

Role of Strategic Procurement Practices On Procurement Performance in State Corporations in Kenya

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Abstract

The purpose of this paper was to investigate the effect of strategic procurement on the performance of geothermal development corporation. The researcher collected both primary and secondary data during the research. Primary data was collected using a questionnaire covering the strategic role of procurement in organizational performance. Quantitative data was analyzed by employing descriptive statistics and inferential analysis using statistical package for social science (SPSS) version 24. The findings have shown that cost Management on strategic procurement has a positive and significant effect on Procurement Performance, $\beta_1 = 0.550$, $p < 0.000$. Furthermore, Supplier Relations do not have a significant effect Procurement Performance, $\beta_2 = 0.030$, $p = 0.656$. Further focus on cost management strategies such as purchasing at a more centralized divisional level, cost analysis prior to approving purchases, contract reviews, supply chain mapping, and adequate human resource can go a long way in further improving procurement practices in the company. There is the specific focus that needs to be placed on cost reduction and how the competency of the suppliers can be further improved through training and resource provision that is critical to ensuring effective and efficient procurement processes

Keyword: Supplier Relations, Strategic Procurement, Performance, Procurement, Cost Management

Introduction

Modern procurement practices are dynamic and interconnected networks that are gradually lengthening and globe-spanning (Christopher *et al.*, 2012). Procurement practices integrate various firm's operations and support functions, synchronizing production with new orders, purchasing with demand, scheduling, and shipping with customer requirements. According to O'Brien (2011) when well-implemented procurement practices in an organization, forms an efficient, quick and accurate management tool that reduces cycle time and builds reliability thereby impacting positively on organizational performance.

Globalizing companies respond to the challenges of organizational performance through the implementation of procurement practices (Robson, 2013). Procurement practices provide the right metrics and key performance indicators that can aid the global firm when juggling performance, resources, costs and operational logistics from relocated departments and manufacturing facilities (Shah, 2010). Procurement practices provide integration to globalizing companies, but they do not provide a quick fix to all market penetration and other business infrastructure (Gunson, 2010). Before going global, organizations have to ensure that their systems are solidified and streamlined domestically. Otherwise, their internationalization efforts will flounder (Brien, 2011). A company's internal operations must be fully integrated at home before adding the complications of global expansion (Shah, 2013).

According to Giunipero and Sawchuck (2000), procurement comprises the actions taken by the purchasing organization to integrate supply chain in order to reduce costs and time and increase productivities. Others have concluded that there is confusion as to what exactly is meant by strategic purchasing and there is still a long way yet to go before procurement, as a function, becomes truly strategic (Steele and Court, 2006; Marshall and Lamming, 2007).

Procurement strategy, as conceptualized and defined in the introduction does not represent a radical departure from the traditional concept of purchasing strategy; the only difference is that Internet-based technologies are used as tools to carry out the firm's purchasing and corresponding corporate strategies. Burt and Doyle (2003) identified a number of strategic objectives of the e-purchasing function. These objectives were a continuous quality improvement, total cost management, time-based competition, technology access and control, and risk reduction. A Purchasing Magazine survey of consultants revealed a number of objectives that firms pursue when employing procurement strategy. They included driving the lowest possible purchase price, identifying sources of high-quality products/services, simplifying the purchasing and supply management processes, and reducing transaction costs ("Beyond the auction hype" 2000). In addition, a leading consulting firm reported that companies use strategies to reduce transaction costs, purchase price, purchase order processing cycle times, and to speed up the time-to-market cycles (www.aberdeen.com 2003). Clearly, overlap exists in the objectives identified in (traditional) purchasing processes and in the real procurement function. This suggests that the concept of consistency between corporate and traditional purchasing strategies is applicable in the realm of procurement.

