IMPACT OF ELECTRONIC PROCUREMENT ON THE OPERATIONS OF KENYA COMMERCIAL BANK

BY,

WYCLIFFE NYAMBANE MOSE

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OCTOBER, 2012
DECLARATION

I declare this research project as my original work and has not been presented for any academic award in this or any other University.

Sign………………………… Date…………………………

Name Wycliffe Nyambane Mose
D61/62909/2010

Supervisors

This project has been submitted for examination with my approval as the University supervisor

Sign………………………… Date…………………………

Name: Mr Ombati O. Thomas
Lecturer department of Management Science

Sign………………………… Date…………………………

Name: Mr Joel Lelei
Lecturer department of Management Science
DEDICATION

For my late father Robinson Ayatta Mose Maari, whose parental guidance and advice I cherish.

For my family and friends who supported me towards completion of this project. Thank you and May God bless you.
ACKNOWLEDGEMENT

My special gratitude goes to my supervisors Mr. Ombati Thomas and Mr. Lelei Joel who tirelessly through their effort and initiatives guided me through the whole process. I would also like to acknowledge my brother Dennis Maari Mose, my friend Mr. Joash N. Mageto, my colleagues and friends who played a big role in assisting me complete my study.

Above all, thanks to my God because of His unwavering provision, love and protection in all moment of lack and despair, fear and discouragement.
LIST OF ABBREVIATIONS AND ACRONYMS

**E:** Electronic

**B2B:** Business to Business

**EDI:** Electronic data interchange

**MRO:** Maintenance research and Operation

**ERP:** Enterprise Resource Planning

**JIT:** Just In Time

**SMS:** Short Messaging Service
ABSTRACT

The emergence of new technologies and changing of consumer needs have resulted to changes in organizational business practices. For companies to be more efficient and effective, e-procurement is one of the concepts that have been adopted by good performing organizations in the global market. The research objectives of this study were; to determine the extent of e-procurement adoption in Kenya Commercial Bank and to establish the impact of e-procurement in the operations of Kenya Commercial Bank. The target population for this study was KCB employees who were working in the procurement department and other staff from the retail branches. This study utilized an interview guide as the data collection tool. The collected data was critically analyzed using content analysis based on the facts that were presented by the respondents.

The study established that, though KCB is in the initial stages of e-procurement adoption its impacts are clearly visible in terms of reduction of lead times and simplification of the procurement process. It was also established that some employees tried to resist adoption of the e-procurement concept since they feared for their jobs. Therefore, this study recommends that KCB should formulate policies to enable all employees recruited to work in the procurement department are trained on the e-procurement concept, top level management should cultivate innovative culture among employees through providing opportunities to employees to develop and employ new ideas, training should be provided to both key stakeholders involved in the supply chain and KCB should benchmark its e-procurement practices with good performing financial institutions in the global market in order to identify gaps and formulate policies to minimize or control online fraud.
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The growth in information and communication technology and the internet has led to an increase in the number of companies’ involvement in electronic commerce. This growth in use of electronic commerce has been significant in adoption of new supply chain-related technology and applications by organizations globally. The procurement function has mainly been affected by this trend with a predicted growth in e-procurement applications covering both transactional buying and strategic sourcing activities (Croom, 2000).

Chaffey et al, (2002) argue that organizations have increasingly realized that they must rely on effective and efficient supply chains to successfully compete in the global market and networked economy. This has been done by businesses trying to leave traditional practices in supply chain management by seeking to organize the entire supply chain process. Companies are gradually moving their procurement functions such as sourcing, negotiating with suppliers, and coordination with research and development (R&D) onto the Internet. E-procurement results in greater control and flexibility along with cost savings in the procurement operations and provides suppliers with the ability to become more proactive in the way they do business (Fred et al, 2000).

Chaffey et al, (2002) asserts that the use of e-commerce in the world by companies has since become widespread and beneficial. With the developments in business to business e-commerce, many businesses are increasingly adopting web based e-procurement capabilities to achieve volume purchase, a wider choice of buyers and suppliers, lower costs, better quality, improved delivery, and reduced paperwork and administrative costs. Procurement is
the primary point of contact with most supply-chain partners.

E-procurement in the financial sector is concerned with achieving value for money in the way it procures goods and services (Fred et al, 2000). The competition of today’s global marketplace is driving companies to reshape their supply-chain to reduce overall cost and eliminate inefficiencies. Many businesses over the past few years have increasingly adopted the Internet as an important tool for communication, research and a medium of business (Chaffey et al, 2002).

Information technology and the Internet in particular, are causing fundamental changes in the economics of service industries as new network based global e-commerce business models emerge and begin to dominate (Tavi et al, 2008). The World Wide Web empowers customers and provides them with the information and the medium to convert intentions into purchases. It also raises customers' expectations about speed, comparability and price. Service firms that are willing and able to rethink their business model, at a minimum taking into account how information technology changes the business environment, will get to the future first (Pavlou et al, 2002).

The benefits of e-procurement as described by Kalakota et al, (2001) fall into two major categories; effectiveness and efficiency. Effectiveness benefits include increased control over the supply chain, proactive management of key procurement data, and high quality purchasing decisions within organizations. Efficiency benefits include lower procurement costs, reduced lead time, reduced maverick or unauthorized buying, more highly organized information, and tighter integration of the procurement function with key back office systems (Brook, 2002).
Other benefits as identified by Chaffey et al, (2002), include reduced purchasing cycle time and cost, price transparency and improved budgetary control, elimination of administrative errors, improved information sharing and improved payment process. Without question, e-procurement is one of the most exciting developments in supply chain management in recent years. No longer are buyers responsible for non-value adding activities and paper work processing (Pavlou et al, 2002).

