitude of harm should such failure be realized. The ESI model implementation emphasizes the value of sequencing activities to select the best suppliers, establishing effective communication and using appropriate oversight that is relevant to the stage of development for the buyer-supplier relationship (Smith and Zsidisin, 2002).

Procurement Partnerships

No definition of “public procurement partnerships” is known to exist. In general, definitions of inter-sector partnerships are not easily identifiable, vary considerably from place to place and do not travel well, particularly when international borders are crossed. Nevertheless, some attempt to define the term public procurement partnerships appears warranted. (Jagdev and Thoben, 2001) provide a useful definition of the term “partnership” that is sufficiently broad, yet sufficiently precise to provide both direction and clarity and thus can be pressed into service as a definition of public procurement partnerships: “People and organizations from some combination of public, business and civil constituencies (non-profits) who engage in voluntary, mutually beneficial, innovative relationships to address common societal aims through combining their resources and competencies.” Applied to public procurement partnerships, the definition clearly suggests a departure from the more traditional procurement relationships predicated on a buyer/seller relationship.

In traditional procurement relationships, the government seeks to transfer the risk for performance failure to the contractor. In a partnership relationship, however, the partners should share in the risks as well as the rewards. A public procurement partnership, then, alters the nature of: risk, risk assessment, and risk management. In the past, risk management often did not occur. Now, risks for all partners must be clearly identified and managed in the context of assigning roles and activities that contribute to a successful partnership (Hardcastle and Boothroyd, 2003).

Public procurement partnerships are formed and operate differently than more traditional contracting relationships. Some of the prominent features of public procurement partnerships include: recognition that the goal or end outcome of the procurement cannot be solved by traditional means. A higher degree of uncertainty about how to best achieve the goals or end outcomes of the procurement and the partnership (Lawther, 2003a), a higher degree of risk (Hardcastle and Boothroyd, 2003) and a significant change in partnership roles, including a sharing of responsibilities: all partners must consider each other as equals (Agranoff, 2003). These major salient features create administrative and implementation challenges for public procurement professionals that are not found in more traditional procurements. These characteristics offer significant challenges to public procurement. If public procurement efforts are to be successful, these characteristics must be accepted by all participants. The instances of innovation discussed below illustrate efforts that recognize that different approaches are required to move procurement beyond traditional contracting relationships.

The links between the characteristics of the relationship such as trust, cooperation, and the performance of the relationship need further research. Five prominent dimensions of the buyer-supplier relationship: trust, communication, interpersonal relationship, cooperation and power-dependence (Olsen and Ellram, 1997). Relationship is recognized as an emergent form of relationship marketing in Asia (Davies, 1995) and has attracted researchers’ attention to how relationship works in business relationships (Hsu and Saxenian 2000) and (Mavondo and Rodrigo, 2001). Relationship is a deep-rooted socio-

cultural phenomenon and plays an extremely important role in the business world, as well as in daily life (Standifird and Marshall, 2000).

Business people tend to incorporate personal relationships in business decision-making and manage their business enterprises under personal control. Most Western literature focuses on inter-organizational relationships between the suppliers and buyers (Fang and Kriz, 2000). (Mavondo and Rodrigo, 2001) pointed out that the existing literature overlooks the area of interpersonal relationships or relationship in the context of business-to-business marketing. The issue of power is closely associated with the nature of dependency in business relationships.

The power and dependence in channels of distribution by noting that channel member dependence and sources of power in marketing channels are conceptually inseparable and dependence is a component or dimension of these power sources rather than a separate phenomenon (Brown et al., 1995). Power plays a significant role in the supply chain, and the different sources of power have differing impact on inter-firm relationships and the performance of the entire supply chain (Maloni and Benton, 2000). Channel members in different cultures may have different perceptions of power sources. Though the importance of power and dependence has received the attention of academic scholars and practitioners, research investigating how power and dependence affect the retailer's purchasing decision and supply chain performance is rare, (Lee, 2001).

Information Sharing In Procurement

Information sharing can radically improve the way global companies and their partners do business, especially in the wake of increasing globalization and outsourcing, which has and will continue to have a profound effect on supply chain operations. By exchanging information such as inventory levels, forecasting data, and sales trends, companies can reduce cycle times, fulfill orders more quickly, cut out millions of dollars in excess inventory, and improve forecast accuracy and customer service. Information sharing can be applied to almost all the core domains of corporate operational activities. Starting from the development chain process where information sharing can happen in the product design stages and product life cycle management activities with both internal and external partners. In the customer chain processes information sharing can help in formulating customer experience strategies, increase customer service effectiveness and operations (Dewett and Jones, 2001).