Research on the topic of corporate and purchasing strategies has become increasingly prevalent as the function shifted away from a primarily clerical role to a more strategic one (e.g., Carr and Smeltzer 2007, Ellram and Carr 2004, Monczka and Trent 2001). The adoption and use of business-to-business commerce are also widely researched (e.g., Osmonbekov, *et al.*, 2002; Min and Galle 2009; Gupta 2007). However, most of what has been written about the *relationship* between firm strategy and procurement appear in the popular press and remain virtually unexplored in the academic literature. Corporate purchasing strategies contribute to over 15% of global purchasing accounting for about 5% of the contribution to a country GDP. In addition, It is interesting to note that evidence (SOPO, 2009; Birch, 2001, para. 2.2.1) indicates that, within government entities, a considerable amount of the organization's expenditure is carried out without the involvement of the Procurement function. Of paramount importance though is the need to recognize the strategic role of the procurement process.

The purpose of this research is to investigate the Role of Strategic Procurement Practices on Organizational Performance; Case Study of Geothermal Development Corporation. Given the current and projected expenditures of 70% in procurement as well as the increasing importance of the purchasing function in contributing to firm profitability by over 25%, it is important for firms to employ a systematic means of deciding which procurement practices will contribute most to the attainment of corporate goals. According to Porter (2000), if a firm uses a procurement tool solely to keep pace with its competitors, and without regard to how it fits into its corporate strategy, the outcome may be less than optimal. Purchasing professionals must recognize that these tools represent a means for the function to achieve its goals; they are not a replacement for well-developed and implemented strategies. Purchasing/supply management professionals who fail to recognize this fact, may ultimately waste valuable financial and human resources and fail to contribute fully to the overall goals and objectives of the firm. The attainment of Kenya vision 2030 is highly dependent on prudent strategic purchasing and as such Geothermal Development Corporation should be on high alert to curb the massive wastages experienced by government agencies which are likely to retard economic growth and achievement of vision 2030. It's against this that this study is being undertaken to investigate the Role of Strategic Procurement Practices on Organizational Performance; Case Study of Geothermal Development Corporation. thus, this paper sought to answer the following questions;

- i. *Does cost management affect procurement performance of Geothermal Development Corporation?*
- ii. *How do supplier relationships affect procurement performance of Geothermal Development Corporation?*

Theoretical Review

This paper was anchored on resource dependency theory. This theory introduces accessibility to resources, in addition to the separation of ownership and control, as a critical dimension to the debate on corporate governance Bebchuk et al. (2004). Again, the theory points out that organization usually tend to reduce the uncertainty of external influences by ensuring that resources are available for their survival and development Bowen et al. (2005). By implication, this theory seems to suggest that the issue of the dichotomy between the executive and non-executive directors is actually irrelevant Cremers et al. (2005). How then does a firm operate efficiently? To resolve this problem, the theory indicates that what is relevant is the firm's presence on the boards of directors of other organizations to establish relationships in order to have access to resources in the form of information which could then be utilized to the firm's advantage Erickson (2006). Hence, this theory shows that the strength of a corporate organization lies in the amount of relevant information it has at its disposal.

The Stakeholder Theory was also employed to support resource dependency theory. Stakeholder theory by Freeman (1984) begins with the assumption that values are essentially and explicitly a part of carrying out business operations. It seeks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to carry out business activities, specifically what kind of relationships they want, and need to create with their stakeholders to enable them to deliver on their purpose. Stakeholder theory managerial, in that it reflects and directs how managers operate rather than primarily addressing management theorists and economists. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (2009) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must, however, point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et al., 2004). Jensen (2001) critique the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm's constituencies). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as the flow of information from senior management to lower ranks, inter-personal relations, working environment, etc. are all critical issues that should be considered. Some of these other issues provided a platform for other arguments as discussed later. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al., 2005).

