

**Factors Affecting Procurement Lead-Time and Operational  
Performance in State Owned Financial Institutions in Kenya**

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**A Research Project Submitted in Partial Fulfilment of the Requirement for  
the Award of the Degree of Master of Business Administration (MBA) to  
the University of Nairobi**

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## DECLARATION

I declare that this is my original work and has not been presented for a degree in any other University.

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**Date**.....

This project has been submitted for examination with my approval as University Supervisor.

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## **DEDICATION**

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## **ABSTRACT**

The objective of the study was to establish the factors affecting procurement lead-time and operational performance in state owned financial institutions in Kenya. The research adopted a descriptive research design where data was collected using a self-administered questionnaire that was distributed to 55 senior and middle level managers at the organization researched on. The results show that that inadequate financing to the firm's procurement process, staff capacity to effect procurement and stringent public procurement procedures were found to be an impediment to successful management of the procurement process. In addition, a lack of adequate enforcement of ethical code of conduct by staff and other actors in the supply chain was found to delay the processing of tenders and the eventual delivery of the products or services. The limitation of the study was that it did not account for certain behavioral factors – related to employees' and managers' characteristics, attitudes, and experience levels – as well as organizational factors – such as structure, size, and business nature – that play a moderating role in the relationships highlighted in this study. The recommendation of the study was that senior management must consider their internal procurement processes, and their own role in championing efficient procurement in their organizations. There is need to increase the funding process of the organization towards the lead time management. The government has a role to play in ensuring successful enforcement of all procurement laws since the problem is not a lack of the laws but the circumventing of the laws by the parties for their own selfish gains.

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## **ABBREVIATIONS**

PPOA	Public Procurement Oversight Authority
PPDA	Public Procurement and Disposal Act
PPDR	Public Procurement and Disposal Regulations
GOK	Government of Kenya
GDP	Gross Domestic Product
JIT	Just In Time
PE	Public Entity
PIU	Procurement Implementation Unit
GPN	General Procurement Notice
SPN	Specific Procurement Notice
NCB	National Competitive Bidding
ICB	International Competitive Bidding
RFQ	Request for Quotations
RFP	Request for Proposals
QCBS	Quality Cost Based Selection
WTO	World Trade Organisation
SCM	Supply Chain Management



# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

In an increasingly intense competitive environment, the effective deployment of organizational resources is of paramount importance. Central to developing competitive strategies is the notion of comparative advantage. A strategic framework should allow a firm to gain advantage in existing and new markets. High speed is not always synonymous with better use of time, but attacking and eliminating delays invariably improves throughput and customer services. Measures for reductions in design times, cycle times, setup times, throughput times and delivery times are appearing with greater regularity on performance reports (Ireland and Webb, 2007). Eliminating delays and improving product flows involves creativity, specialized skills, capital investments and behavioural changes that challenge the status quo. Frequently, significant improvements can be attained with relatively little, if any, additional capital investment.

Fierce competition in today's global markets, the introduction of products with shorter life cycles, and the heightened expectations of customers have forced business enterprises to invest in, and focus attention on, their supply chains (Penido, 2007). Lederer concluded that individual businesses no longer compete as solely autonomous entities, but rather as supply chains (Lambert and Cooper, 2000).

This, together with continuing advances in communications and transportation technologies, has motivated the continuous evolution of the supply chain and of the techniques to manage it effectively. For many organizations, global competition is no longer on the horizon; it has arrived. While traditional strategies that were successful in the past may not be wrong, they frequently require a refocus or extension since they may be incomplete. The challenge of remaining competitive in an increasingly global environment has led many firms to focus on

improving their supply chains in order to deliver superior customer value and thereby create and maintain a strategic competitive advantage. Indeed, effective supply chain management(SCM) has been associated with a variety of advantages including increased customer value, increased profitability, reduced cycle times and average inventory levels, and even better product design (Tan *et al.*,2008).

Today's competition is not among individual companies it is among networks of organizations that are known as supply chains (Christopher, 2000). The need for an organization to manage its supply chains stems from the market, which expects both product and service customization and optimal utilization in a global environment (Cousins and Menguc, 2005). Through the installation of co-operative relationships, organizations are able to achieve distinct competitive advantages as the adaption and execution of such networks help to reduce operating costs and maximize the effectiveness of the organization (Mason and Leek, 2008).

### **1.1.1 Procurement Lead-time**

The time needed to prepare bids, the time required to make an award and place an order, the time required to receive the delivery, and the time between receipt and payment are all defined as lead time (Harland *et al.*, 2009). Silver et al. (2008) defined, lead time as the time that elapses between the placement of an order and the receipt of the order into inventory, lead time may influence customer service and impact inventory costs. According to Gaither (2004) inventory is a part and parcel of every facet of business life. Without it, no business activity can be performed, whether, it being a service organization like hospitals and banks etc. or manufacturing or trading organizations. Irrespective of the specific organizational setting, inventories are reflected by way of a conversion process of inputs to outputs.

Lead time is a key performance indicator that, besides being a crucial measure of service levels, it is the only parameter in the objectives scheme described by Hopp and Spearman (2000, p. 196) that supports both lower manufacturing costs and high sales. Hence insight into how lead times might vary with factors such as arrival rate, variability and batch size is essential for effective planning and scheduling. Historically the purchase decision has been dependent mainly on the price (Bowersox, 2010). Nowadays the choice of supplier not only depends on price but also on “the cost of time” while the customer is waiting for the delivery. According to Christopher (2008) the sourcing process has become more complex for the purchaser as there should be considered not only cost efficiency, but also responsiveness of material flow.

One basic issue in most organizations is to meet the customer’s order cycle (the time the customer is willing to wait for the delivery) with logistics lead time (the time for the supplier to complete the process from receiving the order to delivering goods) not managing that will cause the lead time gap. This gap is specially a problem in longer flows because in general the final customer is not willing to wait longer just because the sourcing is done globally. According to Christopher (2008) the possible ways to reduce or close this time gap is shortening the logistics lead time by the aid of such tools as supply chain mapping and bottleneck management. Simultaneously the customers’ order cycle could be moved closer by increasing the demand visibility.

Traditionally companies have used inventory to bridge the lead time gap. This inventory is built up by using a forecast to predict the customers need before the actual demand arises. However, forecast accuracy is never perfect no matter how advanced the forecasting system is. Due to forecasting errors there will be always too much or too little inventory, Christopher, (2011). Further, he notes that forecasting error increases as the lead time gets longer. Larger

forecasting error in turn causes increased demand volatility and a need to keep higher levels of safety stocks. Therefore it is advisable to decrease the lead time gap in order to have more accurate forecasts that are based on actual demand and at the same time lower the amount of inventories.

