EFFECT OF PROCUREMENT PLANNING IN EFFECTIVE SUPPLY CHAIN MANAGEMENT IN THE BANKING SECTOR: A CASE OF COOPERATIVE BANK OF KENYA

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Abstract

Procurement planning plays an important role in the operations of all the organizations. Most financial institutions use various strategies to win a competitive advantage as there is often little to differentiate one product from another of different organizations. Effective supply chain management (SCM) is therefore becoming an important strategy in achieving competitive advantage. This study sought to establish effects of procurement planning in effective supply chain management in banking sector in Kenya.

Key words: Cost control, procurement planning, supply chain and organization goals

Introduction

Over the past years, organizations have been awakened on the importance of effective supply chain management process and its subsequent contribution to improved service in all sectors. Supply chain management which was traditionally viewed as a clerical and reactive task has positioned itself among core organizational functions, and its management is becoming increasingly critical for the well functioning of any organization (Schiavo-Campo & Sundaram, 2000). According to Alade and Sharma (2004) supply chain involves the configuration, coordination, and improvement of sequentially related set of operations in an
organisation, integrates technology and human resource capacity for optimal management of operations to reduce inventory requirements and provide support to enterprises in pursuance of a competitive advantage in the marketplace. A coordinated SC integrates procurement, production, and distribution and links together suppliers, manufacturers, distributors, customers and carriers in a network system that allows for effective planning, information exchange, transaction execution, and performance reporting. Greis and Kasarda (2006) and Davis (1993) argue that discerning customers have increased demand for product variety, higher product quality, lower prices, and faster delivery so as to increase customer satisfaction. This calls for a sound procurement practices by both service provider and processors to rethink their purchase strategies and process.

**Supply Chain Management and Procurement Planning**

Supply chain management is the purchasing function’s involvement in activities that include reduction, recycling, reuse and the substitution of materials. In the context of a dynamic supply chain, continuously improving management has become a critical issue for most suppliers, manufacturers, and the related retailers to gain and sustain competitiveness and effective services (Alade & Sharma, 2004). Improving supply chain management is a continuous process that requires both an analytical performance measurement system, and a mechanism to initiate steps for realizing organization goals. In essence, the supply chain starts with the extraction of raw material (or origination of raw concepts for services) and each link in the chain processes the material or concept in some way, or supports this processing (Alade & Sharma, 2004). The supply chain extends from the raw material extraction or raw concept origination through many processes to the ultimate sale or delivery to the final consumer. Arguably it can also include the disposal of the waste associated with the consumed product.

Procurement is the acquisition of goods and/or services at the best possible total cost of ownership, in the right quality and quantity, at the right time, in the right place and from the right source for the direct benefit or use of corporations, individuals, or even governments, generally via a contract, or it can be the same way selection for human resource. Simple procurement may involve nothing more than repeat purchasing (Callendar, 2000). Procurement activities, aim at anticipating requirement, sourcing and obtaining supplies, moving supplies into the organization, and monitoring the status of supplies as a current asset (Leenders & Lisa, 2000). In private sector, according to Saunders (1997) the contribution of
procurement planning is perceived in terms of quality, delivery, cost and flexibility, which has an impact on the competitive capability of the firm to meet customer requirements.

Procurement planning is the process used by companies or institutions to organise purchasing activity for a specific period of time. The procurement planning has not been given the recognition it deserves in developing countries, in most public and private entities, regardless of the effort by the partners like the World Bank, the International Trade Organization, the United Nations Conference on Trade and Development, the World Trade Organization and others. This could be deliberate or sheer ignorance on the value the procurement function.