The internal end user of an item or service, whether for a direct or indirect requirement, is now empowered to place orders through the internet directly to the supplier (Brook, 2002). Increasing numbers of firms use E-procurement in an attempt to enhance these key business outcomes. This comes as no surprise; given that one of the key competitive priorities for the 21st century is the maximization of Internet-based technologies such as E-procurement (Christiaanse et al, 2001).

1.1.1 The concept of E-procurement

Many steps have been taken historically to improve Supply chain management as a whole. The introduction of Material resource planning (MRP), Enterprise resource planning (ERP) and Just in Time (JIT), are some of the improvements that were geared towards enhancing efficiency and effectiveness in the supply chain management in organizations. The development of the information technology and the internet, enabled automation of the procurement process, leading to the development of supply chain bent on technology, which is electronic procurement, generically referred to as e-procurement. Electronic procurement has been defined as the act of placing an order over the web (Tavi et al, 2008).
During the transition to an E-procurement system, non-value-adding activities such as manual approval processes and invoice matching via phone/mail/fax are replaced with online approval, EDI for purchase orders and other technical enhancements. The new process is more streamlined, buyers have more time to focus on strategic rather than transactional functions and manual payable and receivables are handled electronically (Yen and Ng, 2003), as denoted in Figure below.

Source: Author 2012
1.1.2 Overview of e-procurement in Kenya Commercial Bank

Kenya Commercial Bank Limited (KCB) is the biggest bank in Kenya in terms of assets which stands at 311 billion (KCB financial report, 2012), and has an enviable customer base which stands at about 24 percent of the bankable population. The bank has a rich history of over a decade, which has seen it undergo tremendous growth to its current status of a regional bank with subsidiaries in six other African countries namely; Sudan, Uganda, Rwanda, Tanzania and Rwanda. KCB dates back to 1896 when its predecessors, the national Bank of India opened an outlet in Mombasa (KCB financial report, 2012).

Adoption of a versatile core banking system called Temenos T24, and also adoption of e-procurement starting with an oracle based procurement software to connect its branches within Kenya, has contributed to a complete change in the operations of the bank based on accountability and customer satisfaction in relation to procurement practices (KCB financial report, 2012). The bank, being in the service industry, its main procurement costs originates from the purchase of non-production goods and services such as office supplies, printing, advertising, and maintenance and repair supplies in addition to electronics. These are relevant costs, which if well managed, they can be reduced, and this will play a major part in assisting the bank minimize its costs while increasing its profit margin through e-procurement (www.kcbbankgroup.com).

KCB bank’s ability to push adoption of e-procurement by every link of its supply chain helps in generating further costs savings associated with procuring across the whole supply chain. Its familiarity with the benefits of EDI with its suppliers and customers, and its documents, placement in the supply chain would be one of the early adopters of e-procurement within the Kenyan banking industry. Kenya Commercial Bank has many retail units which are run semi-
autonomously and the e-procurement activities are managed by designated departments or employees (www.kcbbankgroup.com).

Procurement in the Branch retail units is managed by the Administration and Accounts department, which procure goods and services to its mandate in collaboration with central function. (KCB financial report, 2012). The procurement structure adopted by KCB can be termed as Consultative, since procurement of both strategic and operational nature are carried out within the business or operating division, but taking guidance and advice from centralized procurement function. The overall control of procurement strategy and policy, systems and standards rests with the central procurement function (Lyson K. & Farrington B., 2006).

The procurement department acts as a focal point for KCB ltd on procurement issues. It promotes inter-branch cooperation and coordination through research and development activities related to procurement. All the KCB ltd branches are clients to the main procurement department that is headed by a procurement director, and it also supports the business community with information on KCB ltd business opportunities (www.kcbbankgroup.com). Puschmann and et al (2005) observes that E-procurement brings about important simplifications of the MRO procurement process and reduces this operational workload for buyers by decentralizing the operational procurement process and reducing the authorization stages for procurement process to be faster and more convenient.

The adoption of e-procurement in Kenya commercial was influenced by a myriad of factors, besides that of integrating the buyer in the procurement system within the organization in the bid to procure the right products, at the right price from the right supplier in addition to
accountability in the bank expenditure. The potentials of e-procurement have already been proven in a number of studies (Aberdeen, 2001). According to these studies, e-procurement enables companies to decentralize operational procurement processes and centralize strategic procurement processes as a result of the higher supply chain transparency provided by e-procurement systems (Puschmann & Alt, 2005).

1.2 Statement of the problem

Major changes are currently taking place globally within the procurement functions of informal and formal business entities. The role of procurement has changed considerably due to advances in information technologies and information systems. Significant gaps currently exist in our understanding of the role of procurement in our organizations today (Brook, 2002).

As organizations become increasingly involved in cost reduction projects, the impact of procurement has become evident. The procurement function is shifting its focus from daily procurement activities to long term, value adding procurement initiatives. At the same time procurement is responding to the challenges and opportunities of electronic procurement (E-procurement), which refers to the utilization of the internet to buy and sell products and services (Thomson et al, 2001).

