

FACTORS AFFECTING PAYMENT OF SUPPLIERS IN THE PUBLIC SECTOR

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for the Award of the Degree of Master of Business Administration
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DECLARATION PAGE

The project is my original work and has not been presented for a degree in

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DEDICATION

I dedicate this project to my loving family for their, support, tolerance and patience during this course, they are my motivation.

ACKNOWLEDGEMENT

There are many people who have invested their lives and time, thus making it possible for the development of this project. Without them I would not have anything to bring out of this research.

My gratitude goes out to my supervisor, Mr. Onserio Nyamwange who patiently and tirelessly guided me in the production of this work.

I also express my gratitude and indebtedness to my family for their unconditional support throughout my study.

ABSTRACT

The research study attempted to fill the gap between available procurement procedures, by identifying how they are applied by the procuring entity and how such procedures affect the vendor payment after the delivery of goods, works and services, as perceived by interested parties in Kenya. A sample of questionnaire was given to respondents to collect data from the procurement staffs who are often involved in procurement procedures on vendor payment. A semi-structured questionnaire was given to procurement officers in the public sector. Qualitative data was analyzed by coding and organizing it into themes and concepts and quantitative data was also analyzed using statistical packages, which yield descriptive and inferential statistics. Data was presented using mean and standard deviation where necessary. Pilot test was also conducted for the purpose of ensuring the research instrument is reliable and valid. The analysis was done using statistical package for social sciences (spss) version 17. The findings of this study show that for effective supplier payment there must be accuracy in the department and suppliers must make sure they give their full details and the type of relationship that exists between the department and the suppliers and also the practices of the government. Supplier payment has been facing the following challenges: procurement regulations, urgency of transactions and ethics. These factors directly influence the relationship between suppliers and buyers so the Government has a big role to play in the procurement process so as to satisfy customers. This research was to benefit the public service and donor community to make prudent decision in future. The researcher therefore recommends that more research to be carried out on management style, capacity of personnel and procurement regulations to make the supply chain process effective.

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LIST OF ABBREVIATIONS

- ERP- Enterprise resource planning
- EU-European union
- IDE-Interchange data electronically
- IBRD-International bank for reconstruction and development
- IDA-International development agency
- Ksh-Kenya shillings
- NRM-Natural resource management
- NCB-National competitive bidding
- PPOA-Public procurement oversight authority
- PPDA-Public procurement and disposal act
- PR-Purchase requisition
- RFQ-Request for quote
- SPSS-Statistical Package for Social Sciences

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CHAPTER ONE: INTRODUCTION

1.1 Background

Public procurement has primarily been the domain of procurers and contracting authorities in the public sector who are responsible for buying needed goods and service for public use against the best price. This topic (public procurement) has become interesting for policy makers in the procurement profession (Savas, 2000).The start point may lie in the fact that most countries have come up with relevant regulations to give guidance on procurement procedures, the most recent ones in 2004 by European Union (EU) members' states, affecting the public and the utilities sectors.

This regulation needs to be translated into national law by procurement policy makers in the European Union member states. However, this does not explain the interest from a wider variety of policy makers from different domains like markets; innovation, environment and information and communication technologies have come to hold an interest in public procurement. These policy makers have picked up the idea that public procurement procedures can also be used for purposes beyond strictly buying goods and services for public use. Although the main objective of public procurement will remain buying goods and services for public use, simultaneously it can be a means to realize environmental objectives, improve the quality of health care services, or increase the innovative capacity of an organization, a region or a sector. with these additional features, public procurement obtains a new quality and becomes a policy instrument that can be interesting for environmental, industrial, research and innovation policy makers and other actors involved in the policy making processes (Perlman, 2001).

Procurement procedures involve the purchase of goods, works and services by a business, association, organization, or an individual. This means buying goods from suppliers at the lowest possible price (Perlman, 2001).The best way of doing this is to let the suppliers contend with each other so that the investment costs of the buyer are kept at a minimum. Procurement procedures more often than not also involve a bidding process in which the bidders or suppliers quote their prices and the purchasers agree to the lowest possible bid.

This is the most proficient and gainful manner of obtaining supplies or services if the quality of the goods meets the buyers' specifications. The procedure of procurement usually commences when the purchaser starts to source for bidders in the market. After discovering the suppliers, a request is made for bids, proposals, quotes and information. However, direct contact with bidders can also be made as an alternative for advertising all the above requests (Armstrong & Jackson, 1992).

1.1.1 Public Procurement

Policy makers from different domains like marketing, innovation, environment, and information and communication technologies have come to hold an interest in public procurement. These policy makers have picked up the idea that public procurement procedures can also be used for purposes beyond strictly buying goods and services for public use, simultaneously it can be a means to realize environmental objectives, improve the quality of health care services or increase the innovation capacity of an organization, a region or a sector. Procurement procedures more often than not involve a bidding process in which the bidders or vendors quote their prices and the purchasers agree to the lowest bid. This is the most proficient and gainful manner of obtaining supplies or services if the quality of the goods meets the buyers' specifications (Jessop & Morrison, 1993).

The procedure of procurement usually commences when the purchaser starts to source for bidders in the market. After discovering the suppliers, a request is made for proposals, quotes and information. However direct contact with bidders can also be made as an alternative for advertising all the above requests. The procurement process can be divided into two parts' namely indirect procurement and direct procurement. Indirect procurement is that which deals with operational goods and direct procurement deals with acquisition of goods that are considered raw material for the company's manufacturing process (Armstrong & Jackson, 1992).

In Kenya, the procurement procedures in the past decades, especially with the public procurement system has undergone significant developments. From being a system with no regulations in the 1960s, and a system regulated by Treasury Circulars in the

1970s,1980s and 1990s .The introduction of the public procurement and disposal act (PPDA) public procurement disposal Act of 2005 and the procurement regulations of 2006 have introduced new standards for public procurement in Kenya. In line with the country's public procurement reform agenda, Kenya in 2006 committed itself to become one of the 22 countries participating in the pilot testing a new methodology for Assessment of National Procurement Systems developed by the Organization for Economic Co-operation and Developments/Development Assistance Committee (OECD-DAC) Joint venture for procurement (GOK, 2005).