**Cooperative Bank of Kenya**

The Co-operative Bank of Kenya Limited is incorporated in Kenya under the Company's Act and is also licensed to do the business of banking under the Banking Act. The Bank was initially registered under the Co-operative Societies Act at the point of founding in 1965 and opened its door for business in 1968, having been licensed to carry out banking business under the Banking Act. This status was retained up to and until December 22, 2008 when the Bank went public and was listed its shares at NSE previously held by the 3,805 co-operatives societies and unions. These co-operatives societies and unions were ring-fenced under Coop Holdings Co-operative Society Limited which became the strategic investor in the Bank with a 64.56% stake. (Cooperative Bank of Kenya, 2010)

**Statement of the Problem**

Most of the financial institutions use strategies to win a competitive advantage as there is often little to differentiate one product from another of different organizations (Faulkner & Bowman, 1995). To win this competitive advantage banks have embraced importance of procurement planning in their supply chain management in order to ensure mass flow of goods that enhance their operation process as they try to retain their potential customers and reach new market. Cooperative bank being among the financial institution that is rapidly growing with the economic status of the country, it is emphasizing on reaching large number of the client through initiating strategies that enables it to attain its target population through timely delivery of the services and of high quality with undisrupted services. To compete successfully in today’s volatile and competitive business markets, Cooperative bank of Kenya has come along way from targeting co-operative societies only before 1994 to opening its doors to other customer segments as well as diversification of its products and services base (CBK, 2010). The bank has now segmented its services into retail or personal banking,
business banking, co-operatives, investment banking and foreign exchange service (CBK, 2009).

Local studies have been done on procurement, Rwoti (2005) conducted a study on procurement performance measurement systems a survey of large manufacturing companies in Nairobi, Obiero (2008) did a study on the challenges in the implementation of the 2005 procurement act on the Kenyan Ministry of Higher Education, Science and Technology while Kiburi (2008) conducted a study on the factors influencing the implementation of e-procurement among firms listed on the Nairobi Stock Exchange. However, the literature cited above indicates that there has been no study to the knowledge of the study had focused on the effective supply chain management in banking sector. It is in light of this realization that the research need to bridge this knowledgeable gap by evaluating the role of procurement planning in effective supply chain management.

**Objective of the Study**

In order for the study to achieve its objective it evaluated on the following objectives;

i. To establish effect of information sharing in effective supply chain management.

ii. To determine effect of organization goal realization enhances effective supply chain management within cooperative bank.

iii. To determine effect of cost control on effective supply chain management

iv. To ascertain effect of level of suppliers participation on effective supply chain management.

**Literature Review**

**Procurement Planning**

Procurement is a complex process that has both direct and indirect functions. Specifically, the distinction is that direct procurement is the purchase of high volume materials and/or services that directly facilitate the creation of the end product. Indirect procurement is the purchase of the support materials and services necessary to enable the creation of the end product (Bartezzaghi and Ronchi, 2004). As reported by Neef, (2001), direct procurement has accounted for fewer purchasing transactions but could account for up to 60% of a service firm’s total procurement expenditure. The role of procurement planning in service delivery is indeed fundamental and any organization which ignores this role is likely to face challenges
in delivering services. According to Saunders (1997), the relevance of procurement planning has been identified as having significant effect on the ability of firms to adapt to requirements.

Intelligent strategic procurement planning is at the heart of Best Value and so it is important that procurement professionals address the effectiveness of their procurement (Tickner, 2000). Ellram (2000) asserts that procurement units must endeavor to attain best value to its consumers by employing supply chain strategies and policies that maximizes value in terms of meeting business volume and value requirements, cost effectiveness of service, competitive pricing, customer satisfaction, effective response time, quality assurance and technology.

**Information Exchange**

Most of the authors have advocated Information exchange as an important tool in successful supplier development processes (Dunn & Young, 2004). Burton (2000) defined information exchange as the relaying of business-related information in a way that enables the recipient to take action. Procurement has long been thought of as the management of a firm’s inputs raw materials, services and sub-assemblies, into the organization (Dobler & Burt 2003). Moberg (2000) noted the premise behind SCM [supply chain management] is that the sharing of information and coordination of strategies among firms in a supply chain can reduce total logistics costs and enhance value delivered to the customer. Sako (2004) posited that higher levels of information exchange between organizations in a supply chain lead to lower inventories and higher levels of customer satisfaction. According to Cooper (2004) operating an integrated supply chain requires continuous information flows, which in turn assist to achieve the best product flows.