Presently, the banking sector in Kenya has become more sophisticated and the focus had turned to the business process management and the quality of service offered to the customers (Okutoyi, 1988). Hence the banks are embracing technological innovations in form of e-commerce, thus embracing on e-operations. E-operations and commerce were seen more than ever as a key differentiator in the marketplace (Rayport & Jaworski, 2002)
Many organizations have not yet realized the importance of adopting e-procurement in their supply chain structures and as a result there is no clear understanding of the demand patterns, service level requirements, cost elements and other related factors. Some organizations are using traditional methods of managing their supply chain then performance can be achieved not bearing in mind that methods of managing the supply chain changes as time goes by. Most organizations have not yet learnt why it is supremely important to continuously bring ways of enhancing efficiency in managing the supply chain (Christiaanse et al, 2001).

A number of related studies that have been carried out on electronic procurement clearly indicate that electronic procurement is the only key factor on modern competitive companies in terms of efficiency and effectiveness. A study carried out by Otieno, (2006) on internet banking technology adoption among Kenyan Commercial Banks concluded that internet banking is embryonic in Kenyan banks. Another study carried out by Ochieng,(1998) on the analysis of factors considered important in the successful implementation of information systems, a case study of commercial banks in Kenya; e-procurement was found to be the key factor on bank business process management.

However, irrespective of the level of bank operational activities retained within the organization, the adoption of e-procurement seems to be an understudied area in the banking industry in Kenya. Although a number of researches had been done on the business process implications of adopting electronic procurement, none had focused on the impact of electronic procurement in the banking industry and more so in Kenya Commercial bank operations. Based on the findings of the above studies, this study seeks to answer the following research question; what are the impacts of electronic procurement to Kenya Commercial Bank operations?
1.3 Research Objectives were;

   a) To determine the extent of e-procurement adoption in Kenya Commercial Bank.

   b) To establish the impact of e-procurement in the operations of Kenya Commercial Bank.

1.4 Value of the Study

The study will be beneficial to Kenya commercial bank, the government, investors, and scholars. The result will contribute to new knowledge in e-procurement system implementation in the financial industry.

Kenya Commercial Bank: This study will be helpful to the financial institution as far as the adoption of E-procurement systems is concerned, and also in coping with problems of implementation and institutionalization of the E-procurement systems. The financial institutions will be in a position to formulate effective electronic procurement policies so as to gain a competitive edge in the market.

The Government: The Government will find the information useful in diagnosing the problems affecting the financial sector and come up with policies that will support electronic procurement adoption.

Investors: Investors in the financial sector will use the information from this study to make critical decisions regarding electronic procurement for cost minimization and profit maximization.

Scholars: Scholars in the field of operations and procurement will use the information to understand the state of the sector better. They will also use the information as a reference point to research on the strategy formulation and innovations in other industries.
CHAPTER TWO: LITERATURE REVIEW

2.1 Overview of E-Procurement

In today’s world, business environment are currently undergoing continuous change in their operations more suddenly and frequent than before. The development of information and communication technologies and internet has resulted to organizational efficiency and effectiveness in their day to day operational practices. Organizations are now focusing on adopting e-procurement practices to minimize costs and maximize profits to gain competitive edge in the marketplace against their competitors (Schneider, 2001).

E-procurement refers to the purchase of goods and services for organizations through the internet (Cullen, 2007). The introduction of e-procurement by a firm for integrated supply chain management could lead to better efficiency and effectiveness as compared to existing supply chain systems. The e-procurement systems if used properly can lead to higher quality products, enhanced productivity, and reduced space in the warehouse and ultimately increase logistics efficiency and flexibility (Chan et al, 2007). All E-procurement applications aim to improve the efficiency of procuring personnel, automating the approval cycle, enabling negotiation of better contract pricing, leveraging existing contracts more effectively and reducing off-contract purchases (Schneider, 2001).

Fred et al, (2003) identifies forms of e-procurement for automating different steps in procurement process. E-sourcing, e-tendering, e-reverse auctioning, e-contract management, e-ordering, and web-oriented ERP are the identified forms of e-procurement. Organizations and firms began to use internet as a new way of doing business and this triggered the rise of
electronic commerce (e-commerce). According to Tavi et al, (2008) e-commerce is trading by means of new communication technology (e.g. internet). It includes all aspects of trading, including commercial market making, ordering, supply chain management, and the transfer of money.

Business efficiency, increased automation of processes, retained and expanded customer base, and reduced information costs are some of the major benefits of e-commerce (Rayport et al, 2002). Through the rise of e-commerce, various products and services are available online and organizations are able to procure their needed products and services online. This initiative was the start of new era for electronic procurement (Thatcher et al, 2002).

By automating processes and workflows associated with purchasing, the firm expects to increase the productivity of its purchasing agents, lower purchase prices of different types of goods and services, streamline the information flow, business processes, and workflows involved in purchasing, eliminate maverick buying (i.e., buying from unauthorized vendors), reduce order fulfillment and processing times, reduce the number of suppliers the firm is dealing with, streamline invoice reconciliation and dispute resolution, reduce the administrative processing cost per purchase order, integrate budgetary controls into the procurement process, minimize human errors in the buying and shipping processes, and monitoring and regulating buying behavior (Turban et al, 2005).

2.2 Types of E-Procurement

Kaplan et al, (2000) argued that there are several varieties of e-Procurement, each of which can offer benefit to companies and enterprises in ensuring that materials are delivered in time to meet production schedules and that they are procured at the best price to maximize profit margins. In addition he identified various varieties of e-procurement that included; Enterprise
Resource Planning (ERP) software packages like SAP AG, Oracle and the Sage Group are designed to optimize the resource planning of an enterprise. In terms of the manufacturing process they can generate recommended purchasing schedules in order to achieve an ideal just-in-time (JIT) production cycle. One of the many features of ERP software is its ability to automatically generate purchase orders using the Bill of Materials for the finished product as a basis (Michael et al, 2000). The ERP systems can also forward the automatically generating purchase orders to the supplier (Yen and Ng, 2003). Based on the ideal manufacturing process laid out by the ERP software, these orders ensure that materials will be available to begin production at the ideal time. In addition to generating new purchase orders, ERP software can also issue reschedule notices to suppliers, these notices are supplementary orders that can cancel, delay, speed up or alter the size of pending orders (David 2002).

