DETERMINANT OF PROCUREMENT PERFORMANCE AT RETIREMENT BENEFIT AUTHORITY IN KENYA

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ABSTRACT

In Kenya, the pension system contributes to an estimated 68 percent of the total income of retirees and controls over KShs 510 billion worth of assets in 2011, the industry assets grew by 15.5 percent from Kshs548.7 billion in December 2012 to Kshs633.5 billion as at June 2013. As at December 2011, however, pension managers lost Kshs 500 million, the first drop since industry regulator Retirements Benefits Authority was started in 2002. Reports from Republic of Kenya show that pension schemes in Kenya are associated with loss of billions of money every year due to Poor procurement practice. The study was guided by four objectives (information technology, top management, procurement policy and training. The study was a descriptive research design. The target population was top management, middle level management and low level management in the Retirement Benefit Authority. Questionnaires was the main data collection instruments. The study employed both quantitative and qualitative analysis techniques. A regression model was used to analyze the objectives The collected data was processed using SPSS and presented using frequency tables, bar charts, and pie charts. The study found that information technology, top management, procurement policy and employee competency positively affected procurement performance at the retirement benefit authority. The purpose of information technology was to allow business partners to share information related to customer orders and inventory positions in supply chains. Such facilitation of information sharing by IT helps manage inventories more effectively and streamline operations. The study further found that preparation of procurement policy, frequency of formulation of procurement policy and the evaluation of the same contributes to the retirement authority benefit. According to the analysis of findings, the study concludes that procurement policy was the key factor influencing procurement performance at Retirement Benefit Authority since the P-value = 0.001 which is less than 5%.

Keywords: Determinant of Procurement Performance at Retirement Benefit Authority in Kenya.
Introduction

In Kenya, a wave of procurement performance that begun in the year 2000, culminated into the enactment of the Public Procurement and Disposal of Public Assets (PPDA) Act 2005, and regulations 2006. Unfortunately, many central government ministries and agencies have since then not followed prescribed practices (Agaba & Shipman, 2007). The procurement audits carried out by PPOA have revealed that out of 322 contracts audited at the end of 2005, only 7 (2%) were assessed as compliant. Other successive audit checks reveal that compliance in public procurement in Kenya is still inadequate (PPOA compliance reports, 2009; PPOA Baseline survey report, 2010; PPOA Capacity Building Strategy Report, 2011-2014; World Procurement Country Procurement Assessment Report, 2001). This is also supported by the African Peer Review Mechanism Country Review (APRM) Report (2009), which indicates that non-compliance with the regulations is very high in Kenya. Despite this evidently low public procurement compliance, not much focus has been placed on explaining non-compliance with public procurement regulations in Kenya (Eyaa & Oluka, 2011).

In Kenya, to manage effectively and more efficiently the procurement process, procuring entities through the existing legal framework are required to firstly consolidate departmental procurement plans to provide the entity’s corporate procurement plan which before its implementation must get the accounting officer’s approval. Industry Manual, (2008) counsels that a procurement plan is an instrument for implementation of the budget and should be prepared by the user departments with a view to avoiding or minimizing excess votes in the entities’ budgets and to ensure that procurements do not proceed unless there are funds to pay for them. This implies that all procurement plans must be well integrated into the budget process based on the indicative budget as appropriate and in compliance with the procurement law.