### **1.1.2 Operational Performance**

Operations performance management is the alignment of the various business units within a company in order to ensure that the units are helping the company achieve a centralised set of goals. This is done by reviewing and optimising the operations of business units (Business dictionary).

According to BusinessDictionary.com, operations performance is the firm's performance measured against standard or prescribed indicators of effectiveness, efficiency and environmental responsibility such as cycle time, productivity, waste reduction and regulatory compliance. An excerpt from the Insurance Answer Centre states that; 'this is a measure of how well the company is doing. Many different measures, such as expense ratios, sales performance and policy terminations are taken into consideration when evaluating operating performance'.

### **1.1.3 Public Procurement**

Public procurement is the procurement of goods and services on behalf of a public authority, such as a government agency. With this accounting for up to 20% of the GDP in developing countries, Public procurement accounts for a substantial part of the global economy (Centre for International Development, Havard University).

Public procurement regulations normally cover all public works, services and supply contracts entered into by a public authority.

To prevent fraud, waste, corruption or local protectionism, the law of most countries regulates government procurement more or less closely. It usually requires the procuring authority to issue public tenders if the value of the procurement exceeds a certain threshold.(Wikipedia)

Government procurement is also the subject of the Agreement on Government Procurement (GPA), a plurilateral international treaty under the auspices of the WTO.

In Kenya, Public Procurement is governed by; Public Procurement and Disposal Act of 2005, Public Procurement and Disposal Regulations of 2006, the constitution of Kenya, Public Procurement and Disposal General Manual and various circulars produced by PPOA to guide or clarify various areas of public procurement.

A review by PPOA shows that whereas the PPDA has some strengths, various challenges were identified including the cost of procurement process, the long time to procure and reaction time to business opportunities. The Constitution, Article 227 has established a new framework to guide Public Procurement and Disposal process to ensure agile response to opportunities in the Market. This was observed by the Presidential Taskforce on Parastatal Reforms (2013).

The Public Procurement System in Kenya has evolved from a crude system with no regulations to a legally regulated procurement system in line with International Standards (Ochieng & Muehle, 2004). This has further evolved with inception of the county governments through the amendment of the previous regulations which were replaced by the Public Procurement and Disposal (County Governments) Regulations, 2013.

#### **1.1.4 State Owned Financial Institutions in Kenya**

Kenya's financial landscape has considerably changed over the period 2006-2013. FinAccess, 2006 helped to map the landscape of financial service provision in Kenya, defining the

relative contribution of each type of provider and the overlap between them. Building on the findings of the 2006 survey, a repeat survey was completed in March 2009.

The financial sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ products. The CBK annual supervision report emphasizes that the financial institutions will need to cope continuously with changing business environment and a continuous flood of new requirements via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever. Hence financial institutions will continue to aggressively design new products that leverage on ICT to remain competitive. Down streaming into the retail market segment will also be expected to continue particularly with the licensing of deposit taking Microfinance Institutions.

There are various Financial Institutions in Kenya both banking and non banking. These are governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

The eleven state owned financial institutions are; Consolidated Bank of Kenya Ltd, National Bank of Kenya Ltd, Development Bank of Kenya Ltd, Agricultural Finance Corporation, Kenya Revenue Authority, LAPTRUST, LAPFUND, Kenya Re, Industrial Development Bank, Central Bank of Kenya, Post Office Savings Bank.



## **1.2 Research Problem**

Following a period of economic boom, the financial bubble – global in scope –burst. The problem was so severe, some of the world's largest financial institutions collapsed, Shah (2013). Like the Depression, this crisis provides an opportunity for institutional reforms Shiller (2008).

In today's competitive business world, companies require short lead times, low costs and high customer service levels to improve operational performance and survive. The result is that companies have been putting in significant effort to reduce their lead times. The main focus of companies in the 20<sup>th</sup> century was the customers. It has become more and more competitive to satisfy customers according to (Gaither, 2004). For instance, to perform in a global market, short lead times are essential to provide customer satisfaction. Organizations that have focused on cycle time as a productivity measure can reduce delivery time and improve quality, thereby creating more satisfied customer. Today more than ever, companies are trying to gain a competitive edge and improve profitability through cutting cost, increasing quality and improving delivery. Companies' concentrate on improving delivery through cutting lead time and show how shortened lead times will help to increase export and reduce costs (Olinder and Olhager, 2008). Time is an essential element in many forms of competitive advantage. As firms continually search for the elusive combination of resources and capabilities that yield differential financial performance, time is often a common aspect in sources of advantage.

The Kenyan financial sector has witnessed intense competition which can be attributed to the liberalization of the sector, increased adoption of information technology and improved business environment. With these changes, coupled with an enlightened customer and increased scrutiny from the regulators, financial institutions have to shift their attention internally for competitive advantage.

The Financial Institutions best positioned to maintain or extend outreach are state owned Financial Institutions that are also in most in need of efficiency improvement Thorsten et al (2010). The state owned or state - influenced financial institutions have been cited as being the most wasteful with the highest bad loan provisions and interest spread.

Most studies on the financial sector have focused on lending rate, deposit rate, spread, overhead costs, loan-loss provisions, reserve requirement, taxes and profit margin as factors affecting performance. There is however an underlying factor that has not been taken into account and this is one of the drivers of performance especially in state owned banks, which is procurement lead-time. This affects costs Kagiri (2005), market reach and general service delivery which in turn affect the other factors. The challenge to gaining competitive advantage is the speed with which the institutions can reach the target market before competitors. The competition has turned to competition between individual supply chains where the turnaround time for delivering services to the customers determines success or failure.

State owned Financial Institutions face numerous challenges in the procurement of goods and services and these affect operational performance to meet their core activities. Procurement of goods and services appears laborious and frustrating to staff and management. While the state owned Financial Institutions have to adhere to the requirements of banks regulatory body, they also have to adhere to the Public Procurement and Disposal Act and Regulations, various procurement manuals, as well as various circulars from the Public Procurement Oversight Authority (PPOA). This gives rise to long lead-time compared to the private sector financial institutions.