E-ordering has been identified as another form of e-procurement whereby requisitions are generated from the end users and authorized electronically by relevant personnel before automatically generated purchase orders are sent to suppliers. These systems are normally used in service industries to procure MRO supplies. An Oracle based e-ordering system known as iprocurement has been identified as one of the effective e-ordering system. This system has enhanced procurement efficiencies by streamlining employee ordering, eliminating error-prone paper processes with self-service ordering, while improving productivity and control. It has enforced purchasing policy through enforced policies with unprecedented control and governance support and also in reducing procurement costs by cutting transaction overhead, controlling maverick spending, and realizing the full value of the preferred supplier agreement (David et al, 2002).

E-sourcing is another form of e-procurement that uses Internet for identification of new
suppliers for a category of purchasing requirements. Enterprises can use E-sourcing systems to manage their procurement processes online, in order to reach a larger number of suppliers (Christiaanse et al, 2001). Competitive benefits of E-sourcing include; suppliers bidding for projects through reverse auctioning along with various details of the service they promise to provide, and purchasers can pick and choose from the offers (David et al, 2002). While reverse auctions can be performed through traditional channels, many enterprises prefer using the Internet as they can connect with a wider range of service providers than would be practical in the real world.

Finally, e-Procurement can be used for the simple job of exchanging purchasing information between buyers and suppliers through e-informing. Using Internet technologies such as e-mail, the process of accumulating a database of supplier information can be made much simpler than by using traditional contact methods (Kalakota et al, 2001).

### 2.3 Value of E-procurement in the banking industry

The impact of E-procurement systems includes economic efficiency as well as improved procurement capacity of organizations. In the developing countries and mid-income countries like Kenya, the electronic transaction reduces the possibility of corruption that usually occurs with face-to-face transactions (Atkinson, 2000). Consequently, the introduction and utilization of integrated e-procurement systems creates an Internet-enabled supply-chain, establishing business-business relationships and electronic procurement systems for managing the supply chain and would not only reduce costs and lead times, but also will eventually enhance the company’s competitiveness and position it for further growth (David et al, 2002).

Some systems that are in use by companies are making it difficult and impossible to connect
each supply chain function in the system, which leads to lowering of effectiveness and efficiency of the supply chain system (Carter, 2005). Therefore, from the perspective of integrated supply chain management, it is necessary to establish a total supply chain system with an integrated process capable of supporting each function of the supply chain (Kalakota et al, 2001).

Rayport et al. (2002) argued that e-procurement involves B2B e-commerce application with Web-based functions that allow employees of a buying organization to purchase goods and services and allow suppliers to manage and communicate the fulfillment of the purchase orders submitted. It includes catalogue management, requisition, control and approval, receiving and exception processing, and financials and payment processing.

Many organizations’ supply chains have turned to E-procurement systems to control, simplify, and automate the purchase of goods and services from multiple suppliers. These products let companies’ aggregate suppliers’ offerings into a single catalog, manage approval processing, and control the transaction process (Thomson et al, 2001). Businesses today are extending E-procurement beyond controlling the purchase of office supplies and goods for maintenance and repair to reap its benefits in the direct-goods arena (Brook et al., 2002). Technologies available today in e-procurement can make these transactions and their associated information flows relatively instantaneous. E-procurement and computer based systems free supply professionals from a vast amount of routine, non-value-added work. E-procurement enables supply managers to receive real-time data for use in making cost-effective, supply-related decisions (Kalakota et al, 2001).

The Internet’s speed allows a computer system to process virtually instantaneous reports
which otherwise might take weeks to prepare and update. The timeliness of such reports, enables supply chain professionals to manage by exception and do a more effective and profitable job of managing the flow of materials throughout the internal operations and the supply chain. Despite all of the transactional benefits listed above, the systems are still dependent upon a solid supply management practices to ensure that the information in the system is accurate (Turban et al, 2002). E-procurement can be an invaluable tool for enterprises experiencing difficulties in their supply chain. If purchase orders are not being processed in a timely fashion and delivery dates are not being met through manual purchasing methods, e-Procurement can be extremely useful in streamlining the procurement process (Kaplan et al, 2000)

2.4 Enablers of e-procurement

E-procurement enablers are factors that facilitate and supplement the effectiveness and efficiency of the supply chain management of an enterprise (Turban et al, 2002). The main organizational factors that appear to impact on the likelihood of adoption of e-procurement are size and type of operation. E-procurement is more evident in bigger organizations than in smaller ones. (Thomson et al, 2001).

To attain the greatest benefits, procurement processes should be evaluated and improved before adopting e-procurement tools (Chan et al, 2007). Internet technologies enable integration with trading partners to amplify the need for fundamental organizational change (Chan et al, 2007). E-procurement is more likely to be beneficial in dispersed supply chains as it facilitates its coordination (Chaffey, 2002). Different actors in supply chains have got different power, legitimacy and urgency to implement e-procurement; and e-procurement can have an effect on trust in supply chain relationships (Chan et al, 2007).