Statement of the Problem

Procurement encompasses the whole process of acquiring property and/or services. It begins when an agency has identified a need and decided on its procurement requirement. Procurement continues through the processes of risk assessment, seeking and evaluating alternative solutions, contract award, delivery of and payment for the property and/or services and, where relevant, the ongoing management of a contract and consideration of options related to the contract. Procurement also extends to the ultimate disposal of property at the end of its useful life (Waters,
2004). Procurement systems are central to the effectiveness of development expenditure. Budgets get translated into services largely through the governments’ purchases of goods, services and works. It is estimated that 18.42% of the world’s Gross Domestic Product (GDP) is spent through procurement (Mahmood, 2010). It is further estimated that procurement accounts for 9%–13% of the GDP of the economies of developing countries. In Angola, procurement accounts for 58%, it accounts for 70% of public spending (Thai, 2001), 40% in Malawi, 58% in Angola, 70% of Uganda’s public spending (Basheka and Bisangabasajja, 2010), and 60% in Kenya (Akech, 2005). But the area of procurement is increasingly prone to internal factors (Trionfetti, 2000). The study aims at evaluating the role of procurement performance with reference to Retirement Benefit Authority. The pension fund industry is a significant source of capital in the Kenyan financial markets (Omondi, 2008). In Kenya, the pension system contributes to an estimated 68 percent of the total income of retirees (Kakwani, Sun & Hinz, 2006) and controls over KShs 510 billion worth of assets in 2011, the industry assets grew by 15.5 percent from Kshs548.7 billion in December 2012 to Kshs633.5 billion as at June 2013 (RoK, 2014). As at December 2011, however, pension managers lost Kshs 500 million, the first drop since industry regulator Retirement Benefits Authority was started in 2002. Reports from Republic of Kenya show that pension schemes in Kenya are associated with loss of billions of money every year due to Poor procurement practice (RoK, 2014). Further reports show that the loss associated to pension schemes results to low economic development of the Kenyan economy hindering realization of achievement of Vision 2030 (RoK, 2014). Further statistics from World Procurement show that Retirement Benefit Authority continues to loss Billions of money related to procurement scandals (World Procurement, 2014).

Empirical Studies done on Retirement Benefits Authority include direct contribution to the GDP (Watson, 2007), accumulation of savings (Rauh, 2006 EBRI, 2007), financial market development (Yermo, 2008) and acting as consumers of financial services (Heijdra, Ligthart & Jency, 2006).

Agaba and Shipman (2007) attribute the problems in the procurement performance as emanating from having a thin line and unclear competences that do not demarcate the jurisdiction of what each procurement officer is to do. Thus, the lack of competences, low self efficacy and accountability could explain the poorly perceived service quality by the procurement officers.
According to Njeru (2008) the research on the causes of poor performance in procurement management focusing on private firms in the vehicle manufacturing industry found out that inadequate skill was a major factor affecting performance of procurement management. This study therefore intents to establish role of procurement performance with reference to Retirement Benefit Authority in Kenya.

Objectives of the Study

General Objective

The purpose of this research was to establish determinant of procurement performance with reference to Retirement Benefit Authority.

Specific Objectives

i. To establish the effect of information technology on procurement performance with reference to Retirement Benefit Authority.

ii. To determine the influence of top management support on procurement performance with reference to Retirement Benefit Authority.

iii. To determine the effect of procurement policy on performance with reference to Retirement Benefit Authority.

iv. To establish the effect of employee Training on procurement performance with reference to Retirement Benefit Authority.

Literature Review

Adaptive Structuration Theory

Based on Structuration theory, the study intends to determine the effects of information technology on procurement performance. Structuration theory was first proposed by Anthony Giddens in his Constitution of Society in 1984, which was an attempt to reconcile social systems and the micro/macro perspectives of organizational structure. DeSanctis and Poole (1994) borrowed from Giddens in order to propose AST and the rise of group decision support systems. AST provides the model whereby the interaction between advancing information technologies, social structures, and human interaction is described, and which focuses on the social structures, rules, and resources provided by information technologies as the basis for human activity. AST is
a viable approach in studying how information technology affects procurement performance in the retirement benefit authority because it examines the change from distinct perspectives.