Literature Review

Cost Management

Research shows that many large companies in the US and Europe use reverse e-sourcing to reduce costs and that supply managers expect continued cost reduction in the future (Kaufmann and Carter, 2004). In reverse e-sourcing, suppliers compete dynamically, in real-time, for a buyer's business and typically bid down the price of an item to be purchased. Using the internet, suppliers submit multiple electronic bids during a fixed time period, often 30 minutes or less. E-sourcing can reduce purchase prices, save time, streamline the bidding process, and enable suppliers from anywhere in the world to compete for a buyer's business thus enhancing organizational performance (Smart & Harrison, 2003). Risks of high costs include damaging supplier relationships, switching to suppliers who are not capable, underestimating the total costs associated with using suppliers with lower purchase prices and negatively impacting the supply market in the long run by driving out qualified suppliers (Smeltzer & Carr, 2003). To attain the greatest benefits, purchasing processes should be evaluated and improved before implementation to take care of the cost function (Presutti, 2003).

Johnston (2005) argues that costs have to be managed well to achieve the firm's performance goals. There are several key success factors, related to both the competency of the service provided by an online auction intermediary and to the organizations own internal capabilities. One key success factor relating to cost management is the technical capability of the system (Johnston, 2005). Johnston (2005) specified technical service quality in terms of system cost (security, reliability, easy to use, accessibility) and service quality (e.g., the responsiveness of service). In addition, trust in the service provider is another major success factor for strategic procurement adoption (Rotchanakitumnuai & Speece, 2009).

Supplier Relationship

Supplier relationship has been defined as “two or more chain members working together to create a competitive advantage through sharing information making joint decisions and sharing benefits which result from greater profitability of satisfying customer needs than acting alone (Togar and sridharan,2002) Supplier relationship is departure from the anchor point of discreteness that underlies business transactions to a relational exchange as the roles of supplier and buyer are no longer narrowly defined in terms of simple transfer of ownership of products (Mac Neil 2004)

By focusing on relational exchange entails the activities that are undertaken jointly rather than unilaterally (Heide 2003). Zahear and Zenkatraman (2004) Simatupang and Sridharan (2003) suggest that the requirements for effective collaboration are mutual objectives, integrated policies joint decision making information sharing of benefits and losses. Buyer/supplier commitment is the belief that trading partners are willing to devote energy to sustaining the relationship (Dion *et al.*, 2004) whereas according to Moorman, Zaltman, and Deshpande (2002) buyer\supplier commitment is an enduring desire to maintain a valued relationship. Through commitment, partners dedicate resources to sustain and further the goals of the collaboration. (Heide and John 2009) and (Krause 2006) propose that the expectation of a relationship is important for motivating collaboration in inter-organizational relationships (Simatupang and Sridharan 2005) noted that information sharing joint decision making and incentive alignment are factors that facilitate collaborative action through information exchange between the buyer and supplier.

In summary procurement strategies play a significant role in the performance of the organization. The potentials roles of procurement strategy have already been proven in a number of studies. As per these studies, procurement strategies enable companies to decentralize operational procurement processes and centralize strategic procurement processes as a result of the higher supply chain transparency provided by procurement systems. This study looks Role of Strategic Procurement Practices on Organizational Performance in Kenya.

In conclusion, the following observations were made from the literature. Much of the empirical studies carried out have been done in the developed countries and have been conducted on the implementation of e-procurement, this study seeks to fill the existing research gap by conducting a study to determine the Role of Strategic Procurement Practices on Organizational Performance in Kenya which is a developing country, in specific it will address the role of role of enterprise resource planning, sourcing, tendering and informing on the organizational performance of geothermal.

Material and methods

A descriptive research design was used in this study. The target population of this study comprised employees in the following department's stores warehousing, logistics, and operations at Geothermal Development Corporation comprising of a total of 183 respondents. From a total population of 183, a sample size, calculated within the status with the help of Fluid sample size formula. Since the population is highly homogeneous, simple random sampling was used to select 125 respondents from the Procurement department. Primary data