The strategic use of e-business has been considered in several studies, and how e-business
strategy aligns with the overarching business strategy of a firm. The internet will only become a powerful source of competitive advantage if it is integrated in firms’ overall strategies (Chaffey et al, 2002). To fully gain from the benefits of e-procurement, suppliers need to have as many of their customers as possible using their electronic ordering systems. The continuous drive towards organizational efficiency and lowering the cost to conduct business is also driving the adoption of e-procurement (Thomson et al, 2001).

2.5 E–procurement Drivers

According to Williams et al., (2006), e-procurement drivers involve factors that enhance the effective operationalization of information and communication technology practices in business, that enhance efficiency and effectiveness in organizational procurement operations. Organizations recognize the complementary nature of technology in business processes. Customer, suppliers, management, competitors and the government are the key e-procurement drivers in an effective supply chain management. The response to customers request must be offered as quickly as possible (Schneider et al, 2001). Buyers and suppliers must be able to submit, customize, modify and track orders; to pay online; and to receive automatic notifications about the status of orders. IT applications must be aligned with the rest of the e-business model within a company, that is, customization has to be integrated into the entire supply chain (Michael, 2000).

The processes needed to fully develop mutually beneficial relationships with suppliers are myriad, such as the importance of developing the right supplier-selection criteria and of establishing metrics to evaluate partners (Rayport et al, 2002). There are financial costs as well as time needed for researching on the Internet and maintaining the site. While a basic site can be cheap, finding business through e-mail and the internet will require knowledge of one or more international languages. The internet is not only a place for vigilance against
scams, but the distance and low level of contact may make it harder to keep ethical procurement standards on child labour, the arms trade or the environment (Atkinson, 2000).

2.6 Impact of E-procurement on Organizational performance

Efficiency measures the usage of resources during a process in bank operations. E-procurement impacts this dimension allowing the employees to achieve (at least) the same result of traditional “paper-based” procedure, but using less time, and energy (Chan et al, 2007). Effectiveness it involves comparing goals and results of the bank operations. Furthermore, minimizing disputes, appeals and clarification requests from the suppliers is very important, as they are sure signals of a mismatch between goals and quality of results. A benefit to these themes is also expected to originate from e-procurement (Atkinson, 2000).

Dematerialization involves using e-procurement in the bank operations as an operation standard could trigger a dramatic turnaround in paper consumption, given a favourable normative framework. This is supposed to happen for different reasons like: the substitutive documents retention in e-procurement platforms; the value of digital signatures, which have the same value as the autograph; the use of email instead of fax; the reduced or eliminated need to print hard copies; thus, dematerialization (Atkinson, 2000).

Administrative transparency e-procurement could improve transparency, intellectual and informative effects in the general bank operations. As an example, tender documentation and outcomes of the procedures (winning suppliers, rankings, and final offers) are automatically posted online and available to all (Chan et al, 2007). Competitiveness is an analysis dimension that generally seems more suitable to private companies than Public Boards. Many studies conducted have concluded that e-procurement adoption in bank operations brings with it competitive edge for the company in question thus customer satisfaction (Chopra et al,
Governance is the process of opening the organization boundaries and spreading the decision making power. It represents a rather new technique to take care of the public and stakeholders’ interest, through coordination and involvement of every relevant stakeholder (Cullen et al, 2007).

2.7 Impact of e-procurement in the banking industry

According to the Business Dictionary (2010), the word impact is defined as the measure of the tangible and intangible effects or consequences of one entity’s action or influence upon another. Automating e-procurement drastically reduces the effort of human resources in bank operations by sending of the invitations to the suppliers and publishing of the tendering procedure, it also involves usage of e-auctions, it enhances final and intermediate report production, archiving of the documents received thus anomalous offers evaluation (Thatcher, 2002).

Informative involves quality and availability of information; tender documents are available from more sources, tendering procedure documentation is more accurate, as the employees can spend more time in its preparation and documents produced by every user of the platform are shared and available for consultation (Thatcher, 2002). Standardizing, expediting and innovating: refers to the tendering procedure that is clearly divided in phases, with no possibility of overlap. Automation liberates time to be used in other activities that generate a higher value, creation of standardized tendering procedure using the platform and using of new IT instruments (i.e. digital signature, certified email, e-invoicing) (Ochieng, 1998).

Better organization and archiving of the offers: offers, documents and answers to eligibility requirements, are automatically organized by the platform, in the same way for each supplier. Thus, it’s faster and easier to compare the offers and access them in every phase of the
process. There is no risk of losing documents or confusing them with those presented by other suppliers, or even regarding a different tendering procedure. Every event or activity regarding a procedure is tracked and is available to every stakeholder at anytime (Ochieng, 1998).

Administrative simplification: standardization of phases and activities allows employees to master the dynamics of a tendering procedure and every registered user can access to a tendering procedure and check its status online. Better communication: Easier collaboration and knowledge sharing with other Public Boards (exchange of documents, messages and contact lists), more effective managing of bundled tendering procedures, like framework contracts, possibility of working from remote locations and managers can coordinate many tendering procedures more effectively (Ochieng, 1998). Univocal attribution of responsibilities: The attribution of specific roles and delegations on the platform permit every employee to carry out only the activities within his competence (Ochieng, 1998).

Increased transparency: information about current tendering procedures and their rules, information about the volume of public expenditure, information about the markets (which supplier for which commodities and where) Streamlining, reduction of bureaucratic procedures: The tendering procedure is linear, clearly divided in phases, reduction of procedural burdening, reduced error-risk (Ochieng, 1998).
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

Kothari (2004) defines a research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The researcher employed a case study research design. The design was necessary because it brought out clearly an in-depth understanding of complex issues or objects and extended experience and new knowledge to what had already been known in previous research.