Adaptive Structuration Theory (AST) is relevant to today's procurement practice due to the expanding influence that advancing technologies have had with regard to the human-computer interaction aspect of AST and its implications on socio-biologically inspired Structuration in security software applications (Ramakrishna 2005). AST theory presents specific advances in information technology that are driving organizational changes in the areas of business alignment, IT planning, and development that show how AST is being used to as a driving force of effective management within organizations. The study will use the theory to investigate how complexity of the procurement operations is influenced by Information Technology (Ramakrishna 2005). According to DeSanctis and Poole (1994), AST is a viable approach for studying the role of advanced information technologies in procurement performance. AST examines the procurement management process from two vantage points 1) the types of structures that are provided by the advanced technologies in procurement operations and 2) the structures that actually emerge in human action as people interact with these technologies in procurement operations. In conclusion AST's appropriation process might be a good model to analyze the utilization and penetration of new technologies in organizations.

**Upper Echelons Theory**

Upper-echelons theory has its roots in the behavioral theory of the firm (Cyert & March, 2003; March & Simon, 2008) and the notion of bounded rationality (Simon, 2007) and more specifically selective perception (Dearborn & Simon, 2008). The nature of the issues that strategic decision-makers face voids the use of a rational economic model. Consequently the choices managers make contain a behavioral component which in some way reflects their own idiosyncrasies. In the upper-echelons model the effect of these idiosyncrasies is treated in much the same way that Whittington (2008) notes the effects of “built-in preferences and information processing systems”. In that way upper-echelons theory embodies a theory of action determinism.

Since the publication of upper-echelons theory there has been much research supporting the relationship between top-management team characteristics and firm efficiency (Eisenhardt & Schoonhoven, 1990; Finkelstein & Hambrick, 1996; Norburn & Birley, 2008; Thomas, Litschert
& Ramaswamy, 2001), top-management team tenure and strategy (Gabarro, 2007; Wiersema & Bantel, 1992).

The Upper-echelons theory links top management IT support to with efficiency whereby it recognizes ingredients such as: commitment, frequency of attendance at meetings, level of involvement in information requirements analysis; and the level of involvement in decision-making. Overall it must be acknowledged that there is support for the basic premise of upper-echelons theory, that organizations (their strategies and performance) are a reflection of their top managers idiosyncrasies and biases. The upper-echelons empirical research noted above, particularly the demographic based research, is heavily representative of a macro perspective, relating observable characteristics to performance and performance. It is simple representation of a complex process could be considered both its strength and its greatest weakness.

Agency Theory

This was put forward by Jensen and Meckling (2006). They proposed that when a firm issues outside equity, it creates agency costs of equity that reduce the value corporate assets. Jensen’s free cash flow theory alleges that if management is not closely monitored they will invest in capital projects and acquisitions that do not provide sufficient expected returns. Jensen and Meckling (2006) continue to argue that debt financing can help overcome the agency costs of external equity. The effect of employing external debt rather than equity financing is that it reduces the scope for managerial perquisite consumption, which can have an adverse effect on the value of the firm. With debt Outstanding, the most of excessive perks consumption will result in managers losing control of the company due to default and bondholders seizure of the company assets.

Thus external debt serves as a bonding mechanism for managers to convey their good intentions to outside shareholders. Because taking on debt validates that managers are willing to risk losing control of their firm if they fail to perform effectively, shareholders are willing to pay a higher price for the levered firms. The use of debt to control the agency of external equity can be accomplished in two ways: Debt forces managers to be monitored by the public capital. If investor have negative view of managements competence, they will charge high interest rate on the money they lend to the firm or they will insist on restrictive bond covenants to constrain
management’s freedom or both. Outstanding debt limits management’s ability to reduce firm value through incompetence or perquisite consumption, (Jensen, 2006).