Public Procurement Oversight Authority was established as the public procurement oversight body. In 2007 Act 2005 Public Procurement Disposal Act gives guidelines of how Public Procurement Oversight Authority (PPOA) and the Board of the Authority was appointed in September 2007.The legal framework defines clearly the responsibilities of the PPOA,which include: to ensure that procurement procedures are compiled with to monitor the public procurement system and recommend improvements, to assist in the implementation and operation of the procurement system and to initiate public procurement policy and amendments to the PPDA.At present the PPOA is largely staffed with personnel seconded from other government departments especially the Ministry Of Finance (MOF).It has ,however begun operation and is also moving to new premises outside of the treasury. This will be an important sign of the Authority's independence from the MoF (GOK, 2005).

The procurement procedures for public procurement contracts and supplier evaluation are in place and one of the features most needed but often lacking in procurement system is a mechanism providing structured incentives for sound and efficient procurement among the system's key players. In Kenya, such a system has been put in place covering both the organizational and the vendor level through a dual system of procurement procedures through contracts and individual appraisal system (measuring individual performance).The procurement contracts currently cover all parts of the central government as well as a number of state corporations and local authorities. Within all areas, including procurement, the project contracts are based on processes of performance

target setting, procurement planning and procurement monitoring and report writing. The individual appraisal system is applicable to all categories of staff in the public service, including procurement staff, as they strive to meet the targets of competency and values assessment through procurement procedures (Ruth, 2007).

1.1.2 Supplier Selection and Payment

A supplier, in a supply chain is an enterprise that contributes goods or services in a supply chain. Generally, a supply chain vendor manufactures inventory/stock items and sells them to the next link in the chain. Today, the term vendor refers to a supplier of any good or service. A vendor, or a supplier, is a supply chain management term that means anyone who provides goods or services to a company or individuals. A vendor often manufactures inventoriable items, and sells those items to a customer. Typically suppliers are tracked in either a finance system or a system. Suppliers are often managed with a vendor compliance checklist or vendor audits. Purchase is usually used as a contractual agreement with vendors to buy goods or services. Suppliers may or may not function as distributors of goods. They may or may not function as manufacturers of goods. If vendors are also manufacturers, they may either build to stock or build to order (Farmer, 1996).

The selection of suppliers is the most important step in the entire process of acquiring the equipment. The system of firm bidding is universally endorsed as the soundest method of selecting the supplier. Yet there are some circumstances in which it could be the very worst method of selection. All suppliers are treated alike, they are not driven to seek ways of overcoming favourism or of “ squeezing”, using materials inferior to those specified Besides, the buyer avoids the need of constant bargaining which has become a mere waste of time and energy(Burke,1989).

According to (Anyon, 1973), the choice of these methods of selection varies according to the company’s own particular problems and needs. These are examples of actual company thinking and practice in the area of sourcing. Relations with “research and development” reflect the mastery of the supply market. Purchasing department should

supply the research Department with dependable information as to present and anticipate future availability of raw materials, commercial specifications, present prices and anticipated price trends and also pertinent information regarding equipment. Purchasing will arrange for visits outside technical representatives of suppliers of materials orequipment upon request .A brief report of such meetings should be supplied to purchasing. A well-organized and well-managed purchasing function states its policies on selecting sources of supply .This can be considered representativeof current thinking in the area. The standards in selecting sources of supply are frankness, air dealing, and maintenance of quality, dependable delivery and fair prices.

To maintain this relationship between the supplier and the buyer, the policy in selling suppliers is: To buy from sources with good ethical and financial reputation, To secure competitive bids where there is more than one source of supply, unless there is sufficient evidence from previous bids or purchasing experience to justify placing an order without prior quotations, To accept the low bid, unless superiority of quality or service (including delivery) is of sufficient value to the company to justify an exception, To buy from those who buy from the company on the basis of exchange competitive values without sacrificing price, quality or service, To buy from neighbors of the using plant, other considerations being equal. A current representation of relations with suppliers specifying the role of the buyer and the purchasing agent. A major mission of the purchasing department is the promotion of good relations with suppliers by informed and fair buying practices, strict maintenance of ethics and standards, courteous and prompt reception of suppliers' representatives and arrangement of interviews with using departments or potentially interested individuals in the company A report from a sourcing team offered the following information to guide the selection of a source of supply. Is it adequate? Can a choice be made? (Laffont &Tirole, 1993).

1.1.3 Supplier Satisfaction

According to Essig and Amann (2009), supplier's satisfaction (SS) is the feeling of the supplier about the fairness with regard to buyer's incentives. In today's competitive business environment, suppliers are becoming the true partners for value creation in supply chain, and therefore, a long lasting and sustainable relationship with suppliers is

the need of the hour for the buying firms. The relationship can be maintained and strengthened by measuring buying organizations expectations from the suppliers and perception of suppliers on the buying organizations performance. A long term relationship between the company and its suppliers require that both the parties are equally satisfied with each other's performance. An unsatisfied supplier may not contribute to the best of his ability to help the buying organization, and may produce less quality products. Performance evaluation of suppliers from the buyer's perspective alone is not sufficient for better supplier chain performance or long term relationships. Satisfaction of suppliers is one of the key drivers for long term sustainable relationship. The purchase policy of the buying firm generally includes various activities such as ordering process, delivery of goods and services, and all these activities have direct impact on the satisfaction of suppliers in buyer-suppliers relationships (Essig and Amann, 2009; Maunu, 2003). Moreover supplier satisfaction is also directly affected by the time schedule, communication of requirements, and feedback on specification requirements from the buyer. According to Soetanto and Proverbs (2002), clarity in technical parameters and inspection process also influence the satisfaction of suppliers. Further, if the overall purchase policy of the buying firm is good, it will enhance its corporate image in the market. Accordingly, better purchase policy of buying firm results to more satisfied suppliers, and better corporate image.