The psychological barriers around information sharing are real and imperative. Sometimes there is a real and justified fear that information sharing across the corporate boundaries can turn into a competitive disadvantage. By formulating effective business policies, agreements and business plans that an enterprise can use to establish guidelines and rules for exchange of information with supply chain partners can help assuage those barriers. This will ultimately help mitigate the fear of information sharing and improve efficiency and create new opportunities for all stakeholders (Sahin and Robinson, 2002).

Information sharing can be most effective and least disruptive for all concerned when

done by implementing the available technological tools, which would accomplish the process in a controlled and secured way thereby streamlining the global supply chain operations. Collaborative Planning, Forecasting and Replenishment workflows and solutions exist in the supply chain process to enhance supply chain integration and data sharing across enterprises but very few companies effectively use it to their competitive advantage. The current challenges that organizations face in implementing these workflows really revolve around non-integrated processes and systems with retailers and manufacturers operating out of their own silo and different planning data. This results in excessive response times, costs and inventory due to forecast inaccuracy (Bhatt, 2000).

Retailers on one hand face stock-outs, material shortages, lost sales and poor customer service to name a few. On the other hand manufacturers get plagued by obsolescence and inventory costs impacting margins. SAP's Supply Network Collaboration tool, JDA's Collaborative Supply Planning and Execution tools offer sophisticated and rich workflows to enable information sharing with the extended supply chain partners which not only provides timely visibility into supplier fulfillment constraints but also facilitates speedy resolution resulting in reduced purchasing costs, expedited freight and better supplier negotiating capabilities (Crocitto and Youssef, 2003).

A large apparel, footwear and golf equipment manufacturer implemented key features of collaborative supply planning and procurement execution tool to achieve forecast analysis and collaborative workflows on the planning side and firm order collaboration with vendors on the procurement execution side. The gains achieved were two-fold. On the planning side sharing of mid to long term forecast and publishing near term requisition forecast to suppliers and receiving supply commits from them resulted in reduced material shortages and stock-outs at the component level (European journal of Economics, Finance and Administrative Sciences- Issue, 2011).

Synchronized and tightly integrated procurement and manufacturing planning activities gave planners the ability to quickly re-plan globally based on changes in execution (Carr and Kaynak, 2007). On the other hand Intelligent Buyer-Supplier approval workflows facilitated timely visibility of supplier's fulfillment constraints and their resolution by the corporate procurement group, resulting in aforementioned benefits of reduced procurement costs at different levels. The global buying group also achieved execution efficiencies with a single view of all procurement worldwide, managing different replenishment programs and multiple communication channels with their supplier base using a single system (Bhatt, 2000).

In the past manual order processing, spreadsheet dependent and fax/phone method of communication with suppliers made a dent not only to the corporate procurement budget but also generated global operational plans that were out-of-date because of limited-to-no visibility into supplier's plan and operational constraints. On similar lines global organizations can harness the power of technology to collaborate with their supply chain partners to exchange information and work as a single entity.

All this can be done with the end objective of having greater understanding of the end

consumer behavior and effectively responding to the changes in the market place from a supply chain perspective so that manufacturers make the products only when they are needed and retailers store and sell them to end customers, drastically cutting down on their own inventory levels and associated costs (Wognun et al., 2002).

Information sharing within firms includes any sharing information between operation and other parts of department like sales/marketing, purchasing, supply management, logistics, and engineering (Crocitto and Youssef, 2003). It becomes clearly visible that the affirmative effects of sharing information within a department in the organization on a firm's performance are achieved from side to side information sharing between an organization and its important suppliers and also in the course of supplier development support presented by the firm. Hence, supporting the relationship of sharing information within departments by leading and sharing information between organizations and the responsibility of supplier development support is paramount (Narasimhan and Kim, 2001). According to (Carr and Kaynak, 2007), information sharing within an organization has significant effects on sharing information between organizations and support of supplier development. Information sharing within the firm turns out to be a coordinating machine for encouraging the collaboration. It is essential to provide efficient support for suppliers (Dewitt and Jones, 2001).

The communication media working to make easy communication between buyer and supplier is an important factor in effective supplier development. According to (European Journal of Economics, Finance and Administrative Sciences - Issue 43 (2011), findings point out that traditional communication methods and advanced communication methods are used in combination (Wognun et al., 2002). Traditional communication methods make possible technologies for companies to share information (Sahin and Robinson, 2002).

Some traditional communication ways such as face-to-face, fax, telephone effectively facilitate exchanging information which provides a useful connection between buyers and suppliers. Besides, using advanced communication methods such as EDI, ERP, Email, computer to computer links make wider and better information gathering concerning business transaction and make possible user involvement in a diversity of information network (Bhatt, 2000) and Dewett and Jones, 2001).