Case study emphasized detailed contextual analysis of a limited number of events or conditions and their relationships; they also emphasized the contextual analysis by limiting the research to a single firm and hence allowed for in-depth probing into the subject matter. The descriptive research process helped in collecting data in order to answer questions concerning the current status of the subjects under investigation. In the study, the design was used to answer question pertaining electronic procurement in Kenya Commercial Bank Limited.

3.2 Selection of the firm

Kenya Commercial Bank was selected as a representative of Kenyan based banks, on the basis of its long and rich history in the financial industry in Kenya. The bank is a major part of a large supply chain. The scope of this supply chain and the role of KCB was reflected in its annual procurement budget of KES 11 billion (KCB annual Report, 2012). Respondents for this study were employees of Kenya commercial bank, specifically the top level managers, middle level managers and other bank employees who used e-procurement in their day to day operations.
3.3 Data collection

This study utilized both primary and secondary data, the primary data was collected from the respondents by use of interview guide as the main instruments of data collection (See appendix ii). Interviewing was considered an appropriate method of qualitative research because of its ability to generate honest opinion and genuine conversation between interviewer and the interviewees. Secondary data was gathered from library material, bank journals and reports, media publications and various Internet search engines covering the business process management implications of e-procurement to Kenya Commercial Bank. Permission to access office circulars, strategic plans, files and manuals and other relevant documents were initiated through the Head of Procurement to other Business Branch Heads.

The respondents included staff from the head office where the group procurement department was based and others from the Retail Units. The respondents were chosen based on their exposure and experience in the organization with regard to procurement developments in Kenya commercial bank.

<table>
<thead>
<tr>
<th></th>
<th>Procurement Dept.</th>
<th>Retail Units.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The senior managers</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Middle level managers</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Clerks</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>12</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

3.4 Data analysis

Familia et al. 2003 defined data analysis as a process of data collection and analysis of qualitative data that involves three concrete sub-process of data reduction, data display
drawing and unifying conclusions. In the descriptive study, data collected was qualitative hence the main method that was used to analyze data was content analysis. Kombo and Trump (2006) argue that content analysis examines the intensity with which certain themes have been used and systematically describes the form or content of written or spoken material.

Content analysis helped to capture the in-depth opinions of the respondents’ thus accurate decision making of the problem under investigation. By breaking the content of the material into a meaningful and pertinent unit of information certain characteristics of the massage were analyzed and interpreted. The researcher examined both the positive and negative themes that were used during the interview process to draw a reconstruction and conclusion concerning the impacts of electronic procurement on the operations of KCB. The analyzed data was presented qualitatively based on the interviewer’s in-depth analysis and measurement of their arguments, opinions, and ideas with regard to e-procurement practices were concerned in the financial industry. The researcher critically analyzed and measured every response qualitatively based on attitudes and opinions of respondents.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The study focused on the impact of e-procurement on Kenya Commercial Bank operations. The study was executed through personal administration of the interview guide by the researcher. The interviewees comprised of the bank employees working at the procurement department both at the central procurement department and in other bank units. This chapter presents content text analysis extracts as derived from factual statements of the respondents as captured during the interview, it also outlines and presents demographic aspects of the respondents, e-procurement practices, findings and discussions. Out of the eighteen respondents earmarked for the interviews, only fifteen respondents were successfully interviewed, giving us a response rate of over 80%.

4.2 Respondents Profile

From the research findings it was established that the interviewees’ ages ranged between 26 to 55 years, with the majority of the respondents aged between 26-45 years old. This meant that majority of the respondents were young, computer savvy and dynamic, in terms of embracing new technologies. The researcher aimed at establishing the highest education level of the respondents. It was established that majority of the respondents were University degree holders and most of them had enrolled for master degrees due to the opportunities provided by KCB Ltd in terms of education loan facilities to develop employees’ skills and knowledge for better performance.

The respondents levels of education, when coupled with their work experience, that was established to average 6 years, while other employees, though having less than three years of work experience with KCB, they were working with other organizations before joining KCB. All these finding revealed that the researcher’s interview enjoyed the benefits of
knowledgeable and competent respondents.

4.3 E-procurement practices

Interviewees confirmed that they had been using e-procurement system in executing procurement processes, more so in requisition of supplies. The respondents intimated that adoption of e-procurement had attracted resistance from all levels of management, due to bureaucratic administrative systems that did not give employees equal opportunities during decision making. Some respondents clearly argued that employees from the retail units were ready to embrace the new technology since they were viewing it as a potential opportunity of reducing their work load, hence minimal stress at the work place.

After interviewing the respondents, Most of them were of the opinion that the bank’s management must play a major role to institutionalize e-procurement practices through; Provision of better information systems that are compatible with the e-procurement system in the market, Proper staffing of competent and well-trained employees in the procurement department, formulation of better policies to safeguard employees while executing their duties from the likely risks, benchmarking KCB procurement practices against the global e-procurement best practices.