According to Essig and Amann (2009), different activities of the buyers such as timely payment of the goods or services, payment practices and receiving method of goods directly influence the satisfaction of suppliers. I have mentioned that bad payment policy of the buying firm can result to supplier going for cross-selling. Further; financial soundness of the buying firm also influences supplier satisfaction, since it affects the payment ability and pricing schemes of the buying firm. Similarly better payment of finance policy also improves its overall reputation or image of the buying firm in the market. Therefore, better payment policy of the buying firm leads to more satisfied suppliers and better co-ordination and corporate image. The co-operation extended by the buying firm influences the satisfaction and also has positive impact on the satisfaction of suppliers. Communication between buyers and suppliers is one of the essential drivers for

any good relationships according to Essig and Amann (2009) and Maunu (2003), communication and convenience in delivering goods have direct impact on the satisfaction of suppliers.

Further, Essig and Amann (2009) have mentioned that time schedule of various activities affect the satisfaction of suppliers, thereby, earnest money deposits (EMD), timely return of the rejected material, bank guarantees and timely order placement directly influence the satisfaction of suppliers. The behavior of the person of the buying organization with suppliers also affects the satisfaction of supplier's. Moreover; better co-ordination policy improves the overall purchase policy and reputation of the buying firm (Maunu, 2003). In the literature, it has been mentioned that better co-ordination policy will improve satisfaction of both the parties, and will also improve the overall purchase policy and corporate image of the buying firm. The reputation or

image of the buyers significantly influences the satisfaction of the suppliers. A good corporate image/reputation of the buying organization reduces the fear of suppliers and increases the suppliers satisfaction. Suppliers derive satisfaction from working with the buyers who have successful past and a promising future. According to Burt (2008), any quality supplier wants to continue business with those buyers who have good future growth. Furthermore, if the buying firm provides fair dealings, as compared to its competitors, more suppliers will be attracted to supplying goods.

1.1.4 Public Sector in Kenya

The public sector is the part of the economy concerned with providing basic Government services. The composition varies by country, but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and health care for the poor. It also comprises the public state corporations in Kenya, public universities, public hospitals, and Lastly Government portfolios/Ministries in Kenya which are 18 and were slashed from the previous 44 ministries in the former Government.

1.2 Statement of the Problem

According to Kimaiyo (2012), the public procurement system in Kenya has evolved from a system with no regulation since 1978 to an orderly legally regulated procurement system currently in use. However many times the procurement process is complicated with disputable settlement mechanisms relating to tender award procedures, unfairness and lack of transparency. In addition there is evidence of malpractice that affects public sector procurement for example vehicle repair documents are often not used, sometimes invoices, receipts and other documents are fake. Other challenges include inadequate trained staff in procurement department, poor sensitization or training to tender committee, resistance to change by the implementers of PPDA-Public procurement disposal Act, resistance to change by existing suppliers, influence for external stakeholders and the size of the institution. Market dynamics have created challenges from many public organizations and some of the key challenges affecting public organizations include the emergence of the global economic advancement in the technology, increase societal demands, organisational scrutiny by pressure groups and more so the heightened media attention that is critical of government inefficiencies in service delivery.

Studies carried out by various scholars have not addressed the best method to use on procurement procedure on payment transactions. Even though we have some procurement procedures in place, little is known of procurement procedures to be applied by the personnel concerned in order to enhance efficiency and effectiveness. Public procurement is an area that is prone to mismanagement, corruption and supplier ploys. One of the major causes of public procurement problems is a lack of competent Procurement workforce (Thai,2011).The most effective procurement practitioners have a blend of competency, good relationship, management and communication skills and an ability to think laterally (Guinipero,2000).This certified public procurement specialists are also required to perform in a more constructive manner. Despite Government concentrated efforts in reforming procurement systems, there is still problems attributable to huge losses in improper procurement to the tune of kshs 30 billion and public procurement therefore requires a tight or water proof system to be followed and adapted

(Kamau ,2012).

Chesang (2013), carried out a study on procurement challenges in Public Universities in Kenya and stated that public universities face challenges in procurement including: failure of suppliers to meet their requirements, failure of suppliers to produce materials of consistent quality. However her study did not address the issues that suppliers face in the procurement process. Patrick, Mamati and Jonathan (2010) carried out research to evaluate influence of public procurement and disposable regulations of 2006 on procurement practices in public institutions in Kenya. Even though the case study was secondary schools, the study found out that the regulations had a significant influence on pricing of goods procured by public institutions and lead time while the same regulations had a less significant influence on transparency of the procurement process and quality of goods procured. However, the study did not delve into the challenges such as inaccurate planning, mistakes in selection of suppliers, excessive documentation, substituted materials, ineffective negotiation, miscommunication between departments in material requisition and dealing with challenges of adoption of e-procurement and political underhand.

While procurement procedures is important and can influence supplier payment at the ministry of water as it incorporates both the buyer and the supplier, little studies have been done on the same in Kenya. This leaves a wide knowledge gap as managers are not fully informed of the procurement procedures While it is evident from the literature implementation that both the buyer and the seller has impact on procurement procedures, very few studies have established how effective procedures affect the relationship between the buyer and the seller when it comes to payment of suppliers (Farmer, 1986). However, no single study has been done in the public sector in Kenya. This warrants a case study to be conducted in the Kenyan context and that is why the study was carried to bridge the gap. (Savas, 1977).

The research study therefore attempted to fill the gap between available procurement procedures, by identifying how they are applied by the procuring entity and how such

procedures affect the vendor payment after the delivery of goods, works and services as perceived by interested parties in Kenya. Research questions that arose from this study were: What are the factors that influence supplier payment in Government ministries in Kenya? What is the relationship between the determined factors and vendor satisfaction?

1.3 Research Objective

1. To determine factors that influence payment of suppliers in public sector in Kenya.
2. To determine the relationship between the determined factors and supplier satisfaction.

1.4 Value of the Study

This study wanted to breach the knowledge gap to enable timeliness on supplier payment. This research will be useful to all the Government ministries ie.the public sector because this is where there are many challenges on vendor selection and payment. The academia community will benefit from the results of the study as it will serve as a reference point on empirical data. It is intended that the findings from his study will generate knowledge for the academia community .The gaps that were be identified from the study will create room for further research in service quality and supplier satisfaction in the public sector. The study findings will be relevant in equipping policy makers and regulators in the public sector with information that will empower them to be in a position to improve in areas relating to service quality considerations in policy formulation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter analyzes the literature review of procurement procedures on supplier payment after they have supplied goods, works and services to the buyers place. It covers the: public procurement practices, factors affecting supplier payment and challenges faced in supplier implementation policies.