Studies undertaken on lead-time management include Tarty (2012) who researched on the factors that influence lead time and the impact logistics management has on lead-time in public healthcare in Nairobi, Kenya. The findings were that logistics management is

influenced by equipment failures; poor warehouse management; poor flow of information; poor order shipping, poor order listing; poor order sorting; ordering costs; bureaucracy in government; order packaging challenges and poor warehouse planning. Wieters (2010) found that the major consequences of excessive lead times were costly expediting and scheduling problems. Secondary problems involved lengthened planning horizons and inflated inventories. Growing acceptance of the just-in time and theory of constraints philosophies are providing some direction for resolving lead-time problems in manufacturing environments.

Kagiri (2005), researched on Time and cost overruns in Power projects in Kenya. Karani (2007), researched on factors impacting reliability of Kenyan construction industry with focus on road projects and project managers perceptions. Other research has been carried out by Morris, (1990), on 'Cost and Time overruns in Public Sector Projects. Lam (2005), researched on bureaucracy and red tape in Public and Private Construction project organisations. It is clear substantial research has been done relating to lead-time or time delays in public procurement, but not much has been done with respect to state owned Financial Institutions and their operational performance.

The question this study endeavoured to answer therefore was, 'What are the factors affecting procurement lead-times and operational performance in state owned Financial Institutions in Kenya?

### **1.3 Research Objectives**

The objectives of the study were;

- (i) To determine the factors that affect procurement lead-time in state owned Financial Institutions in Kenya.
- (ii) To determine the factors that affect Operational Performance

#### **1.4 Value of the Study**

The study will be of value to the management of state owned Financial Institutions in Kenya as they will be able to know the factors that affect lead-time and operational performance thus put in place mechanisms to manage their lead-time for improved operational performance. The findings of this study will form part of the action plans that will help in the state owned Financial Institutions to be innovative so that they can gain competitive advantage over competitors. This research will also add to the current review being done on the Public Procurement and Disposal Act when the bill currently in Parliament is released for public discussion.

Other sectors would be able to relate lead time management and operational performance in state owned Financial Institutions. The recommendations will consequently help to reduce cost, maximize productivity and improve efficiency in the organizations. The findings of this research would serve as a reference material for policy direction in the management of the state owned Financial Institutions, especially in the application of good practices to reduce cost and improve performance. Scholars will find it useful as the study will add to the body of knowledge in the area of operational performance.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter focuses on the literature review conducted by the researcher. These include various works carried out by other researchers relating to lead times. The areas reviewed include a definition of procurement lead-time, factors that influence lead-time both internal and external, the effect of procurement lead-time on operational performance and the legal framework.

### **2.2 Procurement Lead-time**

Lead-time is the time from customer order to receipt by the customer, composed of three parts, administrative, production and logistics lead-time, Philip J ( 2003). Administrative or procurement lead-time this is the time it takes to process a requisition to the time an LPO or contract is executed. Production and logistics lead-time is the time it takes a supplier from the time of receiving the order to the time the goods are delivered to the customer.

### **2.3 Factors that influence Procurement Lead-time**

There are many factors that contribute to the length of procurement lead-time categorised into internal and external factors Thai, (2001).

#### **2.3.1 Internal Factors**

Internal factors include the organisational framework within which the procurement is carried out. According to various writings cited by Kagiri, (2005) some of the major contributors to time and cost overruns were; poor communication; lack of experience by the procurement manager; procurement delays; lack of planning; poor infrastructure; inadequate resources; lack of motivation; tendering methods; variations; project environment, poor project definition. Other writers have cited inflation, project complexity, inaccurate estimates; change orders; design changes; late submission of drawings; poor specifications; incorrect site information; poor project management.

Staff in the procurement department often lead to delays, Lynch (2013); by failure to properly plan, failure to submit RFQ's on time, late preparation of tender documents, receiving incomplete documents from bidders; failure to form the evaluation panel in time, delay by the evaluation panel in completing the evaluation process, protracted contract negotiations; underestimation of procurement lead times and approving authority taking too long to review and approve the tender.

Legislation has been passed without due consideration of the procurement system, for example the preference tendering which may lead to failure to get the right supplier necessitating retender.

### **2.3.2. External Factors**

External factors include market environment, legal environment, political environment, and other environmental factors. Depending on the market, i.e. if monopolistic, the procurement will be limited to one supply and as such not much time will be taken in processing and evaluating tenders. A competitive market on the other hand may give rise to very many respondents to tender and a lengthy process of evaluation.

Financial Institutions that are state owned operate under the Companies Act and Banking Act and are required to comply with requirements therein as well as those of the State Corporations Act and Public Procurement and Disposal Act. The report of the Presidential taskforce (2013) noted that governance requirements from various laws are often at conflict with adverse effects on decision making processes, while obtrusive compliance requirements affect efficiency. The legal environment in Kenya is such that the procurement lead-time takes a minimum of 37 days. In addition, if a bidder applies to the appeal board, it may take another 30 days for the review to be concluded after which the procuring entity may be compelled to

re-tender. The other cause of delays is the appointment by the CEO in writing of evaluation and inspection and acceptance committee members for every procurement, PPDA (2005).

In a volatile and corrupt political environment there will be interferences from politicians with vested interests. This usually leads to delays where if the preferred bidder is not successful they can instigate nullification of the process and order for a retender. Oswago's statement to the Ethics and Anti – Corruption Commission that is probing the pre-election procurement process at IEBC delves into the behind the scenes intrigues that surrounded the delayed procurement of the equipment, the change of specification for the kits and why they failed to perform as expected. Oswago said this bad blood between the ICT director Dismas Ong'ondi and employees of Face Technologies (Facestec) caused a delay in the delivery of the kits which arrived a month before the election day.

Access to Government Procurement Opportunities (AGPO) initiative set aside 30% procurement reservations and preferences to youth, women and people with disabilities. This was embedded in the performance score cards for parastatals. These groups however in some cases lack technical and financial capacity to deliver. They therefore will rely on facilities from financial institutions and sub contractors and thus the supplier lead times become very long.

Morris (1990) concluded that the purely environmental factors such as natural calamities, political disturbance, labour strife were of least importance in explaining cost and time overruns. However the requirements of the National Environmental Management Act have to be met before delivery of services and this takes time.

### **2.3.3 Ways to manage lead-time**

As noted by Elfving, et al (2004), causes of long lead-time are not addressed early because the stakeholders are not aware of the delivery process as a whole. They do not have a systemic view of the process.