The extent of e-procurement application with regard to the bank operations was established to involve ordering of supplies electronically using an e-ordering system called iprocurement. These supplies are required in large quantities and their value is normally low, they include; stationeries, internal vouchers, pens, staple pins, rubber bands, printing papers, files, cartridges. Advertising banners, t-shirts during Corporate Social responsibility events, to mention but a few. Groceries, Florescent tubes to mention but a few. These MRO items were required in large quantities. The prequalified suppliers were part of the system to ease the process of requisition for the supplies. The requisition for supplies was raised from the bank
departments and retail branches then authorized by the relevant bank officials. The electronic requisition was then authorized by the service quality and compliance managers upon justification of the need for the supplies and availability of funds. Once the requisition was authorized at the central procurement department, a purchase order was automatically sent to the supplier, as the hard copy of the local purchase order was being prepared for signing before suppliers collect them.

Most of the respondents who were interviewed clearly suggested that e-procurement practices with regard to bank operations had contributed to; reduced procurement turn-around time particularly in the requisition process, through reduction of the number of approvals, increased accountability among employees, increased visibility in the procurement process, increased access to information on the procurement processes, increased value of the procurement processes by consolidating the banks purchasing power to ensure good service, guaranteed full value for every shilling spent and reduced costs of supplies.

Interviewees from the central procurement department argued that the bank had realized a tremendous growth in cost savings through strategic purchasing that was conducted by the strategic buyers at the central procurement department. This helped the bank to reduce its cost of buying supplies substantially and it certainly increased the banks profits through reduction of its costs. Although respondents from the retail branches were neutral on the issue, they argued that the e-procurement system simplified the whole procurement process, hence contributed towards improved performance of the bank.

The researcher established that the capital expense goods like generators, motor vehicles, internet servers, computers, televisions, printing machines to mention but a few were procured through a different procedure, due to the bank policies of authorization and budgeting for these good.
Most of the respondents suggested that the Iprocurement system decentralized purchasing of MRO so that the procurement officers at the procurement department concentrated on strategic issues like cost management, supplier management and contract negotiation, which plays a major role in reduction of the cost of supplies. Adoption of e-sourcing system has been a topic under discussion for over six years, when the bank first drafted the procurement policies, although it has not been fully adopted. This was due to several challenges including, lack of proper policies by the government to facilitate e-procurement, lack of relevant technologies from the suppliers side and also on the side of the bank etc.

Some of the challenges suggested by KCB employees with regard to the use of e-procurement practices included; system interference with the order of authorizers, for instance the imputers were not able to perform their duties that led to delayed requisition, Supplier slow response and absence of approvers posed a challenge to employees in trying to reduce the lead time. Lack of the requested item in the search function of the iprocurement software also resulted to increased turnaround time and customer dissatisfaction.

A number of the respondents interviewed indicated that the e-procurement practices had led to streamlined bank’s procurement processes through; improved supplier relations management hence effective supplier services, increased information flow and strategic supplier partnerships that had resulted to improved efficiency and effectiveness of the entire organization. Respondents indicated that the reduction of authorizers simplified the procurement processes.

The researcher wanted to establish whether the bank employees could connect the positive impacts of the e-procurement to the services offered to the customers. Majority of the respondents’ opinion was that, the e-procurement contribution towards satisfying the customers need through easing the process of procuring the necessary supplies that were used
to serve the customer’s needs was effective. The researcher established that the use of supplier partnership coupled with the use of alternative sourcing other than competitive bidding created long term partnership. Suppliers contract was defined for a minimum of 2 yrs and was renewable based on the performance and cost. There was free sharing of information on the procurement process, from supplier selection and contract awarding to price negotiation and decision making. From the respondents’ point of view with regard to e-procurement and customer satisfaction, most of the respondents interviewed indicated that, e-procurement practices had resulted to improved service delivery through reduced lead time. It was a general feeling of the interviewees that e-procurement had strengthened relationships between the institutions and individual suppliers hence free flow of information.

Some of the challenges that were identified with the majority of customers with e-procurement practices were; inadequate support from the top level management, bureaucratic practices within the system, inadequate regulatory and legal controls by relevant authorities to facilitate e-procurement practices and adoption by organizations in the country, particularly in adoption of electronic signatures, inadequate employee trainings concerning e-procurement systems.

Some of the strategies that were suggested by respondents to overcome the challenges of e-procurement were: Development of effective policies by financial institutions to fight online fraud cases. Special software's to detect online fraudsters should be reinforced by the communication commission of Kenya, top level management should formulate policies that support e-procurement practices by allocating enough resources to facilitate trainings to existing and new employees. Most of the employees interviewed suggested that the management should promote a culture that support e-procurement within the institution. Some of the workers suggested that employees should be involved in decision making in
order to feel affiliated to the organization. Also some of the workers suggested that the management should commit itself by implementing the formulated policies in order to measure the performance of the organization periodically for survival in the competitive business environment.

4.4 Discussion of the findings

The findings on the impact of e-procurement on the operations of Kenya commercial bank largely concur with what is found in literature and other works done by researchers in the field. The researcher established that e-procurement can successfully be adopted in a service industry to procure supplies used for maintenance, repair and maintenance purposes. This is due to the fact that these supplies demand is predictable, the goods are required in large quantities and its value is usually low. This broadly concurs with the study conducted by Walker & Harland, (2008).