2.2 Procurement Procedure and Regulations

According to (Cohen and Roussel, 2005) Public procurement law regulates the purchasing by public sector bodies and certain utility sector bodies of contracts for goods, works or services. The law is designed to open up the regulation to public procurement personnel to do a fair market competition, to prevent "buy national" policies and to promote the free movement of goods and services then achieve supplier payment. Procurement procedure/process is the term used by businesses to describe the buying process, and can refer to the purchase of supplies or services. Many businesses use automated tools such as an Enterprise Resource Planning (ERP) system and electronic data interchange (EDI) to assist procurement specialists or buyer with the buying activities. Regardless of whether an automated system is used, the goal of the procurement process is to buy the exact product or service when needed for the most favorable price. This is used to mean the process of acquiring and obtaining of supplies as per the users specifications, in the most economic price, by the time scheduled, delivered to the correct destination and packaged for better handling and storage (Perlman, 2001).

A contacting authority may automatically exclude a supplier from the tender process, without any assessment of their qualifications having to take place, where certain grounds concerning the supplier's personal position are met by issues such as bankruptcy or professional misconduct. In addition it is now mandatory to exclude suppliers convicted of involvement in organized crime, corruption, fraud or money laundering. Suppliers can also be assessed and excluded on the basis of their economic and financial capacity by issues such as annual turnover for the past three years and technical capacity like experience of similar contracts in the past five years (Griffith's, 1993).

2.3 Supplier Payment Procedure

When payment is made directly to the supplier a multi-copy purchase order is not processed. therefore, the procurement manager's copy indicating that the transaction was processed is not correct so procurement managers are therefore advised to make a copy of the payment voucher and any additional supporting documentation prior to forwarding it to the Accounting manager's department for processing. An account expenditure summary (AES), which lists each payment processed on a given grant, is sent to the procurement manager therefore procurement managers are encouraged to review this report and notify the accounting department of any discrepancies (Savas, 1997).

In most circumstances, requisition can be obtained within two working days. This allows the ministries one day to check and make sure that the purchase requisition complies with procurement act and sponsor guidelines and one day for processing. However if the requisitions are not completed properly, processing of the purchase order is delayed because the requisition has to be returned to the procurement manager for corrections (Savas, 1977). Goods, works and services will be inspected upon delivery by inspection and acceptance committee to confirm conformance with specifications/contract stipulations. The supplier's presence at such inspection and/or assistance may be requested is usually made in the month following acceptance. If warranted, such as when long lead time is needed to manufacture a certain type of product, the procuring entity will make scheduled disbursements or other special payment arrangements (Armstrong & Jackson, 1992).

According to (Joshua & Fairfield, 2014), today's payment system players, most offer standard or customized systems that accept digital wallets but with no standardized wallet technology. Wallets often aren't compatible from site to site, a fact that diminishes their functionality for consumers. These data will highlight some informative trends in service contracting. One key issue relating to contracting involves the guidelines surrounding the decision to contract. Existing laws and procurement procedures do not support timely procurement, contract execution and payment. Budget law and financial management

procedures are currently not supporting timely procurement, in that there are no established procedures, laws and regulations applicable to the agency and any exceptions to the law that need to be included in the lion

Agreement acceptability of rules and procedures for national competitive bidding (ncb) and other procurement methods. There is need for internal procurement procedures, regulations or procurement manuals for clarity, consistency and predictability.

2.3.1 Purchase Order/Supplier Payment Processing Delays

Under most circumstances requisition can be processed within five working days. This allows Research Foundation staff one day to check to make sure that the purchase requisition complies with Research Foundation and Sponsor guidelines, and one day for processing. However, if the requisitions are not completed properly, processing of the purchase order is delayed because the requisition has to be returned to the project director for corrections. To help to avoid delays - following is a listing of the most common reasons purchase requisitions are returned (Redden, 1977).

Incomplete or Illegible supplier Address i.e. Purchase/Payment Requisitions need not be typed; however, you must please print legibly. We have no way of checking the supplier addresses, so if the address is incorrect on the purchase requisition it will also be incorrect on the supplier's copy of the purchase order. Missing Project Director Signature i.e. we cannot process an order or payment against a grant without the project director's signature. Therefore, if a purchase requisition is received unsigned, it will have to be sent back for an authorized signature. Materials not Budgeted in Account i.e. Before being processed each purchase requisition is checked to make sure that the materials or services being ordered comply with the grant budget and that they are consistent with sponsor regulations and guidelines. Any expenditure not meeting these criteria must be rejected and returned to the project director. Budget Category or Account Over committed i.e. An Account Expenditure Summary is mailed to project directors on a monthly basis (Griffiths, 1963).

The computer will not process a purchase order if the account or even the budget

category is already expended. So, please be sure to check not just the account, but also the specific budget category balance, before submitting your requisition. Local supplier not Utilized Within 45 Days of Term of Grant: Federal and State grant and contract guidelines specify that all expenditures for supplies purchased by a given grant or contract must be used during the project and not to Supplement other activities. Therefore, unless the items to be ordered are in stock and can be shipped immediately, we recommend that you utilize a local vendor when purchasing goods and services within 45 days of the end of the grant year. This will insure that supplies are received and used during the grant period. Procurement from local suppliers is accepted until the close of the project (Farmer, 1996).

Student Stipend Payments i.e. A Purchase Order must be generated in order to process student stipend checks. Stipends are NOT considered payroll, and therefore are not included with Research Foundation biweekly regular paychecks. Students need to be made aware of this distinction so that they do not come to the office on payday expecting a check! For purposes of generating their checks, each student is considered a vendor. Therefore, a minimum of two weeks must be allowed from the time the purchase requisition is processed for the checks to be obtained. Open or Standing Orders ie. Some project directors find it convenient to process a "standing order" for payment for College Services such as telephone, postage, work study, and duplicating charges. For example, if \$500.00 is budgeted in your grant for work-study services, a PO could be processed for this amount as the beginning of the grant year. Each month when the invoice is received, a partial payment can then be made against this purchase order for the charges for the work-study for the month (Reed Swain, 1997)

2.4 Factors Affecting Supplier Payment in the Public Sector

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).