was collected using a questionnaire covering the strategic role of procurement in organizational performance. Reliability analysis was assessed using Cronbach's alpha to determine whether the data gathered on each variable had a significant relationship with the strategic role of e-procurement. To measure the reliability of the gathered data, Cronbach's alpha was applied. Cronbach's alpha is a coefficient of internal consistency. After conducting a pilot test using 10 respondents from Kenya power which were not included in the final survey of the study, the Cronbach alpha test showed values ranging from as low as 0.705 to as high as 0.911 as showed in Table 4.1. These findings were in line with the benchmark suggested by Hair *et al.* (2010) who regard a coefficient of 0.60 to have average reliability while a coefficient of 0.70 and above indicates that the instrument has a high-reliability standard. Although most researchers generally consider an alpha value of 0.70 as the acceptable level of reliability coefficient, the lower coefficient is also acceptable (Nunnally, 1978). Therefore, it can be concluded that data collected from the pilot study were reliable and obtained the acceptable level of internal consistency. Therefore, all items were included in the survey instrument.

Table 1 Reliability Values for the Research

Reliability Aspects	Cronbach's Alpha
Procurement performance	0.821
Cost management	0.911
Supplier relation	0.705
Total	0.816

Analytic model

Correlation analysis to establish the relationship between the independent and dependent variables was employed. The purpose of doing correlation was to allow the study to make a prediction on how a variable deviates from the normal. The hypoproject testing was done at 5% level of significance, and SPSS was used for this purpose. The data were presented using frequency distribution tables, bar charts and pie charts for easier understanding. Procurement performance was regressed against two independent variables. The equation is expressed as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Y = Procurement Performance, α = Constant (Co-efficient of intercept), X_1 = Cost Management, X_2 = Supplier relationship, ε = Error

$\beta_1, \dots, \beta_4$ = Estimated Regression coefficient

Results and Discussion

Cost management

The study sought to establish the level of cost of management as well as the various strategies being utilized for cost management. The findings in table 2 show that most of the materials are purchased at a more centralized divisional level (M=4.19, SD = 1.32). The findings further show that cost is reduced by limiting the number of suppliers used by the firm and providing them with necessary training and technology (M=3.53, SD = 1.53). In addition, company conducts cost analysis before any purchasing is approved (M=4.16, SD = 0.88), reviews contracts from five years ago which offer some savings opportunities (M=4.52, SD = 0.79), carries out supply chain mapping in determining costs at every stage of the supply chain (M=4.14, SD = 1.11) and has a team of experts for proper negotiation of payment terms with suppliers (M=4.49 (SD = 0.98) showing that majority of the respondents had agreed. All the standard deviations were within the +/-1.96 range showing normality assumptions were not violated.

Table 2 Cost management

	Mean	SD
Most of the materials are purchased at a more centralized divisional level	4.19	1.32
Cost is reduced by limiting the number of suppliers used by the firm and providing them with necessary training and technology	3.53	1.53
The company conducts cost analysis before any purchasing is approved	4.16	0.88
The company review contracts from five years ago which offer some savings opportunities	4.52	0.79
The company Carry's out supply chain mapping in determining costs at every stage of the supply chain.	4.14	1.11
The company has a team of an expert for proper negotiation of payment terms with suppliers	4.49	0.98

Supplier Relations

This study sought to examine the perspectives of the respondents regarding the relationship between their organization and its suppliers. From the findings in Table 3 show that management is committed to supplier relationship (M=4.15, SD = 1.150), encourages collaborative relationships with suppliers for innovative procurement M= 4.19, SD = 0.870), makes efforts to standardize the procurement processes with suppliers (M=4.14, SD = 0.900) and makes efforts to encourage adherence to legislative procurement procedures and requisition development with suppliers (M= 4.30, SD = 1.020), makes efforts to streamline records management systems for suppliers (4.25 (SD = 1.070) indicating that majority of the respondents agreed. All the standard deviations were within the +/-1.96 range showing normality assumptions were not violated.