To overcome some of these challenges there is need for, review of the existing legislature (PPOA and KISM); use of E – procurement, Mchopa (2012) noted that companies that use e-procurement technologies save up to 42 % in purchasing transaction costs, proper planning of all procurement events and use of appropriate procurement method; Lynch, (2013) suggested use of external expertise for technical specifications and early appointment of an evaluation panel with proper technical skills. The other ways espoused by PPOA is to train suppliers to understand the public procurement system.

### **2.4. Legal Framework**

Public procurement is governed by various legislation meant to curb corruption and improve transparency and accountability. In addition there are circulars and manuals periodically released by the Public Procurement Oversight Authority. The main legislation is the Public Procurement and Disposal Act, 2005(PPDA); Public Procurement and Disposal Regulations 2006 (PPDR) and The Supplies Practitioners Act, 2007 (SPA).

According to the PPDA, a procuring entity will appoint members to various committees charged with specific duties relating to procurement. These committees are: Tender committee, Procurement committee; Evaluation committee; Tender Opening and Inspection and Acceptance committee. Members of the tender committee cannot be members of the other committee except as chair person to the Procurement committee. This requirement is sometimes prohibitive where an organisation does not have a large workforce from which to select committee members.



## **2.5 Lead-time in State Owned Financial Institutions**

The state owned Financial Institutions are governed by the PPDA and PPDR which provide guidelines that a procuring entity should use in procurement. These stipulate inter alia; how much time should be given to bidders to prepare tenders, time allowed for disputes if any and how much time should be spent on evaluation. The procurement lead-time derived from this legislature for procurement of a standard product is 37 days. The timelines are guided by a threshold matrix for various levels of procurement provided for in the PPDA (2005).

There is new bill under discussion which will reduce the lead times and minimize red tape in Public Procurement. In the Public Procurement and Disposal (County Governments) Regulations (2013), already the periods for tendering and evaluation have been reduced.

## **2.6 The factors affecting Operational Performance of State Owned Financial Institutions**

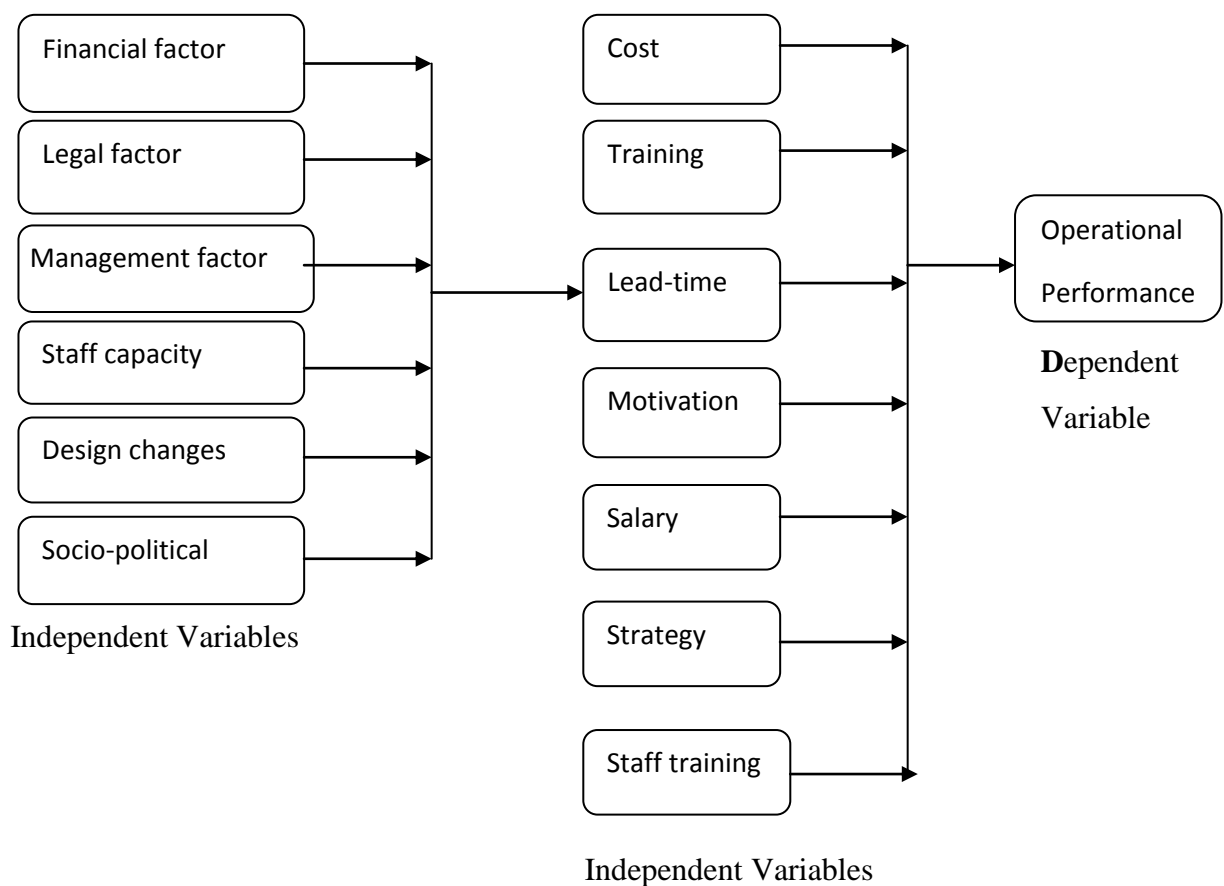
The major variables of Supply Chain Management that affect performance are core competencies, strategy, strategy implementation and core capabilities Stalk et al (1992). Effective supply chain is the ultimate core competence and is critical to company successful performance (Quin 2000). Awino in his study on Strategic Management concluded that no single variable can effectively influence performance but rather the variables operated jointly will improve socio economic development. Kinyua in her study concluded that financing, funding, government bureaucracy, infrastructure, environmental and socio – economic situational factors were strongly associated with supply chain performance.

## 2.7 A conceptual framework

The focus of the study was on the factors that affect lead-time and operational performance. The independent variables were investigated in relation to the dependent variables to determine their effect on the dependent variables.

The study had two dependent variables and various independent variables. Of the two dependent variables one was an independent variable for the other. This is reflected in the conceptual framework diagram below.

**Fig 1: Conceptual Framework – Factors affecting Lead-time and Operational Performance.**



*Conceptual Framework – writers own*

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter set out the research design, population of interest, sample size and sampling method, data collection and analysis method employed for the research.