The discipline that debt provides has been further explored by Jensen (2009) and Ofek (1993). They argue that high leverage can provide benefits in the dynamic sense that companies with high leverage ratios may respond more quickly to the development of adverse performance than companies with low debt to equity ratios. Ofek (1993) argues that: A choice of high leverage during normal operations appears to induce a firm to respond operationally and financially to adversity after a short period of poor performance, helping to avoid lengthy periods of losses with no response. The existence of debt in capital structure may thus help to preserve the firm’s going concern value. The above however, are still considered to be insufficient to outweigh the agency cost of debt. The cost entail writing detailed covenants into bond contracts which sharply constrain the ability of the borrowing firm’s managers to engage in expropriate behavior. The agency cost reduces the benefits of the debt interest tax shield. However an optimal (value maximizing) debt to equity ratio is reached at the point where the agency cost of debt equals agency cost of equity. The above theory instigated the third research question: To determine the effect of procurement policy on performance with reference to retirement benefit authority.

**Scientific Management Theory**

To investigate the effect of Employee Training on procurement performance, the study will be based on scientific management theory. The theory basically consists of the works of Fredrick Taylor. Fredrick Taylor started the era of modern management in the late nineteenth and early twentieth centuries; Taylor consistently sought to overthrow management by rule of thumb and replace it with actual timed observations leading to the one best practice Watson (2002). He advocated for the systematic training of workers in the one best practice rather than allowing them personal discretion in their tasks. He further believed that the workload would be evenly distributed between the workers and management with management performing the science and instruction and the workers performing the labor, each group doing the work for which it was best suited. Taylors strongest positive legacy was the concept of breaking a complex task down into a number of subtasks, and optimizing the performance of the subtasks, hence, his stopwatch measured time trials (Osdorne, M.J. & Rubinstein, 1990). As a result, he proposed four underlying principles of efficiency.
Firstly, there is need to develop a science of work to replace old rule of thumb methods, pay and other rewards linked to achievement of optimum goals, measures of work performance and output. Failure to achieve these would in contrast result in loss of earnings. Second is that workers should be scientifically selected and developed; Training each to be first class at some specific task (Watson, 2002). Thirdly, the science of work to be brought together with scientifically selected and trained people to achieve the best results. Finally, work and responsibility to be divided equally between workers and management cooperating together in close interdependence.

According to Watson (2002) scientific management is essential for effective procurement management as it aims to improved methods of storage and distribution and removal of wastage and in performance in undertaking storage activities. This is especially relevant in the public sector where there is constant demand for uniformity of treatment, regularity of procedures and public accountability for operations. Scientific management in this case would ensure adherence to specific rules and procedures and to keeping of detailed records of operations in retirement benefit authority.

**Empirical Review**

In this 21st century, the internet and internet-based technologies are impacting business in several ways. The various internet and internet technologies that are used in procurement include e-mails for accessing and contacting clients, website technologies designed for distributing, searching, and retrieving documents over the Internet. These new technologies are promising to save costs, to improve customer and supplier relationships, business processes and performance, and to open new business opportunities.

These technologies allow organizations to respond better to existing challenges and improve the anticipation of future developments. As with the case with earlier innovations, rich multi-facetted interactions are occurring between developments in the place, global business environment, work environments, and technical innovations (Thompson and Cats-Baril 2003). One area that has recently and significantly gained attention is the Business-to-Business (B2B) procurement that encompasses the of goods and services as well as higher-level management tasks and logistics.
Most often the top management team is identified based on top executives’ formal titles listed in publicly available documents or on a response provided by the firm CEO in a survey or an interview (Finkelstein & Hambrick, 1996; Hambrick, 1994). Jackson (1992), however, argues that in order to investigate the impact of team demographics on strategic choices it is necessary to consider only the persons who are actually involved in making a particular decision. This might result in a team, which does not consist of all top executives but at the same time includes managers and experts from other organizational levels.

According to Bogason, (2000), the public procurement law if implemented properly it can highly improve the procurement and disposal process in the organizations. PPOA (2008) further states that one of the significant institutional developments of the new public procurement law is the establishment of the public procurement oversight authority whose main functions includes: Ensuring that the legal framework is complied with; Monitoring the performance of the public procurement system and reporting to the Minister of Finance; To assist in the implementation of an efficient and effective public procurement system; Initiating public procurement policies and proposing amendment to the Act where appropriate and Ensuring professionalism of the procurement function.