Sound public procurement policies and practices are among the essential elements of good governance (KIPPRA, 2006). Otieno (2004) notes that irregular procurement activities in public institutions provide the biggest loophole through which public resources are misappropriated. According to Thai (2001), the basic principles of good procurement practice include: accountability, where an effective mechanism must be in place in order to enable procuring entities to spend the limited resources carefully, knowing clearly that they are accountable to members of the public. Competitive supply, which requires that procurement be carried out by competition unless there are convincing reasons for single sourcing; and consistency, which emphasizes the equal treatment of all bidders irrespective of race, nationality or political affiliation. The process should also uphold integrity by ensuring that there are no malpractices; informed decision-making, which requires public bodies to base decisions on accurate information and ensure that requirements are being met. Moreover, procurement practice should be responsive to aspirations, expectations and needs of the target society. Finally, there is a need for transparency to enhance openness and clarity on procurement policy and its delivery (World Bank, 2003).

One of the most important things to negotiate before choosing a supplier is how payment will be made. Many circumstances and priorities will influence your choice of payment method. A lot will depend on how much you know about financing a sale and how willing your supplier is to accept your terms and conditions. Other factors include: Your cash flow availability and needs, Your relationship with your supplier, Your relationship with your supplier, The economic conditions in the country to which you are importing, Interest rates and currency adjustment factors, Type of product, Your supplier's creditworthiness, The terms your competitors are offering, Your supplier's demands. The urgency of the transaction -- are you under time constraints? And the style of management. Whatever terms of payment you negotiate, you must always make sure they are understood by all parties, and have your supplier sign a document that indicates acceptance, such as the preformed invoice. This prevents some unpleasant surprises later

(Armstrong & Jackson, 1992).

Studies done in other countries indicate that Trading with foreign suppliers raises a number of issues you may not be familiar with from trading within Canada. Typically, these include language differences, new payment methods and increased paperwork requirements. However, with a little research and planning these challenges are easily overcome. Widening your purchasing to the international market can give you a significant competitive advantage. Using foreign suppliers can lower your input costs and give you access to specialized goods and materials that may not be available in Canada. Trading with foreign businesses differs from trading within Canada. New challenges are raised by the distances involved, by variations between countries, and by rules that govern international trading.

Legal considerations it's not safe to assume that the same rules will apply in abroad. E.g. Canada. Factors to consider include whether there are import or export restrictions at either end of the transaction, whether technical standards in your supplier's country meet Canadian requirements, Understanding the business and social practices of your supplier's country can help build trust and develop relationships. However, remember that Canadian consumers may judge you on the business practices of your suppliers, Think about howmany suppliers you need. If you have too few you risk suffering supply-chain disruption if they have problems. If you have too many your managerial burdens will increase (Laffont, 1993).

Language differences matter. It's not just a question of communication - make sure any labeling or other printed materials are error-free. Payment methods for international transactions are a bit more complicated. See the page in this guide on methods of paying foreign suppliers. Shipping procedures are also more complex, given the increased distances and the need to cross borders. The origin of your goods can affect the level of duty you pay. Some goods attract a preferential rate of duty, so you need to check where your supplier's raw materials have come from. Visiting suppliers is the best way of doing this. The public procedures have challenges and in some situations procurement

procedures are inadequate in various ministries in public sector which are trusted with the management of national government and procurement procedures (Armstrong & Jackson, 1992).

The donor community has a lot of interest on how their money is spent towards the improvement of community livelihood, and how to make them people sustainable in future while to keep the environment green and improve community livelihood, meaning the way they spend the money when procuring goods, works and services. The Government has also interest on how the money is spent in order to attract future funding from both the donor and the Government eventually they become self-reliant. Various studies available from others studies have not adequately addresses this.(Jessop & Morrison, 1993) states that proper utilization of resources through procurement is very vital to community livelihood improvement, hence growth. The contentious issues arise as to how to spend the money once granted by the donors/given out to the ministries by World Bank/the government of Kenya at budget level, while following the procurement procedures.

2.5 Conceptual Framework

The study sought to establish the relationship between the buyer and the seller in the public sector in Kenya, at the same time taking into consideration the procurement procedures in place. Therefore, the independent variables were the factors to be determined and the dependent variable will be supplier satisfaction.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used in the study. It is organized as follows: first it presents the research design, then the population, sampling frame, sampling techniques, data collection instrument, data collection procedures, pilot test and finally data processing analysis.

3.2 Research Design

The study adopted a descriptive research design. (Bogdam and Biken, 1992) stated that descriptive studies are more formalized and typically structured with clearly stated investigative questions. It serves a variety of research objectives such as descriptive of the phenomenon or characteristics associated with a subject population, estimates of proportions of a population that have these characteristics and discovery of associations among different variables. Therefore the study adopted a census survey. Census data offer a unique insight into smaller areas and small demographic groups which sample data would be unable to capture.

3.3 Population

The target population of the study was 18 Government ministries in Kenya. This is because all the ministries follow the same guidelines and procedures put in place by the public procurement disposal Act Regulations. The target respondents were procurement and finance staff in the ministries and they were requested to fill in the questionnaire that was used to provide data. This group of respondents was believed to be involved in the procurement policy formulation and implementation.

3.4 Data Collection

The research made use of both primary and secondary data. Primary data consisted of structured questionnaire both open-ended and closed-ended questions. Open-ended questions gave respondents the freedom to express and explain themselves, closed-ended questions will give the researcher an opportunity to get answers expected or anticipated to form the basis of building an opinion and conclusion. Secondary data was obtained from journals and research papers done by other scholars. The structured questionnaire was divided into two parts to respond to the objectives of the study. The first part was

general information about the respondent, the second part was to enquire the challenges that vendors face in the public sector. The questionnaires were administered and the mass of raw data collected was systematically organized in a manner that would facilitate analysis. Each ministry had three questionnaires, two for the procurement department and one in the finance department since they were the ones involved in paying the suppliers.