### **3.2 Research Design**

The research design used was descriptive. This design was most appropriate because the study was looking for factors, Mary (2013) affecting lead-time and operational performance in public financial institutions. Face to face discussions were held to clarify certain aspects that were not brought out clearly through questionnaires and related them to lead-time in procurement and operations performance. The approach therefore was both qualitative and quantitative. The population was identified and suitable questions prepared to guide the process.

### **3.3 Population of the Study**

There are eleven (11) state owned financial institutions in Kenya. The population of study comprised all eleven. In addition the two institutions charged with oversight role in public procurement were included. These were Kenya Institute of Supplies Management and the Public Procurement Oversight Authority. The target respondents were senior staff involved in procurement, operations and members of committees and users who are the customers of the procurement function. The goal was to have a total of 55 respondents comprising 5 from each financial institution, and interviews with KISM and PPOA.

### **3.4 Data Collection**

In this study data was primarily collected from structured questionnaires and in-depth interviews. The questionnaires had mostly closed questions with provision for further comment at the end. The questionnaire was administered for respondents from the eleven (11) institutions through the drop and pick later method. Of the eleven, one institution declined to

allow its staff to respond to the questionnaire and another proposed a case study of its organisation whose results would be shared with its management. Where it was not possible to drop the questionnaire, the same was sent through email. Interviews were carried out for the two oversight institutions identified. Though a collection date was agreed upon with respondents, most did not honour this and some ended up not returning the questionnaires at all.

The questionnaire had four sections. Section one focused on the general information about the organization and the respondents' role in procurement. Section two focused on factors affecting procurement lead-time, Section three focused on factors affecting operational performance and section four on other factors affecting procurement lead-time and operational performance. Secondary data for the study was collected from existing documented data and available reports. The questionnaire was pilot tested and amended where necessary before it was administered to the population.

### **3.5 Data Analysis**

Data collected was processed for completeness, accuracy and uniformity. It was then analyzed using factor analysis. Factor analysis is used to reduce a large number of variables to a smaller number which can easily be interpreted for useful analysis to proceed. Factor analysis involves grouping variables into categories that appear to relate to a particular activity. This method has been selected due to the large number of factors identified. Factors should be grouped into at least seven categories for meaningful analysis to be done Kagiri (2005). This method has been used successfully by Mary, (2013) in her research on the Implementation of E-procurement Practices among private Hospitals in Nairobi, Kenya. It has also been used by Waithaka (2011) in his research on Factors considered by corporate customers in the purchase of insurance services in Kenya. In this study the factors were reduced to six major categories for ease of analysis.

Factor analysis was used to determine the strength of the factors affecting the lead time. Whereas statistical analysis was employed for the quantitative data, thematic analysis was carried out for the qualitative data.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

The research objective was to establish the factors that affect procurement lead time and operational performance in state owned financial institutions in Kenya. This chapter presents the analysis, findings and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 55 questionnaires were issued out and only 35 were returned. This represented a response rate of 60%.

### **4.2 Factors Affecting Lead Times**

The respondents were requested to indicate the extent to which various factors that affect the organizations lead-time and their effect organizational operational performance. The range was 'No effect (1)' to 'very great extent' (5). The scores of no effect/low extent have been taken to present a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ( $0 \leq M.E < 2.4$ ). On the other hand scores of 3.5 to 4.8 on the continuous Likert was taken to be great extent and very great extent. This finding would assist the researcher to determine how lead time affects the operational competitiveness.

#### **4.2.1 Financial Factors**

For effective management of an organizational lead time, there is need for the firm to direct more resources, both in terms of human and financial resources. The management of the firms' lead time requires that leadership directs resources to the effective management of the process. The researcher sought to establish how the financial factors affect the management of the lead times and the results are presented in Table 4.1.

**Table 4. 1: Financial Factors**

<b>Variables comprising the Financial Factor</b>	<b>Mean</b>	<b>Std. Deviation</b>
Under budgeting	4.0917	0.7061
Cash flow constraints	3.9405	0.6942
Lack of a budget for the procurement unit	3.8335	0.8274
Cost variation	3.5191	1.19
Absence of an annual budget	3.4694	0.8439
Budget variations / reviews	3.3185	0.8573
<b>Overall Financial factor mean</b>	<b>3.6954</b>	

Source: Research data (2014)

The results show that under budgeting was a major issue that faces the management of the financial institutions lead time process (M=4.09, SD=0.7061) which results in the cash-flows constraints throughout the budget period (M=3.941, SD=0.694). However, a moderate extent budget variations/reviews (M=3.31) as well as some organizations not having annual budgets that is directed to the management of the firms lead time. This finding is in line to that position made by Kagiri, (2005) who while citing several other findings observed that inadequate financial support that is budgeted at the beginning a financial year will impact the firms organizational performance since delays in supply of the firms' products and services will be hindered.

#### **4.2.2 Legal Factors**

This section of the questionnaire sort to establish from the respondents how existence and observance of procurement laws has affected the organizations lead time management and consequently the organizations performance. This finding would assist the researcher to

determine how the procurement laws have affected the undertaking of procurement functions.

The findings are presented in the Table 4.2.

**Table 4. 2: Legal Factor**

<b>Variables comprising the Legal Factor</b>	<b>Mean</b>	<b>Std. Deviation</b>
Public procurement procedures	4.1273	.913
Appeals by suppliers to the appeal board	3.7648	.6294
Banking regulatory environment	3.5348	1.161
Institutionalization of preference tendering	3.3165	.8625
<b>Overall Legal factor mean</b>	<b>3.6859</b>	

Source: Research data (2014)

The result in the Table 4.2 show that with the parastatals being public entities, public procurement procedures were found to be an impediment to the successful management of procurement process (mean =4.13) and the Public Procurement and Disposal Act has provided various avenues for appeals if for example the tendering process is found not to be impartial (M=3.76). However, the results also shows that the legal framework of the PPDA has improved the procurement process that include appeals by unsatisfied suppliers (mean= 3.365). Further as Abdi (2012) observed, the PPDA guidelines encourages the segregation of duties among employees of procurement department; maintaining all documentation relating to the tendering process and maintaining continuous improvement with suppliers.

#### **4.2.3 Management Factors**

The procurement process can be hampered by non-compliance to the procurement regulation by various actors within and outside the organization. Towards the same, the researcher sought to establish how the managers of the parastatals have affected the lead time management process in the firms.