**Data Analysis/Findings**

**Regression analysis**

**Table 4. 1: Regression Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.855</td>
<td>.783</td>
</tr>
</tbody>
</table>

Predictors: (Constant), X1, X2, X3, X4

The study further used one way Analysis of Variance (ANOVA) in order to test the significance of the overall regression model. Green & Salkind (2003) posits that one way Analysis of Variance helps in determining the significant relationship between the research variables. Table 4.7 hence shows the regression and residual (or error) sums of squares. The variance of the
residuals (or errors) is the value of the mean square which is 2.234. The predictors X1, X2, X3 and X4 represent the independent variables notably; (X1) information technology, (X2) top management, (X3) procurement policy and (X4) employee Training as the major factors determining Procurement performance.

Table 4.8 presents the results of ANOVA test which reveal that all the independent variables notably; have a significance influence on Procurement performance. Since the P value is actual 0.00 which is less than 5% level of significance. Table 4.8 also indicates that the high value of F (81.209) with significant level of 0.00 is large enough to conclude that all the independent variables significantly determine Procurement performance.

Table 4.2: Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Mean Square</th>
<th>F</th>
<th>P-Value.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>8.118</td>
<td>2.234</td>
<td>81.209</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>1.000</td>
<td>.027</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9.118</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), X1, X2, X3, X4
b. Dependent Variable: Y

The regression model below has established that taking all the independent variables into account notably; information technology, top management support, procurement policy and Employee training constant at Zero influences procurement performance (0.446). The results presented also shows that taking all other independent variables at zero, a unit increase in information technology leads to a 0.086 increase in procurement performance; a unit increase in top management support leads to 0.024 increase in procurement performance; a unit increase in procurement policy leads to 0.176 increase in procurement performance and a unit increase in Employee training leads to 0.082 increase in procurement performance. Inferences can therefore be made that information technology followed by Employee training, procurement policy and
top management support determines procurement performance. These findings echoed findings by Oliveira and Martins (2011) who found out that performance of procurement in many developing nations is greatly determined by the level of technology adoption, procurement policies, Employee training and the top management support.

Table 4.3: Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig (P-Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.446</td>
<td>.173</td>
<td>2.630</td>
</tr>
<tr>
<td></td>
<td>Information technology</td>
<td>.086</td>
<td>.021</td>
<td>.209</td>
</tr>
<tr>
<td></td>
<td>Top management support</td>
<td>.024</td>
<td>.015</td>
<td>.084</td>
</tr>
<tr>
<td></td>
<td>Procurement policy</td>
<td>.176</td>
<td>.019</td>
<td>.452</td>
</tr>
<tr>
<td></td>
<td>Employee training</td>
<td>.082</td>
<td>.017</td>
<td>.238</td>
</tr>
</tbody>
</table>

a. Dependent Variable: performance

Source: Research, 2014

a. Predictors: (Constant), Information technology, Top management support, Procurement policy and Employee training

b. Dependent Variable: Procurement Performance.

From the regression findings, the substitution of the equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \) becomes:

\[
Y = .446 + .086X_1 + .024X_2 + .176X_3 + .082X_4
\]

Where \( Y \) is the dependent variable (Procurement Performance) \( X_1 \) is Information technology variable, \( X_2 \) is top management support, \( X_3 \) is Procurement policy and \( X_4 \) is the Employee training.
According to the equation, taking all factors (Information technology, Top management support, Procurement policy and Employee training) constant at zero, Procurement Performance will be .446.
From the results, procurement policy as a component of procurement Performance contributes most to the Performance of procurement, which has the greatest t value of 9.252, while top management support contributes the least, which has the smallest t value of 2.119.

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