Table 3 Supplier Relations

	Mean	SD
Management is committed to supplier relationship	4.15	1.150
Management encourages collaborative relationships with the supplier for innovative procurement.	4.19	0.870
Management make efforts to standardize the procurement processes with suppliers	4.14	0.900
Management make efforts to encourage adherence to legislative procurement procedures and requisition development with suppliers	4.30	1.020
Management make efforts to streamline record management systems for suppliers	4.25	1.070

Procurement Performance

The study sought to establish the level of procurement performance in the company by assessing the views of the respondents regarding various aspects of procurement performance. The findings further showed that the company had experienced improved product compliance with orders placed (M= 4.16, SD = 1.03). Furthermore, the findings show that company has experienced reduced inbound time M=4.62, SD = 0.490), has achieved improved requirement specification for purchased materials (M= 4.09, SD = 1.21), has achieved timely submission of purchase requisitions by department for approval (M=4.36, SD = 0.940), achieves timely purchase requisition approval (M=4.08, SD = 0.890) , achieves timely bidding process initiation and closure (M= 3.41, SD = 1.45), achieved timely bids evaluation and supplier selection (M= 3.75 (SD = 1.02) and has

low percentage of defects ($M=3.86$, $SD = 1.13$) showing that majority of the respondents had agreed. All the standard deviations were within the ± 1.96 range showing normality assumptions were not violated.

4 Procurement Performance

	Mean	SD
The company has experienced improved product compliance with orders placed	4.16	1.03
The company has experienced reduced the inbound lead time	4.62	0.49
The company has achieved improved requirement specification for purchased materials	4.09	1.21
The company has achieved timely submission of purchase requisitions by the department for approval	4.36	0.94
The company has timely purchase requisition approval	4.08	0.89
The company has timely bidding process initiation and closure	3.41	1.45
The company has timely bids evaluation and supplier selection	3.75	1.02
The company has a low percentage of defects	3.86	1.13

Means and Normality Test

The findings in Table 4.7 provide descriptive statistics for all variables. Results showed that cost management had the highest mean of 4.1292. This implies that there were high adoption and implementation of cost management strategies with the minimal adoption of information communication technologies, 2.8763. Further, to test the normality, skewness and kurtosis were assessed. Skewness is used to measure the symmetry of distribution while kurtosis is used to measure the peakedness or flatness of a distribution (Tabachnick and Fidell, 2007).

Table 5 Grade Means and Normality Test

	Mean	Std. Deviation	Skewness	Kurtosis
Procurement Performance	4.1111	0.58127	-0.544	0.080
Cost Management	4.1292	0.66905	-0.743	-0.427
Supplier Relations	3.8729	0.55686	-0.711	0.215

Based on the results in Table 5, the values of Skewness and kurtosis revealed that the data was normally distributed where the Skewness values were in the range of -1.006 to 0.088. The value for kurtosis, on the other hand, was in the range of -0.427 to 1.158 well below the threshold of ± 1.96 .

Correlation and Regression Analysis

The findings revealed in Table 5 that cost management has a positive and significant relationship with procurement performance, $\rho = 0.771$, $p < 0.001$. This means that with an increase in cost management, there is 0.771 probability that procurement performance will increase. Further, supplier relations have no significant relationship with procurement performance, ρ . Finally, the inter-factor relationships showed that there were significant and positive relationships. These findings show that the various factors complement each other for the benefit of increasing the level of procurement performance in the company.

Table 6 illustrates the model summary of multiple regression models; the results showed that all the four predictors (Cost Management and Supplier Relations) explained 65.7% variation of Procurement Performance. This showed that considering the four study independent variables, there is a probability of predicting Procurement Performance by 65.7% ($R\text{-squared} = 0.657$, $R = 0.810$).

Study findings in Table 5 for the analysis of variance indicated that the above-discussed coefficient of determination was significant as evidenced by $F(4, 113) = 54.050$ with $p < 0.001$. Thus, the model was fit to predict Procurement Performance using cost Management and Supplier Relations.

The first specific objective of this study was to establish whether Cost Management on strategic procurement affects procurement performance of Geothermal Development Corporation. The study sought to achieve this specific objective answering the research question stating that: does cost management on strategic procurement affect procurement performance of Geothermal Development Corporation? The findings in Table 6 show that Cost Management has a positive and significant effect on Procurement Performance, $\beta_1 = 0.550$, $p < 0.000$. The null hypothesis was thus rejected, and it was concluded that Cost Management had a significant effect on Procurement Performance.