3.5 Data Analysis and Presentation

Both descriptive and inferential statistical analyses were used to analyze the survey data. Descriptive statistics included tables and frequency distribution whereas for inferential statistics, factor analyses were used. Wino (2006) noted that factor analysis method is necessary to reduce a large set of variables to small number of factors which could be easily interpreted and for satisfactory analysis to proceed. Factor analysis involves grouping variables into categories that appear to relate to a particular activity of the purchase decision. Kagiri (2005) noted that factors should be grouped into at least seven categories for meaningful analysis to be done.

For factor analysis, the preliminary tests employed were Kaiser Mayer-Olkin (KMO) and Berlet's tests run off the statistical package for Social Sciences (SPSS) software the KMO measures the sampling adequacy which should be greater than 0.5 for a satisfactory factor analysis to proceed with factor analysis. In order to determine the number of factors to retain for further analysis, the factors with Eigen values greater or equal to one are selected. These selected variables contribute a large percentage of the variance among the extracted factors.

CHAPTER FOUR: DATA ANALYSIS FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covered the experience encountered while on the field collecting data, the general findings and the analysis of the data collected. The information from the field was divided into two parts, part one was meant to examine the general background of the procurement staff and part two was to look at the factors affecting supplier payment in the public sector using a likert scale.

4.2 General Information

The demographic data sought in the study included: general profile of the study's respondents with regards to working experience, education and their involvement in the supply chain process and Position the respondents hold with regard to vendor payment.

Out of 54 questionnaires distributed, a total of 50 questionnaires were fully filled and returned, majority of the respondents 20(40%) had worked for a period of 10-15yrs, followed by 18(36%) of those whose work experience was 5-10yrs, while 12(24%) had worked for more than 15 yrs. .majority 40% of the respondents had a degree, followed by 32% who had masters and both PhD and diploma were 14% each .48(96%) are involved in the payment process and only 2% are not involved in the payment process. Majority of the respondents are accountants (32%), followed by procurement officers (28%), staff (20%), and auditors (20%). This means that the respondents selected were the right people since they are the ones involved in the payment process.

According to Mugenda and Mugenda (1999) a 50% response rate is adequate, 60% good and above 70% rated very well. This implies that basing on this assertion; the response rate in this case of 92% is very good ,we can also say that most of the respondents were experienced in their areas of work therefore very conversant with this field, staff in the public sector are professionals hence customer satisfaction on service delivery to supplier payment. Perlman (2001) stated that when there are people of high integrity with professionalism in any organization there would be better management of procurement resources, as things are delivered at the right time, at the right price, from the right source, the right quality and the right quantity to influence supplier payment. This means

that the study involved the right respondents since they are the ones who deal with paying the suppliers so they have first-hand information of the process.

4.3 Respondents feeling in relation to payment process

In this section, respondents were selected randomly, and then asked to respond on how they rate the payment process with regards to transparency, fraudulent, effective, and ineffective.

Table 4.1 Respondents feeling of the procurement process

	Mean	Standard deviation
transparency	1.58	12.38
Not fraudulent	4.02	9.87
effective	1.82	12.86
ineffective	3.86	9.35

The results indicate that majority of the respondents felt that the process is effective followed by transparent they also agreed that it's not fraudulent and ineffective. This shows that the Government is doing its best to make sure that the payment process in the public sectors is not faced with irregularities.

4.4 Factors Affecting supplier payment in the Public Sector.

In the section, respondents were asked. To what extent do you agree with the following statements regarding supplier payment in the public sector?1=to a very large extent,2-to a large extent,3=to some extent,4=to a little extent,5=not at all. The results are shown in table 4.2 below.

Table 4.2 Factors affecting supplier payment in the public sector.

Factors	mean	Standard deviation
1)Procurement regulations in the country	2.7	3.67
2)Type of Goods delivered	3.56	4.89
3)Vendor experience	3.62	5.33
4)Language barrier	3.64	5.95
5)Costs incurred in supplying goods	3.56	6.51
6)Geographical location	3.26	4.69
7)Supplier bargaining power	2.94	2.0
8)Technology ie.ICT adoption	2.58	5.43
9)Origin of suppliers raw materials	3.0	1.92
10)Your relationship with supplier	3.46	5.0
11)Suppliers demands	3.08	2.91
12)Terms competitors are offering	3.1	4.0
13)The urgency of the transaction	2.26	6.04
14)Time constraints	2.8	7.07
15)The cash flow availability and needs	3.0	5.91
16)Incomplete or illegible vendor address	1.58	7.81
17)Missing project director signature	2.1	9.0
18)Accountability	2.42	7.17
19)Internal processes	1.84	9.48
20)Ethics	2.0	8.71
21)Unfairness and lack of transparency	2.78	4.18
22)Fake invoices and receipts	2.56	7.93
23)Inadequate trained staff in procurement department	2.42	8.39
24)Resistance to change by the implementers of PPDA-public procurement disposal authority	2.96	3.93
25)Influence from stakeholders	3.66	5.95

26)Size of the institution	3.86	8.77
27)Company image	3.44	5.52
28)Complexity of supply chains	2.6	5.38
29)Insurance costs	2.7	4.18
30)Shipping procedures	2.32	5.70
31)Import or export restrictions	2.58	4.94
32)Business and social practices of the country	3.7	5.78
33)Availability of product substitutes	3.5	4.63
34)Government policies	2.2	8.12
35)How much the product costs	3.38	4.47
36) Personal capacity i.e. Each department having its own procurement unit.	3.08	2.34
37)Procurement procedures of the organization	2.38	6.04
38)Competitive supply, which requires the procurement be carried out by competition	2.42	6.44
39) Consistency, which emphasizes the equal treatment of all bidders irrespective of race, nationality or political affiliation.	2.14	7.81
40)Integrity ensures that there are no malpractices	2.38	8.15
41)Informed decision making	2.62	6.36
42)Transparency enhances openness and clarity on procurement policy and its delivery	2.6	9.43
43)Responsive to aspirations responsive to aspirations, expectations and needs of the target society	3.06	3.53
44)Operating procedures in the organization	2.46	7.03
45)Financial soundness of the organization	2.46	9.64
46)The company image	2.78	8.03
47)Poor communication between buyer and seller	2.18	10.56
48)Fair dealings	2.08	11.44
49)Credit worthiness of the buyer	2.14	9.24

Source: author 2014

I classified the results into two categories, one is challenges and the other was factors and From the results above we can say that fair dealings, poor communications between buyer and seller, Transparency of the organization, internal processes and missing project signature are some of the challenges the Government faces when it comes to payment of suppliers. Others are ethics, inadequate trained staff, integrity, Government policies, Company image, size of the institution can be classified as factors facing the same

process of supplier payment.