**Table 4. 3: Management Factor**

<b>Variables comprising the Management Factor</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of staff motivation	4.2761	1.258
Delays in evaluation tenders	3.9253	1.08
Exclusion of procurement staff in budget preparation	3.7918	0.7295
Lack of support from top management	3.6928	1.215
Delays in award of contract after tender approval	3.5397	0.8013
Delays in forming evaluation panels	3.5239	0.8329
Frequent referrals by the tender committee	3.5187	1.267
Protracted contract negotiations	3.3495	1.255
Difficulty in getting committees to meet	3.0625	0.983
Cancellation of tenders	3.0418	0.9316
Position of the procurement staff in the organization	2.9084	0.9104
<b>Overall Management factor mean</b>	<b>3.5119</b>	

Source: Research data (2014)

The staff level of motivation (mean=4.276) was found to be the major managerial factor affecting the lead time process. This results from the exclusion of the staff from the budgeting process (mean= 3.7918) and the position of the procurement staff in the organization was not being appreciated to an appropriate degree (mean= 2.9084). It was also found that as a result of the management interference on the procurement process, cancellation of tenders (mean=3.042) was frequently experienced and protracted contract negotiations taking place (mean=3.35) at the expense of other useful activities in the firm. This is a worrying situation for the organization and shows that the major hindrance to effective management of lead times is the enforcement of ethical code of conduct by staff and other actors in the supply chain. This finding is consistent to other findings such as by Gelderman, Glijssen & Brugman,

(2006) who observed that major obstacle facing the procurement process especially in the developing countries is inadequate regulations (both internal and external) compliance. Similarly, Hui (2001) established that procurement officers were involved and blamed for malpractices and non-compliance to procurement policies and procedures in such countries with developed economies such as Malaysia.

#### 4.2.4 Staff Capacity

Staff in the procurement department often lead to delays, Lynch (2013); by failure to properly plan, failure to submit RFQ's on time, late preparation of tender documents, also receiving incomplete documents from bidders or through underestimation of procurement lead times and approving authority taking too long to review and approve the tender. Consequently, the researcher sought to establish the role of staff in affecting the lead times of products and the results are presented in the Table 4.4.

**Table 4. 4: Staff Capacity**

<b>Variables comprising the Staff Capacity</b>	<b>Mean</b>	<b>Std. Deviation</b>
Poor supplier selection	3.8628	.7952
Lack of supplier development	2.9761	1.193
Failure to carry out due diligence on supplier	4.1491	.9436
Poor management of stake holders	3.2173	.8164
Lack of training of users on public procurement	3.7138	1.060
Lack of training of procurement staff	3.7349	.8256
Level of education of procurement staff	3.6814	.9801
Understaffing	3.1295	1.206
Use of a manual system	3.7628	.9247

Poor presentation of documents	3.3419	1.094
Time taken to process requisitions	3.8815	1.045
Composition /expertise of members of evaluation	3.7261	.9425
Contract management	3.2693	1.043
Choice of procurement method	2.7951	.7462
Project /service complexity	3.6837	1.280
<b>Overall staff capacity mean</b>	<b>3.5284</b>	

Source: Research data (2014)

The failure by the staff to carry out due diligence on suppliers was found to be a major factor affecting the organizations lead time (mean=4.1491) and coupled with poor selection of the suppliers (mean=3.8628) was found to delay the processing of tenders and the eventual delivery of the products or services. The study also found that there is a lack of adequate training on matters procurement on the part of staff (mean=3.7349) and when combined with composition /expertise of members of evaluation (mean=3.7261) which was found not to be competent enough, the parastatals procurement lead times was found not to be effective. However, the choice of the procurement method and a lack of supplier development were not found to be a major factor affecting the lead times of the firms. Indeed as Emmanuel (2006) noted, developing and achieving sound procurement practices is not easy and consumes a lot of time, and requires significant investment on people training and suppliers. All these findings are supported by the present findings.

#### 4.2.5 Supplier Factors

The organizational procurement lead time success will also be affected by the capacity of the suppliers to measure to the expectation of the firm and adhere to the public procurement rules.

The role of suppliers on affecting the firms procurement lead times was also investigated and the results are presented in Table 4.5.

**Table 4.5: Effect of supplier on Procurement lead time**

<b>Variables comprising the Supplier Factor</b>	<b>Mean</b>	<b>Std. Deviation</b>
Delays by supplier to deliver	3.8295	.9273
Supplier interference	3.7452	.7047
<b>Overall supplier factor mean</b>	<b>3.7874</b>	

Source: Research data (2014)

The results show that delays by suppliers to deliver the products on time (mean = 3.83) and also interference in the procurement process through canvassing (mean = 3.75) was also found to affect the success lead times of the parastatals. Therefore, the support from other players in the procurement process is necessary for effective implementation of the procurement system in the organizations. Suppliers are an important stakeholder in the ensuring success of a procurement solution. They must be involved in every step of the process especially system change and also encouraged to use the system and provide feedback for its improvement. Chang and Wong (2010) found that the reliability of the suppliers systems will affect the success of an organizations system. In addition, there is need for continuous communication between the organization and the suppliers as well as existence of explicit procedures to monitor supplier's performance (Kaliannan *et al.* (2009).

#### 4.2.6 Socio-Political Factors

The procurement process in any organization attracts vested interest and more so in government entities where political influence can determine award of tender. It was on this realization that the researcher sought to find out how the socio-political factors have influenced the procurement lead time. The results are presented in Table 4.6.

**Table 4.6: Socio-Political Factors**

<b>Variable comprising the Socio-Political Factor</b>	<b>Mean</b>	<b>Std. Deviation</b>
Vested interests	3.9964	.8561
Corruption / political interference	3.6581	.7159
<b>Overall social-political factor mean</b>	<b>3.8273</b>	

Source: Research data (2014)

From the findings in Table 4.6, it is evident that organizations experience pressure from the various interest groups (mean=3.996) who will wish the tenders to go a particular way and coupled with the corruption and political interference (mean=3.658) the process of managing the firms procurement lead times is affected. As a consequence of the threats of interference the government has developed legislation to guide the public procurement process. As Van Beurden and Gossling (2008) found out that the concept of procurement legislation was to bring sanity in the public procurement in state and public owned procurement entities where the process was riddled with corruption and mega kickbacks and subsequent loss of billions of shillings. Hence, the findings tend to contradict the views expressed by Van Beurden and Gossling (2008) as far as the level of corruptions is concerned since the vice might not have reduced to the desired level.