**Organization Goals**

Today’s customers have become sophisticated because of access to freely available information. Bowersox (2009) defined a customer as the ultimate end user of the product or service whose needs or requirements must be accommodated. He further observes that for an organization to achieve its goals, it must be more effective than competitors in identifying specific customer needs and focusing resources and activities on accommodating these customer requirements. Procurement planning if well utilized can be an important tool in channeling the resources of organizations towards service delivery to the satisfaction of customers. Before any procurement transaction is effected,
procuring entities must determine their procurement needs which are supposed to be consistent with the organization’s objectives. The assessment should take account of the need to ensure that the procuring entity uses its resources effectively and efficiently.

Procurement planning should always support the attainment of the business goals. A company should therefore look at its overall business goals and identify how to affect supply chain that can help achieve those goals. For example if a company wants to reduce its energy costs it should start by evaluating its energy consumption to establish whether a reduction can be made by using energy efficient and environmentally friendly equipments (Mazumder, 2010). According to Leenders et al (2002) one of the objectives of procurement is to provide an uninterrupted flow of materials, supplies and services required to operate the organization. He further notes that stock outs or late deliveries of materials components and services can be extremely costly in terms of lost production, lower revenues and profits as well as diminished customer goodwill.

Cost control
According to Koontz (2010) companies are faced with the need for a system that reduces costs and coordinates sales and marketing service efforts to provide a positive experience for their customers. As companies attempt to shed old habits and begin to view procurement as a strategic resource from which a competitive advantage can be gained, there is a great deal of corporate baggage that must be shed. More importantly, there is a new mindset that must be instilled both in procurement and across the firm. Strategic supply symbolizes the importance of enterprise wide thinking where functional units inside the firm and key suppliers from the firm’s supply chain all work in concert to bring value to the marketplace.

Supplier Participation
Understanding the level of supplier participation by the selling firm was selected as a variable for the research due to the numerous authors advocating its importance in successful supplier development processes (Burt et al., 2003; Krause, 1995; Monczka et al., 2002). Procurement activities simply begin with the supplier's promise to fulfil buyer's requests. However, those promises and expectations are generally vague and uncertain in nature, especially for technology-intensive procurement projects (Neef, 2001). Promises, expectation, and discussion mostly involve knowledge interaction and communication (Alshawi, 2001). The current interest in SRM (supplier relationship
management) among academics and business practices focuses more on basic transactional issues, particularly the sourcing and trading including supplier selection, quality/cost demands, and supplier capabilities/evaluation. Technology and knowledge communication are relatively neglected (Alshawi, 2001).

In line with Easton (2000) findings, showed that where supply chain leadership dedicated greater resources to spend more time at suppliers’ locations as a result of greater supplier development results. Nelson (2004) determined two key elements: lean supplier development requires an organization to invest in talent and resources with knowledge in activities to improve a supplier's performance and the activity requires a long-term commitment by the leadership of the organization.

Critique of Literature

The existing literature covering the subject of procurement planning and its role in the supply chain management is inadequate. There is no clear linkage of procurement planning and the role it plays in supply chain management to enable one conclude on the impact it presents and how this can be measured. According to Lambert and Pohlen (2000), the lack of appropriate SC metrics may compromise customer satisfaction, sub-optimization of the organization performance, missed opportunities to outperform the competition and conflicts within the SC. Although procurement planning has been recognized as playing an important role in the strategy of an organization, the information gathered lacks empirical support to that effect.

Research Methodology

This study employed a case study to investigate the role of procurement planning in banking industry. A case study is a strategy of investigating a phenomenon within its real life context. The descriptive method of research was used for this study. The target population of this study was cooperative bank. Target population as described by Borg and Gall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The cooperative bank was chosen as the lead bank for the survey as it is one of the biggest commercial banks in Kenya.

The study employed Stratified random sampling technique in coming up with a sample size of 60 respondents from a total of 304 management staff from various departments in cooperative bank.
The study employed a questionnaire to collect primary data which comprised of both open and close-ended questions. Pilot testing was conducted using the questionnaire on 10 management staff. The purpose of the pilot testing was to establish the validity and reliability of the research instruments and hence enhance face validity (Joppe, 2000). The main reason for conducting the pilot study was to ascertain the validity of the questionnaire.

**Findings and discussions**

**Existence of Procurement Planning**

From the findings, majority (91%) reported that there are procurement strategies in their various departments. According to the findings, most of the respondent reported that the organization applies procurement planning practices in order to have effective supply chain management.