4.5 Factor Analysis

Factor analysis conducted on all statements measuring usefulness In order to determine the number of factors to retain for further analysis, the factors with Eigen values greater or equal to one isselected. The extracted factors explain 23.749% of the total variance. The extracted factors used the basis of Kaiser maximum criteria which indicates that an Eigen value of more than one constitutes a factor.

TABLE 4.3 TOTAL VARIANCE EXPLAINED

Compon ent	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	11.637	23.749	23.749	11.637	23.749	23.749
2	6.567	13.401	37.150	6.567	13.401	37.150
3	4.248	8.670	45.820	4.248	8.670	45.820
4	2.745	5.602	51.422	2.745	5.602	51.422
5	2.508	5.119	56.541	2.508	5.119	56.541
6	2.253	4.599	61.140	2.253	4.599	61.140
7	2.056	4.197	65.337	2.056	4.197	65.337
8	1.749	3.569	68.906	1.749	3.569	68.906
9	1.349	2.754	71.660	1.349	2.754	71.660
10	1.301	2.654	74.314	1.301	2.654	74.314
11	1.237	2.525	76.839	1.237	2.525	76.839
12	1.124	2.293	79.132	1.124	2.293	79.132
13	1.105	2.255	81.387	1.105	2.255	81.387
14	.936	1.911	83.297			
15	.828	1.691	84.988			
16	.720	1.470	86.458			
17	.684	1.396	87.854			
18	.610	1.246	89.100			
19	.579	1.182	90.282			
20	.541	1.103	91.385			
21	.515	1.050	92.435			
22	.427	.871	93.306			
23	.387	.790	94.097			

24	.352	.719	94.815		
25	.345	.704	95.519		
26	.277	.566	96.085		
27	.255	.520	96.605		
28	.228	.465	97.070		
29	.211	.430	97.500		
30	.192	.392	97.893		
31	.170	.347	98.240		
32	.155	.316	98.556		
33	.125	.255	98.810		
34	.110	.224	99.034		
35	.097	.198	99.233		
36	.081	.166	99.398		
37	.075	.153	99.551		
38	.065	.133	99.684		
39	.049	.100	99.784		
40	.037	.075	99.859		
41	.022	.046	99.905		
42	.020	.041	99.946		
43	.010	.020	99.966		
44	.007	.015	99.981		
45	.005	.011	99.992		
46	.002	.004	99.996		
47	.001	.002	99.998		
48	.001	.001	100.000		
49	.000	.000	100.000		

Extraction Method: Principal Component Analysis.

source: author 2014

In order to determine the number of factors to retain for further analysis, the factors with Eigen values greater or equal to one are selected. From the above table the factors with a value greater than 1 are procurement regulations in the country, type of goods delivered, vendor experience, language barrier, costs incurred in supplying goods, geographical location, supplier bargaining power, technology, origin of supplier's raw materials, buyer's relationship with the supplier, suppliers demands, terms competitors are

offering and the urgency of the transaction. This means that these are the factors that have a major effect on the supplier payment in the public sector Those with a value of close to 1 that is above 0.5 are: time constraints, cash flow availability and needs, incomplete or illegible address, missing project signature, accountability, internal processes, ethics, unfairness and lack of transparency. This means that these are the factors that have a major effect on the supplier payment in the public sector and can therefore be used for further analysis.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covered the research in summary, conclusion and recommendations while analyzing the factors influencing supplier payment at the Government ministries in Kenya.

5.2 Summary

Supplier payment system is actually simple: it defines the procedures, rules, standards and instruments used to exchange financial value and items between two parties discharging an obligation. Although the purpose is simple, supplier payment systems have evolved over a period of years (Savas, 1977). The different conditions in each country or organizations depending on the (size, legal systems, business practices, communications, infrastructure, stages of development of instruments and institutions make each supplier payment system unique (Adams & schvaneveldt 1985). the study was guided by objective: to determine the factors affecting supplier payment in the public sector.

The study adopted a descriptive survey design as a research design in which the data was gathered by use of structured questionnaires to capture the needed information. The type of design fits the research since the data was collected one. On average, the procurement officers in the public sector were fifty four. On average, the procurement managers and officers were generally satisfied with the general performance of the procurement department apart from a few factors they thought were pulling them back.

5.3 Conclusions

This study aimed to identify the factors that affect the payment of suppliers in the public sector after the delivery of goods to their customers at the public sector in Kenya. The investigation further evaluated to what extent the factors affect the payment that way it's easier to identify the key factors. From the study findings it can be concluded that procurement regulations in the country, the urgency of the transaction, incomplete or illegible vendor address, internal processes in the company, ethics largely affect the supplier payment in the public sector among other factors. A look at procurement

regulations show that the purpose of the department of procurement is to establish purchasing sections and carry out centralized purchasing procedures designed to acquire high quality ,appropriate goods and services at a reasonable cost and in a timely manner for the government ministries and departments which it serves. All procurement procedures shall be conducted in a fair and impartial manner to avoid even the appearance of impropriety. Specifications shall be developed to reflect the procurement needs of the public sector rather than to favor one supplier over the other.

For effective supplier payment there must be accuracy in the department, and suppliers must make sure they give their full details, and the type of relationship that exists between the department and the suppliers and also the practices of the government ie.integrity, ethics, and proper organization of the procurement department including having adequately trained staff for the job.it was also observed that personnel capacity also contribute largely to the problems between the supplier and the buyer relationship. The effects of personnel organizational policies on the capacity utilization of the personnel and on the throughput time of procurement work orders were studied. The results of the simulation show that the best utilization of the personnel and the best throughput time of procurement work orders were obtained if the procurement personnel are allowed to function across the borders of their department (here termed as exchangeability of personnel. These factors directly influence the relationship between suppliers and buyers so the Government has a big role to play in procurement process so as to satisfy customers because once the customers are satisfied it will lead to lasting relationships between the public sector and the suppliers.