### 4.3 Factors Affecting Operational Performance

An effective means of improvement of organizations processes involves following a systematic process of planning, implementation and evaluation. In order to carry this out, standardized process operations are essential, various tools for improvement should be used, performance indicators must be obtained and information must be gathered through benchmarking and self-assessment. The researcher sought to establish the factors that affect operational performance in the state owned financial institutions and the findings is provided in Table 4.7.

**Table 4.7: Operational performance**

	Mean	Std. Deviation
Staff qualifications	3.8851	.9385
Strategy	3.7491	.7593
Strategy implementation	3.9482	.8137
Cost	3.5834	.9052
Procurement Lead times	3.7628	1.082
Environment	3.5196	.888
Organisation culture	3.5507	.7928
Staff training	3.9536	1.105
Staff motivation/reward system	4.2597	.8243
Socio economic situational factors	3.5146	.8661
Process automation	3.9275	1.181
<b>Overall operational performance mean</b>	<b>3.786</b>	

Source: Research data (2014)

From the findings in Table 4.7, staff motivation rewards system that is being employed in the organizations (mean=4.2597) was found to be a major factor that affects the operational performance of the state owned financial firms. In addition, the level of staff training (mean=3.9536) and staff qualification (mean= 3.8851) was found to be an important factor affecting the operational performance of the organizations. This means that the level of staff competence and motivational structures put in place by the firms will affect the level of operational success. There is need to train the staff on relevant competence skills that are required by the various department within the firm and continuous development programs be put in place to sharpening the staff capacity to deal with the day-to-day challenges. This finding supports the position made by DeLong and Fahey (2010) who noted that the organizational management should create the context for social interaction that determines how internal knowledge will be used in particular situations and shaping the processes by which new knowledge with its accompanying uncertainties is created, legitimated, and distributed in organizations. Organizational managers should favour knowledge sharing and knowledge integration encourages debate and dialogue in facilitating contributions from individuals at multiple levels of the organization. Generally therefore, it can be concluded that for the organization staff to perform their tasks, there is need for the organization to employ effective solution which at the same time will facilitate effective knowledge utilization within the firm. There is need for an effective management of the human resource base as the Resource based Theory (RBV) point, the competitiveness in a firms operations can be achieved in the those resources that cannot easily be replicated by competitors and the employees knowledge is one such resource.

Several organizational factors were also found to affect the operational performance. These factors included organizational culture (mean=3.5507), automation of the processes (mean= 3.9275) and the procurement lead times (mean= 3.7628) within the firm. Consequently, it is

imperative that the firms put in place an efficient system of automating its operations to reduce the cost of operations and also offer quality services and products.

#### 4.4 Factor Analysis

The first and second objective of the research was to find factors affecting the organizational lead time and operational performance respectively. Towards the determination of the same objectives, measurement scales were developed, tested and applied using factor analysis. The problem definition scale contained work related items that emanate from at the organizational level and individual employee level that contribute to the lead time management. The scale was tested for both construct loadings and reliability, and the scale and its subscale items proved to have high loadings ( $> 0.5$ ) and high reliability Cronbach's  $\alpha$  ( $> 0.7$ ).

The instrument constructs, corresponding items, their factor loadings, and construct reliability are presented in Table 4.8.

**Table 4. 8: Factors affecting organizational lead time**

Factor	Item	Cronbach's $\alpha$	Factor Loading
Financial Factors	Budgeting process	0.767	0.890
	Under budgeting the lead time		0.724
	Cash flow constraints		0.832
	Cost variation		0.724
Legal Factors	Public Procurement	0.754	0.813
	Institutional Factors		0.784
Management Factors	Top management support	0.795	0.792
	Procurement process		0.737
	Procurement staff		0.662
	Tender award process		0.716



Staff capacity	Supplier selection process	0.823	
	Management of stakeholders		0.727
	Staff training and development		0.804
	Competence in procurement		0.735
Socio-Political Factors	Political interference	0.715	0.632
	Vested interests		0.601

**Notes: Extraction method: principal components analysis; rotation method: varimax rotation with Kaiser Normalization.**

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**Source: Constructed from the Research Data**

From the findings in table 4.8, the items that affect the organizations lead time include financial, legal and management factors. In addition the staff capacity and the socio-political factors were equally found to have an impact on the firms capacity to effectively management its lead time. The highest factor loading was found to be the staff capacity of the firm to initiate process and complete the procurement process in the firm. The capacity of the staff is reflected on their competence in the supplier selection process, management of the stakeholders in the value chain, their training and development programs and understanding of the tender award process (factor loading 0.823). The lowest factor loading was registered on socio-political factors that include political interference in the tendering process and the management of the vested interest in the tendering process (factor loading 0.715). This low factor loading can be explained by the improved transparency in the public tendering process with the passing of the Public Procurement and Disposal Act as well as operationalization of the public procurement appeals board which has been found to intervene in cases where procurement laws are violated.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents a summary of the key findings of the study as well as the conclusions, limitations of the study, and recommendations for further research.

### **5.2 Summary of the Findings**

The research objective was to establish the factors affecting procurement lead-time and operational performance in state owned financial institutions in Kenya. The results show that there are various factors that affect successful management of the organizations lead time and operational performance. The factors that were found to affect the organizations lead time include the lack of adequate financial support to the procurement process, legal and top leadership influence as well as staff capacity and socio-political factors.

The results show that that inadequate financing to the procurement process was a common problem across the firms and the resultant under budgeting affected the lead time management of the firm. The result shows that with the parastatals being public entities, public procurement procedures followed has been an impediment to successful management of the procurement process but it was also found that with PPDA coming into place, efficiency of the process has come been realized. The findings also show that the procurement staff is not wholly involved in the budgeting process in order to take care of the interest of the department and this was due to the role of the procurement department not being recognized as one of the ingredient to improved performance of the firms. In addition the lack of adequate enforcement of ethical code of conduct by staff and other actors in the supply chain was found to delay the processing of tenders and the eventual delivery of the products or services.

The choice of the procurement method and a lack of supplier development were not found to be a major factor affecting the lead times of the firms. Consequently, there is need to develop a synergy between the organization and the other players in the procurement value chain to ensure that procurement and resultant lead time is minimized. Suppliers are an important stakeholder in the ensuring success of a procurement solution and they need to be involved in every step of the process especially system change and also encouraged to use the system and provide feedback for its improvement. The performance of the firms was found to be influenced by the level of staff competence and motivational structures put in place by the firms to ensure that the staff works towards the realization of the organizations' objectives. There is need to train the staff on relevant competence skills that are required by the various department within the firm and continuous development programs be put in place to sharpening the staff capacity to deal with the day-to-day challenges.