**Organization Information Sharing**

From the findings, majority (96%) were of the opinion that their organization encourages information sharing while 4% alleged that no information sharing practice. Dunn and Young (2004) posited that organization encourage information exchange as an importance tool in successful supplier development processes. This confirmed that for effective supply chain management practices departments should be involved in giving out the information that derives to the quantity and quality of the material needed. Majority (54.7%) argued that information sharing influences supply chain management to a great extent, 34% at very great extent while 11.3% were of the opinion that information sharing influences supply chain management at moderate extent. Sako (2004) posited that higher levels of information exchange between organizations in a supply chain lead to lower inventories and higher levels of customer satisfaction.

**Organization goal**

The study aimed to investigate whether respondents department of serving observed organization goal when dealing with procurement planning. From the findings, all (100%) indicated that their department observed organization goal. This implies that organization goal was a vital factor of procurement planning that influences effective supply chain management in entire organization. Bowersox (2009) says that for an organization to achieve its goals, it must be more effective than competitors in identifying specific
customer needs and focusing resources and activities on accommodating these customer requirements.

The respondent agreed that organization goal influences SCM, majority (59.6%) alleged that organization goal influences supply chain management at great extent, 25% at a very great extent, 13.5% moderate extent while 1.9% were of the opinion that organization goal influences supply chain management at very little extent. Mazumder (2010) procurement planning should always support the attainment of the business goals. According to Lindsey (2000) goals establish organizational priorities and represent the foundation of how resources are allocated. From the findings, all respondents (100%) alleged that they observed both strategic and operation goal during supply chain management practices.

**Suppliers Participation**

The study investigated the extent to which level of suppliers participation enhances effective supply chain management. From the findings, most (44.2%) were in the opinion that suppliers participation enhances effective supply chain management at a great extent, 38.5% at very great extent, 13.5% were of the opinion that level of suppliers participation enhances effective supply chain management at small extent while 3.8% believed that level of suppliers participation enhances effective supply chain management at a moderate extent. In all statement respondent agreed that supplier participation enhanced effective supply chain, however at differing level. From the finding most of the respondent agreed that in their organization supply chain leaders dedicated greater resources to spend more time at suppliers’ locations hence greater supplier development results as depicted by mean score of 4.65

**Cost control**

From the findings, majority (85%) alleged that procurement aims at minimizing cost of operation, 11% did not know the aim of procurement planning while the rest (4%) were not aware of procurement planning aim. Most (45.7%) of the respondents indicated that procurement planning minimize operation cost at a very great extent, 28.6% were of the opinion that the which procurement planning minimize operation cost at great extent 22.9% purported that procurement planning minimize operation cost at small extent while 2.9% pointed out that procurement planning minimize operation cost at a moderate. The study also requested the respondents to indicate the level of agreement to which they feel procurement
planning minimize operation cost within the organization. From the findings, most of the respondents agreed that there was more efficient and economical acquisitions resulting in the delivery of cost-efficient and timely contracts for products and services due to effective procurement planning as depicted by mean score of 4.15.

Inferential Analysis

Coefficient of Correlation

To determine the strength between the study variables, the study used the Karl Pearson’s coefficient of correlation (r) to determine their strength in relation to the findings. According the findings, it was clear that there was a positive correlation between supply chain management and information sharing as shown by a correlation figure of 0.052, it was also clear that there was a positive correlation between supply chain management and organization goal with a correlation figure of 0.7140, it was also clear that there was also a positive correlation between supply chain management and cost control with a correlation value of 0.5060 and a positive correlation between supply chain management and level of suppliers participation with a correlation value of 0.5210. This shows that there was positive correlation between supply chain management and Information Sharing, organization goal, cost control and level of suppliers’ participation. As shown in the table below;

<table>
<thead>
<tr>
<th>Effective supply chain management</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>Information Sharing</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>Information Sharing</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>Information Sharing</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>Information Sharing</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
</table>
Coefficient of Determination

