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Strategic Procurement Practices and Organizational Performance in the Construction Industry in Kenya: A Case Study of Allied Plumber Ltd

¹Ogeto Evans Omari & ²Thiong'o Samuel Mungai

¹Postgraduate Student, Management University of Africa, Kenya

omari.ogeto@gmail.com

²Tutorial Fellow, Management University of Africa

thiongosamwel@yahoo.com

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Abstract

The general objective of the study was to identify the importance of strategic procurement on organizational performance. The study used descriptive research design and a target population of 53 employees of Allied Plumbers limited drawn from planning and finance, human resource and administration, procurement, engineering and operations, tendering and contracts, and site and construction departments. The study used stratified sampling together with Yamane formula; a sample of 47 respondents was obtained from whom data was obtained using structured questionnaires. Data analysis involved use of descriptive statistics and inferential analysis. The research found out that strategic procurement plays a pivotal role in organizational performances. The study further found that the organization frequently executes a strategic procurement practice that is identification and selection of suppliers, procurement negotiation prior to procurement and contract management, good supply chain relationships with suppliers, good inventory management systems, but rarely delegate procurement authority. The study concluded that organizations that fashion prudent strategic management practices have an upper hand slithering through the dynamics of change and eventually emerging as a performer and successful organizations, and strategic procurement is a core capability of the organization. The study recommends that organization need to frequently delegate expertise procurement roles to technical team for quality purchases translating to quality and sustainable installations leading to gaining competitive advantage.

Key words; *Strategic Procurement, Organizational Performance*

1.0 Introduction

Performance is not just about efficiency but achieving desired results, and several attempts have been made in the construction industry to develop measures for construction project performance in order to meet improved targets (Omopariola, Dele, Ilori, & Windapo, 2019). For organizations to achieve performance and sustain it in tandem with objectives and goals, right practices of integrating and executing activities within the organization have to be adhered to.

There are a number of obstacles for family firms to grow and survive in the long term, these demands include normal business challenges such as being part of a business lifecycle, intensifying competition, and new technologies, risk aversion due to high levels of ownership concentration and intentions to maintain family control which influences decisions to take on growth opportunities (Ungerer & Mienie, 2018)

Strategic purchasing is a critical driving force in organization which does not only comprise the achievement of the cheapest price, but rather focuses on a close link to the supply base, an early supplier involvement, and the involvement of logistical activities. For effective performance to organizations vital executable phases of procurement has to be adhered to detail that is specification, selection, contracting, ordering and expediting and evaluating phase (Apostolova, Kroon, Ritcher, & Zimmer, 2015) Procurement strategies today play an important role in organizations' success more than ever before and have become an integral part of the organizational strategic plan and technology has developed giving opportunity to more efficient and effective procurement (Orina & Kimencu, 2018). Strategic procurements need to have interconnectedness of the activities, meaning that the output of one stage has an impact on the input of the subsequent stage, for instance, an insufficient specification of the requirements can lead to a poor quality of goods that does not meet the requirements of internal customers (Apostolova, Kroon, Ritcher, & Zimmer, 2015).

Allied Plumbers limited is a plumbing, drainage and fire protection installations contractor in the construction industry in Kenya with sister companies spread within East Africa countries that is Uganda, Tanzania and recently Rwanda. Since inception then incorporation the company has been dedicated in executing building services installations to meet the industry demands, and has diverse and exceptional experience in the construction industry in both public and private sector dating back from 1968.

Not many companies could get away with calling themselves “a humble bunch of plumbers wanting to take care of your plumbing and drain service needs without sounding inauthentic” (May, 2020). Plumbing drainage and firefighting installations are specialized and exceptionally crucial services installation in buildings both internally and externally.

The company has tremendously grown from plumbing and drainage repair works company to a reputable mechanical installation company extending its wings within East Africa by strategic partnership with sister companies that is Plumbware Ltd., hardware outlet based in Kenya, Allied utilities services (E.A) Ltd., waste water treatment company based in Kenya with operation within East African states, Allied Plumbers (U) Ltd based in Uganda and Jandu Plumbers Ltd.,

based in Tanzania. The company boasts with a rich experience within construction services industry (plumbing drainage and fire protection) having executed and completed landmark projects within East Africa projects from commercial buildings, hotels, residential, industrial and many more. Some of them include Sarova hotels, Kenyatta national hospital main wing, Nyayo house, KCAA housing units in Embakasi, Villa Rosa Kempinski hotel, English point marina Mombasa, Marriot Hotel in Rwanda, KCB headquarters Upper hill, Hemmingway boutique hotel Karen.