It was established that the adoption of e-procurement, has created time for the bank to engage in strategic purchasing, supplier management and also price negotiation. This has played a major role in reduction of costs related to supplies. The system has also helped the bank minimize their inventories and any risks that may be associated by having a large stock of inventories. All these have contributed towards creating more time to perform other bank activities that affects the service offered to the customers. The study found out that despite the great benefits of e-procurement technologies, its adoption is still at its early stages. This can be attributed to the various factors that affect its adoption like the organizational bureaucratic system of management, lack of proper information technology platform and policies to govern the adoption of such technologies. The finding was also echoed by Patterson et al. (2003). E-procurement in KCB is still in the primary stage, where it is only the process of requisition that has been automated. This automation of the requisition process
still faces some challenges, like lack of acceptance of the electronic signatures by business partners, an issue that slows down the process, since the suppliers might not be willing to work with the electronic purchase order sent to them automatically, until they collect the duly signed one from the purchasers. The bank is still planning on adoption of e-sourcing, but for the time being, sourcing for suppliers is done manually by visiting suppliers websites and also by physically visiting trusted professional bodies, in order to genuine supplies for the goods on demand. This is due to increase in internet fraud calls for proper identification of the suppliers to avert losses.

For the adoption of e-procurement to be successful, management of the bank has to play a major role, which should starts with creating awareness of the system to the employees and allow them be part of the contributors to the successful adoption and implementation of the system. The organization should also employ knowledgeable staff and train them so that they can have the necessary skills before assigning them duties, besides provision of the necessary tools from software to hardware for executing the banks operations.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the major findings of the study as discussed in chapter four, based on the objectives of the study and draws conclusion thereof. In addition, this chapter provides some recommendations for policy making by the relevant authorities, limitations of the study as well as suggestions for further studies.

5.2 Summary and Conclusion

To gain a competitive edge in the dynamic business environment, large and small firms are fast adopting technologies like electronic procurement to assist them in achieving their organizational goals. The study sought to establish the extent of e-procurement adoption and also its impact on the operations of Kenya commercial bank.

It was established that, electronic procurement can successfully be used to streamline the process of procuring MRO supplies in service industries like in banking, due to the predictability of demand for most of their supplies, besides the process of sourcing for supplies and also in supplier selection. These activities can be done by end-users, while ensuring that corporate purchasing policies are being enforced. The study established that cost reduction and streamlining of the procurement processes were the main drivers of e-procurement, while lack of upper management support inadequate information technology infrastructure and company culture were the main barriers to the effective uptake of e-procurement.
5.3 Recommendations

Therefore, after critical analysis of the findings, the study recommends that KCB should sensitize all employees on the value of e-procurement practices in the dynamic business environment. The top level management should cultivate innovative culture among employees through providing growth opportunities to employees who will be able to generate new ideas in relation to operationalization of e-procurement practices for efficiency and effectiveness. Democratic management styles to be used within the institution to promote team spirit and institutionalization of the e-procurement concept.

In summary, the researchers recommendation to making the technology successful, managers must plan and lay technology groundwork. They must believe in the benefits of this technology, opt for a comprehensive approach, define new relationship with vendors, train and support suppliers and openly communicate with employees. Managers should also strive to enforce upper management support, Redefine supplier relationships towards E-procurement implementation and also Formulate and implement an E-procurement strategy in alignment with the corporate strategy.

5.5 Limitations of the study

The Kenya Commercial Bank staffs at the procurement department were usually very busy. This made it difficult to interview them during the day, so the interviews were done early in the mornings and late in the evening. Getting accurate information from the interviewees was another challenge, since some of the workers feared that the information may be used against them by the management. The challenge was minimized by assuring the respondents of confidentiality of the information they gave.
5.6 Suggestion for Further Research

The researcher suggests that this study should be repeated after five years to ascertain the extent of e-procurement adoption and its impact on KCB operations. A study should also be carried out in another local bank on the impacts of e-procurement on its operations for comparative purposes.
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APPENDICES

Appendix I: Introductory Letter

C/o University of Nairobi,
P.o box 30197-00100,
Nairobi.
Kenya.

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

**REF: MBA RESEARCH STUDY**

I am a student pursuing for a Masters degree in Business Administration at the University of Nairobi. In partial fulfillment of the requirements to the award of the Masters degree, I am required carry out a research and write on “Impact of electronic procurement on the operation of banks, (A case study of Kenya Commercial Bank)”

I kindly request your assistance by availing your time to respond to the questionnaire. A copy of the final report will be made available to you at your request.

Yours faithfully,

Student

Supervisor

Sign....................................................                        Sign.........................................
APPENDIX II: INTERVIEW GUIDE QUESTIONS

INTERVIEW GUIDE

Part 1

1. Respondents sex: Male ( )/ Female ( )
2. What is your Age in years?
   - Between 26-35 ( )
   - Between 36-45 ( )
   - Between 46-55 ( )
   - 56 and above ( )
3. What is your highest Educational level?
   - Masters ( )
   - Undergraduate ( )
   - Diploma ( )
4. What position do you hold in your department, and for how long have you held it?
5. Do you use e-procurement in your normal course of duty, and for how long have you been using it?
6. In your own opinion, what is the general attitude of employees towards use of e-procurement systems?
7. What role do you think management has to play to institutionalize the electronic procurement system?
8. In which way do you think electronic procurement has improved the effectiveness and efficiency of the procurement processes?
9. How do you perceive the e-procurement concept in relation to organizational performance?
10. To what extent is e-procurement used in the whole process of procurement?

11. What challenges the use of e-procurement system when executing your duties?

12. How has e-procurement contributed toward improvement of bank processes, particularly in the procurement processes?

13. In your own view, has e-procurement contributed towards meeting the customer needs?

14. How has the adoption of e-procurement affected management of the bank’s suppliers?

15. What are the impacts of e-procurement with regards to information sharing?

16. What are the challenges of adopting e-procurement in your organization?

17. What are the strategies that can be adopted to overcome these challenges?

THANKS FOR YOUR POSITIVE COOPERATION