Top management is the most important driving power and must be permitted for mentality and idea change by admitting that many concepts of learning have to be done at all stages, including themselves. Top management is an important organizational resource as it (a) provides necessary information and capability, and (b) ensures that investments and efforts are made easily available (Kleinschmidt et al., 2007). Due to essential changes and investments within organizations, without top management's support, sharing information is hard and expected to meet much resistance (Moberg et al., 2002).

Methodology

The research study used descriptive survey design. The target population comprised of 200 employees involved in procurement and the pre-qualified suppliers of Rongai Sub-

County, in Nakuru County. The researcher used Questionnaires as the data collection instrument.

Findings

On Early Supplier Involvement, research findings showed that 81% of the respondents at Rongai Sub-County were aware of and held that Early Supplier Involvement in strategic procurement performance was of great importance while 19% of the respondents were of the contrary opinion on the importance of Early Supplier Involvement. 58% of the respondents Strongly Agreed and that 6% strongly disagreed that Early Supplier Involvement was of any importance in Strategic Public Procurements. 84% of the respondents expressed that Early Supplier Involvement reduced procurement costs while 16% disagreed on the impact of cost reduction to the procurement costs. In terms of efficiency rates, 36% of the respondents interviewed argued that approach was very efficient while 2% being very inefficient.

As relates to information sharing, 62% of the respondents said information sharing was important while 38% argued that it was not of any importance. 46% of the respondents further expressed that there was enough media for sharing information between the procuring entity and its pre-qualified suppliers. On the other hand 54% of the respondents gave a contrary response that there was not enough media to share information that relates to procurement for mutual and commercial coexistence. 65% of the respondents concluded that the benefits realized then were on an increasing trend but 17% expressed that such benefits were decreasing.

Procuring entity- supplier partnerships findings indicated that 76.4% of the respondents were assured of such partnerships arguing that it would lead to the realization of the five rights of purchasing. 23.6% disagreed that Procuring Entity Supplier partnerships had nothing to do with the achievement of five rights of purchasing and lastly 45% of the respondents at Rongai Sub-County held that Procuring Entity –Supplier Partnership was very important to strategic procurement performance whereas 33% responded that the exercise was important.

Conclusions

Having collected data from the identified respondents, the study arrived at the following conclusions; a number of persons engaging in procurement proceedings did not consider the practice of Early Supplier Involvement to be important to strategic procurement performance. This indicated that both pre-qualified suppliers and the public procurement staffs could not engage in collaborative efforts to detect and correct procurement flaws and hence could not find the reason to inculcate such strategies in public procurement plans. The practice of cost management between the procuring entity and its suppliers were low and that what was normally practiced were mostly joint evaluation and quality control measures but undertaken only from the perspective of the procuring entity. What lacked was the realization of the value of sequencing activities and establishment of effective communication based on Vertical Corporation between suppliers and procuring

entity.

The research study also found out that there were no established ways with which the public procurement practitioners would assess the impact of Early Supplier Involvement in terms of costs savings. The absence of such structures narrowed the opinions of the respondents on the form of proactive procurement. It was also realized that on the few instances where Early supplier Involvement was practiced, it was done with low levels of efficiency and that impacted negatively, not only on the strategic procurement of the public organization but also on the organization's general performance. The significantly positive response that Early Supplier Involvement could improve on strategic procurement performance showed that what lacked was indeed ways of achieving a coordinated practice for a better proactive procurement.

Even though global companies improve their businesses by way of sharing information, the appreciation of such profound effects had not been embraced at Rongai Sub-County. One of the major problems that deterred the sharing of useful sharing of information between the procuring entity and the suppliers was indeed the lack of appropriate media such as the use of ERP, EDI and Information Support Systems. The research findings indicated that the benefits that accrue to an organization as a result of information sharing had not been realized to the full potential by the procuring entity and its prequalified suppliers.

Procuring entity- supplier partnership had not been seen as a cost reduction measure in procurement costs at Rongai Sub-County Therefore the risks associated with public procurement partnership could not be identified and therefore could not be managed objectively for the achievement of desirable organization's objectives in terms of strategic public procurement performance. The achievement of five rights of purchasing namely; right quantity, right quality, right price and the right source, were not possibly achievable through procuring entity-supplier partnership.

This essential requirement for a fully functional procurement system could not be realized because of deficiency of trust, communication and inter-personal relationship between procurement practitioners and the prequalified suppliers as asserted by (Olsen and Ellram, 1997).

The importance of procuring entity-supplier partnership could not be seen with attached importance in strategic procurement performance to the public organization. Some of the respondents were of the opinion that such partnerships were not a factor to the procurement performance. Notably, procurement partnerships were formed based on the procuring entity objectives and not for mutual commercial co-existence hence deficiency in realization of the organizational procurement standards.

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