1.2 Statement of the Problem

Allied Plumbers limited is a family owned Plumbing, Drainage and Fire protection installations contractor in the construction industry in Kenya with sister companies spread within East Africa countries that is Uganda, Tanzania and recently Rwanda. The family, business, and ownership subsystems hold distinct and often-conflicting values that make diagnosis and intervention in family businesses complex (Worley, 2009). Try as they might, owners can never be certain that professionals appointed to manage the enterprise in their stead have the owners' best interests at heart (Parnell, 2014). Highly competitive and intense changes in the construction industry are driving construction managers to improve the performance of their firms (Omopariola, Dele, Ilori, & Windapo, 2019). A firm's growth is contingent on its resources and competitive positioning instead of a high growth rate within the industry (Parnell, 2014).

Businesses face increasing levels of competition, which is becoming more global in nature in many industries, coping with this competition demands that strategies are in place, because being prepared and poised to act rarely, if ever, comes about by accident or 'just happens' by chance (Brown, Lamming, Bessant, & Jones, 2005). By considering all of the firm's processes from the procurement of raw materials to the delivery of a final product and or service, strategic managers can identify discrete activities performed along the way that may add exceptional value to the end product or detract from it (Parnell, 2014). Companies are facing challenges in procurement due to insufficient finances, quality specifications and timely delivery (Ooko, 2018), also noted that there most of the companies are yet to embrace e-procurement due to lack of requisite information system and human capital. According to Audi (2014) procurement staffing level are inadequate for the realization of strategic procurement in the company. As per Kyengo (2012) many organizations over the years have had only the most rudimentary supply chain strategy process in place, indicating that these concepts are either not well understood or difficult to implement.

On these days, firms are coping with a very competitive, turbulent, and unstable market that stems from prompt technological development, therefore, the manager's focus is on creating a competitive advantage by creating a new way of strategic development, which are appropriate for them and enables a successful adaptation to that technological and industrial changes (Islami, Mustafa, & Latkovikj, 2020). Currently, firms are losing their energy to find methods that offer them to maintain the existing position in the market, as well as to increase the market share and profit, and so, to survive, to be more profitable, and to increase the market share, firms should create strategies (Islami, Mustafa, & Latkovikj, 2020).

1.3 Objectives of the study

Thus study sought to establish strategic procurement contributions on organizational performance in the construction industry in Kenya, with a focus on Allied Plumbers Limited.

2.0 Literature Review

This Study was anchored on contingency theory of leadership as proposed by the Austrian psychologist Fred Edward Fiedler in his landmark 1964 article, "A Contingency Model of Leadership Effectiveness." The contingency theory emphasizes the importance of both the leader's personality and the situation in which that leader operates. The contingency theory model states that there is no one best style of leadership, Instead, a leader's effectiveness is based on the situation. Contingency theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations (Islam & Hu, 2012). The assumption underlying contingency theory is that no single type of organizational structure is equally applicable to all organizations, rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system (Islam & Hu, 2012). In organizations, owners of human and physical capital make specific investments to create value with expectations of acceptable share returns. The various organizational factors that influence the adoption of performance management systems in organizations include size, organizational structure, strategy, technology, culture, and leadership, whereas external environment is a significant contextual factor, which includes its degree of predictability or uncertainty, the degree of competition or hostility exhibited, and environmental dynamism or turbulence faced by the organization (Wadongo & Abdel-Kader, 2014). For effectiveness of organization, human resource management must be consistent with other aspects of the organization and or external environment as one-size-fits all approach is inappropriate, as the effectiveness of human resource practices is dependent on the context in which they are applied (Harney, 2016). Thus, this theory is in support of executable action plans on strategic management practices by top management on how procurement systems within the organization can be improved and what combination of factors within and outside the organization that will facilitate superior performance.