5.4 Recommendations

Further research should also be carried in depth to determine the causes of delayed supplier payment in order to improve on the causes of the late payment so as to meet the (ISO and KBS) international standards organization and Kenya bureau of standards, which governs the procedures to follow in relation to the purchase of goods and services and more so the Public Procurement Disposal Act 2005, which instill the ethical values in the cause of the late payment and its penalties. A professional purchasing officer must be able to get the right materials at the right time, from the right source of the right quality,

and at the right price. This would be achieved if all the paying personnel from the ministry were to attend seminars/courses where they would get training before the processing of invoice for payment.

The study recommends that the public sector should update their machines or the kind of software currently in use. By this communication interruptions will be minimized. Hence most of them will face less inventory excess risks. Some of the procurement departments prefer single sourcing which should not be the case, in an aim to reduce risks associated by purchasing from one source they should adopt multiple sourcing strategy. Therefore many cases of supplier failures would reduce. Procurement regulation should be used as a guide, as its stipulated in the PPDA Act 2005 and regulations 2006. More emphasis should be on how the available regulations can assist the ministry of water to have mutual and cordial relationship with the vendors, so as achieve customer satisfaction after the delivery of goods, hence timely vendor payment.

5.5 Limitations of the Study

Some of the limitations of the study was, there is little research that has been done about this topic and my study focused on the suppliers but it didn't look at the buyers perspective though I highlighted a few factors but there should be a study to look at the buyers point of view or in this case the challenges the government faces when dealing with suppliers. Procurement is still new and as not been carried out effectively in the public sector so the government needs more time to get acquainted to the process and implement it. Since the study focused only on the public sector, future studies can consider expanding the scope by including private companies. This study was conducted within the constraint of time and resources and therefore, other issues inherent in such a broad study cannot be addressed adequately.

5.6 Areas for Further Study

My study focused on analyzing the factors affecting supplier payment in the public sector and what areas the Government should improve on. However more study should be done on how the government selects the suppliers and also on the factors affecting supplier payment in the private sector. More study should also be done in areas of cooperation between government, private sector and general citizens in maintaining the good

standards in procurement procedures. My study focused on the suppliers but it didn't look at the buyers perspective though I highlighted a few factors but there should be a study to look at the buyers point of view or in this case the challenges the government faces when dealing with suppliers. The relationship between the government and the suppliers is still at its new stages but the Government is trying on its side and based on the study, if the Government handles the process ethically and with integrity then the relationship with the suppliers will be a lasting one.

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Appendix 1 Questionnaire

Instructions:

Tick (✓) or write where appropriate. The following questionnaire should be completed by the procurement department staff working in the government ministries in Kenya.

Section A: General Information.

1. Working experience: 5-10yrs () 10- 15yrs () above 15yrs ()
2. Education, highest qualification: diploma () degree () msc () PhD ()
3. Are you involved in any of the process on vendor payment in Government ministry?
Yes () No ()

Likert scale: This is a five point plan which describes the feeling of respondents.

What is your feeling in relation to payment process?

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
transparency					
fraudulent					
effective					
ineffective					

4. What position do you hold in your organization with regard to vendor payment: an auditor () accountant () procurement officer () staff ()

SECTION B: Factors Affecting Vendor Payment in the Public Sector.

2. Factors affecting vendor payment in the public sector. To what extent do you agree with the following statements regarding vendor payment in the public sector? 1=to a very large extent, 2=to a large extent, 3=to some extent, 4=to a little extent, 5=not at all.

SCALE

Factors	1	2	3	4	5
1)Procurement regulations in the country					
2)Type of Goods delivered					
3)Vendor experience					

4)Language barrier					
5)Costs incurred in supplying goods					
6)Geographical location					
7)Supplier bargaining power					
8)Technology ie.ICT adoption					
9)Origin of suppliers raw materials					
10)Your relationship with supplier					
11)Suppliers demands					
12)Terms competitors are offering					
13)The urgency of the transaction					
14)Time constraints					
15)The cash flow availability and needs					
16)Incomplete or illegible vendor address					
17)Missing project director signature					
18)Accountability					
19)Internal processes					
20)Ethics					
21)Unfairness and lack of transparency					
22)Fake invoices and receipts					
23)Inadequate trained staff in procurement department					
24)Resistance to change by the implementers of PPDA-public procurement disposal authority					
25)Influence from stakeholders					
26)Size of the institution					
27)Company image					
28)Complexity of supply chains					
29)Insurance costs					
30)Shipping procedures					
31)Import or export restrictions					
32)Business and social practices of the country					
33)Availability of product substitutes					
34)Government policies					
35)How much the product costs					
36) Personal capacity i.e. Each department having its own procurement unit.					
37)Procurement procedures of the organization					

38)Competitive supply, which requires the procurement be carried out by competition					
39) Consistency, which emphasizes the equal treatment of all bidders irrespective of race, nationality or political affiliation.					
40)Integrity ensures that there are no malpractices					
41)Informed decision making					
42)Transparency enhances openness and clarity on procurement policy and its delivery					
43)Responsive to aspirations responsive to aspirations, expectations and needs of the target society					
44)Operating procedures in the organization					
45)Financial soundness of the organization					
46)The company image					
47)Poor communication between buyer and seller					
48)Fair dealings					
49)Credit worthiness of the buyer					

APPENDIX 11

Public sector ministries in Kenya

1. Ministry of Interior and Coordination of National Government
2. Ministry of Devolution and Planning
3. The National Treasury
4. Ministry of Defense
5. Ministry of Foreign Affairs
6. Ministry of Education
7. Ministry of Health
8. Ministry of Transport and Infrastructure
9. Ministry of Information, Communication and Technology
10. Ministry of Environment, Water and Natural Resource
11. Ministry of Land, Housing and Urban Development
12. Ministry of Sports, Culture and the Arts
13. Ministry of Labor, Social Security and Services
14. Ministry of Energy and Petroleum
15. Ministry of Agriculture, Livestock and Fisheries
16. Ministry of Industrialization and Enterprise Development,
17. Ministry of Commerce, Tourism and East Africa Region
18. Ministry of Mining.