### **5.3 Conclusion**

An organizations aim of reducing lead time isn't about capacity. The amount of work that can get done is usually still the amount of work that can get done and consequently, what lead time does is to deliver the request sooner to whomever needs something done. For example if work is done in parallel instead of in series, there isn't less work, but it is completed sooner. From the findings it can be concluded that management of the lead time and operational performance requires leadership, drive and strategy and a management system to manage and monitor organisational improvement. The need to have appropriate support infrastructure as reported by the researchers is also a key factor. Fair competition is not always ensured due to the high level of discretionary power of procuring entities for the set-up of firms that have been shortlisted. Rules on how to choose successful firms during the tendering process is a crucial area that requires attention since it is prone to various forms of malpractice. This applies also to small purchase amounts as corrupt activities often start at a lower level,

building up close relationships with responsible officers and reaching eventually an established position marked by corrupt exchanges.

#### **5.4 Recommendation of the Study**

The research findings highlight the role of the management on the procurement process of an entity. This implies that senior management must consider their internal procurement processes, and their own role in championing efficient procurement in their organizations. There is need to increase the funding process of the organization towards the lead time management. The government has a role to play in ensuring successful enforcement of all procurement laws since the problem is not a lack of the laws but the circumventing of the laws by the parties for their own selfish gains.

#### **5.5 Limitation of the Study**

This study has several limitations that should be considered in the interpretation and implication of its findings. First, although the indicator of the lead time performance was multidimensional, a true effect of lead time on performance should be assessed by examining multiple measures of performance representing different stakeholders. Non-linear effects were not tested because the data span covered only a single period.

Further, there are several aspects beyond the scope of this research which reveal considerable scope for further research studies. First, it would be interesting to study the individual sector variables more deeply that relate to procurement legislation, and to keep an eye on the evolution of the internationalisation level of legislation. It would be useful to analyse organization from an expanded sample of entities with characteristics other than those investigated in this research. Future studies might also address other moderating variables related to these different performance settings.

## **5.6 Suggestions for Further Research**

In light of these limitations, future research is recommended to use mixed methods research in order to validate the results of this research, and apply a longitudinal study to better capture the relationships between procurement lead time and procurement performance. Conducting a replication study with random sample selection can enhance the methodological rigor of the study and increase the possibility of having a better and a supported external validity. Also, another possible source of data could be the customers whose opinions, along with those of executives, can give a better insight of the relationship. Furthermore, taking into consideration certain factors that may have a moderating role in these relationships, such as the country culture, could enrich the research results.

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# APPENDIX I

## Research Questionnaire

### Introduction

This questionnaire has been designed for academic use only, with the sole purpose of collecting data to determine the factors that affect procurement lead times in Public Financial Institutions.

Please note that the data you provide will be treated with utmost confidentiality.

Your responses are highly appreciated.

**Instructions:** Please mark a tick or fill in where appropriate.

### SECTION 1: General Information

1 **Organisation:**

2

\_\_\_\_\_

**Position in the organisation e.g. HOD/ manager/ officer?**

\_\_\_\_\_

3 **Role played in procurement:**

Tick against relevant role

a) User

b) Chair of Tender Committee

c) Member of Tender Committee

d) Member of procurement Committee

e) Chair of procurement Committee

f) Supply chain/ Procurement Manager

g) Supply chain officer

4 How long have you been with the organisation

 Years

5 How long have you been involved in procurement

 Years

6 Do you have specific training in Procurement?

Yes	No
-----	----

7 Have you been trained specifically on Public Procurement?

Yes	No
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**SECTION 2: Factors affecting lead times.**

This section deals with the factors that affect lead time in Public Financial Institutions.

Please respond based on your understanding and experience to what extent the factors affect lead times on a scale of 1-5.

Where;

- 1 - no effect
- 2 - to a small extent
- 3 - to a reasonable extent
- 4 - to a great extent
- 5 - to a very great extent

Please tick against your choice

		1	2	3	4	5
1	Public procurement procedures					
2	Lack of support from top management					
3	Corruption/ political interference					
4	Poor supplier selection					
5	Lack of supplier development					
6	Failure to carry out due diligence on supplier					
7	Poor management of stakeholders					
8	Lack of training of users on public procurement					
9	Lack of training for procurement staff					
10	Banking regulatory environment					
11	Level of education of procurement staff					
12	Understaffing					
13	Difficulty in getting committees to meet					
14	Lack of staff motivation					
15	Absence of an annual budget					
16	Exclusion of procurement staff in budget preparation process					
17	Lack of a budget for the procurement unit					
18	Under budgeting					
19	Cash flow constraints					
20	Budget variations/ reviews					
21	Lack of a consolidated annual procurement plan					

22	Lack of procurement plans for individual procurements					
23	Appeals by suppliers to the appeal board					
24	Position of the procurement staff in the organisation structure					
25	Use of a manual system					
26	Lack of ownership of process by users					
27	Vested interests					
28	Frequent referrals by the Tender Committee					
29	Delays in forming evaluation panels					
30	Poor presentation of documents					
31	Supplier interference					
32	Underestimation of lead times					
33	Poor specification by users					
34	Time taken to process requisitions					
35	Delays in evaluation of tenders					
36	Composition/expertise of members of evaluation Committee					
37	Delays in award of contract after tender approval.					
38	Contract management					
39	Delays by supplier to deliver					
40	Delays due to poor logistics					
41	Cancellation of tenders					
42	Protracted contract negotiations					
43	Scope variations					
44	Cost variation					
45	Tender time extensions					
46	Change of specification after tender					
47	Choice of procurement method					
48	Institutionalisation of preference tendering					
49	Project/service complexity					

**SECTION 3: Factors affecting Operational Performance**

This section deals with factors affecting Operational Performance.

Please respond based on your understanding and experience to what extent the factors affect Operational Performance on a scale of 1-5.

Where;

- 1 - no effect
- 2 - to a small extent
- 3 - to a reasonable extent
- 4 - to a great extent
- 5 - to a very great extent

Please tick against your choice

		1	2	3	4	5
1	Staff qualifications					
2	Strategy					
3	Strategy implementation					
4	Cost					
5	Procurement Lead times					
6	Environment					
7	Organisation culture					
8	Staff training					
9	Staff motivation/reward system					
10	socio economic situational factors					
11	Process automation					

**SECTION 4: Other factors affecting lead times and operational performance.**

State other factors affecting lead times and operational performance.

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