Influence of procurement procedures on construction project performance, a case of power plant construction at Kenya Petroleum Refineries limited, Mombasa, Omondi (2013) explored the influence of procurement procedures on construction project performance. The study found out that completion time increases by 58.3%, from expected duration as a result of strategic procurement approaches being engaged. In terms of satisfaction, the client was not satisfied with the cost and time taken but was satisfied with the service and the quality of the project. The study recommended that all the personnel involved with projects should be taken for project management and contract management training.

According to Kiromo (2015) strategic procurement and supply chain practices influence organizational performance positively through assurance of improved quality of products and improved ability to meet demand, practicing supplier relationship management, ethical procurement, green supply chain management as well as application of professional ethics in the company. The researcher recommended that there was need for preparation of annual procurement plans which should be participatory, and frequently reviewed so as to improve on the construction firm's performance, and management of the procurement process need to be administered by qualified, competent and experienced procurement professionals to achieve high levels of efficiency and effectiveness.

On Influence of procurement lifecycle on housing construction project performance case study of Nakuru County, Ooko (2018) found out that most of the construction firms face procurement challenges due to insufficient finances to facilitate procurements, compromise of quality due to substandard items, delays in supply/delivery, and influence from political divide. Thus, in resolving the challenges it was proposed that construction companies need to have in place elaborate payment plan for supplies, enlighten key players on the importance of adhering to procurement rules and regulations, and offering of trainings to enrich skills of formulating specifications for products.

Study by Masiko (2013) on Strategic procurement practices and performance among commercial banks in Kenya, the study was to determine the strategic procurement practices used by commercial banks in Kenya. The study found out that commercial banks in Kenya do pay attention to strategic procurement practices, also found out that there was a significant positive relationship between the strategic procurement and the benefits to commercial banks, and strategic procurement practices influences the procurement performance.

3.0 Research Design and Methodology

For the purpose of this study descriptive research design was applied. The target population for the study was 53 employees of Allied Plumbers limited who understands strategic management practices. The research needs to focus on those people with the same opinion to have the required information and be willing of sharing it (Etikan & Bala, 2017). The researcher chose to study Allied plumbers limited due to duration it has been construction industry in Kenya.

The targeted study population were 53 employees of Allied Plumbers Limited from planning and finance (9), human resources and administrations (10), procurement (10), engineering and operations (7), tendering and contracts (4), site and construction (13) departments. Stratified sampling technique was used together with Yamane's (1967) formula for calculating sample size to come up with sample size of 47 respondents. A structured questionnaire questions was used to obtain data from the respondents.

From the structured questionnaires quantitative data was produced. The questionnaires were coded and edited for completeness and consistency and entered into Statistical Package for Social Sciences (SPSS version 22.0). Analysis involved descriptive statistics. A linear regression analysis was conducted to establish the relationship between the dependent and independent variable.

Regression model was used to study the relationship between the dependent and independent variable studied, that is

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where: Y = Performance;

β_0 = Constant Term; β_1 coefficients;

X_1 = Strategic Procurement;

ε = Error term

4 .0 Results and Findings

The study sought to establish the extent to which employees were in concurrence with frequency of strategic procurement practices and its contribution to the performance of Allied Plumbers Limited. The data obtained from the respondents was analyzed and presented in table 1.

Table 1: Strategic procurement on organizational performance

Statement	n=32	
	Mean = (\bar{X})	Std= (σ)
Identification and selection of suppliers- Organization’s strategic identification and selection of suppliers prior to purchasing.	4.03	0.93
Delegation of procurement authority- Organization delegating procurement activities to knowledgeable and skilled employees.	2.75	0.88
Negotiation and contract management -Organizations engaging in procurement negotiation prior to procurement and contract management.	4.13	0.98
Supply chain relationships -Organization being in good supply chain relationships with suppliers and other parties in in procurement chain.	4.03	0.82
Inventory management- Organization’s ordering, storage and distribution management and having requisite tracking systems in place.	4.06	0.67