In addition, the study conducted a multiple regression analysis so as to analyze effect of procurement planning in effective supply chain management in the banking sector with a focus Cooperative Bank of Kenya. The study 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 (Mugenda and Mugenda, 2003) i.e. effective supply chain management that is explained by all the four independent variables (Information Sharing, organization goal, cost control and level of suppliers’ participation). From the findings 86.3% of effective supply chain management is attributed to combination of the four independent variables (Information Sharing, organization goal, cost control and level of suppliers’ participation) investigated in this study. A further 13.7% of the effective supply chain management is attributed to other factors not investigated in this study. See table below:

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.981(a)</td>
<td>0.863</td>
<td>0.691</td>
<td>0.752</td>
</tr>
</tbody>
</table>

Multiple Regression Analysis

The study conducted a multiple regression analysis so as to determine the relationship between effective Supply Chain Management and the four attributes investigated in this study. The regression equation (\( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \alpha \)) was:

\[
Y = 1.413 + 0.246X_1 + 0.359X_2 + 0.268X_3 + 0.215\beta_4X_4 + 0
\]

Whereby \( Y = \) Effective Supply Chain Management,
According to the regression equation established, taking all factors (Information Sharing, organization goal, cost control and level of suppliers’ participation) constant at zero, effective supply chain Management in the banking sector will be 1.413 as a result of these independent variables. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in information sharing will lead to a 0.246 increase in effective supply chain management in the banking sector. A unit increase in organization goal will lead to a 0.359 increase in effective supply chain management in the banking sector; a unit increase in cost control will lead to a 0.268 increase in effective supply chain management in the banking sector while a unit increase in level of suppliers’ participation will lead to a 0.168 increase in effective supply chain management in the banking sector. This therefore implies that all the four variables have a positive relationship with organization goal contributing more to effective supply chain management in the banking sector, while level of suppliers’ participation contributes the least to effective supply chain management in the banking sector. (Creswell (2008))

Multiple Regression Analysis table

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.413</td>
<td>1.068</td>
</tr>
<tr>
<td>Information Sharing</td>
<td>0.246</td>
<td>0.203</td>
</tr>
<tr>
<td>Organization Goal</td>
<td>0.359</td>
<td>0.193</td>
</tr>
<tr>
<td>Cost Control</td>
<td>0.268</td>
<td>0.250</td>
</tr>
<tr>
<td>level of Suppliers’</td>
<td>0.215</td>
<td>0.16</td>
</tr>
<tr>
<td>participation</td>
<td></td>
<td></td>
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</tbody>
</table>
Conclusion

Based on the findings, the study concludes that information sharing influences supply chain management at a great extent. The study revealed that organization goal enhances supply chain management practices at great extent and that all departments within the organization observed organization goal during procurement planning practices where it supported attainment of the business goals. The study also concluded that level of suppliers’ participation enhances supply chain management at a great extent due to specification of suppliers. Additionally, the study established that supply chain leaders dedicated greater resources to spend more time at suppliers’ locations hence greater supplier development results. On cost control, the study concluded that main aim of procurement planning is to minimize cost of operation at a very great extent. The study also concluded that there was more efficient and economical acquisitions resulting in the delivery of cost-efficient and timely contracts for products and services due to effective procurement planning.

Recommendation

The study recommended that for effective supply chain management practices, all staff members be encouraged to pool their initiative either through expressing their opinion orally on their line of operation. On the same the study recommended that both junior staff and senior staff interact in all levels in order to create sense of being part of the organization hence ease flow of information that may effectively lead to effective information exchange. On organization goal, the study recommended that organization goal be interpreted to all so that all staff in all level may understand it and realize the main objective of the organization. Inclusively, the study recommended that in order to have common and uniform outcome of the organization all department within the entire organization should be conversant to organization goal in order have clear ordering of product that may enhance supply chain as well as utilizing available resources maximum. To level of suppliers’ participation, the study recommended that each organization have a particular supplier to ensure quality and adequate supplies are met to ensure effective supply chain management. Additionally, the study recommended that clear assessment of potential supplier should be conducted before offering tender to supplier to eradicate possibility of non-performance of the supplier due to inadequate capacity to hold the organization supply need. On cost control, the study suggested that procurement planning practices be emphasized more and excellent performing
department be rewarded as a means of motivating the entire department with the organization to cost of operation is minimized. Likewise, the study recommended that prior utilization of resources available to maximum leads to cost of purchasing of material hence effective supply chain management of only needed products.

References