This suggested that there was up to 0.550-unit increase in Procurement Performance for each unit increase in Cost Management. The effect of Cost Management was more than 7 times the effect attributed to the error, $t = 7.042$. In line with these findings, many large companies in the US and Europe use reverse e-sourcing to reduce costs and that supply managers expect continued cost reduction in the future (Kaufmann and Carter, 2004). Furthermore, e-sourcing can reduce purchase prices, save time, streamline the bidding process, and enable suppliers from anywhere in the world to compete for a buyer's business thus enhancing organizational performance (Smart & Harrison, 2003).

The second specific objective of this study was to find out whether Supplier Relationships affects Procurement Performance of Geothermal Development Corporation and this was by answering the research question that: does information technology infrastructure on strategic procurement affects procurement performance of Geothermal Development Corporation? The findings in Table 6 reveal that Supplier Relations do not have a significant effect on Procurement Performance, $\beta_2 = 0.030$, $p = 0.656$ and this can be evidenced by the amount of effect accounted for by Supplier Relationships which is less than that accounted for by the residuals, $t = 0.447$ associated with the parameter.

In this case, there are gaps that have resulted in the supplier relationship not significantly influencing procurement performance although the effect is positive. This means that although there is an element of good supplier relationships, there are gaps especially in aspects of sharing information making joint decisions and sharing benefits which are critical (Togar and Sridharan, 2002) compared to acting alone. This means that there are also other critical components that are lacking such as integrated policies, joint decision making, information sharing of benefits and losses.

The rule of thumb was applied in the interpretation of the variance inflation factor. From Table 6, the VIF for all the estimated parameters was found to be less than 4 which indicated the absence of multicollinearity among the independent factors (Hair *et al.*, 2010). In addition, all the tolerance values are greater than 0.1. This implied that the variation contributed by each of the independent factors was significant independently and all the factors were included in the prediction model.

Table 6 Correlation and Regression Analysis

Summary Statistics								
R	0.810a							
R Square	0.657							
Adjusted R Square	0.645							
Std. The error of the Estimate	0.346							
ANOVA(F value)	54.05					Durbin-Watson	1.722	
ANOVA(prob)	0							
	Unstandardized Coefficients	Standardized Coefficients				correlation	Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	zero order	Tolerance	VIF
(Constant)	1.005	0.286		3.51	0.001			
Cost Management	0.456	0.065	0.55	7.042	0	0.771**	0.498	2.008
Supplier Relationships	0.031	0.07	0.03	0.447	0.656	0.409**	0.682	1.467

a Dependent Variable: Procurement Performance

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

Conclusion and Recommendations

The findings have shown that increasing cost management on strategic procurement has the potential of increasing procurement performance. On the other hand, increasing supplier relations seems not to significantly affect procurement performance despite having a positive effect. Based on the findings of this study, the study developed recommendations that can guide the procurement practices of the company in future. The findings have shown different cost management strategies, especially in strategic procurement result in better procurement performance. A further focus of such strategies such as purchasing at a more centralized divisional level, cost analysis prior to approving purchases, contract reviews, supply chain mapping, and adequate human resource can go a long way in further improving procurement practices in the company. There is the specific focus that needs to be placed on cost reduction and how the competency of the suppliers can be further improved through training and resource provision that is critical to ensuring effective and efficient procurement processes.

Although the company implements various strategies in enhancing supplier relations, there is more to be done especially by drawing in more discussions and ideas that can further enhance and complement what the company is currently doing in terms of supplier relations. This would lead to a more productive and mutually beneficial relationship.

This study focuses on the Geothermal Development Corporation in Kenya only. This is a public entity in Kenya. However, there is need to increase the scope to cover other sectors in public or private sector so as to confirm the findings of this study and also to add more knowledge.

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