The data analyzed and presented in table 1 showed that majority of the respondents were in sort of frequency ($\bar{X} = 4.03, 4.13, 4.03 \& 4.06$) concurred that the organization strategically and frequently does identification and selection of suppliers prior to commencement, Organizations engaging in procurement negotiation prior to procurement and contract management, Organization being in good supply chain relationships with suppliers and other parties in in procurement chain, and have in place good inventory management systems. ($\bar{X} = 2.75$) is a good indication that the organization does not practice delegation of procurement authority to technically knowledgeable and skilled employees. The study concurs with Kiromo (2015) that that procurement and supply chain practices influence organizational performance positively through assurance of improved quality of products and improved ability to meet demand, practicing supplier relationship management, and ethical procurement.

The researcher obtained data on the basis of a number of statements geared towards assessing the performance of the organization in the past three years. The data obtained from the respondents was analyzed and presented in table 2.

Table 2: Descriptive statistics for organizational performance

Statement	n=32	
	Mean = (\bar{X})	Std= σ
Timely project completions realized (projects completed as scheduled or as per program of works).	3.44	0.759
Projects executed on budgets (No realized cost fluctuations)?	3.22	0.751
Profitability (projects' were able to produce a return on an investment based on assigned resources)?	3.06	0.669
Competitive advantage (organization executed more projects with superior profit margins as compared to other rivals in construction industry)?	2.75	0.622

Regression Analysis

Table in model 1 summary below shows that the coefficient of determination (R square) is 14.4%. This means that the combined effect of the predictor variables (Strategic procurement) puts into context approximately 14.4% of the various fluctuations in the performance of organization. The correlation coefficient of 38.0% contextualizes that the combined effect of the predictor variables has a relatively strong and positive correlation on organizational performance.

Model 1 Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.380 ^a	.144	.000	.53867

a. Predictors: (Constant), Strategic Procurement

Table 3: ANOVA

Model	df	SS	MS	F	Sig
Regression	1	21.389	21.389	17.194	0.000*
Residual	23	28.611	1.244		
Total	24	50.000			

a. Predictor (constant) Strategic Procurement

b. Depended variable: Organizational Performance

Coefficients of regression

Table 4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	1.931	0.341	1.225	5.662	0.00
Strategic procurement	0.167	0.040	0.084	4.147	0.02

As per generated results in table 4 above, the equation ($Y = \beta_0 + \beta_1 X_1 + \epsilon$) becomes $Y=1.931+0.167X_1$. This regression equation shows that taking all factors into account (strategic procurement) at constant zero then the performance of the company increases at a rate of at a rate of 1.931. Results indicate that unit increase in strategic procurement leads to 0.167 increase in performance. At 5% level of significance and 95% level of confidence strategic procurement is significant in explaining the relationship between the depended and independent variable since its level of significance is below base significance level of 0.05.

5.0 Findings and conclusions

The study examined the contribution of strategic procurement to performance of organizations. It established that strategic procurement plays a supplementary crucial role and is a key pillar to its performance, but fairly well in identification and selection of suppliers, negotiation and contract management, Supply chain relationships, Inventory management, but not fairing on well on delegation of procurement authority.

The study concluded that the organization procurement was centralized at the helm of management demoralizing the spirit of expertise sourcing of materials hence quality compromise, which coupled with minimal responsibility accountability.

6.0 Recommendations and suggestions for further research

Based on the above findings and conclusion the study recommendations are on further enhancing sustainable procurement policy.

The management of Allied plumbers needs to put more emphasis on delegation of procurement authority to technical skilled in ensuring responsibility and accountability which will supplement other indicators of strategic procurement practices to be contented with sustainable organizational performance as a result of its supply chain.

Organizations in the construction industry need to come up with requisite procurement management policy that will see inclusivity of employees with a specific knowledge and skills in their current and future roles in procurement practices to enhance quality based on specifications.

The study recommends that Allied Plumbers limited need to assess the gains that will be achieved by delegation of procurement authority to technically skilled human capital.

The study suggests that further research should be done in other organization within Kenya and globally in construction industry incorporating all other metrics and indicators of procurement to establish whether the same effects will be held true in the other organizations and other parts globally, this will also assist in providing concrete facts upon which reliable conclusions can be made.

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